BANK INDONESIA

REPORT FOR THE FINANCIAL YEAR 1996/97

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Symbols, Reporting Period, and Source of Data

r	Revised figures
*	Provisional figures
**	Incomplete figures (based on incomplete data)
. . .	Data not yet available
-	Data not available
x	Break in comparability before and after the symbol
- -	Nil or less than the last digit
$	United States dollar
Rp	Rupiah

Reporting period is the fiscal year, from April 1, 1996 to March 31, 1997.

Source of data is Bank Indonesia, unless mentioned otherwise.

Government Commissioner and Board of Directors as of March 31, 1997

From left to right :

Sitting : J. Soedradjad Djiwandono (Governor)
Sofjan Djajawinata (Government Commissioner)

Standing : Heru Soepraptomo (Managing Director), Boediono (Managing Director), Hendrobudiyanto (Managing Director), Mansjurdin Nurdin (Managing Director), Haryono (Managing Director), Mukhlis Rasyid (Managing Director), dan Paul Soetopo Tjokronegoro (Managing Director).

Governor
Bank Indonesia

Foreword

It is with great pleasure and with thanks to God Almighty that I present this 1996/97 Bank Indonesia Annual Report. *This report, presented as mandated by Article 46, Act No. 13 of 1968 concerning the Central Bank, presents a comprehensive review of major economic and financial developments as well as policies adopted during the year under review. The report also presents Indonesia's economic prospects and policy trends.*

On this occasion, I would like to underline several major developments in the Indonesian economy which led to the adoption of various policies during the reporting year. Rapid economic development has succeeded in building considerably stronger economic fundamentals, which are vital to maintaining high, long term economic growth. In the first three years of the Sixth Five Year Development Plan (Repelita VI), strong economic fundamentals played a pivotal role in supporting robust economic growth driven principally by domestic demand. High GDP growth is a prerequisite for the attainment of the objectives of national development, among others, to raise incomes and create employment. Both are important factors to the drive to strengthen national savings. Rapid economic growth, however, carries with it the risk of other problems, such as economic overheating. In recent years, Indonesia has been burdened by an overheated economy, and with inflation still running high and the current account deficit on the rise, this vulnerability does not seem likely to disappear for some years to come. Without proper solutions to these problems, economic overheating could have repercussions on the momentum of our economic growth in future years.

To overcome these difficulties, the Government has introduced some new measures to maintain economic growth rate at a sustainable level without fueling inflation. In fiscal year 1996/97 the main thrust of Government policy was directed at containing domestic demand and expanding production capacity. To contain domestic demand, the Government has pursued cautious monetary and fiscal policies. To overcome constraints in the real sector and provide adequate supply to match the steadily rising domestic demand, the Government has introduced further deregulation measures in an effort to improve productivity and efficiency. With effective synergy between the policies in the financial and real sectors, domestic demand has been held in check with the economy growing by 7.8% and inflation declining to lower levels compared to the preceding year.

With domestic demand subsiding, pressures on internal and external stability eased as reflected in lower inflation and substantially reduced non-oil/gas import growth. In 1996/97, inflation was brought down to 5.17%, the lowest cumulative inflation rate since 1985/86, though still running higher than the 5% annual targeted inflation for Repelita VI and the prevailing rate of inflation in neighboring countries. Over the same period, the current account deficit widened to $8.1 billion or 3.5% of the GDP despite a drop in non-oil/gas import growth from 23.4% to only 10.4%. This disappointing performance is directly attributable to the sluggish 6.6% growth in non-oil/gas exports in 1996/97, down from 17.1% in the preceding year. Nevertheless, the overall balance remained stable as the surplus in the capital account outweighed the current account deficit. Foreign exchange reserves thus increased to $19.9 billion, equivalent to 5.2 months of non-oil/gas imports.

The banking sector also demonstrated significantly improved performance in 1996/97. Assets quality improved while credit expansion progressed at a more controlled rate in line with prudential banking principles and the condition of the economy. Furthermore, structural improvements took place in the competitiveness and efficiency of the banking system, also reflected in improved profitability with higher ROA and ROE.

Better compliance was observed in the area of prudential principles, as measured by improvements in the loan to deposit ratio, net open position, and capital adequacy ratio. Much remains to be overcome, however, in the area of compliance with the legal lending limit. The effort to build a sound, banking system will depend much on further efforts by individual banks to build better compliance with these prudential regulations.

Despite encouraging improvements, problems remain that have yet to be solved, such as non-performing loans and problem banks. To build a sound, resilient banking industry, Bank Indonesia adopted further measures to overcome the problems in the industry, inter alia, with the promulgation of Government Regulation No. 68 in December 1996 on the procedures for revocation of business licenses, dissolution, and liquidation of banks.

Looking ahead, we can undoubtedly look forward to even greater challenges. On the internal front, pressures arising from domestic demand have not fully subsided as reflected in the robust growth in aggregate consumption which may fuel inflationary pressures. Furthermore, expansion of monetary aggregates remain strong. Externally, the economy can expect continued pressure from buoyant non-oil/gas imports and disappointing growth in non-oil/gas exports. Against this backdrop, priority should be placed on efforts to ease pressures on the current account. While further measures to strengthen export competitiveness are imperative, the more important, however, is the effort to strengthen economic fundamentals. Robust economic performance with strong economic fundamentals in place represents a key factor for attracting the long-term, non-speculative capital inflows needed to help offset the widening current account deficit, thereby ensuring the sustainability of Indonesia's balance of payments.

In view of these challenges, the Government will stay firmly on track with its policy focus of building macroeconomic stability and strong fundamentals, which represent important foundations for national development. In this respect, it continues to adopt prudent, consistent monetary and fiscal policies to keep growth in domestic demand at sustainable levels. To maintain macroeconomic stability, Bank Indonesia will not only adopt measures relating to macro aspects, but also to banking policy. The latter calls for continued efforts to create a sound, resilient banking system essential to improving the effectiveness of monetary policy in support of sustainable economic growth.

Finally, it is my hope that the 1996/97 Bank Indonesia Annual Report *will provide useful in-depth information to the public about developments in economics, finance, and banking, in addition to the various challenges confronting our economy and the policies adopted to overcome these problems.*

On behalf of the Board of Directors of Bank Indonesia, I wish to express my gratitude to all who have extended their assistance and cooperation in the production of this report. May the cooperation and mutual understanding built up among all those involved in the completion of this report be maintained and strengthened further in the future.

Jakarta, May 1997

Governor of Bank Indonesia

J. Soedradjad Djiwandono

Chapter 1
Overview

Indonesia's economy posted a year of favorable performance in 1996/97. Real gross domestic product (GDP) experienced a robust growth rate of 7.8% in calendar 1996. Despite having subsided from the 8.2% in 1995, the 1996 growth rate remained well above the targeted average of 7.1% for the Sixth Five Year Development Plan (Repelita VI). The manufacturing sector continued to provide the main impetus of economic growth in line with the Government's efforts to develop the sector as the main driving force of the economy. Inflation eased significantly to 5.17%, the lowest level since 1985/86, following the efforts to cool down the economy and to expedite the distribution of goods. As import growth fell markedly, the current account deficit was contained at a more sustainable level of $8.1 billion or 3.5% of GDP despite discouraging non- oil/gas export performance. Strong economic fundamentals contributed to strong capital inflows, bringing about a higher capital account which more than offset the current account deficit. Hence, foreign exchange reserves rose in 1996/97 to $19.9 billion, equivalent to 5.2 months of non-oil/gas imports.

During the reporting year, expansion of monetary aggregates moderated somewhat with M2 up 26.7% compared to 28.0% in the preceding year, while expansion of reserve money moderated from 17.5% to 13.9%. Growth of M1, however, increased slightly from 18.4% to 19.6%. Despite some moderation, monetary aggregates remained to expand at a high pace, bolstered by a surge in capital inflows attracted by strong economic fundamentals and bullish financial markets. Claims to the business sector expanded by 23.7% as against 21.4% in the preceding year despite a slackening growth in the first semester of 1996/97.

Domestic interest rates showed a declining trend, which became more pronounced in the last few months of the reporting year. The average three month deposit rate decreased to 16.5% at the end of 1996/97 from 17.3% last year, mainly as a result of lower inflation, increased liquidity in the money market and relatively low international interest rates.

The rupiah remained relatively stable against other currencies, although on several occasions political rumours troubled the market. In late July 1996, the rupiah weakened following a political unrest in Jakarta. However, in light of the strong economic fundamentals, Bank Indonesia restrained from intervention as the situation was short lived. Similarly, the Jakarta Stock Exchange (JSX) also came under momentary pressure, but recovered to remain bullish during the rest of the year with the JSX composite index closing the year at 662, up from 586 at the end of 1995/96.

To ensure the sustainability of economic growth, the Government faces several challenges, including the possibility of resurgence in domestic demand, continued sluggish performance in non-oil/gas exports, stubbornly high inflation, the vulnerability of the economy to political unrest arising from the forthcoming general election and the convening of the People's Consultative Assembly, in addition to Indonesia's continuing integration into the world economy. However, the consistent pursuit of prudent macroeconomic policy in 1997/98 will enable the economy to maintain a sustainable growth rate, albeit at a slower pace.

International Background

World economic growth continued to mount in 1996/97 while inflation declined. Along with this expansion, international trade volume remained strong though somewhat more modest than the previous year. On international financial markets, the United States dollar posted a strong recovery while interest rates declined and Asian emerging markets experience a surge of capital inflows. In general, these developments worked to the advantage of the Indonesian economy.

In 1996, the world economy grew by 4.0% (Table 1.1), mainly bolstered by the continued strong economic revival in the United States and the onset of recovery in Japan, while growth declined in other industrialized economies. The sustained economic growth in the United States in the last few years has been attributed to the success in containing inflation, the progress in trimming the fiscal deficit, and the more flexible labor market. In Japan, particularly in the first semester of 1996, the recovery was mainly boosted by the expansion of its fiscal and monetary policy that have been in place over the last few years. The Asian NIEs and ASEAN countries recorded a slower economic growth owing to

Table 1.1
Selected World Economic Indicators

Indicator	1994^r	1995^r	1996*
Economic Growth (%)			
World	4.0	3.7	4.0
Industrial countries	2.9	2.1	2.3
Developing countries	6.8	6.0	6.5
Countries-in-transition	–7.6	–0.8	0.2
Inflation Rates (%)			
Industrial countries	2.3	2.4	2.3
Developing countries	51.4	21.3	13.1
World Trade Volume (% growth)	**8.9**	**9.2**	**5.6**
Yen/Dollar Exchange Rate (average)	**102.2**	**94.1**	**108.9**
	1994/95	**1995/96**	**1996/97**
World Trade Prices (% change)			
Manufactured goods	3.1	11.4	–2.5
Non-oil/gas primary commodities	13.6	8.2	–1.2
Oil	–5.5	8.0	18.9
Interest Rates in Industrial Countries (% average)			
Short-term (3-month LIBOR)	4.8	6.0	5.5
Long-term	7.0	6.7	6.0

Sources : – IMF, World Economic Outlook, March 1997
– Reuters

the pursuit of contractionary monetary and fiscal policies aimed at cooling down their economies. Nonetheless, the economic growth of those countries was higher than in any region in the world.

In 1996, world trade volume grew by 5.6%, somewhat slower than last year, owing to weak OECD trade which constitutes the largest share of world trade. Similarly, trade within Asia and between Asia and the leading industrial economies also grew at a slower pace. This was associated with the reduced export growth in Asia's emerging markets because of higher labor costs, infrastructure shortages, and weakening world demand for electronic products.

Substantial progress has also taken place in international trade cooperation. In November 1996, the APEC meeting affirmed the Manila Action Plan for APEC (MAPA) which sets out the stages for the implementation of trade and investment liberalization. In December 1996, members of the WTO emphasized their commitment to trade and investment liberalization, also extending to the services sector. Likewise, ASEAN finance ministers agreed to liberalize trade and financial systems at their meeting in Thailand in March 1997. The meeting reached an accord on several issues, including customs, while also reassessing the effectiveness of the ASEAN Swap Arrangement in stabilizing exchange rates.

In 1996, developments on international financial markets were dominated by United States dollar appreciation against major currencies, lower average international interest rates, and strong capital flows to Asian emerging markets. The resurgence of the United States dollar was supported mainly by the sustained high economic growth in the country, the decision by the G-7 countries not to intervene the market during the February meeting in Berlin, and the hike in the Fedfund rate at the end of 1996/97.

Unlike the United States, other industrialized countries sought to reduce their interest rates so as to stimulate their economies in the absence of the threat of inflationary pressure. As a result, international interest rates went into decline as demonstrated in the 3 month LIBOR. In developing countries and most notably the emerging markets, interest rates stayed relatively unchanged, producing a wider interest rate differential. This, coupled with a bullish investor sentiments concerning the economic fundamentals of these countries, led to the resurgence of capital flows to developing countries, in particular to the Asian countries with a strong—despite the recent weakening—economic growth record.

The dynamics of international financial markets have inevitably also had a direct bearing on the Indonesian economy. Lower cost offshore funds became a preferred alternative for financing business operations and investment. This contrasted to the relatively high domestic interest rates which have encouraged foreign investors to place funds in Indonesia. The capital market in Indonesia, which offers wide profit margins, also attracted capital inflows. Stocks bought by non-residents pushed up JSX composite index. The surge in capital inflows, however, led to higher expansion of monetary aggregates and placed upward pressure on the rupiah. However, the appreciation of the United States dollar against other currencies, notably the Japanese yen, and relatively low international interest rates have helped ease Indonesia's foreign debt burden.

Economic Policy and Developments in 1996/97

In 1996/97, the Government stayed firmly on course with an integrated economic strategy addressing macroeconomic and sectoral policies. Macroeconomic policy was aimed at keeping domestic demand in check. In 1995/96, strong domestic demand had triggered an overheating of the economy as indicated by a widening current account deficit and mounting inflation. To this end, monetary and fiscal policies were designed to curb domestic demand at a level that was appropriate to national production capacity. On the supply side, the government introduced measures to expand production capacity to satisfy rising domestic demand and strengthen the competitiveness of domestic products on domestic and international markets.

On the **fiscal** side, the government stayed firmly on track with a dynamic balanced budget. To this end, the Government sought to increase domestic revenues and expend the budget more efficiently and effectively. The efforts to increase domestic revenues were carried through intensified tax collection and expansion of the tax base. Intensification took place through improved taxpayer compliance and a more effective income tax withholding system. To broaden the tax base, the Government also introduced new income taxes over several categories of income, such as sale of land and/or property and the leasing of land and/or property. To improve the efficiency and effectiveness of budget expenditure, the Government introduced stronger expenditure priorities and measures to cut back over-spending and fraud in budget management. Furthermore, to help contain domestic demand, the government sought to generate higher than targeted revenues while keeping expenditure within the budget allocation.

On the **monetary** side, the Government introduced some measures to control the rapidly growing liquidity in the economy, primarily through open market operation (OMO). Since Indonesia's money market has become more integrated with the international market and innovations of financial products have emerged rapidly, the OMO may stimulate capital inflows which, in turn, would lead to greater expansion of economic liquidity. Therefore, Bank Indonesia has introduced other monetary and banking policy instruments to assist OMO in achieving the given targets. In February 1996, Bank Indonesia introduced a new, higher statutory reserve at 3% to offset the expansionary effect of increased bank deposits. In September 1996, a further increase was announced, taking the reserve requirement to 5%, effective April 1997. Bank Indonesia also maintained the use of moral suasion supported by regulations requiring banks to prepare and work in accordance with their Annual Business Plans. These measures have been complemented with prudent banking regulations phased in over previous years with the aim of supporting the achievement of the targeted growth in monetary aggregates. These regulations included the capital adequacy ratio (CAR), the legal lending limit (LLL) and rating of commercial paper issued and traded through banks. With a view to dampening the impact of capital inflows on the expansion of monetary aggregates, Bank Indonesia introduced wider flexibility in the exchange rate of the rupiah to the United States dollar by widening the intervention band from 3% to 5% in June 1996 and to 8% in September 1996. New regulations concerning commercial offshore borrowing (COB), effective March 26, 1997, are also intended to curb monetary expansion generated by capital inflows.

The Government also sought to curb domestic demand by imposing stricter control on government projects. To this end, the Government commissioned the Team for the Supervision of Government Projects and State Enterprises in February 1996, which started to exercise its responsibilities for assessing to the import coverage and content of the respective projects.

On the **supply** side, the Government adopted several measures to expand production capacity to meet rising domestic demand and boost non-oil/gas exports. These measures are set out in the deregulation package issued in June 1996. To improve production efficiency, the Government has reduced import duties, abolished import surcharges, and simplified import procedures. To promote non-oil/gas exports, procedure has also been streamlined for the drawback scheme while levies have been deferred on non-oil/gas exports with imported inputs and discount facilities introduced for designated exporters. To further promote exports, Bank Indonesia eased the rediscount rate on export drafts in December 1996, amended the regulations applying to domestic letters of credit, and introduced new regulations on the trading of domestic letters of credit with Bank Indonesia. On March 26, 1996, a new regulation was enacted requiring banks receiving COB to allocate 80% of these borrowings for export credit. The Government has also established the Team for the Assessment of Export Strategy (Tim Pengkajian Strategi Ekspor - TIPSE) and the Indonesian Anti-dumping Committee (Komite Anti Dumping Indonesia - KADI), among others to handle dumping charges levelled at Indonesian exports.

Economic Growth

Domestic demand began to subside as a result of various economic measures. In 1996, consumption posted slightly lower growth at 8.5%. Investment expanded at a rate of 12.2%, and this was matched by commensurate growth in savings and thus the ratio of the savings-investment gap to the GDP remained virtually unchanged (Table 1.2 and Chart 1.1). The reporting year also saw more relaxed external demand, as reflected in export performance, while more moderate growth in domestic demand brought import growth down by a considerable margin. As a result, economic growth in 1996 slowed slightly to 7.8%, though still above the Repelita VI target. The main forces driving economic growth during 1996 were manufacturing, mining and quarrying, and services.

Inflation

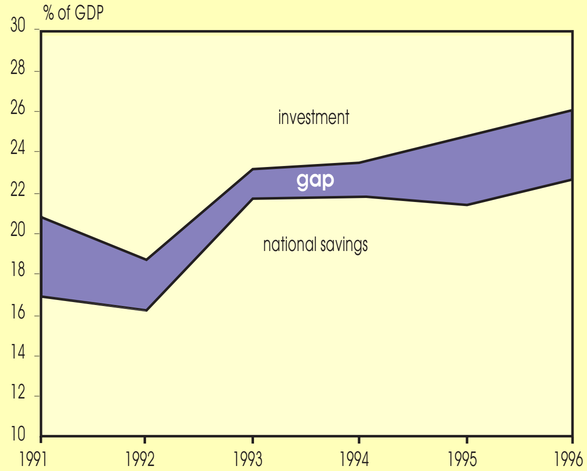
With subsiding growth in domestic demand, the previously overheating economy managed to cool down during the reporting year. Cumulative inflation at year end was recorded at 5.17%, the lowest rate since 1985/86, as a result of low food inflation. Market correction of the prices of spices, which had soared in the previous year, helped keep food inflation down. Not only was food inflation low, but in the first and second quarter and also in the last month of 1996/97, food prices also

Table 1.2
Selected Macroeconomic Indicators

Indicator	1994	1995	1996*
	At base year of 1993		
	% change		
Real Gross Domestic Product	**7.5**	**8.2**	**7.8**
By expenditure			
Consumption	4.4	8.6	8.5
Gross domestic capital formation	13.8	14.0	12.2
Exports of goods and services	9.1	8.6	6.3
Imports of goods and services	14.5	15.8	9.6
By sector			
Agriculture	0.6	4.2	1.9
Mining and quarrying	5.6	6.7	7.1
Manufacturing	12.4	10.8	11.0
Construction	14.9	12.9	12.4
Services (excluding construction)	7.2	7.9	7.6
Terms of Trade Index	**1.9**	**2.1**	**1.8**
	1994/95	**1995/96**	**1996/97***
	% change		
Monetary			
M2	22.1	28.0	26.7
M1	18.5	18.4	19.6
Quasi money	23.3	31.1	28.8
Bank funds	20.2	28.7	28.3
Bank credits	22.1	21.4	23.7
Prices			
Consumer Price Index	8.57	8.86	5.17
Balance of Payments	Percent		
Current account deficit/GDP	–2.0	–3.4	–3.5
Official Debt Service Ratio	17.7	16.4	14.6
Foreign exchange reserves in months of non-oil/gas imports	4.7	4.6	5.2

Sources : – Central Bureau of Statistics
– Bank Indonesia

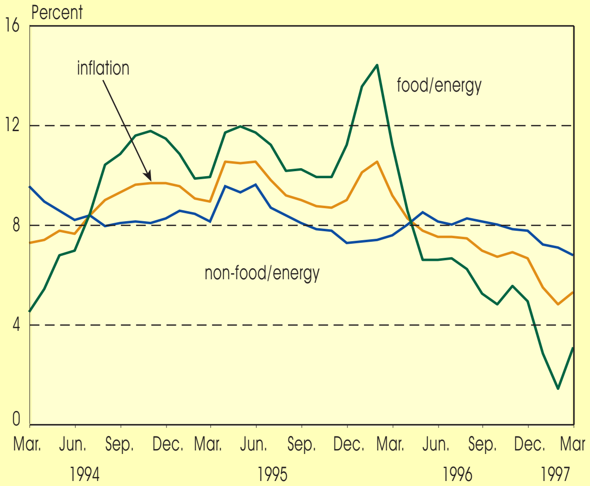
Chart 1.1
Savings - Investment Gap



which constituted the largest share of total imports. However, the year saw increased growth of capital goods imports, reflecting robust investment activities.

Non-oil/gas export performance in 1996/97 was disappointing with a growth rate of only 6.6% as some leading commodities continued to perform below target. Interestingly, other emerging markets in Asia were also affected by declining export performance. Nevertheless, total exports increased by 9.3%, buoyed

Chart 1.2
Inflation and Changes in Food/Energy and Non-food/Energy Prices



recorded deflation. Low food inflation was also attributable to the market operations carried out by the National Buffer-Stock Agency (Bulog) to provide sufficient basic needs. Non-food/energy inflation also declined, though still remaining high (Chart 1.2).

Balance of Payments

The moderation in domestic demand brought about a slowdown in import growth. Non-oil/gas imports dropped to 10.4% in the reporting year from 23.4% in the previous year due mainly to slow growth in imports of raw materials

Table 1.3
Inflation

Item	1995	1996	1995/96	1996/97
	Percent			
Foodstuffs	6.88	6.12	13.17	3.82
Housing	5.67	4.72	6.15	3.48
Clothing	6.50	5.77	6.61	4.80
Miscellaneous	7.00	9.69	7.12	9.46
General	**8.64**	**6.47**	**8.86**	**5.17**
Administered	5.66	7.48	3.29	7.37
Non-administered	9.69	6.15	10.79	4.46
Food/energy	11.18	4.98	11.23	3.11
Non-food/energy	7.04	7.52	7.34	6.61

Source : Central Bureau of Statistics

Table 1.4
Balance of Payments

Item	1994/95	1995/96	1996/97*
	Billion $		
Current Account	**–3.5**	**–7.0**	**–8.1**
Export f.o.b.	42.1	47.7	52.2
Import f.o.b.	–34.1	–41.5	–45.9
Services (net)	–11.5	–13.2	–14.4
Capital Account	**4.8**	**11.5**	**11.0**
Official transfer and capital (net)	0.2	–0.2	–0.8
Private capital (net)	4.6	11.7	11.8
Monetary Movements	**–0.6**	**–2.7**	**–3.9**

by a hefty 18.6% improvement in oil/gas exports driven by strengthening oil prices. The services account, however, posted a yet larger deficit because of perennial structural problems (Table 1.4). As a result, the current account deficit stood at $8.1 billion, equivalent to 3.5% of GDP.

Despite the deterioration in the current account deficit, the overall balance in the reporting year registered a substantial surplus. Private capital inflows rose sharply to produce a capital surplus of $11.0 billion. Private capital predominantly comprised direct investments and offshore borrowings. Net official capital, on the other hand, recorded a deficit as a result of prepayments of high interest official debts. By the end of 1996/97, official foreign exchange reserves held by Bank Indonesia had risen to $19.9 billion, equivalent to 5.2 months of imports.

In line with the balance of payments developments, outstanding foreign debt mounted to US$109.3 billion at the end of 1996/97 with private debt having reached $56.0 billion while official debt had declined to $53.3 billion. Hence, for the first time, private foreign debt exceeded official debt. To help ease the private debt burden in new borrowings, Bank Indonesia issued Yankee Bonds in July 1996 to establish a bench-mark that would help the private sector solicit offshore borrowings at more favorable terms.

Monetary Developments

In 1996/97, the monetary situation saw some improvement. Growth of M2 eased from 28% in 1995/96 to 26.7% in 1996/97, though remaining high due to buoyant domestic demand (Table 1.5). Growth in claims on business sector, which included bank credit and other kinds of business financing, came down from 21.4% in March 1996 to 19.7% in October 1996 but then rose again to 23.7% at the end of the reporting year. Reserve money also saw significantly reduced expansion, down from 17.5% to 13.9%. Capital inflows increased significantly mainly because of increased draw down of private offshore borrowings, implementation of approved direct in-

Table 1.5
Interest and Exchange Rate Indicators

Item	1994/95	1995/96	1996/97*
	Percent		
SBI discount rates	11.0	13.3	12.1
Three month deposit interest rates	15.9	17.3	16.5
Interest rates on credit			
Working capital	18.4	19.3	18.9
Investment	15.3	16.4	16.4
Rp/$ exchange rate	**% change**		
Nominal	–3.4	–5.1	–3.4
Real	6.8	10.2	8.2

vestments and foreign portfolio investment in the capital market and money market. M1 growth moved up slightly from 18.4% to 19.6%, reflecting greater popularity in the use of demand deposits in economic transactions.

Domestic interest rates declined as a result of lower inflation, greater liquidity in the money market, and low interest rates in the industrial countries. This decline reflected Bank Indonesia's policy of keeping the interest rate differential at an appropriate level to forestall monetary expansion generated by short-term speculative capital inflows. The average three month deposit rate subsequently declined to 16.5%, thus lowering the interest rate differential. With lower interest rates, banks were able to reduce lending rates with interest on working capital credit dropping to 18.9% by the end of the reporting year. Despite the drop in nominal interest rate, in real terms interest rates increased slightly because of a pronounced drop in inflation. With higher real interest rates, more funds flowed into bank deposits (comprising demand deposits, savings and time deposits), which increased 28.3%, while lending increased by a lower rate at 26.3%. As a result, the gap between credit and banking funds narrowed.

The rupiah-United States dollar exchange rate remained relatively stable during the reporting year. However, when rumors arose over the health of the President, followed by the July 27, 1996 riots, the rupiah came under significant pressure. However, with economic fundamentals in strong shape, this downturn was short-lived, the exchange rate remained within the intervention band, and Bank Indonesia did not need to intervene in the market. In the reporting year, the nominal depreciation of the rupiah against the United Stated dollar narrowed to 3.35% as compared to 5.09% in the previous year. During this period, the rupiah also climbed 12.59% against the Japanese yen and 10.02% against the German mark.

Capital market activity, supported by strong economic fundamentals, remained buoyant throughout the year as indicated by the number of the newly listed companies and stock market turnover. The JSX composite index did take a dip when non-economic factor came into play in July 1996, but it quickly recovered and went on to reach an all-time over the 700 mark in February 1997. This progress indicates that the capital market has gained an increasingly vital role as a funding alternative for the business community.

Banking Policies and Developments

In the reporting year, the banking sector saw further improvement in consolidation as a result of promising economic developments. Banking performance and the quality of banking assets improved while expansion of banking activities was kept in check through the application of prudential principles and the maintenance of a conducive macroeconomic environment.

Steps taken included improvements to risk management, updated prudential principles, resolution of non-performing loans, human resources development, and other strategic policies such as re-organization and rationalization. These measures were essential to enable banks to operate in a more competitive climate and an increasingly dynamic financial market.

Bank Indonesia also introduced further improvements to bank supervision with changes to the system and procedures for supervision, as well as advanced training of bank examiners. Over the last two years, Bank Indonesia has strengthened its monitoring of the implementation of self-regulatory principles by banks and at the same time encouraged the resolution of non-performing loans and problem banks. To enable close monitoring and more rapid resolution of problem banks, in the reporting year the Government issued Government Regulation No. 68 of 1996 concerning procedures for revocation of operating licenses and the dissolution and liquidation of banks.

Consolidation in the banking sector was reflected in a decline in the overall number of banks. By

Table 1.6
Banking Indicators

Item	1994/95	1995/96	1996/97
	Outstanding (%)		
Number of banks	240	240	237
Number of offices	6,178	6,693	7,329
	% change		
Funds	20.2	28.7	28.3
Credits	24.8	23.6	26.3
Business volume	15.6	27.3	22.9
	% ratio		
Profit to assets	0.62	1.13	1.22
Operating expenses to operating income	0.95	0.92	0.92
Capital adequacy	12.50	11.90	11.80

1) As of December.

the end of 1996/97, six banks in Indonesia had merged, bringing the total number of banks down by 3 to 237 (Table 1.6). This is expected to bring about a structurally healthier banking industry.

In the last three years, Bank Indonesia has exercised greater selectivity in issuing recommendations for the establishment of new banks. Moreover, tougher requirements have been introduced for the positions of directors, commissioners and shareholders. A further disincentive for opening new banks is the increase in the minimum required initial paid up capital from Rp50 billion in 1992 to Rp150 billion in 1995.

In general, bank offices have been concentrated in western Indonesia, most notably in Jawa. However, the number of bank offices in eastern Indonesia increased at a faster rate at 11.9% in the reporting year compared to 9.3% for western Indonesia. It appears that this growth has been driven by the rapid emergence of economic activities in eastern Indonesia, which has created heavier demand for banking services.

The banking industry also became more structurally sound during the year. Market domination by the leading banks in respect of total assets, banking funds, and loans saw some decline. In the last ten years, the market share of the top ten banks by total assets dropped from 80.3% to 59.2%, while loans and funds dropped from 80.6% and 75.2% respectively to 58.4%. This downward trend indicates that the banking sector has become less concentrated on a few leading players, and become more competitive.

In 1996, off-balance sheet activities showed significant growth. Contingent commitments and claims rose by 67.7% as compared to 48.4% last year, while total liabilities rose slightly from 24.4% to 26.8%. This reflected greater diversification in banking activities, including fee-based income, which calls for the more prudent management due to higher exposure to risks, particularly in derivative transactions.

Banking activities showed significant growth as reflected in an increase in the return on assets (ROA) and return on equity (ROE) of 1.2% and 16.4% respectively at the end of 1996. As regards compliance with prudential regulations, while some progress was recorded, other areas needed to be addressed. Similarly, the average CAR reached 12%, but 17 banks are still below 8%. Furthermore, additional efforts are needed to bring about better compliance with the legal lending limit (LLL) and the minimum requirements applicable for small business loans and export credit. To this end, Bank Indonesia introduced new, tougher regulations regarding export credit in March 1997, followed by a new ruling on small business loans in April.

In 1996/97, the number of rural credit banks increased at a reduced rate while expansion in business operations remained relatively unchanged. In addition to facing internal problems such as management and human resources, rural credit banks were also hampered by competition with commercial banks, which have begun expanding into rural areas.

Payment System Policy and Developments

With the tremendous advances achieved in the Indonesian economy, as indicated in the rapid growth in local, regional and international trade and financial transactions, the need for a payment system to guarantee the efficient, secure, and reliable flow of payments and liquidity has taken on renewed urgency. This system is essential for facilitating access for economic agents for their payment needs, and in turn will support effective monetary management and the establishment of a more robust, sound banking system.

In the reporting year, Bank Indonesia adopted several improvements in the payment system. Besides preparing a blue print for the overhaul of the existing payment system, Bank Indonesia introduced various improvements to the operation of Jakarta's clearing system, the largest local clearing operation in Indonesia. It also consolidated the individual demand deposits held by bank at Bank Indonesia under the one-bank-one-account system, designed to enhance the effectiveness of liquidity management and provide information on settlement and banking liquidity. Both measures were necessary to help improve efficiency in the financial sector and to strengthen the effectiveness of monetary and banking policies. Furthermore, Bank Indonesia has proposed a draft regulation on electronic funds transfer (EFT) to provide a proper legal framework for the development of an electronic non-paper based payment system.

Along with the expansion of economic activities and innovation of banking products, use of payment instruments has become more diversified as shown by a rise in non-cash transactions. In 1996, clearing value increased by 11.5%, whereas the volume and value of credit card transactions increased by 29.8% and 35.2% respectively. In the same period, automatic teller machine (ATM) transactions soared by 67.7%. This in turn increased the demand for currency in the Rp20,000 denomination. In 1996/97, total banknotes in circulation rose by 12.8%, slightly higher than the year before.

Challenges

Although the Indonesian economy has recorded encouraging performance overall, a number of challenges remain that need to be addressed.

First, there is still latent potential for a resurgence in domestic demand beyond the sustainable capacity of the national economy. The general propensity for consumption of goods and services remains strong as indicated by the growing number of shopping centers and malls. Favorable economic prospects continue to attract large-scale investment, as reflected in the high rate of approvals for both foreign direct investment and domestic investment. Furthermore, the speculative drive, particularly in the property sector, shows no sign of abating. These strong underlying tendencies for consumption, investment, and speculation will in turn drive up domestic demand if cheap sources of funds are available. If monetary and fiscal policies become overly relaxed, there is the potential for triggering yet another round of economic overheating.

Second, despite the recent significant decline, Indonesia still boasts higher inflation than its major trading partners, and this has worked directly and indirectly to undermine competitiveness. Higher inflation translates into increased domestic production costs compared to other countries while also pushes up interest rates, adding further costs to production. Furthermore, the high inflation reduces public purchasing power, especially among fixed income and low income earners. Therefore, further cuts in inflation are essential.

Third, growth in non-oil/gas exports remained sluggish during the last four months of the year in the face of various internal and external barriers. Internally, a number of leading exporting industries suffered structural problems. Although the Government had introduced various deregulation measures to trim back the high cost economy, production activities still have to shoulder other costs not related to production. High inflationary pressures also placed limits on the room for manuever in exchange rate policy for support of the competitiveness of non-oil/gas exports, as Indonesia has become more integrated into the international financial markets. Externally, new competitors like China, Vietnam and India proceeded with deregulation measures, thus intensifying international market competition. In the future, external challenges will gather force along with the mounting drive for global free trade.

Fourth, Indonesia's economy has become more sensitive to fluctuations and uncertainties. In the short term, this growing sensitivity is associated with the cycle of political activity related to the forthcoming general election and the five-yearly People's Consultative Assembly to be convened in 1998. This sensitivity is expected to be temporary, lasting only until the political cycle is over. The second area of sensitivity, which is also longer term, is related to the growing integration of Indonesia into the global economy. This is the natural consequence of the integration process that will become more pronounced in the years to come. Nevertheless, these sensitivities will have less impact as long as Indonesia's economic fundamentals remain strong and sustainable.

The **fifth** challenge is related to the readiness of the banking sector to operate in a new, much more competitive environment to result from the growing integration of Indonesia into the global economy with the fast-approaching era of free trade. The banking and financial sectors operate as important—and sensitive—channels for the transmission of global fluctuations into domestic economy. In the era of free trade, stiff competition will not only arise in fund mobilization or credit expansion, but also in the rapid development of new banking products and services. It is therefore imperative that the banking and financial sectors are in a strong shape. Given this outlook, the national banking system has much homework to do to resolve its current problems, such as non-performing loans and problem banks, in order to become more competitive. In addition, human resources development and the implementation of risk management will also help build the performance and competitiveness of the national banking sector as a whole.

Policy Direction for 1997/98

After taking into account various economic trends and future challenges, the policy outlook for 1997/98 is as follows.

In 1997/98, the monetary authority will continue to hold monetary expansion at a rate appropriate for keeping growth in domestic demand within safe limits. For this purpose, the indicative targets for 1997/98 concerning M2 and claims for the business sector have been set at 18% and 17% respectively. To achieve these targets, Bank Indonesia will continue to use OMO as its main instrument of monetary policy. The increase of the statutory reserve to 5%, effective April 1997, and more stringent regulations governing COB by banks will also contribute to the achievement of the monetary targets. Moreover, monetary management will also be supported by the managed floating system in exchange rate policy, which employs the appropriate flexibility as shown by the widening of Bank Indonesia's intervention band. Domestic interest rates are expected to be held at levels that maintain both internal and external equilibrium. To anticipate monetary fluctuations, Bank Indonesia will strive to keep adequate foreign exchange reserves, which will also be cushioned by $2 billion stand-by loans and the repurchase agreements with seven central banks in the Asia Pacific region.

The government will firmly adhere to the principle of the balanced budget as reflected in the prudent, conservative budget for 1997/98. Revenues and expenditures are targeted to balance at Rp101.1 trillion, representing an increase of 11.6% compared to the reporting year. To support monetary policy in controlling domestic demand, the Government will aim for a larger budget surplus to be used, among others, for prepayment of high interest official debt.

In the banking sector, Bank Indonesia will adhere to its policy of building a sound, reliable and stable banking industry to support the effectiveness of monetary policy. Various measures to be taken include efforts to speed up the resolution of non-performing loans and problem banks, improve the efficiency and effectiveness in risk management, and encourage mergers and consolidation as part of the restructuring of the banking system and improvement of bank ratings.

Bank Indonesia will continue to improve the payment system according to its blue print. In 1997/98, Bank Indonesia will launch the Jakarta electronic clearing system and the on-line accounting system between Bank Indonesia and commercial banks. These measures are expected to produce an efficient and reliable payment system, not only in support of monetary policy and the growth of the banking sector, but also to promote and facilitate growth in economic activity.

The Government will continue to encourage growth in the production sector through deregulation and de-bureaucratization policies aimed at trimming the high cost economy. To simplify customs clearance procedures, the Government will introduce an electronic data interchange system in 1997/98 to expedite customs processing with the aim of increasing the domestic and international competitiveness of domestically manufactured products.

Economic Outlook for 1997/98

Given the outlook for the world economy, current world trends are expected to have a beneficial effect on the Indonesian economy. World economic growth is on the rise with the recovery in industrial economies and resurgent growth in world trade. Inflation in the industrial economies is expected to remain low, despite slight increases. Accordingly, United States interest rates are predicted to climb by a small margin, whereas interest rates in other industrial countries are expected to remain unchanged.

Commensurate with the direction of macroeconomic policy, domestic demand is forecast to expand at a slightly slower rate, though remaining the principle driving force of economic growth. From the external sector, non-oil/gas exports are expected to recover, helping to compensate for an anticipated decline in oil/gas exports resulting from lower prices and export volume.

Given this outlook, general economic conditions are predicted to stay firmly on a strong, stable track. Economic growth for 1997/98 is expected to be in the range of 7.5% to 7.7%. With the continued application of prudent monetary and fiscal policies, inflation is expected to register further decline. The current account deficit is predicted to widen to 3.9% of GDP. Nevertheless, the overall balance is expected to post a surplus as a result of the capital account surplus which more than offset the current account deficit. Foreign exchange reserves will be maintained at a level equivalent to about five months of non-oil/gas imports. With the continued application of prudential principles, further progress is expected in the consolidation of the banking sector.

Chapter 2
Economic Growth and Price Developments

Indonesia recorded yet another year of buoyant economic growth in 1996, while inflation eased considerably. Though slightly below the performance of previous years, the 7.8% economic growth rate surpassed the annual target set for the Sixth Five Year Development Plan (Repelita VI). Like in the past, strong domestic demand remained the principal factor driving the economic growth, although demand was not as vigorous as in the past (Table 2.1). With domestic demand running at a more moderate level, inflation declined to the lowest level recorded since 1985/86 while growth in real imports eased considerably. Likewise, real growth in exports of goods and services experienced some decline, though not to the same extent as imports. On the supply side, the high economic growth was supported by strengthening activity in manufacturing, mining and quarrying, and services.

Important factors underpinning the buoyant economic growth were prudent macroeconomic policy and consistent sectoral economic policy. Monetary and fiscal policy focused on the containment of domestic demand and curbing of inflationary pressures. Likewise, sectoral economic policy targeted efforts to improve efficiency and productivity of the supply side, among others, through the June 1996 Deregulation Package. This package is designed to create a conducive business climate in support of more efficient production, while also simplifying licensing procedures for domestic and foreign investors. Moreover, to boost economic growth in less prosperous regions and especially in eastern Indonesian region, and also to create more equitable distribution of the benefits of development, the Government has launched the new Integrated Economic Development Areas (Kawasan Pengembangan Ekonomi Terpadu - KAPET) to stimulate investment activities.

Table 2.1
GDP and Inflation

Item	1995	1996*	1996*
	% change		Trillion rupiah
Real Gross Domestic Product	**8.2**	**7.8**	**413.8**
By expenditure			
Domestic demand [1]	10.1	8.7	416.7
Exports of goods and services	8.6	6.3	111.1
Imports of goods and services	15.8	9.6	113.9
By sector			
Agriculture	4.2	1.9	62.9
Mining and quarrying	6.7	7.1	38.0
Manufacturing	10.8	11.0	101.7
Inflation Rates			
In calendar year	8.64	6.47	
In fiscal year [2]	8.86	5.17	

1) Comprising consumption,domestic fixed capital formation, and changes of stocks.
2) In 1995/96 and 1996/97.
Source : Central Bureau of Statistics

Demand

From the demand side, economic growth in 1996 was driven by strong domestic demand, though this demand registered some decline compared to the previous year. The vigorous domestic demand was a product of buoyant private consumption and investment combined with increased growth in government consumption. Import growth for goods and services fell considerably while export growth for goods and services saw some decline as manifested by lower growth rates in the reporting year (Table 2.2).

Growth in private consumption remained high in 1996 at 9.2%, although lower than the 9.7% recorded in the preceding year, as a result of rising public incomes generated by the robust economic growth of past years. During the reporting year, GDP per capita

Table 2.2
GDP Growth by Expenditure[1)]

Item	1995		1996*	
	Growth	Weighted	Growth	Weighted
	Percent			
Gross Domestic Product	**8.2**	**8.2**	**7.8**	**7.8**
Domestic demand	**10.1**	**9.9**	**8.7**	**8.7**
Consumption	8.6	5.7	8.5	5.6
Private	9.7	5.6	9.2	5.3
Government	1.3	0.1	3.8	0.3
Domestic fixed capital formation	14.0	3.9	12.2	3.6
Stock changes	7.3	0.3	-9.9	-0.5
External demand		**-1.7**		**-0.9**
Exports of goods and services	8.6	2.3	6.3	1.7
Imports of goods and services	15.8	-4.0	9.6	-2.6

1) At 1993 constant prices.
Source : Central Bureau of Statistics

Table 2.3
Regional Minimum Wage

Period	% change	Average (rupiah/day)
1993	17.8	2,423
1994	29.7	3,129
1995	18.6	3,711
1996	10.6	4,703

Source : Ministry of Manpower

climbed 17.4% from Rp2.3 million to Rp2.7 million (equivalent to $1,140). Wages also improved significantly with an average 10.6% increase of regional minimum wage (Table 2.3), while consumption has also been encouraged by the emergence of more sophisticated products and advanced marketing strategies supported by consumer credit. Government consumption also experienced higher growth, up from 1.3% in 1995 to 3.8%, mostly brought about by the oil subsidy resulting from strong international crude oil prices.

Another important factor supporting economic growth was the 12.2% increase in investment, despite some slackening compared to 1995. Government investment went up considerably during the reporting year, while private investment also remained strong. In investment, the Government focused on construction of infrastructure while allocating higher capital expenditure for the reduction of inter-regional disparities in development. In the private sector, vibrant investment activity has been reflected in high rate of domestic and foreign investment approvals over the past three years, a product of government efforts to build a more conducive business climate through a series of deregulatory measures. In 1996, the Government issued two new deregulation packages on January 26, 1996 and June 4, 1996 aimed to strengthen the efficiency and resilience of the domestic economy and foster greater competitiveness in domestic products.

Through the June 4, 1996 package, the Government aims to stimulate increased production of goods through investment facilities for domestic and foreign investors. These measures cover, among others, simplified licensing for industries operating within industrial estates, new opportunities for the establishment of private bonded warehouses, relaxation of import restrictions on complementary goods for foreign investment manufacturing companies, and simplified procedures for industrial waste imported for use as raw material. (Box : Deregulation in the Real Sector, June 4, 1996).

Strong business confidence in the prospects of the economy and the conducive business climate have succeeded in attracting more investment. In 1996, foreign and domestic investment approvals grew by 7.5.% to Rp172 trillion. Domestic investment approvals grew by 44.1% to Rp100.7 trillion while foreign investment declined 25% to $29.9 billion in absolute terms following the massive increase in investment of the previous year resulting from approvals for new oil refinery projects. Despite the drop in overall value of foreign investment approvals, the number of new foreign investment projects approved in 1996 increased substantially from 799 to 959.

Domestic investors in 1996 were most attracted to manufacturing ventures in food, chemicals, and paper, while foreign investors demonstrated a clear preference for chemical plants, utilities, metal goods and paper industries, and real and industrial estates (Table 2.4). One reason for the keen investors' interest in these sectors was the strong domestic demand for these products.

Domestic investment approvals tended to favor projects in West Jawa, Jakarta, West Kalimantan, Riau, and Irian Jaya. However, foreign investment approvals demonstrated stronger preference for West Jawa, Jakarta, Central Jawa, South Sulawesi, and East Jawa (Table 2.5). Investors' interest in eastern Indonesian region was also encouraging, as reflected by high rate of foreign investment approvals for South Sulawesi, East Kalimantan, and West Nusa Tenggara (Table 2.6). Investors have responded positively to the government efforts to build better infrastructure in eastern Indonesian region, as well as the launching of KAPET in December 1996. Investment in these zones is eligible for a range of incentives, including tax holidays, simplified administration, and easier licensing procedures.

Table 2.4
Attractive Sectors for Investment in 1996[1)]

Sector	Investment	Share[2)]
Domestic Investment	**(trillion Rp)**	**(percent)**
Plantation	13.9	13.8
Food industry	13.7	13.7
Chemical industry	13.3	13.2
Paper industry	12.8	12.7
Real and industrial estates	8.7	8.6
Foreign Investment	**(million $)**	**(percent)**
Chemical industry	7.3	24.6
Electricity and water supply	3.8	12.7
Metal industry	2.9	9.8
Paper industry	2.9	9.7
Real and industrial estates	2.6	8.8

1) Approved investment projects.
2) Approved investment to total domestic or foreign investment.
Sources : Investment Coordinating Board

Table 2.5
Attractive Regions for Investment in 1996[1)]

Region	Investment	Share[2)]
Domestic Investment	**(trillion Rp)**	**(percent)**
West Jawa	19.2	19.1
Jakarta	14.4	14.3
West Kalimantan	9.3	9.3
Riau	8.9	8.9
Irian Jaya	6.7	6.6
Foreign Investment	**(million $)**	**(percent)**
West Jawa	7,760.1	25.9
Jakarta	4,403.9	14.7
Central Jawa	3,273.7	10.9
South Sulawesi	2,467.4	8.2
East Jawa	2,401.7	8.0

1) Approved investment projects.
2) Approved investment to total domestic or foreign investment.
Sources : Investment Coordinating Board

The external sector produced an overall negative contribution to economic growth, though not as pronounced as in the preceding year. Growth in imports of goods and services in the reporting year declined substantially in real terms to 9.6% as compared to 15.8% in the preceding year. Imports of raw materials and consumer goods saw reduced growth, while of imports of capital goods continued to rise in keeping with the high rate of implementation of private foreign and domestic investment. On the other hand, export growth for goods and services declined to 6.3% in 1996 compared to 8.6% in the year before.

Table 2.6
Approved Foreign and Domestic Investment Projects in Eastern and Western Indonesian Regions

Region	1995		1996	
	Foreign Investment (million $)	Domestic Investment (trillion Rp)	Foreign Investment (million $)	Domestic Investment (trillion Rp)
Eastern Region[1)]	6,730	13.7	7,342	32.3
Western Region	33,185	56.2	22,587	68.4
Total	**39,915**	**69.9**	**29,929**	**100.7**

1) Including 13 provinces consisting of Kalimantan (4 provinces), Sulawesi (4 provinces), Maluku, West Nusa Tenggara, East Nusa Tenggara, Irian Jaya, and East Timor.
Sources : Investment Coordinating Board

Non-oil/gas exports were particularly affected as a result of a combination of weakening world trade volume, deteriorating competitiveness of mainstay export products, and intensifying competition on international markets.

In 1996, the savings - investment gap remained relatively unchanged from the previous year's figure of 3.4% of the GDP (Table 2.7), indicating an equilibrium between the robust domestic investment in the reporting year and national savings. By comparison, developing countries as a whole saw the savings - investment gap enlarge from an average 1.6% to 2.3% of the GDP.

In the private sector, the savings - investment gap eased from 6.1% to 5.9% of the GDP as a result of higher private savings (up from 15.2% to 16.7% of GDP) while private investment increased from 21.3% to 22.6% of GDP. Like in the preceding year, the Government achieved a savings - investment surplus, though on a percentage basis this surplus declined from 2.7% to 2.5% of GDP. This can be explained by the decline in the ratio of government savings to GDP from 6.1% to 5.9% while the ratio of government investment remained stable.

Table 2.7
Savings - Investment Gap

Item	1994	1995	1996
	Trillion rupiah		
Government sector			
Savings	27.1	27.7	31.0
Investment[1]	18.3	15.5	17.9
Deficit (–), surplus (+)	**8.8**	**12.2**	**13.1**
Private sector			
Savings	56.2	69.0	88.3
Investment[1]	71.4	96.4	119.6
Deficit (–), surplus (+)	**–15.2**	**–27.4**	**–31.3**
Gross National Savings	83.3	96.7	119.3
Investment[1]	89.7	111.9	137.5
Savings - Investment Gap	**–6.4**	**–15.2**	**–18.2**
Gross Domestic Product	382.2	452.4	529.0
	% of GDP		
Government sector			
Savings	7.1	6.1	5.9
Investment	4.8	3.4	3.4
Deficit (–), surplus (+)	**2.3**	**2.7**	**2.5**
Private sector			
Savings	14.7	15.2	16.7
Investment	18.7	21.3	22.6
Deficit (–), surplus (+)	**–4.0**	**–6.1**	**–5.9**
Gross National Savings	21.8	21.4	22.6
Investment	23.5	24.7	26.0
Savings - Investment Gap	**–1.7**	**–3.4**	**–3.4**
Note :			
Current account deficit (billion $)	–2.9	–6.8	–7.7
Average Rp/$ exchange rate	2,164.2	2,252.8	2,347.3

1) Excluding change of stock.
Sources : – Central Bureau of Statistics
– Bank Indonesia

Supply

On the supply side, economic growth was driven by solid though slightly lower expansion in the non-oil/gas GDP at 8.5% (Table 2.8). Non-oil/gas GDP growth was concentrated mainly in manufacturing, mining and quarrying, and services (Chart 2.1). The oil/gas GDP also experienced strong growth, particularly in the liquefied natural gas (LNG) and liquefied petroleum gas (LPG) industries which saw 0.9% expansion following a 1.4% contraction the year before.

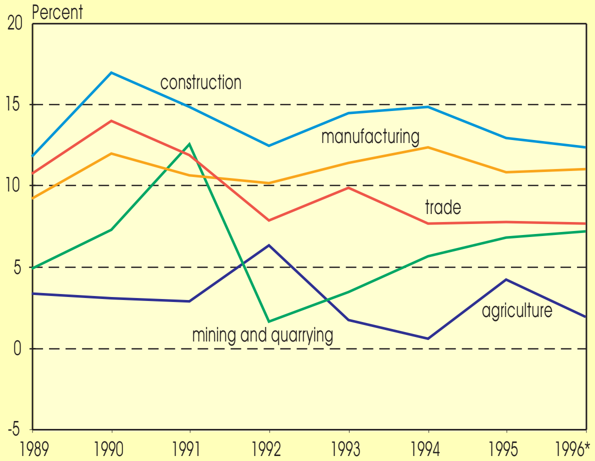
Value added in manufacturing improved at an annual rate of 11%, up from 10.8% in the previous year. This increase was mainly attributable to buoyant activ-

Table 2.8
GDP Growth by Sector 1)

Item	1995		1996*	
	Growth	Weighted growth	Growth	Weighted growth
	Percent			
Gross Domestic Product	**8.2**	**8.2**	**7.8**	**7.8**
Agriculture	4.2	0.7	1.9	0.3
Mining and quarrying	6.7	0.6	7.1	0.7
Manufacturing	10.8	2.5	11.0	2.6
Electricity, gas, and water supply	15.5	0.2	12.6	0.2
Construction	12.9	0.9	12.4	0.9
Trade, hotel, and restaurant	7.7	1.3	7.6	1.3
Transportation and communications	9.4	0.7	8.6	0.6
Financial, rental, and corporate services	11.2	1.0	10.5	0.9
Services	3.3	0.3	3.3	0.3
Non-oil/gas	**9.2**	**8.4**	**8.5**	**7.7**
Oil/gas	**–1.4**	**–0.2**	**0.9**	**0.1**

1) At 1993 constant prices.
Source : Central Bureau of Statistics

Chart 2.1
Growth Rates of Selected Sectors



Source : Central Bureau of Statistics

Table 2.10
Growth and Contribution of Non-oil/gas Manufacturing Subsectors to GDP Growth in 1996[1)]

Item	Growth	Weighted growth	Value (trillion rupiah)
	Percent		
Non-oil/gas manufacturing	**12.0**	**2.6**	**91.6**
Food, beverage, and tobacco	17.9	1.7	43.8
Textile, leather, and footwears	9.3	0.2	8.8
Wood & other forestry products	3.3	0.0	5.9
Paper and printing goods	6.5	0.1	3.7
Fertilizer, chemical, and rubber	9.8	0.3	11.5
Cement and non-metal quarrying goods	11.7	0.1	3.2
Base metal, iron, and steel	8.9	0.1	3.2
Transportation, machinery, and equipment	3.5	0.1	11.1
Others	9.6	0.0	0.5

1) At 1993 constant prices
Source: Central Bureau of Statistics

ity in non-oil/gas manufacturing and a recovery in the oil/gas industry, which had sustained contraction during the previous year (Table 2.9). Particularly strong non-oil/gas industrial performers were food, beverages, and tobacco, which demonstrated a combined 12.0% rate of growth (Table 2.10) as a result of strong domestic demand, with growth especially high in the palm oil and noodle industries. In addition, timber and other forest products saw some improvement with increased production of sawn timber. Higher growth in the oil/gas sector was supported by a 3.9% expansion in refinery activity as a result of rising domestic oil-based fuel consumption. Natural gas also saw greater activity with stepped up production of LNG and LPG as alternatives to oil-based fuels (Tables 2.9 and 2.11).

Table 2.9
Oil/gas GDP Growth [1)]

Item	1995	1996*
	Percent	
Oil/gas GDP	**–1.4**	**0.9**
Oil/gas mining	0.0	0.2
Manufacturing	–4.7	2.6
Oil refinery	–2.8	3.9
LNG	–7.0	1.1

1) At 1993 constant prices.
Sources : Central Bureau of Statistics

Value added in the services sector remained firmly on a high growth track of several year duration, despite more relaxed performance during the reporting year. Trade, hotels, and restaurants yielded the highest contribution to economic growth from the services sector. Trading activity climbed 7.8%, driven by growth in manufacturing and domestic consumption. The hotel industry produced a larger contribution to GDP growth with a marked increase in foreign tourist arrivals (Table 2.12). Further contribution to economic growth came from financial services, leasing and business services, with particularly strong performance in the banking industry. Likewise, the construction industry contributed significantly with continued strong demand, especially for low cost housing.

Value added in the mining and quarrying sector experienced slightly higher growth, up from 6.7% to 7.1% in line with stronger activity in the oil/gas industry following a period of stagnancy in the previous year (Table 2.13). Non-oil/gas mining activity picked up at a fairly strong rate, though somewhat less vigorously than

Table 2.11
Selected Manufacturing Products

Item	1995/96	1996/97*	1996/97*
	% change		Total
Oil-based fuels (million barrels)[1]	–1.1	12.7	232.3
LNG (million MMBTU)[2]	–5.3	4.1	1,357.4
LPG (thousand tons)	1.7	10.7	3,256.1
Textiles and textile products			
Fabrics (million meters)	2.7	9.3	8,989.0
Weaving yarn (thousand bales)	49.3	6.9	8,281.0
Garment (million dozens)	19.8	6.3	122.2
Staple fibre (thousand tons)[3]	8.1	9.8	523.1
Sports shoes (million pairs)	21.4	4.3	584.3
Leather shoes (million pairs)	14.5	11.9	83.9
Pulp (thousand tons)	53.9	12.1	2,266.6
Paper (thousand tons)	41.8	3.5	4,013.7
Cement (thousand tons)	5.6	8.6	25,108.9
Palm cooking oil (thousand tons)	15.0	15.0	1,991.0
Coconut cooking oil (thousand tons)	6.2	6.2	745.6
Wood products			
Plywood (million m^3)	–6.4	–16.0	7,362.9
Sawn timber (million m^3)[1]	16.4	324.9	8,558.5
Fertilizer			
Urea (thousand tons)	7.9	5.5	6,189.5
ZA and TSP (thousand tons)	–5.2	–5.9	1,623.7
Motor vehicles			
Automobiles (thousand units)	17.2	–21.7	298.2
Motorcycles (thousand units)	31.4	49.4	1,534.3
Tire (thousand units)	22.7	7.7	15,747.6

1) Calendar year.
2) MMBTU: mille mille British thermal unit.
3) Consisting of polyester and viscose rayon.
Sources : – Ministry of Mining and Energy
– Ministry of Industry and Trade

Table 2.13
Selected Mining and Quarrying Outputs

Item	1995	1996*	1996*
	% change		Total
Oil/gas			
Oil (million barrels)	–0.4	–0.6	582.8
Natural gas (million MSCF)[1]	2.0	5.5	3,164.0
Non-Oil/gas			
Coal (thousand tons)	23.5	23.6	47,338.6
Copper (concentrate, thousand tons)	42.3	16.0	1,758.9
Gold (kilograms)	47.5	33.2	83,659.7
Silver (kilograms)	147.8	–3.9	254,893.2
Tin (ore, thousand tons)	25.4	33.0	57.0
Bauxite (thousand tons)	–33.0	–6.3	842.0
Nickel ore (thousand tons)	8.7	36.3	3,426.9

1) MSCF : mille standard cubic feet.
Source : Ministry of Mining and Energy

in the previous year, with coal, gold, nickel ore and copper production running particularly high.

Table 2.12
Selected Services Indicators

Item	1995	1996*
Hotels		
Number of hotels (units)	8,661	8,689
Number of rooms (thousand units)	66	70
Occupation rate (percent)	52	51
Tourists		
Foreign (thousand persons)[1]	3,586	4,195
Communications		
Center's capacity (thousand line units)	4,824	5,537
Installed capacity (thousand line units)	4,467	4,917
Used capacity (percent)	73.7	79.7
Number of lines per 100 residents (line units)	1.69	1.86

1) Through 7 ports of entry
Source : Ministry of Tourism, Post, and Telecommunication

Value added in the agricultural sector showed a substantial drop in growth from 4.2% in 1995 to only 1.9%. Growth in food crop production fell to only 0.3% in comparison to the previous rate of 4.6%, with food crop performance down as a result of the small increase in rice harvests, up only 1.7% compared to 6.7% in 1995 (Table 2.14). Growth in rice production was constrained

Table 2.14
Harvested Area, Production, and Average Production of Selected Foodcrops

Item	1995	1996*	1996*
	% change		Total
Paddy[1]			
Harvested area (thousand ha)	6.6	0.7	11,520
Production (thousand tons)	6.7	1.7	32,874
Average production (tons/ha)	0.7	0.7	2.9
Corn[2]			
Harvested area (thousand ha)	17.5	0.8	3,680
Production (thousand tons)	20.0	10.9	9,142
Average production (tons/ha)	2.3	10.2	2.5
Cassava			
Harvested area (thousand ha)	–0.5	6.3	1,407
Production (thousand tons)	–1.8	9.5	16,910
Average production (tons/ha)	–0.3	3.1	12.0
Soybean			
Harvested area (thousand ha)	5.0	–13.6	1,276
Production (thousand tons)	7.3	–10.1	1,510
Average production (tons/ha)	2.7	3.5	1.2

1) Equivalent to rice.
2) Kernels.
Sources : Ministry of Agriculture

Table 2.15
Selected Cash Crop Production

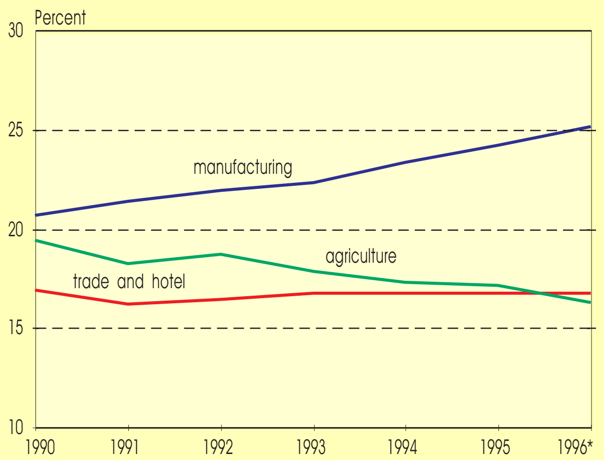
Item	1995	1996*	1996*
	% change		Thousand tons
Rubber	2.4	2.8	1,578
Copra	1.6	0.5	2,704
Palm oil	8.5	9.1	4,747
Sugar cane	–4.1	5.1	2,473
Tea	11.3	9.0	169
Coffee	1.1	3.1	469

Sources : Ministry of Agriculture

by the limited 0.7% expansion of harvested area. It should be noted that the high agricultural growth of 1995 came about as a recovery in food crop production following considerable setbacks in 1994. Furthermore, value added for estate crops increased by only 3.7% during the reporting year, a result of reduced crop yields for several key primary commodities, such as copra and tea (Table 2.15).

Because of limited growth performance, agriculture slipped from the previous position as the second largest sector in the GDP to third place, with the second place taken by trade, hotels, and restaurants. Manufacturing industry gained as a proportion of the GDP, further reinforcing its leading position in the economy. These changes are representative of the progress achieved in economic transformation within the Indonesian economy (Chart 2.2).

Chart 2.2
Share of Three Major Sectors in GDP



Source : Central Bureau of Statistics

Prices

In 1996/97, cumulative inflation measured by consumer price index (CPI) declined to 5.17%, representing the lowest inflation recorded in the past ten years (Table 2.16). Average inflation during first three years of Repelita VI declined to 7.53%, although still higher than the desired target. Overall inflation in calendar 1996 came to 6.47%, down from the 1995 total, with inflation running at especially low levels in the first and second quarters of fiscal 1996/97 (Chart 2.3).

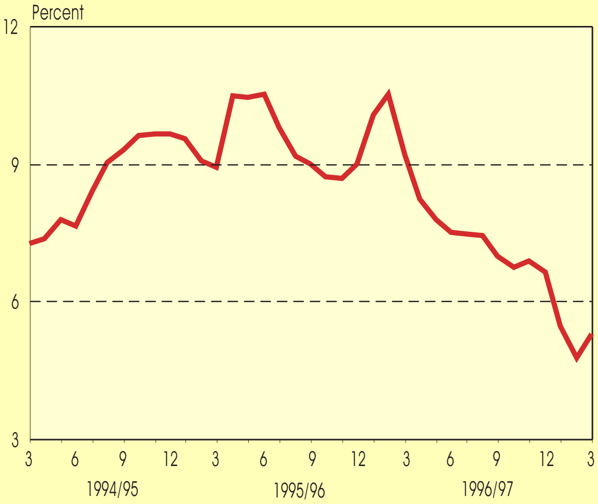
The low inflation in 1996/97 resulted mainly from the improved stability in food prices (Table 2.17), with food inflation down to only 3.82%. During the first and second quarter of 1996/97, food prices actually experienced deflation. An important contribution to the reduced food inflation came from lower prices for spices, down 18.8%, reflecting a market correction following soaring prices of red pepper, cayenne pepper, and red onions in 1995/96. The deflation posted in March 1996 resulted primarily from declining price for meat, poultry, and related products. Overall, the low food inflation

Table 2.16
Cumulative Inflation

Calendar year		Fiscal year	
Period	Inflation (%)	Period	Inflation (%)
1991	9.52	1991/92	9.78
1992	4.94	1992/93	10.03
1993	9.77	1993/94	7.04
1994	9.24	1994/95	8.57
1995	8.64	1995/96	8.86
1996	6.47	1996/97	5.17

Source : Central Bureau of Statistics

Chart 2.3
Inflation in 1994/95 – 1996/97[1)]



1) Year on year.
Source : Central Bureau of Statistics

corresponded with improvements in food production and distribution as result of market intervention by Bulog, which was aided by the absence of disruptions in production during the fiscal year.

In contrast to foodstuffs, miscellaneous products and services recorded much higher inflation at 9.46%, thus contributing a significant 2.39% to the overall inflation figure (Table 2.17). This marked inflationary pressure was related to transportation fare increases announced by the Government in April 1996 (Table 2.18). The bus fare hikes introduced during that month resulted in an increase in inflation of administered goods from 3.29% to 7.37% by the end of fiscal year (Table 2.19 and Chart 2.4).

Table 2.17
Inflation in 1996 and 1996/97
by Group of Goods and Services

Item	1996		1996/97	
	Price increase	Share on changes	Price increase	Share on changes
	Percent			
Foodstuffs	6.12	2.15	3.82	1.27
Housing	4.72	1.37	3.48	1.03
Clothing	5.77	0.58	4.80	0.48
Miscellaneous and services	9.69	2.37	9.46	2.39
General	**6.47**	**6.47**	**5.17**	**5.17**

Source : Central Bureau of Statistics

Table 2.18
Ten Largest Contributors to the Inflation
in 1996 and 1996/97[1)]

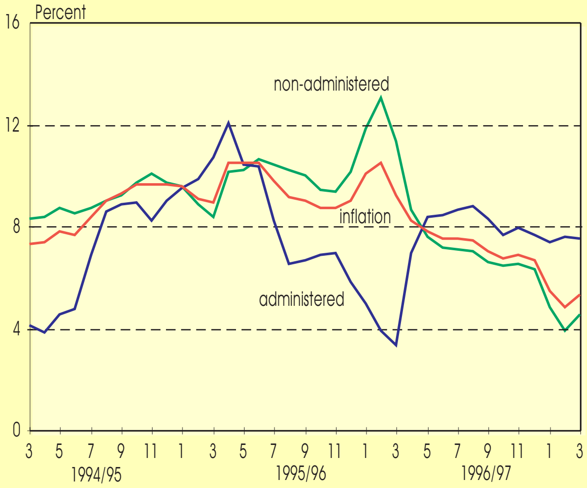
Goods	Weight (%)	Cumulative price increase (%)	Share to inflation (%)
		1996	
City transportation	4.22	26.56	1.12
Red pepper	0.58	78.47	0.45
Rice	7.01	5.79	0.41
School fee	4.31	8.26	0.36
Clove cigarettes	1.89	10.17	0.19
Log	2.51	7.54	0.19
Fish	0.48	32.17	0.15
Chicken meat	1.28	11.72	0.15
Chicken eggs	0.89	15.85	0.14
Non-supervisor labor	2.77	4.95	0.13
Total 10 goods/services	**25.94**		**3.29**
		1996/97	
City transportation	4.22	25.67	1.08
Rice	7.01	6.85	0.48
School fee	4.31	10.18	0.44
Clove cigarettes	1.89	8.26	0.16
Chicken meat	1.28	11.67	0.15
House maid wage	1.39	8.59	0.12
Intercity bus	0.62	18.82	0.12
Aircrafts	0.44	25.94	0.11
Taxi	0.25	44.44	0.11
Log	2.51	4.19	0.11
Total 10 goods/services	**23.92**		**2.88**

1) Monthly cumulative calculation.
Sources : – Central Bureau of Statistics
– Bank Indonesia

Housing inflation was moderate at 3.48%, contributing 1.03% of the overall increase in the CPI. Compared to 1995/96, housing prices contributed slightly less to overall inflation as a result of lower increases in prices for construction materials, down from 6.98% in 1995 to 3.03% in the reporting year. Price increases were especially low for such key construction materials as cement, nails, and corrugated sheets.

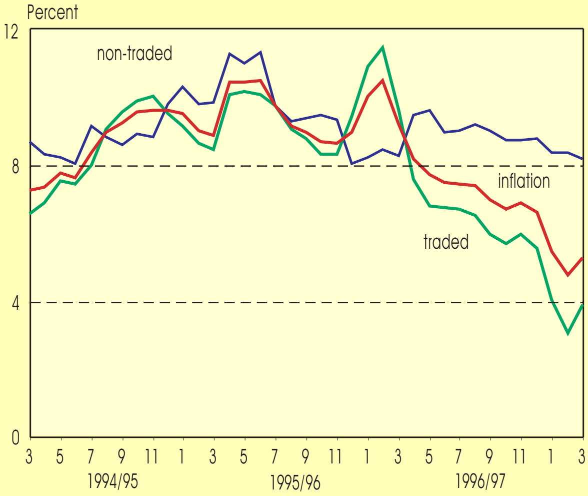
Traded goods, normally affected by changes in the international market, saw considerably more modest price increases at only 3.85% in the reporting year, down from 9.30% in 1995/96 (Table 2.19 and Chart 2.5). Contributing significantly to this decline was the slower rupiah depreciation against the United

Chart 2.4
Inflation and Changes in Administered and Non-administered Price Index in 1994/95 – 1996/97



Source : – Central Bureau of Statistics
– Bank Indonesia

Chart 2.5
Inflation and Changes in Traded and Non-traded Price Index in 1994/95 – 1996/97



Sources : – Central Bureau of Statistics
– Bank Indonesia

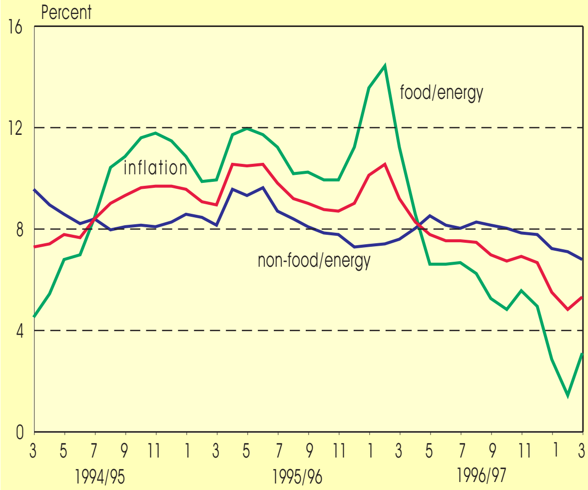
States dollar, which had a major effect on reduced imported inflation given the high proportion of imports denominated in this currency. Food and energy inflation fell sharply from 11.23% to only 3.11% (Table 2.19 and Chart 2.6), partly because of the dramatic deflation in prices for red pepper, cayenne pepper, and red onions, but also because of the absence of fuel price hikes during the reporting year. Inflation also declined for non-food/energy products, though by a smaller margin from 7.34% to 6.61%, with prices down for some construction materials such as corrugated iron and cement.

Table 2.19
Inflation in 1996 and 1996/97 by Selected Category[1)]

Item	1996		1996/97	
	Price increase	Share on changes	Price increase	Share on changes
	Percent			
Administered	7.48	1.93	7.37	1.91
Non-administered	6.15	4.54	4.46	3.26
Food/energy	4.98	2.29	3.11	1.48
Non-food/energy	7.52	4.18	6.61	3.69
Food	6.12	2.14	3.82	1.27
Non-food	6.73	4.33	5.95	3.90
Traded	5.49	3.64	3.85	2.53
Non-traded	8.54	2.83	7.95	2.64
General	**6.47**	**6.47**	**5.17**	**5.17**

1) Monthly cumulative calculation.
Sources : – Central Bureau of Statistics
– Bank Indonesia

Chart 2.6
Inflation and Changes in Food/Energy and Non-food/Energy Price Index in 1994/95 – 1996/97



Sources : – Central Bureau of Statistics
– Bank Indonesia

At the wholesale level, price increased 7.86% during the reporting year, slightly lower than in the preceding year (Table 2.20). Wholesale inflation eased in several key economic sectors: agriculture, mining and quarrying, industry, and imports. In agriculture, inflation eased as a result of reduced price increases for food and commercial crops, such as red pepper, cayenne pepper, and red onions. Manufacturing saw lower price increases as a result of a decline in the prices of rubber and rubber products, non-ferrous metals and chemical industries in line with reduced growth in domestic demand. The lower imported inflation compared to the previous year was linked to modest price increases for imported machinery and electrical appliances and reduced prices of paper products, tires, and non-metal mineral products. In contrast, exported goods experienced stronger inflation because of higher international crude oil prices.

Table 2.20
Changes in Wholesale Price Index

Group	1995	1996
	Percent	
Agriculture	19.13	12.43
Mining and quarrying	12.24	11.42
Manufacturing	10.82	3.58
Import	6.98	5.40
Export	13.38	14.21
Oil/gas	10.94	21.12
Non-oil/gas	17.25	2.65
General	**11.63**	**7.86**

Source : Central Bureau of Statistics

Deregulation in the Real Sector
June 4, 1996

The June 4, 1996 deregulatory package represents a further step forward in the government drive to improve efficiency within the Indonesian economy and strengthen the competitiveness of domestic products. This package covers three key areas: imports, exports, and improvements to the business climate. Measures adopted in these areas include reduction and elimination of import duties and surcharges, streamlining of import trading schemes, improved incentives for exporters in priority sectors, and simplified licensing procedures for domestic and foreign investment.

I. Imports

1. Schedule for import tariff reductions

To build a more conducive business environment and promote investment, the Government has scheduled a series of phased reductions in import tariffs up to the year 2003, a deepening of the deregulation package of May 1995. These phased reductions are as follows.

a. Imports scheduled for tariff reductions to 5% by 2000 (May 1995 Policy Package):
   - In 1997 and 1999, the applicable tariffs shall be reduced by 5% with the exception of tariffs already at 5%
   - No tariff cuts will take place in 1996, 1998, and 2000

b. Imports scheduled for tariff reductions to 10% by 2003 (May 1995 Policy Package):
   - In 1996, 1998, 2000, and 2002 the applicable tariffs shall be reduced by 5% with the exception of tariffs already at 10%
   - No tariff cuts will take place in 1997, 1999, 2001, and 2003

   Agricultural, automotive, and chemical products, plastic and metal articles, and distilled alcohol products and alcoholic beverages are excluded from the tariff reduction schedule.

2. Tariff reductions for imported capital goods

To promote domestic investment, the Government has reduced import tariffs for 385 tariff items comprising capital goods. Among these goods in this schedule are outboard motors, stoves, and industrial kilns and laboratories

.

3. Elimination of import surcharges

As stipulated in the Customs Act, import surcharges shall no longer be levied. In the case of goods for which it is deemed necessary to restrict imports through tariffs (covering 80 tariff items), the previous import surcharges shall be incorporated into the applicable import duties.

4. Simplification of import trading schemes

General importers are permitted to import nine categories of goods previously restricted to producer importers. Among these goods are soybeans, pistons and diesel engines, displacement pumps, and electrical motors and generators.

5. Anti-dumping measures and the Indonesian Anti-dumping Committee

To deal with dumping practices and protect domestic industries, the Government has introduced measures for imposition of anti-dumping import duties on dumped imports and countervailing duties on imports at subsidized prices. In addition, the Government has also established the Indonesian Anti-dumping Committee, which is vested with responsibility for identifying and investigating dumping and subsidy practices, and proposing appropriate actions and counter measures.

II. Exports

Measures undertaken to boost exports include export facilities and more efficient services for exporters in priority sectors.

1. Export facilities

a. The maximum limit for export of goods exempted from Customs Export Declaration (Pemberitahuan Ekspor Barang - PEB) documentation has been raised from Rp10 million to Rp100 million.

b. Regulations on pre-shipment inspection of exported goods by surveyors are now revoked; all inspection shall now be conducted within the framework of the Customs Act.

c. The requirements and procedures for certification of origin on goods exported from Indonesia have been simplified as follows.
   - the number of legal requirements has been reduced from 31 to 4;
   - the number of supporting documents to be attached has been reduced from 4 (L/C, PEB, invoice/packing list, and B/L or AW bill) to 2 (PEB and B/L or AW bill);
   - the number of agencies permitted to issue certificates of origin has been increased from 2 (foreign exchange banks and shipping agents) to 3 (with the addition of production zones); and
   - the number of officials vested with authority to issue certificates of origin has been raised from 1 to 3.

2. Special treatment for designated exporters in priority sectors

a. Producer exporters and general exporters meeting certain requirements may be granted special facilities with easier, faster service in the areas of customs, taxation, and banking transactions.

b. Exporter companies are required to have full address of offices and/or plant locations and hold taxpayer identification numbers, have duly complied with their taxation obligations, not possess a record of infringement of customs regulations causing losses to the state, and not have any involvement in problem loans.

c. Exporters are provided with banking facilities in the form of a re-discount facility at market rates, two-year maximum term for issue of usance L/Cs, and the issue of local re-discounted L/C.

d. On a preliminary basis pending evaluation, the designated priority sectors are textiles and textile products, footwears, electronics, finished wood and rattan products, and leather products.

III. The Business Climate

Measures adopted in this area are:

1. Exemption of licensing for enterprises operating in the industrial estates, subject to the following requirements:
   - foreign investment approval from the President for companies under foreign investment scheme;
   - domestic investment approval from Investment Coordinating Board (Badan Koordinasi Penanaman Modal - BKPM) for companies under domestic investment scheme; or
   - approval in principle or an operating license from the competent agency for companies not established under the foreign or domestic investment schemes.
2. Issuance of Government Regulation on bonded warehouses within bonded zones and the operation of private bonded zones and bonded warehouses.
3. Foreign investment manufacturing companies are now permitted to:
   - import complementary goods from overseas affiliates;
   - sell their products on the domestic market to the distributor level; and
   - sell imported complementary goods on the domestic market.

   Imports of complementary goods are subject to certain requirements: domestic sales of the imported goods shall take place in a single package with the products of the company, and the value added of exported products manufactured by the company must be higher than the value of the imported complementary goods.
4. Simplified procedures for importing industrial waste with revised descriptions and tariff codes for imported waste, and changes in procedures according to the provisions of the new Customs Act.

Chapter 3
Balance of Payments

Indonesia's balance of payments in 1996/97 was characterized by a higher but still sustainable current account deficit. The ratio of the current account deficit to GDP rose by a narrow 0.1% margin to 3.5%, lower than the projected level of 3.9%. This widening deficit was primarily attributed to weakening non-oil/gas export performance in the face of robust import growth, which despite having eased, was still running high. As a result, the non-oil/gas trade balance ran up a higher deficit (Table 3.1). Meanwhile, in line with strengthening oil prices, the oil/gas trade balance posted a substantially higher surplus that more than compensated for the increased non-oil/gas trade deficit, thus producing a slight increase in the trade surplus (Chart 3.1). On the other hand, the increasing services deficit more than negated any gains achieved, resulting in a widening current account deficit to $8.1 billion. Nevertheless, as in the past, the current account deficit was more than offset by net capital inflows with heavy private investment attracted by the strong fundamentals of the economy and the conducive investment climate. As a result, the overall balance continued to post a surplus, and foreign reserves increased to a level equivalent to 5.2 months of non-oil/gas imports.

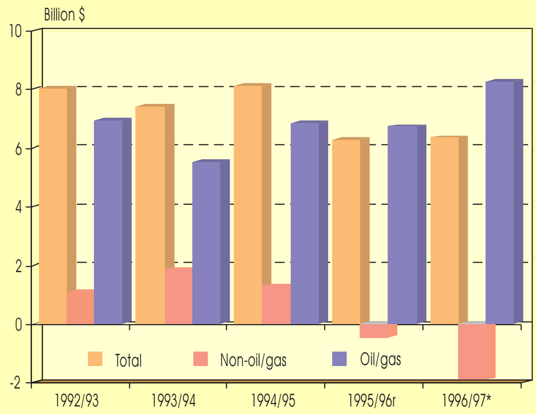
Indonesia's deteriorating export performance in 1996/97 can be traced to a combination of domestic and external factors. At home, non-oil/gas exports have been struggling with such constraints as low efficiency, an export structure dominated by resource-based commodities and low-cost labor-intensive manufacturing, and inadequate port facilities, especially outside Jawa. In addition, new emerging competitors such as China, Vietnam, and India are aggressively building their export competitiveness, creating an environment of much tighter international competition. Other constraints to non-oil/gas export growth included such issues as dumping allegations, ecolabelling, human rights, and international labor standards.

In response to the deterioration of the current account deficit stemming from weakening non-oil/gas

Table 3.1
Indonesian Balance of Payments

Item	1994/95	1995/96r	1996/97*
		Billion $	
A. Current Account	**–3.5**	**–7.0**	**–8.1**
1. Goods	8.0	6.2	6.3
a. Exports f.o.b.	42.1	47.7	52.2
i. Non-oil/gas	31.7	37.1	39.6
ii. Oil/gas	10.4	10.6	12.6
– Oil	6.3	6.5	7.4
– LNG	3.7	3.6	4.6
– LPG	0.4	0.5	0.5
b. Imports f.o.b.	–34.1	–41.5	–45.9
i. Non-oil/gas	–30.5	–37.6	–41.5
ii. Oil/gas	–3.6	–3.9	–4.4
– Oil	–3.4	–3.6	–4.1
– LNG	–0.3	–0.3	–0.3
2. Services	–11.5	–13.2	–14.4
a. Non-oil/gas	–8.5	–10.0	–10.9
b. Oil/gas	–3.0	–3.2	–3.6
i. Oil	–1.6	–1.7	–1.9
ii. LNG	–1.5	–1.5	–1.7
B. Capital Account	**4.8**	**11.5**	**11.0**
1. Net Official Capital Inflows	0.2	–0.2	–0.8
a. Official inflow	5.7	5.7	5.4
b. Debt repayment	–5.5	–5.9	–6.2
2. Net Private Capital Inflows	4.6	11.7	11.8
a. Foreign direct investment	2.6	5.4	6.5
b. Others	2.0	6.3	5.2
C. Total (A + B)	**1.3**	**4.5**	**2.9**
D. Net Errors & Omissions (C and E)	**–0.7**	**–1.8**	**1.0**
E. Monetary Movements	**–0.6**	**–2.7**	**–3.9**
Notes :			
F. Official Reserves	**13.3**	**16.0**	**19.9**
Equivalent to non-oil/gas imports (months)	**4.7**	**4.6**	**5.2**
G. Current Account Deficit/GDP (in percent)	**2.0**	**3.4**	**3.5**

Chart 3.1
Trade Account



export growth, the Government adopted a series of monetary, fiscal, and real sector policy measures. In the monetary and fiscal areas, the measures are aimed at maintaining macroeconomic stability and containing expansion in domestic demand, including demand for imports. In the real sector, the Government is engaged in an on-going drive to increase the efficiency and capacity of national production, improve efficiency in flows of goods and services, and strengthen the competitiveness of Indonesia's economy in the international arena. In this regard, the Government launched the June 4, 1996 Deregulation Package aimed at enhancing efficiency in production and investment through providing a more conducive investment environment and strengthening non-oil/gas export performance.[1)] To further stimulate export activities, Bank Indonesia has updated its regulations concerning the rediscount facility for export drafts while introducing a lower discount rate.[2)] Bank Indonesia has also amended regulations on domestic letters of credit (L/Cs)[3)] including the rediscount facility for domes-

1) The June 4, 1996 Deregulation Package.
2) Decree of the Board of Managing Directors of Bank Indonesia No. 29/151/KEP/DIR, dated December 31, 1996.
3) Decree of the Board of Managing Directors of Bank Indonesia No. 29/150/KEP/DIR, dated December 31, 1996.

Rediscount Facility for Export Drafts, Domestic Letter of Credit, and Rediscount Facility for Domestic Letter of Credit

To support the government drive for promotion of non-oil/gas exports, Bank Indonesia has updated the regulations governing the rediscount facility on export drafts for priority exporters, domestic letters of credit (L/C), and the rediscount facility for domestic L/Cs for suppliers selling goods to priority exporters.

Rediscount Facility on Export Drafts for Priority Exporters[1)]

The new regulations govern the discount rate, the discount rate mechanism for foreign currency-US dollar transactions and foreign currency-rupiah transactions, and days to maturity for rediscount of export drafts.

Rediscount rate

The rediscount rates on export drafts or other term drafts issued by priority exporters and sold to Bank Indonesia by foreign exchange banks are set daily, depending on market rates. For priority exporters, the rate was reduced from SIBOR+1% to SIBOR, whereas for other exporters, the rate was changed from SIBOR+2.5% to SIBOR+1%.

Rediscount mechanism

Previously banks were only able to receive the proceeds of rediscounted export drafts in rupiah currency. Under the

1) Decree of the Board of Managing Directors of Bank Indonesia No. 29/151/KEP/DIR, dated December 31, 1996.

new regulations, banks are permitted to receive the proceeds of rediscounted export drafts in United States dollars, provided that the drafts originate from priority exporters. This facility, however, is only granted with prior approval from Bank Indonesia. These transactions may only be carried out by the head office of a foreign exchange bank or appointed branch office by means of the Reuters monitor dealing system.

Days to maturity

Export drafts to be rediscounted to Bank Indonesia must have at least 30 days and a maximum of 720 days to maturity.

Domestic Letters of Credit[2)]

The updated regulations on domestic L/Cs were introduced in anticipation of technological progress and adaptation to the international practice.

The new regulations stipulate that domestic L/Cs can only be issued on condition that the bank, the applicant, and the beneficiary are domiciled in Indonesia and the commercial transaction is taking place domestically. These trading activities can be extended to include transactions of goods and services, subject to the requirement that the services are an inseparable part of the transaction in goods and the value of the goods is higher than the services.

The amended regulations on domestic L/Cs mainly relate to the shipping of goods, means of communication, shipping documents, and insurance documents.

Shipping of goods

The provisions govern only goods shipped domestically. However, the goods may be shipped overseas provided that the domestic L/C is issued on the basis of a foreign L/C or non-L/C payment clause.

Means of communication

Transaction in domestic L/C transactions can be communicated by means of letter, telex, SWIFT, or other instruments of communication customarily used in banking practice.

Shipping documents

One of the main objectives of the regulation is to standardize the required document used in domestic L/C transactions. The documents shall at least contain name and address of the sender and beneficiary of the goods, reference number and date of the domestic L/C, the name and address of the shipping company and its agent, reference of business licenses of shipping company and its agent, the description of the goods, make and number, number of packages, type of packaging, gross weight and dimensions, date of acceptance for delivery, mode of transportation, the place of origin (the place of loading) and destination of the goods, the number of original sheets, as well as signature and full name of person in charge of the shipping company or its agent.

Insurance documents

The regulation on insurance documents aims to protect the issuing and beneficiary bank. In this respect, cargo insurance documents relating to the transaction of domestic L/Cs are covered by a banker's clause on behalf of the issuing bank.

Regulations concerning the Rediscount Facility for Domestic L/Cs[3)]

To expedite domestic flows of goods, banks are permitted to rediscount to Bank Indonesia domestic L/Cs of suppliers selling goods to priority exporters. The rediscount rate is the Cut-off Rate (COR) of the 3-month money market securities with a certain margin (positive or negative). Other provisions on the rediscount facility include:

1. A domestic L/C eligible for a rediscount to Bank Indonesia must mature in at least 30 days and not more than 90 days.
2. The value of domestic L/C that may be rediscounted to Bank Indonesia must be less or equal to 50% of the

2) Decree of the Board of Managing Directors of Bank Indonesia No. 29/150/KEP/DIR, dated December 31, 1996.

3) Decree of the Board of Managing Directors of Bank Indonesia No. 29/152/KEP/DIR, dated December 31, 1996.

nominal value of the domestic L/C.

3. Sales of claims to Bank Indonesia may only be settled in the rupiah currency.

4. Only banks rated at least fairly sound by Bank Indonesia for the past 12 months are eligible for the rediscount facility.

tic L/Cs.[4] (Box: Rediscount Facility for Export Drafts, Domestic Letter of Credit, and Rediscount Facility for Domestic Letter of Credit). An ongoing, sustained agenda of deregulation is vital to building further improvements in efficiency and maintaining the macroeconomic stability essential for strengthening foreign investor confidence in the coming era of globalization.

Other efforts aimed at boosting export performance included the establishment of the Team for the Assesment of Export Strategy (TIPSE) and the Indonesian Anti-dumping Committee (KADI), the introduction of new regulations broadening the scope of goods exported by designated export companies, and improvements to the regulations on commercial offshore borrowing (COB). The establishment of the TIPSE will help operational agencies responsible for trade issues including diplomacy, trade facilities and promotion with the aim of boosting non-oil/gas exports, overcoming trade barriers in destination countries, and strengthening bilateral cooperation with trading partners. The team is also expected to design a market penetration strategy through a product-based as well as regional approach. KADI is responsible for dealing with dumping allegations against Indonesian exports as well as confronting dumping practices by other countries.[5] In this case, the Government may impose anti-dumping and counter-vailing import duties. Anti-dumping duties would prevent imported goods from being sold at lower prices than in the exporting countries, and counter-vailing duties would be imposed on goods imported at subsidized prices.[6]

New rules on designated export companies have extended the scope of mainstay exports from 4 to 10 selected commodities, based on their prospects of stimulating exports with high local content so as to limiti imports. Designated export companies are now permitted to include paper, processed food, vegetable oils, processed rubber, toys, fish and frozen shrimp in the list of mainstay exports eligible for special facilities covering customs, taxation and banking procedures.[7] Bank Indonesia has also introduced an updated regulation for COB in a measure designed to stimulate export financing and limit the growth of offshore borrowings. At least 80% of the COB drawn by a bank must be allocated for export credit (Box: Updated Regulation on Commercial Offshore Borrowing).[8]

Current Account

In 1996/97 the current account deficit mounted by \$1.1 billion to \$8.1 billion, equal to 3.5% of GDP. This widening deficit resulted from a \$1.2 billion increase in the services account deficit while the trade account surplus strengthened by no more than \$0.1 billion (Chart 3.2).

It should be noted that the rising current account deficit was also common to other ASEAN coun-

4) Decree of the Board of Managing Directors of Bank Indonesia No. 29/152/KEP/DIR, dated December 31, 1996.
5) Decree of the Minister of Industry and Trade No. 136/MPP/Kep/6/1996, dated June 4, 1996.
6) Decree of the Minister of Industry and Trade No. 42/MPP/Kep/2/1997, dated February 13, 1997.
7) Government Regulation No. 4 of 1996 dated June 4,1996.
8) Decree of the Board of Managing Directors of Bank Indonesia No. 29/192/KEP/DIR, dated March 26, 1997.

Updated Regulation on Commercial Offshore Borrowing

On March 26, 1997, Bank Indonesia updated its regulations concerning commercial offshore borrowing (COB) in an effort to support the balance of payments and maintain monetary stability. The salient provisions of the new regulations are as follows.

1. **Linkage of COB to export financing**

   A bank provided with a COB ceiling is required to extend export credit at a minimum of 80% of the offshore borrowing disbursed to the bank during the current year. Short-term (up to two years) loans to a maximum of $20 million per creditor or depositor are exempted from the ceiling, but nevertheless are subject to limitation of 30% of bank capital.

2. **Definition of export credit**

   Export credit includes: investment credit and working capital for financing export and export-related supply activities, overseas construction projects, export of Indonesian workers, and loans for of hotels rated four-star or higher.

3. **Penalty for violations**

   A bank violating the regulations on commercial offshore borrowings shall be liable to a payment penalty commensurate to the extent of the violation. Under the new provision, the scope of violations has been expanded (Table 1).

4. **Other Provisions**

   a. The regulations concerning classification of offshore commercial borrowings subject to ceiling, approval on market entry, and the limitation of short term loans to a maximum of 30% of bank capital remain unchanged.

   b. If export credit is extended under a syndicated loan, this loan is categorized as export credit, the amount of which is calculated on the basis of the share extended by each bank

   c. The ceiling for the following fiscal year is to be determined on the basis of fulfillment of the previous year's export credit requirements.

   d. For the calculation of compliance with the export credit requirement, banks are required to submit monthly reports on export credit, which are incorporated as part of the commercial bank credit report.

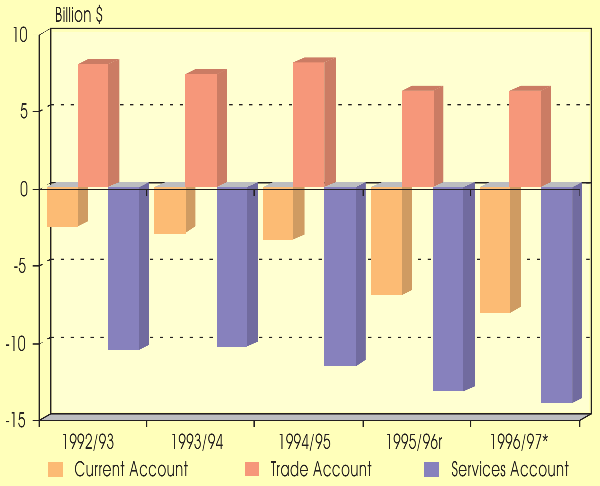
Table 1
Violations and Payment Penalty

Type of Violation	Payment Penalty	
	Previous Provision 1)	New Provision 2)
1. Failure to submit annual plan while continuing to implement COB	No	Yes
2. Realizing COB ceiling allocation but fail to submit the plan for entering the market and to obtain approval from Bank Indonesia	No	Yes
3. Receiving COB exceeding 30% of its capital	No	Yes
4. Daily outstanding NIOF exceeds 10% of the stipulated amount	Yes	Yes
5. Failure to submit on time the report on principle, changes, and outstanding debt	Yes	Yes
6. Receiving COB in excess of ceiling	No	Yes

1) – Decree of the Board of Managing Directors of Bank Indonesia No. 24/52/KEP/DIR, dated November 20, 1991.
– Circular Letter of Bank Indonesia No. 24/38/ULN, dated November 20, 1991.

2) – Decree of the Board of Managing Directors of Bank Indonesia No. 29/192/KEP/DIR, dated March 26, 1997.
– Circular Letter of Bank Indonesia No. 29/55/ULN, dated March 26, 1997.

Chart 3.2
Current, Trade, and Services Accounts



tries. In the Philippines, Malaysia, and Thailand, the current account deficit increased to 4.3%, 6.0% and 8.2% of the GDP (Chart 3.3).

Trade Account

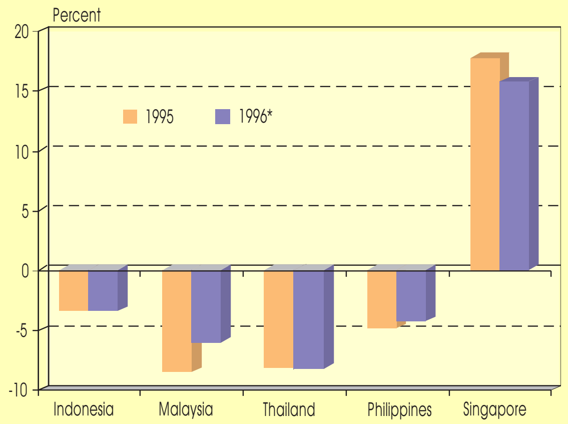
As mentioned earlier, the surplus in the trade account improved slightly to $6.3 billion as a result of substantial growth in the oil/gas trade account surplus. Rising international oil and gas prices boosted the oil/gas trade account surplus from $1.5 billion in 1995/96 to $8.2 billion. Offsetting this was an increase in the non-oil/ gas trade deficit from $0.5 billion to $1.9 billion because of weakening non-oil/gas export performance.

Exports

Total export growth in 1996/97 came to 9.3%, which represented a decline compared to the 13.3% performance in the previous year. Export growth subsided primarily because of weaker performance in non-oil/ gas exports, while oil/gas exports climbed significantly in line with bullish international oil prices (Chart 3.4). As a result, total exports in the reporting year reached $52.2 billion, significantly higher than $47.7 billion in the previous year.

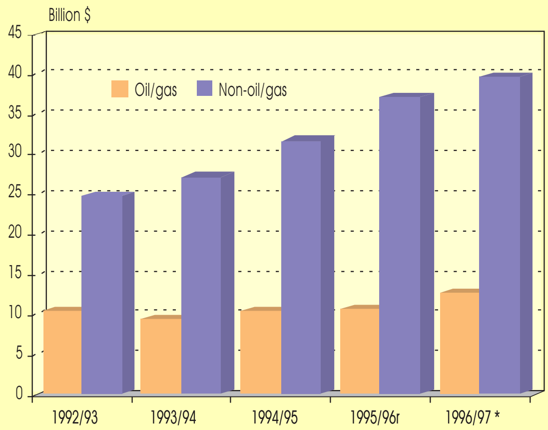
The weakening export performance was not confined to Indonesia, but represented a region-wide phenomenon. Many emerging markets in Asia, such as Thailand, South Korea, Taiwan, and Malaysia found themselves faced with similar challenges. Dampened export growth in Thailand, South Korea, and Malaysia in 1996 was brought by structural factors, such as high labor costs, slow progress in technology, heavy reliance on imported goods, and inadequate infrastructure. In Taiwan, depressed export growth was more a cyclical phenomenon as a result of sluggish world demand

Chart 3.3
Current Account to GDP Ratio of Five ASEAN Countries



Source : IMF, World Economic Outlook, March 1977

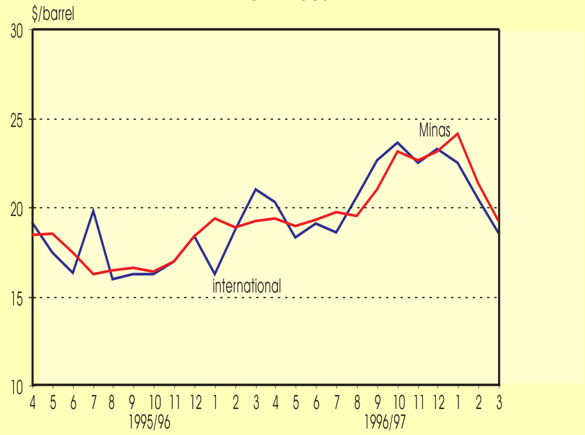
Chart 3.4
Export Value



caused by oversupply (Box: Export Growth in Asian Emerging Markets.)

Oil/gas exports saw dramatic growth. Compared to only 1.6% expansion in 1995/96, oil/gas export growth soared to 18.6% in the reporting year (Table 3.2), with strong performance by crude oil, LNG, and LPG. Crude oil demand increased with a colder than usual winter in the United States and higher demand for oil-generated electric power in Japan. As a consequence, crude oil prices picked up. With crude oil prices running at an average of $20.5 per barrel in the reporting year, crude oil exports increased 13.9% (Chart 3.5). LNG exports increased 28.0% with soaring prices and higher production to meet the long term sales contracts with Japan and South Korea. Higher price also bolstered LPG exports by 13.0% despite declining export volume brought about by rising domestic consumption for transportation and household use. As a result, oil/gas exports contributed a hefty $12.6 billion to export earnings during the reporting year.

Chart 3.5
Oil Prices 1)



1) – Minas : Sumatran light crude (SLC)
– International : Average oil price of Arab Heavy, Brent, Bonny, and West Texas Intermediate (WTI)

Sources: – Ministry of Mining and Energy
– Reuters

Table 3.2
Oil/gas Exports by Country of Destination

Item	1995/96 Value 1)	1995/96 Share (%)	1996/97* Value 1)	1996/97* Share (%)
Oil				
United States	**447.8**	**9.0**	**684.2**	**9.2**
Crude oil	340.8		477.5	
Oil products	107.0		206.7	
Japan	**2,372.2**	**41.6**	**2,873.2**	**38.6**
Crude oil	1,828.3		2,296.4	
Oil products	543.9		576.8	
Others	**3,708.9**	**49.4**	**3,878.6**	**52.2**
Crude oil	3,015.9		3,043.1	
Oil products	693.0		835.5	
Total	**6,528.9**	**100.0**	**7,436.0**	**100.0**
Crude oil	5,185.0		5,817.0	
Oil products	1,343.9		1,619.0	
Gas				
LNG	**3,603.0**	**100.0**	**4,612.0**	**100.0**
Japan	2,698.6	74.9	3,078.8	66.8
South Korea	652.8	18.1	1,133.7	24.6
Taiwan	251.6	7.0	399.5	8.7
LPG	**484.0**	**100.0**	**547.0**	**100.0**
Japan	381.7	78.9	461.2	84.3
Singapore	0.3	0.0	0.5	0.1
Others	102	21.1	85.3	15.6

1) F.o.b. value in million $.

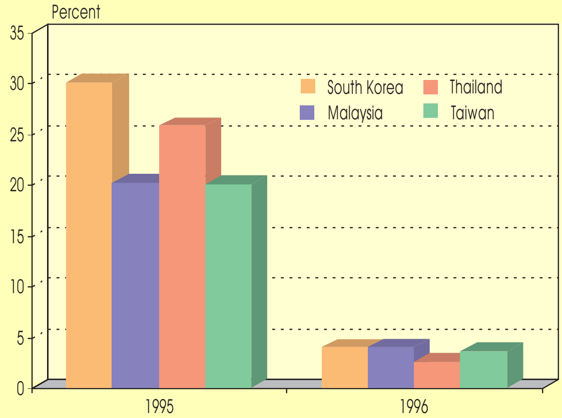
Non-oil/gas exports saw 6.6% growth in 1996/97, reaching $39.6 billion. This growth performance was considerably lower than the 17.1% recorded in the previous year. This significant drop resulted from depressed growth in manufactured exports and a poor showing by mining exports. Agricultural commodities, following a year of decline, bounced back with positive growth (Chart 3.6). Despite the disappointing performance in non-oil/gas export growth, a heartening development was observed with the trend toward greater export diversification. Since 1993, Indonesia's exports have seen an increasing share of new commodities, particularly manufactured goods. Electrical appliances have played an especially important role with strong exports of computers, machines, plastic and rubber products since 1993.

Manufactured exports increased at a rate of 9.3%, representing considerably lower performance compared to 20.4% in the previous year. This downturn can be explained by weakening world demand and declining international market prices for some manufactured goods (Chart 3.7). Despite the drop in growth,

Export Growth in Asian Emerging Markets

In 1996 export growth in Asian emerging market countries declined compared to 1995 with substantially slowed export performance in Thailand, South Korea, Malaysia, and Taiwan (Chart 1). The poor export performance resulted from either structural or cyclical factors.

Chart 1
Export Growth in 1995-1996



Sources : Various international companies' publications

1. Structural factors

Structural problems responsible for sluggish export performance were high wages, slow advances in technological development, extremely high dependence on imports for export production, and infrastructure shortages.

a. Wage hikes

Increase in wages represented an important factor behind the deteriorating comparative advantages of light manufactured products, such as shoes, footwear, and canned food. In Malaysia, up to the end of 1996 demand for labor went up by 3.4% while supply rose by only 3.2%, leading to a general round of wage increases. For Taiwan, labor productivity in the manufacturing sector in the first quarter of 1996 increased by 2.8% but labor wages rose by 3.8%. In South Korea, the acceptance of this country as OECD member encouraged stronger action by labor unions, and the country is now committed to the labor standards laid down by the ILO.

b. Slow advancement in technological development

Increase in manufacturing production sector had not been supported yet by gains in technology and innovation, which has rendered manufactured products less competitive on the global market. Relatively low funding for research and development in the manufacturing sector was one of the reasons for the lack of advanced technology. In 1995, private sector spending on research and development in comparison to the GDP in Taiwan, South Korea, Japan, and the United States came to 1.8%, 2.3%, 2.7%, and 2.6%, respectively. The low research and development expenditures in Taiwan was caused by the dominant role of small and medium enterprises in the manufacturing sector. In South Korea, production capacity has increased without any support of the increase in quality and innovation.

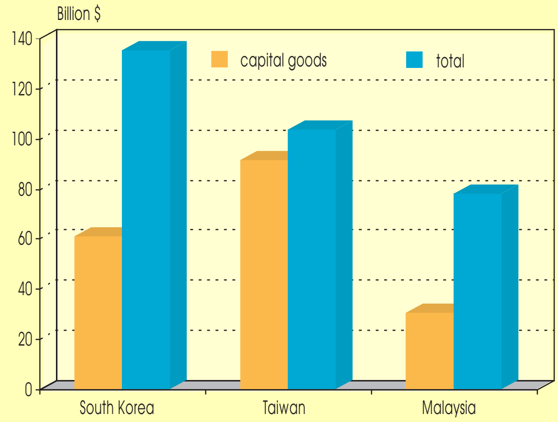
c. High imports for export production

Most equipment, components, and technology in producing export goods are still imported from abroad. For instance, in 1995 South Korea's imports of machinery and transportation means as well as raw materials reached $61.5 billion or 45% of the $135.1 billion import total. In Malaysia, imports of capital goods accounted for 40% of total imports (Chart 2). The high dependence on import had resulted in vulnerability of export performance towards changes in exchange rates.

d. Infrastructure shortages

Infrastructure shortages have brought about high transportation costs. For example, in South Korea, limited port and road facilities have led to higher freight costs for exports compared to other industrial countries.

Chart 2
Import Composition in 1995



Sources : Various international companies' publications

2. Cyclical factors

The cyclical problem responsible for depressed export growth in Asian emerging market countries was excessive supply of electronic products as the result of their high investment in the last several years while in 1996 world market demand weakened. The weakening demand for electronic products had a significant impact on South Korea and Malaysia where electronic products make up 30% and 63.3% of manufactured exports (1994 data). Taiwan and Thailand, however, are somewhat less vulnerable in this area with electronic exports accounting for 21% and 29% of total exports.

manufactured products remained the leading non-oil/gas export earner with as much as 76.6% of total non-oil/gas export revenues.

Most leading manufactured products failed to post the robust growth of previous years because of external and internal factors, as discussed earlier. Textiles, footwear, and chemical products recorded only marginal export growth, while paper saw a contraction (Table 3.3). Despite the stagnation, textile exports and especially garments still held a strong lead among the mainstay earners

Chart 3.6
Non-oil/gas Export Growth

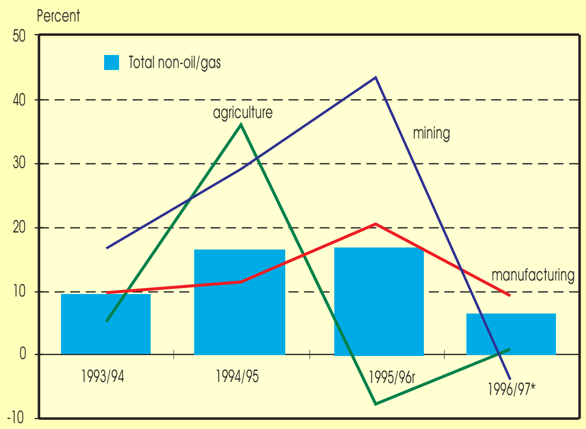
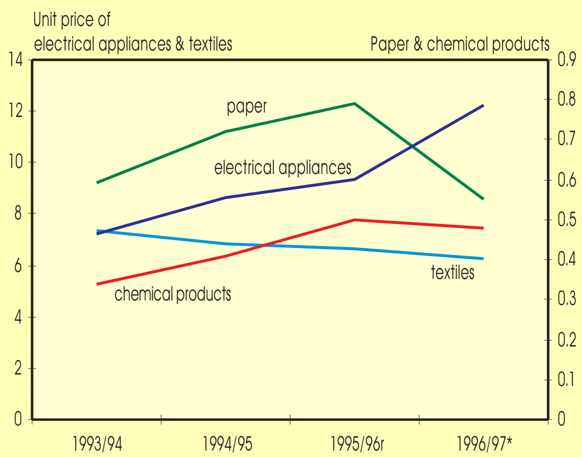


Chart 3.7
Prices of Selected Manufactured Goods
(thousand $/ton)



of foreign exchange with higher export volume generated by improvements in quota management.

Wood products and plywood saw improved export growth as a result of strengthening world prices. However, Indonesia's plywood exports continue to face discriminative import duties imposed by major importing countries as well as rising concerns over ecolabelling. Export growth also improved for electrical appliances and electronic products. With robust growth performance in the recent years, these products have begun to overtake plywood and garments as a leading source of foreign exchange earnings. Electrical appliances, a leading export commodity since 1993, achieved 40.3% growth during the reporting year. Other export commodities, such as plastic and rubber products, have also charted gains in the last few years, reflecting the rising trend of export diversification. While overall non-oil/gas exports have lost some of their vigor, the growing trend of diversification represents a heartening development.

As in previous years, the main foreign exchange earners after manufactured goods were agricultural and mining commodities (Chart 3.8). Export performance, however, has fluctuated along with the changes in international prices. Price fluctuation generally depends on production levels in exporting countries, stocks in importing countries, and competition among the producing countries. Some agricultural commodities recorded price gains during the reporting year (Chart 3.9) while many mining commodities weakened (Chart 3.10). Agricultural exports stabilized with the 7.9% drop of 1995/96 improving to a positive 0.7% growth in the reporting year. In contrast, mining exports, after recording robust 43.6% growth in 1995/96, dropped to a negative 4.1%.

Leading the ranks of high-growth agricultural exports were tea, cocoa, and particularly tobacco (Table 3.4). Most leading mining commodities, however, saw export growth decline. Copper, despite being a star performer in past years, recorded negative export growth during the reporting year (Table 3.5).

The list of major non oil/gas export destinations saw no substantial changes. Exports to Asian countries, especially Japan and ASEAN, amounted to 36.2% of the total, with the United States and Europe accounting for a further 40.3% (Chart 3.11). The largest single destination for Indonesia's non-oil/gas imports was Japan with a 20.3% share.

Table 3.3
Export Value of Selected Manufactured Goods

Item	1995/96r	1996/97*	1996/97*	
	% change		Million $	Share (%)
Textiles and textile products	7.5	0.8	6,191	20.4
Garments	6.4	1.5	3,327	11.0
Wood products	1.1	4.5	5,461	18.0
Plywood	0.9	4.7	3,549	11.7
Electrical appliances	36.3	40.3	3,898	12.9
Footwears	7.7	1.8	2,123	7.0
Paper	46.4	-6.9	1,366	4.5
Chemical products	38.2	0.3	1,296	4.3
Machineries	112.9	26	1,178	3.9
Palm oil	2.4	0.6	994	3.3
Others	41	14.4	7,820	25.8
Total	**20.4**	**9.3**	**30,327**	**100.0**

Chart 3.8
Share of Commodities in Non-oil/gas Exports

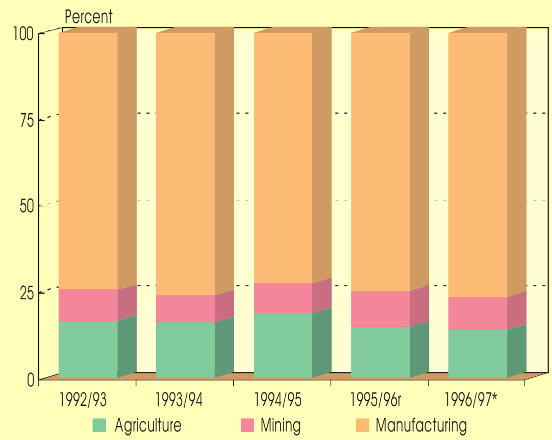


Chart 3.9
Prices of Selected Agricultural Commodities
(thousand $/ton)

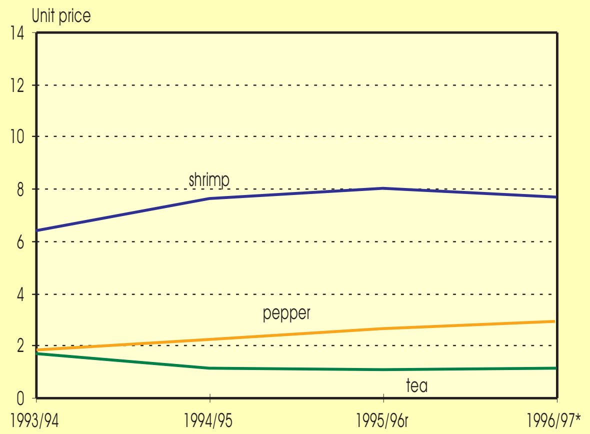
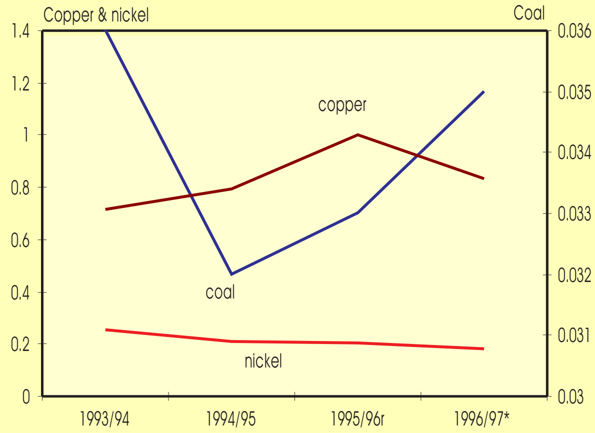


Chart 3.10
Prices of Selected Mining Commodities
(thousand $/ton)



Imports

Import growth declined in 1996/67 from 21.6% to 10.5% (Table 3.6) with a sharp drop in non-oil/gas import growth from 23.4% to 10.4%. On the other hand, oil/gas imports increased by 11.4% compared to 7.1% in the preceding year as a result of burgeoning domestic demand for oil-based fuels for transportation and industry. As a whole, total imports in the reporting year reached $45.9 billion, up from $41.5 billion in the previous year.

Non-oil/gas import growth eased mainly as a result of diminished growth in raw materials imports and a dramatic slowing of import growth for consumer goods. On the other hand, imports of capital goods maintained fairly brisk expansion with the faster rate of implementation of foreign direct investment approved in the last few years. Raw material imports represented the biggest component of total imports, followed by capital goods and consumer products (Table 3.7).

Imports of most raw materials, including semi-finished goods accounting for about 30% of total imports, saw a contraction in 1996/97. However, imports increased for some raw materials, e.g., for food and

Table 3.4
Export Value of Selected Agricultural Commodities

Item	1995/96r	1996/97*	1996/97*	
	% change		Million $	Share (%)
Rubber	33.1	–11.1	1,788	32.4
Animal and other animal products	3.5	2.1	1,730	31.4
Shrimp	4.0	1.3	1,033	18.7
Coffee	–13.0	–6.3	609	11.0
Tobacco	11.9	390.3	389	7.1
Cacoa	3.4	14.9	277	5.0
T e a	–7.8	15.1	108	2.0
Others	–57.1	13.1	612	11.1
Total	**–7.9**	**0.7**	**5,513**	**100.0**

Table 3.5
Export Value of Selected Mining Commodities

Item	1995/96r	1996/97*	1996/97*	
	% change		Million $	Share (%)
Copper	74.3	–3.1	1,525	40.7
Coal	25.0	–6.6	1,007	26.8
Nickel	8.0	–12.3	348	9.3
Aluminium	35.8	–8.0	314	8.4
Tin	91.7	3.9	289	7.7
Gold	–18.7	33.0	81	2.2
Others	51.2	2.2	187	5.0
Total	**43.6**	**–4.1**	**3,751**	**100.0**

Chart 3.11
Non-oil/gas Exports by Country of Destination

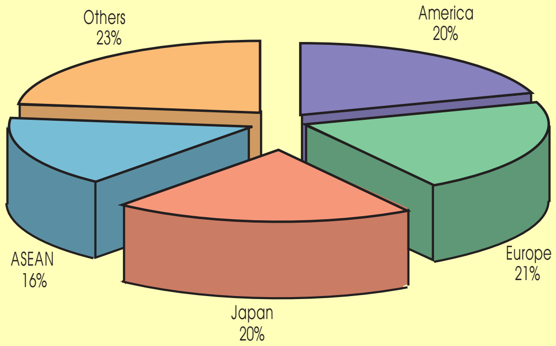


Table 3.7
Import Value of Non-oil/gas by Economic Category

Item	1995/96r Share	1995/96r Changes	1996/97* Share	1996/97* Changes
	Percent			
Capital goods	21.6	16.3	24.9	27.4
Raw and auxiliary materials	72.0	23.3	68.7	5.3
Consumer goods	6.4	56.1	6.4	10.3
Total	**100.0**	**23.4**	**100.0**	**10.4**

beverages (Table 3.8). Imports of capital goods climbed because of imports of locomotives, ships, and airplanes as part of the government drive for faster, more efficient distribution of goods. This was also reflected by high growth in imports of shipping containers (Table 3.9).

Imports of many consumer goods showed considerable decline in growth (Table 3.10). Household food and beverage imports fell dramatically, being compensated by rising imports of raw materials for the food and beverages industries. This change reflected the active efforts of the industrial sector to seize market opportunities. Rising imports of non-durable consumer goods were primarily stimulated by stronger purchasing power and changes in consumption patterns associated with globalization. While consumer goods account for only 7% of total imports and growth has subsided, vigilance regarding these imports is still necessary

Table 3.6
Import Value of Non-oil/gas and Oil/gas[1)]

Item	1995/96r	1996/97*	1996/97*	
	% change		Million $	Share (%)
Non-oil/gas	23.4	10.4	41,502	90.5
General	26.7	12.3	38,461	83.9
Program	–2.5	–9.0	3,041	6.6
Oil/gas	7.1	11.4	4,350	9.5
Total	**21.6**	**10.5**	**45,852**	**100.0**

1) F.o.b.

Table 3.8
Imports of Raw Materials [1)]

Item	1995/96r	1996/97*	1996/97*	
	% change		Million $	Share (%)
Semi-processed materials for industry	23.9	–6.7	13,273	46.6
Spareparts and equipment for capital goods	21.6	2.0	4,336	15.2
Spareparts and equipment for transportation vehicles	11.8	–19.4	3,087	10.8
Raw materials for industry	22.8	–4.4	2,162	7.6
Food and beverage raw materials for industry	8.2	54.0	1,572	5.5
Others	94.0	173.1	4,081	14.3
Total	**23.3**	**5.3**	**28,511**	**100.0**

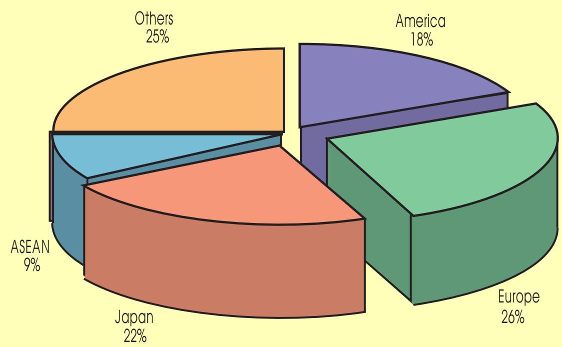
1) F.o.b.

Table 3.9
Imports of Capital Goods[1)]

Item	1995/96r	1996/97*	1996/97*	
	% change		Million $	Share (%)
Machineries	17.5	9.4	6,252	60.5
Generator and electrical appliances	1.5	12.0	1,349	13.1
Tools	44.2	–15.3	31	0.3
Locomotives, vessels, and airplanes	58.1	67.5	677	6.6
Cargo vehicles	45.3	30.8	106	1.0
Others	13.7	187.7	1,916	18.5
Total	**16.3**	**27.4**	**10,331**	**100.0**

1) F.o.b.

Chart 3.12
Non-oil/gas Imports by Country of Origin in 1996/97



in light of their close relationship with consumers' purchasing power.

Asia represented the largest source of imports for Indonesia with Japan and ASEAN alone accounting for 30.5% of total imports. Europe and the United States, however, represented a 43.7% share (Chart 3.12). Nevertheless, Japan represented the most important single country supplying imports with 22.0%. With high trade volume, Japan ranks as Indonesia's largest trading partner, and therefore developments in the Japanese economy have significant bearing on Indonesia's economic performance.

Table 3.10
Imports of Consumer Goods[1)]

Item	1995/96r	1996/97*	1996/97*	
	% change		Million $	Share (%)
Food and beverages for households	100.2	–2.4	1,051	39.5
Semi-durable consumer goods	18.4	10.5	334	12.6
Non-durable goods	7.3	9.8	279	10.5
Food and beverage materials	10.7	0.1	253	9.5
Passenger vehicles	333.7	13.3	137	5.2
Others	56.2	49.3	606	22.8
Total	**56.1**	**10.3**	**2,660**	**100.0**

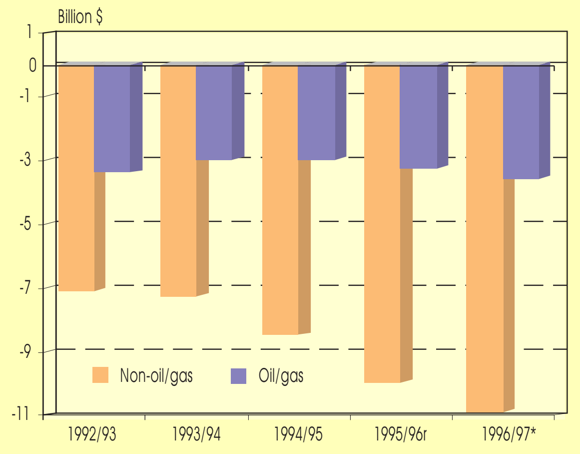
1) F.o.b.

Services Account

In 1996/67, the services account deficit increased by $1.2 billion to $14.4 billion. Rising freight expenses and high interest payments on foreign loans contributed to a mounting non-oil/gas services deficit, which accounted for 75.4% of the total deficit in the services account (Chart 3.13). The non-oil/gas freight deficit rose 10.4% to $4.6 billion in line with foreign shipping companies carrying the majority of imported goods. Interest payments on foreign loans came to $6.3 billion, not much different from the previous year. Of this, interest payments on official foreign debt decreased as a percentage from 50.0% to 43.1%, while interest payments on private foreign borrowings assumed a larger percentage in line with the growing proportion of private sector borrowings from overseas.

Tourism accounted for the largest share of foreign exchange earnings from non-oil/gas services with substantial growth in foreign tourist arrivals, up 16.4% to 5.2 million. Foreign exchange earnings in the tourism industry thus increased 18.0% to $6.4 billion (Chart 3.14). After tourism, the second largest source of foreign exchange was remittances from Indonesian

Chart 3.13
Services Account

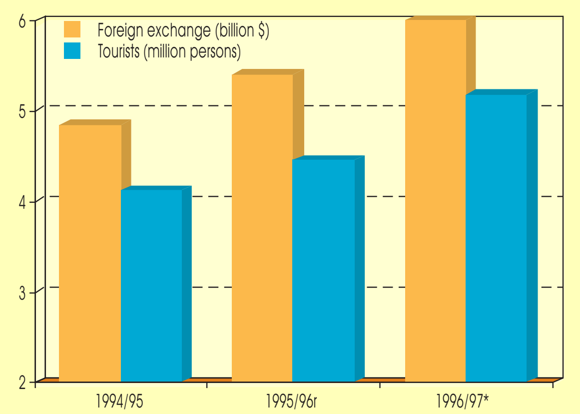


workers employed abroad, which increased 3.4% to $0.8 billion.

Capital Account

In 1996/97 the capital account recorded a substantial surplus at about $11.0 billion. Private capital flows recorded a surplus of $11.8 billion, stimulated by strong

Chart 3.14
Foreign Exchange Receipt from Tourism and Tourist Inflows



economic fundamentals and stability as well as a conducive investment climate. Foreign capital flowed into the private sector in the form of direct investments, portfolio investments, and the sale of stocks and bonds on international stock markets. This provided a fairly sound, diversified structure for financing the current account deficit while also demonstrating the strong confidence of foreign investors in Indonesia's economic prospects and political stability. The favorable structure of capital inflows was closely related to the government commitment to maintained macroeco-nomic stability. However, the Government maintains a constant vigilance towards short term capital inflows, especially those taking place through transactions with foreign residents involving SBIs, SBPUs, and CDs, given that increased dependence on short term capital flows will render the Indonesian economy more vulnerable to external shocks. With the growing integration of the financial system, capital mobility has increased to unprecedented levels, and therefore the monetary authority constantly monitors and strives to maintain the most appropriate interest rate differential.

Official capital inflows in the year under review declined $0.3 billion to $5.4 billion. These inflows were dominated by CGI loans and especially bilateral loans from Japan (Table 3.11). Although official external debt exposure is on the decline, borrowings are still needed to finance government programs aimed at improving living standards and building infrastructure that cannot be provided by the private sector. In addition, official external debt is provided on concessional terms. On the other side, the amortization rose $0.3 billion to $6.2 billion, mainly due to prepayment of high-interest external debt. Prepayment reached $1.7 billion in 1996/97 with funds raised from sale of equity in state-owned corporations and from the fiscal surplus. During the reporting year, the overall deficit in official capital flows increased to $0.8 billion.

Private capital inflows increased by $2.7 billion to $20.9 billion. Foreign direct investment reached $8.6

Table 3.11
Outstanding Official Foreign Borrowings

Item	1995/96r	1996/97*	1995/96r	1996/97*
	Billion $		% change	
Old debts[1]	0.5	0.4	–28.6	–20.0
New debts	58.1	52.9	–6.1	–9.0
CGI	56.5	51.7	–5.0	–8.5
ODA	41.3	36.9	–5.1	–10.7
Non-ODA	15.2	14.8	–5.0	–2.6
Non-CGI	1.6	1.2	–33.3	–25.0
ODA	0.4	0.2	–20.0	–50.0
Non-ODA	1.2	1.0	–36.8	–16.7
Total	**58.6**	**53.3**	**–6.4**	**–9.0**

1) Those obtained prior to July 1966.

Table 3.12
Outstanding Foreign Borrowings

Item	Outstanding March 31, 1996r		Outstanding March 31, 1997*	
	Billion $	Share (%)	Billion $	Share (%)
Official Borrowings	**58,6**	**55,1**	**53,3**	**48,8**
Bilateral[1]	38,3	36,0	35,2	32,2
Multilateral	19,3	18,1	17,2	15,7
Others	1,0	0,9	0,9	0,8
Private Borrowings	**47,8**	**44,9**	**56,0**	**51,2**
Total	**106,4**	**100,0**	**109,3**	**100,0**

1) Including old debts & export credit facility.

billion in conjunction with the heavy rate of implementation following foreign direct investment approvals in previous years. Foreign portfolio investments came to $1.7 billion while Indonesian companies going international in issues of stocks and bonds netted $3.1 billion. Private capital outflows increased from $6.4 billion to $9.1 billion, largely comprising amortization of foreign debts. As a result, private capital flows recorded a surplus of $11.8 billion.

Overall foreign debt in 1996/97 stood at $109.3 billion, almost half of which comprised official debt and the remainder private debt (Table 3.12). In line with the growing role of the private sector in the Indonesian economy, private external borrowings have increased sharply in recent years. In this regard, the Government will keep up its efforts for the private sector to maintain external debt within sustainable levels according to the repayment capacity of the national economy. Private external debt should be used to finance productive, export oriented investments. Prepayment of official external debt is also aimed to reduce the external debt burden in the face of rising private external borrowings to prevent deterioration in Indonesia's country risk. In another effort to diversify sources of long term external debt, the Government in July 1996 issued Yankee Bond with the objective of setting a benchmark to help the business community obtain foreign borrowing on easier terms (Box: The Launching of the Republic of Indonesia's Yankee Bond). All these measures were undertaken as part of the overall government effort in prudent external debt management.

The growing private sector role has been followed by a change in the composition of the debt service ratio (DSR). The official DSR has declined to 14.6%, a result of yen depreciation in the last few months of the reporting year and the prepayment of external debt in preceding years, while the private DSR has mounted to 19.6% in keeping with the steadily rising external borrowings by the private sector.

International Reserves

Official reserves strengthened in 1996/67 with capital inflows surpassing the growth in the current account deficit. Bank Indonesia's international reserves thus climbed from the 1995/96 position of $16.0 billion, equivalent to 4.6 months of non-oil/gas imports, to $19.9 billion, equivalent to 5.2 months of non-oil/gas imports (Chart 3.15)

The Launching of the Republic of Indonesia's Yankee Bond

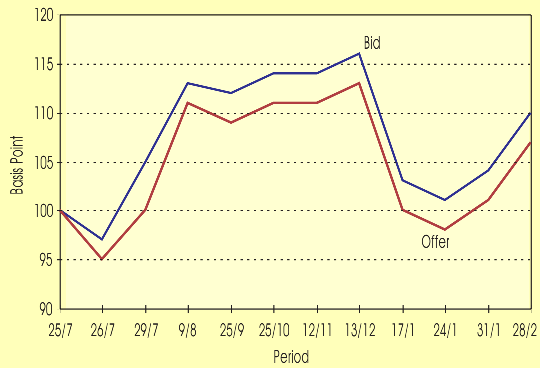
In July 1996, Bank Indonesia, on behalf of the Government of the Indonesia, launched government bonds under the name of Yankee Bonds in the United States. These bonds, worth $400 million, carry interest coupons at 7.75 percent p.a. and mature after ten years. This launching was first intended to set a benchmark for Indonesian companies issuing bonds in the United States capital market. Second, it was aimed at diversifying long-term government borrowings in the view of the depth and diversity of investor base which would avoid crowding out sources of government commercial borrowings. Third, it was intended as a measure to maintain the Government's reputation in international financial centers.

So far, a number of Indonesian companies have issued bonds on United States stock markets to raise long-term funding on stiffer terms, which adversely affects the balance of payments. Therefore, the issuance of government bonds is intended to serve as reference that would enable Indonesian companies to issue bonds at more favorable terms. The government deemed it timely to launch the bond in July 1996 because of the receptiveness of the market to new issuers at the time, as well as because of strong fundamentals of the Indonesian economy. The launching of the bonds proceeded successfully as reflected in an oversubscription of $100 million, and thus the funds raised were increased to $400 million from the previously planned $300 million.

Developments in the Yankee Bond Spread

In the initial public offering on July 25, 1996, the yield spread between the government bonds and ten year United States Treasury Notes was 100 basis points, lower than for bonds issued by other countries with the same rating. The spread widened to 118 basis points at the end of November 1996 following the emergence of various rumors concerning the political and economic environ-

Chart 1
Yankee Bond's Spread



ment, most notably the outbreak of the July 27, 1996 unrest in Jakarta. In early 1997, the spread narrowed as perceptions and expectations concerning the economy improved (Chart 1). The spread, however, widened again as a result of domestic political events related to the forthcoming General Election and the upcoming convening of the People's Consultative Assembly (MPR). Another factor was the launching of United States Treasury Notes, which served as a new benchmark. On February 12, 1997 the United States Treasury launched new notes with a higher yield than that of the Indonesian Government bonds in its initial public offering, which led to an upward adjustment in the government bond spread. At the end of the reporting year, the spread had reached 123 basis points.

Benchmark for Indonesian Corporate Bonds

The price of corporate bonds, which reflects the yield expected by investors, are mainly determined by market player expectations and perceptions on the fundamentals of each company, risks, economic performance, and the United States market.

Before the Government launched the Yankee Bonds, several Indonesian companies had issued bonds in the United States capital market with the spread between

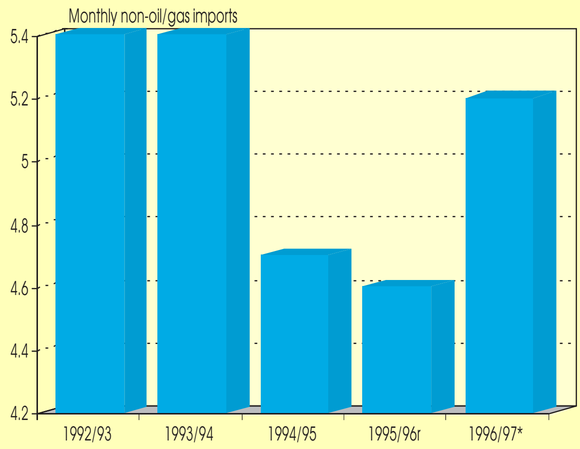
400 to 700 basis points above the United States Treasury Notes.

Shortly, before the issuance of Indonesian Government bonds, the spread of Indonesian corporate bonds fell to between 100 to 300 basis points. The spread on Indonesian corporate bonds issued after the government bond became even more favorable. For example, in early 1997, a state enterprise with a rating comparable with that of the government bonds obtained a spread of 110 basis points.

In addition, Bank Indonesia signed an agreement for a $500 million standby loan in March 1997. This loan is intended as a rollover for an existing standby loan about to reach maturity, and seeks to maintain access in international financial markets. Bank Indonesia has thus kept a total of $2 billion in standby loan as a cushion for unexpected sudden increases in international financial liabilities as well as heavy pressures on the balance of payments.

On the international front, since 1995 Bank Indonesia has signed a series of repurchase (Repo) agreements with other central banks. These agreements are aimed at maintaining the monetary stability in Asia and forestalling contagion effects arising from financial turbulence. During the reporting year, repurchase agreements were also signed with the Bank of Japan and the central bank of the Philippines, and thus Bank Indonesia has now closed repurchase agreements with seven monetary authorities in Asia-Pacific region. Indonesia is also a member of the ASEAN Swap Arrangement (ASA), a short term and fast disbursed loan facility to assist member countries facing short term international liquidity problems.

Chart 3.15
Official Foreign Exchange Reserves



Chapter 4
Monetary Developments

Following brisk economic activity during the preceding year, the first quarter of 1996/97 saw stronger expansion in monetary aggregates before various measures designed to cool monetary expansion began to take effect later in the year. Buoyant domestic demand led to increased demand for financing, which in early 1996/97 produced a sharp rise in claims on the business sector, particularly in the form of bank loans. With demand for domestic funds running high, interest rates began to move upwards, creating a larger interest rate differential which was quickly followed by increased short term capital inflows. These inflows led to expansion in monetary aggregates and upward pressure on the rupiah against some major currencies. Macroeconomic stability also came under pressure with a rising current account deficit, and while inflation had eased to some extent, it was still running above the target level. These conditions combined with strong monetary expansion posed a challenge in the maintenance of macroeconomic stability, which is a prerequisite for high sustainable economic growth

In response to these problems, Bank Indonesia adopted a series of measures to curb monetary expansion and hold growth in domestic demand within safe limits corresponding to production capacity in the economy. These measures have been conducted mainly through open market operations (OMO), undertaken mostly in the second half of the year. In addition, Bank Indonesia increased the reserve requirement from 2% to 3% in February 1996 while also requiring banks to hold these reserves at Bank Indonesia, and this requirement has been raised again to 5%, effective April 1997.[1)]

1) - Decree of the Board of Managing Directors of Bank Indonesia No. 29/87A/KEP/DIR, dated September 11, 1996.
- Circular Letter of Bank Indonesia No. 29/3/UPPB, dated September 11, 1996.

In a further move to control monetary expansion, Bank Indonesia engaged in moral suasion to encourage banks to exercise greater prudence in the lending activities while formulating Annual Business Plans in keeping with sound, prudential banking principles and hold credit expansion to the levels agreed in these plans. Bank Indonesia also called on banks to take a conscientious stance toward the overall effort to maintain macroeconomic stability and thereby build a synergetic relationship between the banking system and economic development. Bank Indonesia also called on banks to achieve greater compliance with the capital adequacy ratio (CAR) laid down in banking regulations. Another area in which Bank Indonesia has been seeking better compliance is the legal lending limit (LLL). Commencing April 1997, banks are required to keep lending to affiliated customers to a maximum of 10% of bank capital, while loans to a non-affiliated customer may not exceed 20% of capital.

Another important measure designed to support monetary management and help stem the high rate of capital inflows was the introduction of greater flexibility in rupiah-United States dollar exchange rate, while adhering firmly to a policy of a realistic exchange rate without anti-export bias and keeping domestic interest rates at levels appropriate for maintaining internal and external equilibrium. On June 13, 1996, Bank Indonesia widened the rupiah-United States dollar intervention band from Rp66.0 (3%) to Rp118.0 (5%), followed by further widening on September 11, 1996 to Rp192.0 (8%). While targeting monetary stability, this policy also aims to promote more widespread activity on the domestic foreign exchange market. To restrain externally-driven monetary expansion, Bank Indonesia has amended the regulations for commercial offshore borrowing (COB) solicited by banks and non-bank corporations, effective March 26, 1997. Banks receiving COB with a maturity of less than two years are required to maintain a daily loan balance not exceeding 30% of capital. Furthermore, at least 80% of COB received in the current year are to be used for export credit.[2] To enable Bank Indonesia to keep track of COB received by private non-bank corporations, each borrower is required to submit a quarterly report on their offshore borrowings to the Ministry of Finance and Bank Indonesia. [3]

As a result of this monetary policy, also undertaken in combination with other fiscal and banking policies, growth in economic liquidity (M2) subsided during the second quarter of 1996/97, though still remaining strong. In the first half of 1996/97, annual growth of bank claims on the business sector experienced some decline, despite a resumption of growth in the second semester of the year. Domestic interest rates also eased by a slight margin, a result of weakening inflation, ample liquidity in the rupiah money market, and lower international interest rates. The second semester also saw Bank Indonesia introduce gradual reductions in the discount rates for Bank Indonesia certificates (*Sertifikat Bank Indonesia* - SBIs) and money market securities (*surat berharga pasar uang* - SBPUs), which also encouraged domestic rates to ease and thereby help achieve another objective of Bank Indonesia policy with the reduction of the interest rate differential. With lower domestic rates, Bank Indonesia aimed to curb monetary expansion generated by short term capital inflows attracted merely by the interest rate differential.

Despite the reduction in the interest rate differential, foreign capital inflows remained strong as reflected in the higher expansion of net foreign assets within the monetary system in comparison to the preceding year. This indicated that the underlying factor stimulating foreign capital inflows was the strong economy with solid fundamentals, as reflected in robust economic growth and low inflation. On one hand, capital inflows represented a positive contribution as a source for financing development and offsetting shortages of domestic funds. On the other hand, heavy capital inflows have pushed growth in monetary aggregates beyond the designated targets, and in so doing have created considerable complications for monetary management. The rapid growth in mobility of foreign capital has also changed the behavior of demand for money, and as a result, money multipliers have become volatile. Thus, although reserve money (M0) was kept within the indicated target, the economy was still marked by excessively high growth in the money supply (Box: Monetary Policy in a Rapidly Changing Environment).

Money Supply

Annual growth in M2 eased as a result of policies adopted to curb domestic demand, but annual growth in M1 remained high. M2 climbed rapidly in the early part of 1996/97, with annualized growth reaching as much as 30.8% in May 1996. From that month, the rate of growth began to subside, and by September had declined to 26.1%. Heavy capital inflows led to a resurgence in M2 growth during the third quarter before growth subsided to 26.7% at year end, when overall M2 was recorded at Rp294.6 trillion (Table 4.1). M2 growth eased toward the end of the year as a result of a moderation in quasi-money expansion from 31.1% to 28.8%, with time deposits showing less rapid growth because of declining domestic interest rates. On the other hand, certificate of deposit (CD), another component of quasi-money, maintained vigorous growth to close the end of the year at Rp14.3 trillion, up 35.7% from 1995/96 (Table 4.2). Consequently, CDs increased as a share of quasi-money from 5.9% to 6.2%.

2) Decree of the Board of Managing Directors of Bank Indonesia No. 29/192/KEP/DIR, dated March 26, 1997.
3) Decree of the Board of Managing Directors of Bank Indonesia No. 29/193/KEP/DIR, dated March 26, 1997.

M1 saw slightly more vigorous growth in 1996/97 with 19.6% expansion compared to the 1995/96 rate of 18.4%. Supporting this growth was a more rapid increase in demand deposits despite reduced expansion in currency, which resulted in a drop in the currency to demand deposit ratio from 0.7 in 1995/96 to the 1996/97

Monetary Policy in a Rapidly Changing Environment

The main task of Bank Indonesia as mandated by Act No. 13 of 1968 concerning the Central Bank is to assist the Government in (i) managing, safeguarding, maintaining the stability of rupiah, and (ii) facilitating production and development with the aim of promoting employment creation and improving the living standards of the population. Accordingly, Bank Indonesia is responsible to formulating and implementing monetary policy directed toward achieving a number of objectives, namely low inflation, sustainable balance of payments and relatively high economic growth to increase the people's income and to provide adequate employment opportunity. With these multiple objectives, Bank Indonesia bears a considerably more difficult and complex responsibility than some other central banks which can focus only on a single policy objective, such as inflation control.

Since 1983, Bank Indonesia has sought to achieve these multiple objectives primarily through control of economic liquidity (M2) at levels adequate to support the targeted rate of economic growth without giving rise to internal and external macroeconomic disequilibrium. Under this framework, economic liquidity has essentially become an intermediate target, which is in turn influenced by controlling the amount of reserve money (M0) as operational target, through OMO. Monetary control has thus relied on the linkages between M0 and M2 and between M2 and the ultimate objectives. So far, these linkages have been generally stable despite a noticeable trend towards greater volatility in recent years. The growing integration of Indonesia's financial sector into world financial markets has made domestic monetary control an increasingly complex task. The transmission mechanisms of monetary policy in Indonesia have already undergone profound change.

So far, Bank Indonesia has continued to rely on OMO as the primary instrument for conducting monetary policy. However, the changing financial environment has necessitated the use of other instruments to reinforce OMO, such as the changeover from reserve requirement (RR) to statutory RR, and other prudential regulations enacted for the banking system. Another measure aimed at strengthening monetary control is moral suasion which is also supported by the monitoring of bank credit expansion plans. Furthermore, to stem the inflows of speculative capital that tend to expand monetary aggregates, Bank Indonesia has widened the intervention band.

Challenges Confronting Monetary Policy in a Rapidly Changing Environment

In the last two decades, the Indonesian economy has undergone tremendous structural changes. With structural adjustment implemented across the full range of economic sectors and a far-reaching deregulation in the financial sector, Indonesia has improved the efficiency in resources allocation, and this has in turn stimulated high economic growth. At the same time, the structure of the economy has undergone fundamental change. Financial deepening and diversification of financial products through innovation has helped build a considerably larger role for the financial sector. On the other hand, monetary management has become a much more challenging task, given that the interdependencies among different monetary targets have become more volatile than in the past.

Accelerating this process is the ongoing trend towards globalization and the accompanying integration of world financial markets. Dramatic advances in information and communications technology have driven the process of financial transnationalization to unprecedented heights, as well as stimulating product innovation and encouraging widespread securitization. The result of this is vastly higher volume and greater rapidity in cross-border capital mobility, a development that has markedly complicated the tasks of managing domestic monetary aggregates.

Rapid changes in the global financial environment have led to the situation in which control of capital inflows has become a major monetary policy concern in many countries. Since the early 1990s, Indonesia has experienced a rising tide of capital inflows. While foreign capital, and especially long term funds, have been necessary for financing domestic economic activity extending beyond the capacity of domestic resources, high capital mobility with large inflows of short term capital seeking speculative gains has complicated the tasks of monetary management. In recent years, high capital inflows have been an important factor stimulating monetary expansion. This in turn has given rise to pressures on internal and external macroeconomic equilibrium. In the absence of precautionary measures, rapid expansion in the money supply brought about by these flows may render the economy vulnerable to overheating.

Transmission Mechanisms in Monetary Policy

Another challenge confronting Indonesia's monetary authority is the current trend of changing paths and the emergence of new paths in the transmission mechanism of monetary policy. The remarkable progress in the financial system in recent years has provided the business community with a much wider array of financing alternatives. Businesses are now able to avail themselves of a tremendous diversity of products offered by finance companies and other non-bank financial institutions, which have seen enormous growth in recent years. The growing trend of securitization has also led to a greater marketability and liquidity of every type of economic activity or transaction. Each process of securitization creates new instruments, opens new financial markets, and builds new linkages between instruments and financial markets.

Following the rapid ascent of non-bank financial institutions and the emergence of a vigorously active domestic capital market, new and more intricate complexities have developed in the mechanisms for transmission of monetary policy to the real sector. This has also led to a weakening in the relationship among the monetary aggregates reflecting developments in the real sector. Money multipliers and income velocity, for example, have become more volatile. Efforts to control growth in economic liquidity therefore need to be reinforced with the use of other instruments, and for this reason, Bank Indonesia, as mentioned earlier, has introduced measures to strengthen its monetary management.

Monitoring of Broader Economic Indicators

As explained, the rapid emergence of the financial sector in recent years has created a much more volatile relationship between the money supply, economic growth, and inflation. The role of the money supply as intermediate target therefore has to be supported by controlling or at least monitoring of other economic variables, such as interest rates, the interest rate differential, exchange rates, output gap, asset and stock prices, employment opportunity, and housing construction. By monitoring these variables, it is possible to gauge the effectiveness of monetary policy. The selection of variables for this purpose depends on their efficacy as leading indicators of changes in output and prices. Research conducted in this area to date shows that a number of variables such as interest rate differential, nominal exchange rate movements, and the output gap may be used as leading indicators.

With the rapid development of the financial system and more efficient payment system, interest rates have become more important as an indicator of the effectiveness of monetary policy. Under the circumstances, changes in short term rates brought about by monetary policy are likely to be transmitted quickly to the entire spectrum of medium and long term rates offered by banks and other financial institutions. The velocity of transmission and the magnitude of interest rate pass through depends on market efficiency and public expectations of future interest rates and inflation. These expectations in turn influence the behavior of real interest rates, which in turn affect private investment and consumption.

The increasing importance of interest rates as an indicator of the effectiveness of monetary policy has made interest rates themselves more as a policy target. In addition to controlling monetary aggregates, Bank Indonesia is also active in monitoring and trying to influence domestic interest rate movements. This takes place, among others, through changes to the discount rates for SBIs and SBPUs. For example, in the second half of 1996/97, Bank Indonesia gradually lowered these discount rates, and this action was followed by a slight reduction in the prevailing deposit and lending rates among commercial banks.

Greater Flexibility in Exchange Rate Management

As mentioned earlier, rapid mobility of capital has given rise to a number of difficulties in managing monetary aggregates. The difficulties will be heightened under relatively fixed exchange rate system. Under less flexible exchange rate policy capital inflows will immediately boost the growth of money supply, thereby undermining the effectiveness of measures designed to control monetary expansion. When this situation exists, closing an existing open economic system is no longer a realistic option. Neither is it possible to fend off capital inflows through a frontal counterattack. Hardly any country in the world is bolstered with adequate foreign reserves to counter international capital movements, leaving a monetary authority with little option but to make continuous adjustments to domestic monetary policy in line with international trends.

To strengthen the effectiveness of monetary management, Bank Indonesia has turned to greater exchange rate flexibility through a gradual widening of the intervention band in the rupiah exchange rate against the United States dollar. This policy aims to stem heavy flows of speculative short term capital while also promoting interbank foreign exchange transactions. In this way, banks rely less on Bank Indonesia for selling their foreign exchange, thus easing some of the complications in the tasks of monetary management.

Greater reliance on market forces in establishing exchange rates may also lead to more exchange rate fluctuation on the interbank foreign exchange market. Large capital flows tend to encourage rupiah appreciation. Some have expressed concerns in this regard that a stronger rupiah may hurt exports. On the other hand, rupiah appreciation will also reduce imported inflation, which in itself will help products become more competitive in international markets. In Indonesia, an important facet of monetary policy is the achievement of an optimum equilibrium between these two objectives.

Coordination of macro and micro policy

Monetary policy is inextricably linked to other policies at the micro-level affecting the operations of individual banks in various areas, among others credit policy, foreign commercial borrowings, and bank supervision. These policies all have the objective of strengthening the soundness of the banking system as one of the fundamental necessary conditions for sustainable economic development.

In view of the rapid growth of the financial and banking system, coordination of macro and micro policy has taken on far greater significance in the conduct of monetary policy. Without macro and micro policy coordination, the achievement of the ultimate objectives laid down in monetary policy becomes an impossible task. Poorly implemented monetary policy may disrupt macroeconomic stability and, in turn, undermine the financial soundness of the banking system. A weak, vulnerable and badly managed banking system may also undermine the effectiveness of monetary policy and place the entire economy in jeopardy. The aim of coordination of macro and micro policy is to build optimum synergy for the achievement of policy objectives. Therefore, in the current era of globalization it is important that the effort to build a sound, stable financial system be integrated into the overall task of macroeconomic management.

Table 4.1
Annual Growth Rates of Money Supply

End of period	Currency	Demand deposits	M1	Quasi money	M2
	% change				
1992/93	11.8	12.1	12.0	26.0	22.2
1993/94	24.5	23.5	23.9	19.8	20.8
1994/95	23.2	15.2	18.5	23.3	22.1
1995/96	11.8	23.2	18.4	31.1	28.0
1996/97	10.4	25.6	19.6	28.8	26.7
June	10.9	26.3	20.0	33.0	29.8
September	7.6	31.3	21.9	27.5	26.1
December	8.1	30.5	21.7	32.1	29.6
March	10.4	25.6	19.6	28.8	26.7

level of 0.6 (Table 4.3). Demand deposits have thus gained greater importance as an instrument of payment in economic transactions.

M2 expansion during the reporting year was driven by both domestic and external factors (net domestic assets and net foreign assets). The most prominent component among domestic factors was the Rp62.8 trillion or 23.7% increase in claims on the business sector (Table 4.4 and Chart 4.1). Contributing to this was the 26.3% domestic credit expansion fueled by heavy demand of funds for private sector investment (Chart 4.2).

Table 4.2
Certificates of Deposits

Group of banks	1995/96	1995/96	1996/97
	Changes		End of period
	Billion rupiah		
State banks	3,003	–600	3,205
Private banks	4,032	4,364	11,113
Total	**7,035**	**3,764**	**14,318**

The external factor in M2 growth contributed an expansionary effect of Rp15.2 trillion, up from Rp9.1 trillion in the preceding year, as a result of heavy capital inflows evident in the higher rate of disbursement of private offshore borrowings, foreign portfolio investment, and implementation of foreign direct investment projects. Capital inflows were also attracted by the high interest rate differential.

In contrast, government finance operations generated a contractionary effect of Rp4.1 trillion, a product of a prudent fiscal policy designed to support monetary policy by curbing growth in domestic demand. The stronger contractionary effect produced by

Chart 4.1
Factors Affecting Money Supply

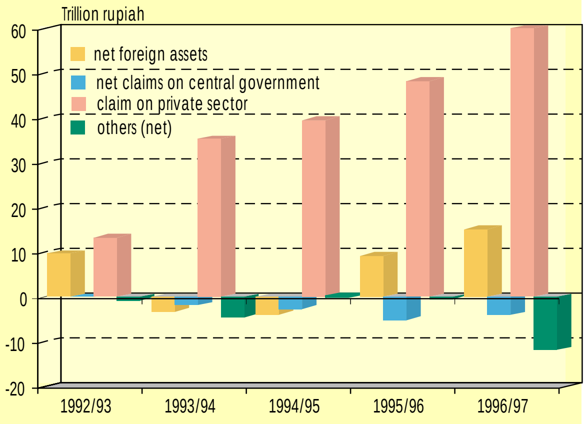


Chart 4.2
Annual Growth Rate of Money Supply and Claims on Business Sector

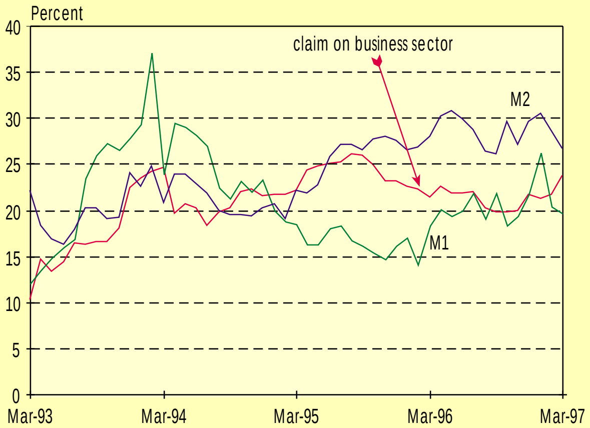


Table 4.3
Monetization, Multiplier, and Multiplier Components[1)]

Item	1994/95	1995/96	1996/97
	Percent		
Ratios			
M1/GDP	11.8	11.8	12.0
M2/GDP	47.9	51.4	55.8
Quasi money/GDP	36.1	39.6	43.7
	Ratio		
Multiplier			
M1	1.9	1.7	1.8
M2	7.8	7.5	8.3
Multiplier Components			
C/D	0.7	0.7	0.6
T/D	5.3	5.6	5.7

1) End of the period, except GDP in the calendar year.

Table 4.4
Money Supply and Its Affecting Factors

Item	1995/96	1996/97	1996/97
	Changes (trillion rupiah)		End of period
M1 (narrow money)	**8.3**	**10.4**	**63.6**
Currency	2.2	2.2	23.3
Demand deposits	6.1	8.2	40.3
Quasi money	**42.5**	**51.7**	**231.0**
Time and savings deposits in rupiah	34.7	42.0	179.8
Time deposits in foreign currency	7.8	9.7	51.2
M2 (broad money)	**50.8**	**62.1**	**294.6**
Affecting factors			
Foreign assets (net)	9.1	15.2	50.5
Bank Indonesia	10.3	16.6	63.9
Commercial banks	–1.2	–1.4	–13.4
Claims on central government (net)	–5.2	–4.1	–28.8
Claims on business sector	48.3	62.8	327.6
Claims on government institutions and enterprises	3.2	2.5	13.7
Claims on private enterprises and individuals	45.1	60.3	313.9
Others	–1.4	–11.9	–54.7

the government sector also reflected the successful efforts of the Government in strengthening the domestic revenue base through taxes and other revenues, in addition to an increase in oil price in the international market.

The lower annual growth in monetary aggregates was in particular attributable to success in controlling reserve money (M0), with OMO playing an important role. During the reporting year, M0 growth was recorded at only 13.9%, having climbed to Rp35.3 trillion, which compares to the previous year's growth of 17.5%. With reduced growth in M0, the M1 and M2 money multipliers increased from 1.7 and 7.5 in March 1996 to 1.8 and 8.3 by the end of the reporting year (Table 4.3) despite decline in monthly averages from 2.0 and 8.4 in 1995/96 to 1.8 and 8.2. In the first half of 1996/97, the M1 and M2 money multipliers eased substantially as a result of the new statutory reserve requirement introduced in February 1996.

OMO transactions generated a considerably increased contractionary effect of Rp10.1 trillion compared to Rp0.5 trillion in 1995/96. Primary market auctioning of SBIs totaled Rp154.0 trillion while maturities came to Rp143.9 trillion. During November and December 1996, Bank Indonesia engaged in more intensive auctioning of SBIs in an effort to sterilize the expansion in rupiah liquidity at banks that resulted from heavy selling of foreign exchange to Bank Indonesia. This situation arose from a number of factors, including heavy capital inflows seeking gains from the interest rate differential, a rush to buy shares in a state bank that went public late in the year, and rumors of an impending move by Bank Indonesia to widen the intervention band in the rupiah-United States dollar exchange rate. Nevertheless, SBI holdings by state owned enterprises remained stable during this period. By year end, the overall position of outstanding SBIs had increased by Rp10.1 trillion (Table 4.5).

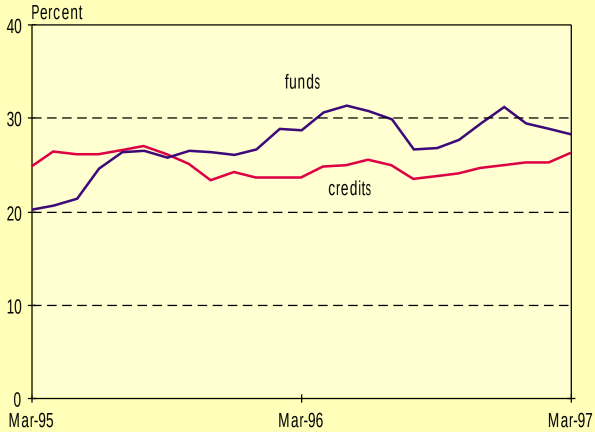
Heavier auctioning of SBIs in the primary market was also followed by heightened secondary market activity, especially during the second half of fiscal 1996/97. Secondary SBI transactions in the second semester totaled Rp2.2 trillion or about 92.0% of the total for the reporting year (Table 4.6). Secondary market activity,

Table 4.5
Issuance and Repayment of SBIs and SBPUs

Item	1995/96	1996/97	1996/97 I	II	III	IV
	Trillion rupiah					
SBIs						
By auction 1)						
Issuance	94.4	154.0	22.2	29.4	60.5	41.9
Repayment	95.2	143.9	20.9	30.2	53.6	39.2
Outstanding 2)	4.7	14.8	6.0	5.2	12.1	14.8
Discount rate (%)	13.00	12.10	13.29	12.95	12.61	9.7
Special						
Outstanding 2)	6.2	6.3	6.3	6.2	6.4	6.3
SBPUs						
By auction 1)						
Issuance	81.1	115.8	53.9	20.4	25.5	15.9
Repayment	82.4	115.6	55.4	20.3	26.6	13.3
Outstanding 2)	2.6	2.7	1.2	1.3	0.2	2.7
Discount rate (%)	15.89	15.2	15.87	15.87	15.79	13.10

1) Including repurchase agreement.
2) Last month in the period.

Chart 4.3
Bank Fund and Credit Growth



particularly in December 1996 and January 1997, was dominated by foreign investors, which raised foreign holdings of SBIs from Rp53.0 billion in September 1996 to a substantially higher end-year position of Rp3.8 trillion.

Sales and redemption of SBPUs issued by banks came respectively to Rp115.8 trillion and Rp115.6 trillion, having climbed substantially from the 1995/96 figures of Rp81.1 trillion and Rp82.4 trillion. The balance of outstanding SBPUs thus closed 1996/97 at Rp2.8 trillion, relatively unchanged from one year before and indicative of ample liquidity on the money market as a result of higher growth in deposit funds compared to bank lending (Chart 4.3).

Ample money market liquidity encouraged some banks to source short term rupiah liquidity on the interbank money market. Interbank transaction vol-

Table 4.6
SBI Transactions in the Secondary Market

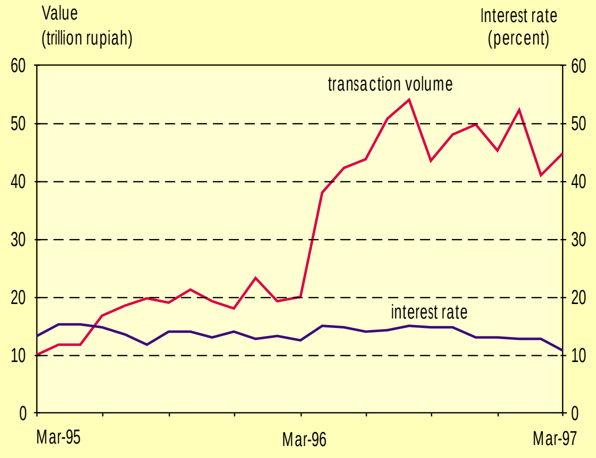
Period	Transaction value	Weighted average interest rate
	Billion rupiah	Percent
1995/96	3,153.3	15.28
I	1,451.9	15.75
II	1,001.8	14.40
III	563.9	15.75
IV	171.8	14.75
1996/97		
I	115.7	14.04
II	176.9	13.92
III	840.7	13.22
IV	1,218.8	11.64

Table 4.7
Interbank Money Market Transactions and Interest Rates in Jakarta

Item	1995/96	1996/97	1996/97 I	II	III	IV
	Trillion rupiah					
Transaction value						
One day	164.6	359.3	75.8	95.6	95.4	92.5
Total	218.4	553.1	123.8	148.4	142.8	138.1
	Percent					
Interest rates 1)						
One day 1)	12.7	13.7	14.4	14.8	13.5	12.1
Total	12.4	13.8	14.6	14.8	13.6	12.1

1) Weighted average interest rate in the last month of the period.

Chart 4.4
Interbank Money Market Transactions and Interest Rates



ume soared to Rp553.1 trillion in 1996/97, up from the previous year's turnover of Rp218.4 trillion (Table 4.7 and Chart 4.4).

Financial deepening advanced further during the reporting year as banks and other financial institutions maintained their robust growth. This was reflected in the ratio of M2 to the GDP, which increased from 51.4% to 55.8% during the reporting year (Table 4.3) and indicated a higher degree of monetization in the economy and a growing role of banking services in daily transactions. In addition to the expansion of banking networks, financial deepening has also taken place as a result of greater diversification of banking products and payment instruments.

Interest Rates

Domestic interest rates remained relatively stable during 1996/97, though registering some decline in the final months of the year. This trend, reflected across the spectrum of deposit, credit, and interbank rates, can be explained by reduced inflation and a flush rupiah money market. Another important factor was the declining interest rates in some key industrial economies, particularly Japan and Germany, while in the United States the Federal Reserve maintained fairly low rates before a minor increase close to the end of the year. Another significant factor behind the declining domestic rates toward the end of the year was the actions taken by Bank Indonesia to lower the interest rate differential with the aim of maintaining internal and external equilibrium (Box: Interest Rate Management).

The weighted average discount rates for short and long term SBIs came down substantially from 13.4% in 1995/96 to 8.5% by the end of the reporting year (Table 4.8). Rates for money market securities, also taken as a weighted average, held firm at about 15.9% from April to November 1996 before dropping to 15.6% in December of that year and 14.3% by March 1997. Lower discount rates for these two monetary instruments were soon followed by a downward movement in rates on the interbank money market during the second half of 1996/97 with the weighted average interbank rate closing the year at 12.1%. Interbank rates dropped to lower levels as many banks were flush with liquidity, as reflected in higher bank reserves (Table 4.9 and Chart 4.5).

Table 4.8
Average Discount Rates on SBI and SBPU

Period	SBI	SBPU
	Percent	
1995/96		
I	13.02	15.68
II	13.31	15.88
III	13.40	16.13
IV	13.00	15.87
1996/97		
April	13.37	15.87
May	13.14	15.87
June	13.37	15.87
July	13.00	15.87
August	13.06	15.87
September	12.80	15.87
October	12.80	15.87
November	12.74	15.87
December	12.27	15.63
January	10.94	15.38
February	9.75	15.39
March	8.46	14.29

Table 4.9
Rupiah Liquidity of Commercial Banks[1)]

Item	1994/95	1995/96	1996/97
	Trillion rupiah		
Total reserves	**9.3**	**14.2**	**27.2**
Primary reserves	4.0	9.5	12.5
Secondary reserves (SBIs)	5.3	4.7	14.8
Current liabilities	**142.6**	**189.0**	**242.9**
Deposits [2)]	138.5	186.4	240.2
Outstanding SBPUs with Bank Indonesia	4.1	2.6	2.7
Percentage of liquidity (%)			
Total reserves/total current liabilities	6.5	7.5	11.2
Primary reserves/deposits	2.9	5.1	5.2

1) End of the period.
2) Average in the period.

Table 4.10
Interest Rates

Item	1995/96 IV	1996/97 I	1996/97 II	1996/97 III	1996/97 IV
	Percent				
Time deposit[1)]					
Rupiah					
1 month	17.15	16.94	16.88	16.43	15.92
3 months	17.29	17.35	17.25	17.03	16.47
6 months	16.88	16.90	16.93	16.78	16.37
12 months	16.68	16.42	16.93	16.70	16.39
24 months	15.39	15.78	15.87	15.14	15.95
Foreign currency					
1 month	6.83	6.49	6.59	6.50	6.42
3 months	7.88	6.98	6.77	6.67	6.46
6 months	8.73	7.30	7.26	7.17	7.20
12 months	7.75	7.61	7.55	7.50	7.13
Credit					
Working capital	19.30	19.18	19.21	19.04	18.88
Investment	16.39	16.40	16.52	16.36	16.37
International					
3 month LIBOR	5.39	5.56	5.62	5.55	5.78
3 month SIBOR	5.37	5.57	5.63	5.55	5.75

1) Weighted average.

Interest rates on deposit funds, indicated to a large extent by time deposit rates, saw overall decline over the reporting year. Rates came down for rupiah deposits maturing in one year or less and for foreign currency deposits of all maturities. The three month and 12 month rupiah deposit rates eased from 17.3% and 16.7% in 1995/96 to 16.5% and 16.4% in 1996/97. In contrast, the 24 month rupiah deposit rate over the same period climbed from 15.4% to 16.0% (Table 4.10 and Chart 4.6). Changes in the yield curve indicate a growing trend among banks for building a longer term deposit base.

Lending rates similarly moved lower in keeping with the downward trend in deposit rates, though at a slower pace with the average rate for working capital credit easing from 19.3% in 1995/96 to 18.9%. As a result,

Chart 4.5
Rupiah Liquidity of Commercial Banks

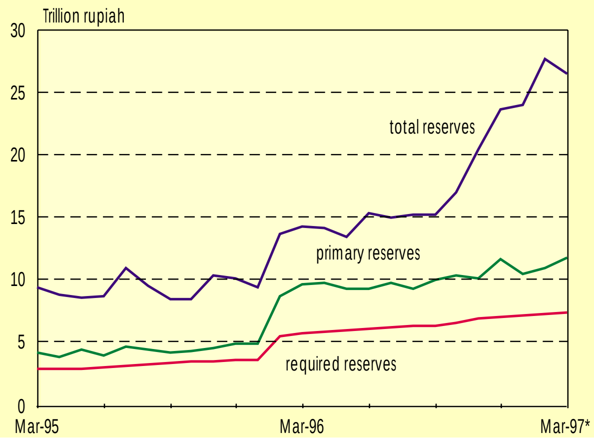
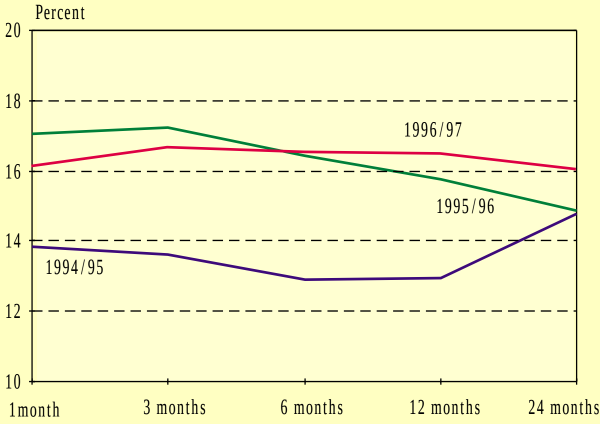


Chart 4.6
Average Time Deposit Interest Rate by Maturity



banks experienced a slight widening of the interest rate spread (Chart 4.7).

Despite the trend towards lower nominal interest rates, real interest rates remained high, a result of more rapid decline in inflation. The positive achievements in reigning in inflation during the recent years is likely to encourage public expectations of even further reduction in inflation, and this will most probably result in nominal interest rates dropping to yet lower levels.

International rates, already on the low end of the scale, saw even further decline as a result of relaxed monetary policies in several major industrial nations, notably Germany and Japan, aimed at stimulating their economies. The German Bundesbank reduced its discount rate from 4.5% to 3.3%, while the Bank of Japan maintained a very low short-term rate at only 0.5%. In the United States, the Federal Reserve held the discount rate at 5.0%, although toward the end of 1996/97 it announced a 0.25 percentage point increase in the Fedfund rate. The prevailing trend of low international interest rates was also reflected in the 3-month LIBOR and SIBOR, both having edged up by a small margin though still below 6.0%.

The interest rate differential eased during the year under review in both nominal and real terms, a result of a faster decline in domestic interest rates compared to rates in international financial markets (Chart 4.9). In early 1995/96, the uncovered interest rate differential, which excludes exchange rate risk, recorded some expansion before contracting again by the end of the reporting year. During this period, however, the swap premium underwent a decline, indicating strong market confidence in rupiah stability. With swap premiums down, the covered interest rate differential (which takes into account exchange rate risk) saw some upward movement during the last few months of 1996/97.

Chart 4.8
Real Interest Rates

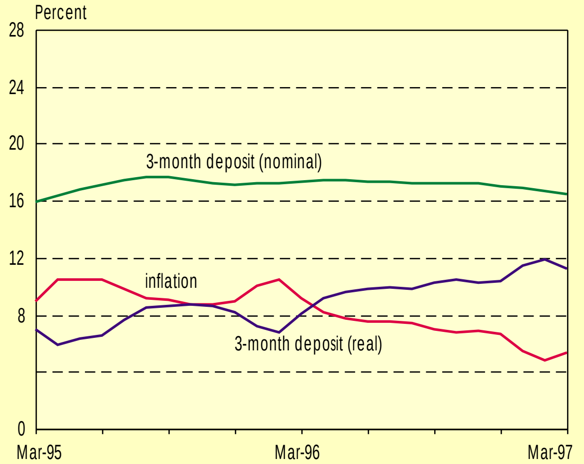


Chart 4.7
Interest Rates

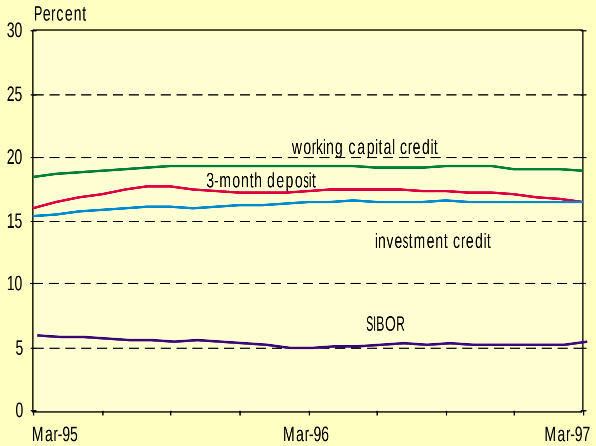
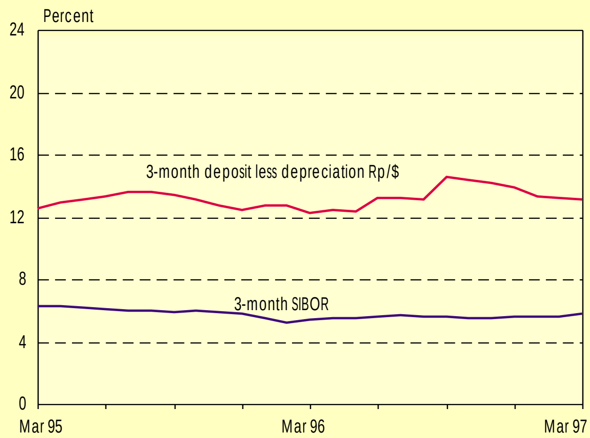


Chart 4.9
Domestic and Foreign Interest Rate Differential



Interest Rate Management

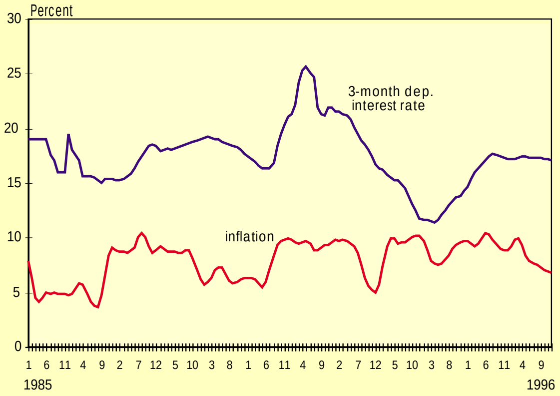
In the last few years, frequent concerns have been expressed regarding the high level of domestic interest rates. The business sector has a valid reason for these concerns since funding of business activities relies heavily on bank credit. On the other hand, depositors expect high interest rates to maintain the purchasing power of their money and to acquire sufficient return above that offered by other investment alternatives.

Under the system of market mechanisms in place in Indonesia since June 1983, prevailing interest rates reflect supply and demand for funds. Additionally, Indonesia continues to experience a structural savings-investment gap as reflected in the current account deficit. During the last 25 years, Indonesia has had to import foreign capital at the rate of approximately 3.5% of GDP per year. This shortage has placed upward pressure on domestic interest rates, and thus the high rates reflect the prevailing scarcity of capital.

Domestic interest rate levels are influenced by various factors, ranging from international rates to domestic factors, such as expectation of inflation, condition of the banking system, and measures adopted by the monetary authority. From the perspective of the monetary authority, interest rates represent one of the most important indicators of monetary conditions. In this regard, Bank Indonesia always seeks to maintain interest rates at appropriate levels. On one hand, interest rate should reflect the condition of fundamentals. On the other hand, interest rates should also be adjusted to support the achievement of the macroeconomic objectives stipulated by the Government.

In monetary management, Bank Indonesia exercises some control over interest rates according to their relationship with other important macroeconomic variables, such as inflation, domestic demand, M2, and capital inflows. The following section presents a brief analysis

Chart 1
Nominal Interest Rates and Inflation



on the relationship between interest rates and each of these economic indicators.

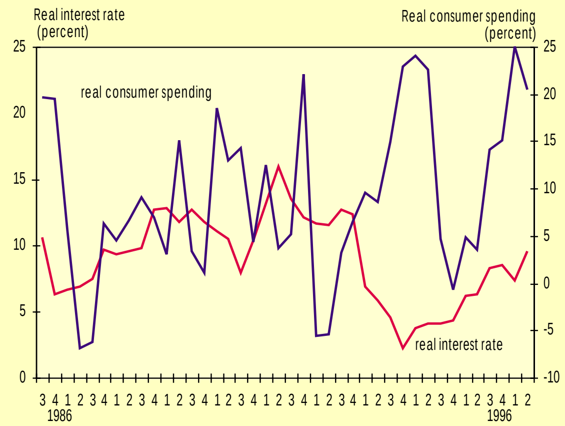
Relationship with Inflation

Statistical testing shows that inflation affects nominal interest rates with 2-month lag (Chart 1). This is supported by Irving Fisher's theorem which states that expectation of inflation represents one component of nominal interest rates. Therefore, if expectations of inflation increase, nominal interest rates will tend to go up, and vice versa. It is thus important to encourage expectations of low inflation if interest rates are to decline. To this end, it is essential to establish a track record of low inflation.

Relationship with Domestic Demand

Real interest rates and growth of domestic demand, especially after the adoption of deregulation measures in 1983, have behaved in negative correlation (Chart 2). In this exercise, consumer spending, the largest component in domestic demand, is used as a proxy for domestic demand. The result suggests that a rise in interest rates following the pursuit of tight monetary policy tends to bring down

Chart 2
Real Interest Rates and Consumer Spending Growth



growth of domestic demand. Therefore, real interest rates can be employed to manage the growth of domestic demand.

Relationship with Expansion in Money Supply (M2)

After the banking deregulation in 1983, interest rate movements have been closely associated with domestic liquidity. Up to 1990, interest rates and deviation of M2 growth over its long-term trend behaved in a negative correlation. Tightening domestic liquidity in which M2 grows below its long-term trend tends to bring about higher interest rates, and vice versa. This reflects the important role of interest rates in maintaining equilibrium in money market. After 1990, interest rates and M2 have demonstrated a positive correlation as a result of increasing foreign capital inflows. This is because higher domestic interest rates tend to attract inflows of foreign capital, which in turn leads to an expansion in M2 and vice versa. Under such circumstances, interest rate hikes are no longer effective as a means of controlling money supply (Chart 3).

Relationship with Capital Inflows

As previously mentioned, the last few years have witnessed an upsurge in foreign capital inflows to Indonesia. The surge was precipitated by the openness of the economy, investor confidence in strong fundamentals, and a high interest rate differential. Sizable inflows, which is also susceptible to a rapid reversal, can undermine the effectiveness of domestic monetary management, which is reflected in a marked fluctuation in the growth of Bank Indonesia's net foreign assets (Chart 4).

Chart 3
Interest Rate and M2 Growth Deviation

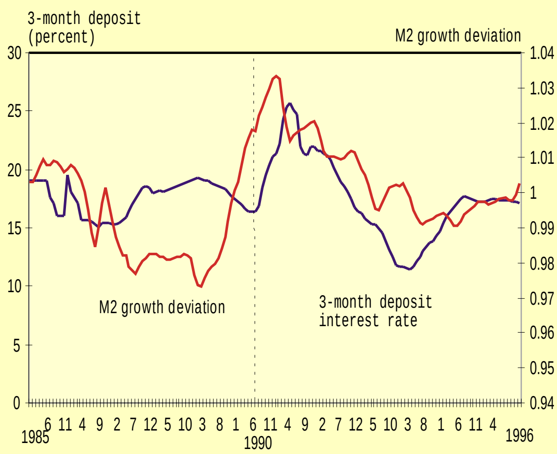
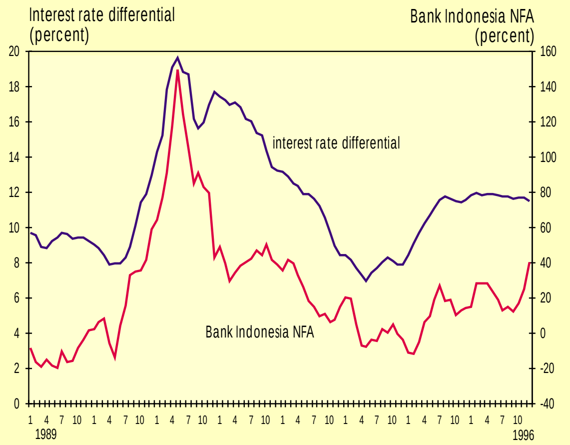


Chart 4
Interest Rate Differential and Growth of Bank Indonesia NFA



Policy Implications

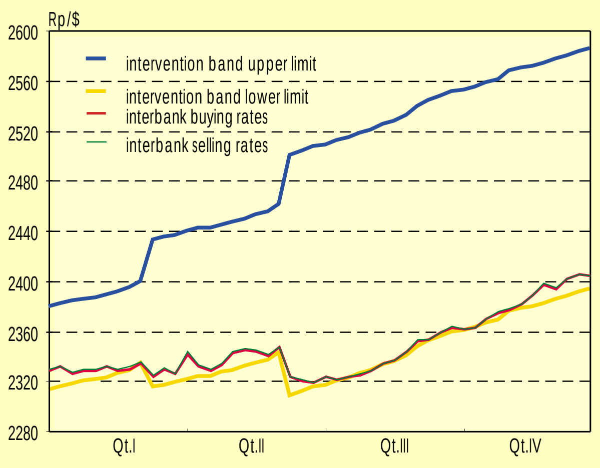
The above analysis leads to the following conclusions. **First**, interest rate levels essentially reflects the forces of demand and supply of funds. In the case of Indonesia, high interest rates reflect the scarcity of capital in the economy. **Second**, interest rates are closely related to other economic indicators. Internally, interest rates are closely associated with the inflation, domestic demand, and the money supply. Externally, interest rates exert strong influence over capital flows. For these reasons, Bank Indonesia as the monetary authority consistently exercises prudence in interest rate management, always taking into account the interdependencies of these factors.

Exchange Rates

Rising capital inflows encouraged rupiah appreciation against some major currencies during the reporting year, reflecting market confidence in the fundamentals of the Indonesian economy. Another factor stimulating capital inflows was the attraction of significant interest rate differentials, despite some decline compared to previous years.

The rupiah-United States dollar exchange rate recorded lower depreciation during the reporting year, as reflected in both the Bank Indonesia conversion rate and the interbank rate. While the rupiah conversion rate underwent 5.09% depreciation in 1995/96, depreciation in the reporting year came to only 3.35%. United States dollar appreciation against all major currencies, however, caused the rupiah to appreciate 12.59% against the yen and 10.02% against the German mark, with the dollar climbing from 107 to 124 yen in 1996/97. On the interbank foreign exchange market, rupiah depreciation eased from 4.21% in 1995/96 to 2.84%, with the exchange rate hovering close to the lower limit of the intervention band (Chart 4.10).

Chart 4.10
Interbank Exchange Rate Movement



Rupiah appreciation against the currency basket recorded some decline in the reporting year. Nominal appreciation came down from 4.52% in 1995/96 to 2.48%, while real appreciation eased from 10.24% to 8.17%. This change can be partly explained by the more rapid decline in inflation that took place in Indonesia in relation to the major trading partners.

Rupiah exchange rate movements, however, are not only affected by developments in fundamentals, but also rumors. These may relate to the economy, but often extend to non-economic issues. In March 1996, the rupiah came under pressure from rumors of impending devaluation triggered by a higher current account deficit projection. Despite this, the rupiah quickly recovered, driven high demand for rupiahs from banks brought about in part by adjustments to a new clearing schedule and the higher reserve requirement. In July 1996, the rupiah again weakened, reaching a low on July 27 as a result of political concerns. That month, the rupiah came down by Rp30.0 against the United States dollar while interbank foreign exchange trading soared to $14.1 billion daily, well above the average daily volume of around $8.0 billion. Despite the temporary upheavals, Bank Indonesia refrained from market intervention since the rupiah fluctuation was short lived and did not exceed the limits of the intervention band. As an additional note, throughout 1996/97 Bank Indonesia refrained from any intervention in the domestic foreign exchange market. By comparison, in 1995/96 Bank Indonesia took action once to support the exchange rate, and in 1994/95 intervened as many as 14 times.

Government efforts to promote the domestic foreign exchange market have borne fruit with strong growth in market turnover. Daily average turnover, recorded at $5.0 billion in 1995/96, mounted in 1996/97 to $8.0 billion. The bullish trend in foreign exchange transactions not only points to an increasingly active foreign exchange market, but also to rising foreign investor confidence as Indonesia's financial markets continue to grow. The trend is also an indication of strong market confidence in the stability of the rupiah.

A more active domestic foreign exchange market has made banks less dependent on Bank Indonesia in their foreign exchange dealings. Reflecting this change is the downturn in the squaring transactions undertaken by banks with Bank Indonesia as a result of the broadening of the intervention spread during the past two years. With banks relying less on Bank Indonesia in their foreign exchange dealings, Bank Indonesia has gained more room for maneuver in conducting monetary policy.

Table 4.11
Net Foreign Exchange Transactions between Bank Indonesia and Banks and Interbank Transactions

Transaction	1995/96	1996/97	1996/97			
			I	II	III	IV
		Million $				
BI - bank net transaction						
– Spot	4,539.0	7,895.0	1,054.8	0.0	4,576.1	2,264.1
– Export draft	718.2	480.6	150.1	125.0	105.5	100.0
– Swap	9.8	–785.3	–235.0	–234.5	–244.0	–71.5
Total	**5,267.1**	**7,590.3**	**969.6**	**–109.5**	**4,437.6**	**2,292.6**
		Billion $				
Interbank transactions						
– Spot	863.7	1,123.5	273.9	311.0	298.1	240.5
– Forward	74.7	61.7	13.3	17.4	20.2	10.8
– Swap	374.8	930.1	149.3	227.3	288.3	265.2
Total	**1,313.2**	**2,115.3**	**436.5**	**555.7**	**606.6**	**516.5**

Foreign exchange dealings between banks and Bank Indonesia produced a $7.6 billion long position, originating from purchases in spot transactions of $7.9 billion, export draft purchases of $0.5 billion, and swap transactions of negative $0.8 billion (Table 4.11). The month of October 1996 was particularly marked by heavy selling to Bank Indonesia in spot transactions triggered by rumors of impending change in the Bank Indonesia intervention band, as well as encouraged by heavier than usual capital inflows.

Chapter 5
Government Finances

In 1996/97, the Government maintained a conservative fiscal stance, reflected in a large fiscal surplus (difference between fiscal savings and investment expenditure) similar to previous years (Chart 5.1). In recent years, the Indonesian economy has shown signs of overheating, necessitating cooling measures through conservative fiscal management and prudent monetary policy. The fiscal surplus was achieved by strengthening domestic revenues while instituting measures to control expenditures. Fiscal policy has also been directed toward safeguarding the sustainability of economic growth and building more equitable distribution of incomes within the economy.

During the reporting year, government finance operations produced a Rp7.7 trillion surplus, slightly higher than the Rp7.5 trillion surplus of the previous year (Table 5.1). As a ratio to the GDP, however, this surplus eased from 1.7% to 1.5%. The maintenance of a large fiscal surplus reflects the government commitment to prudent fiscal policy, with growth in domestic revenues surpassing that of government expenditure.

Domestic revenues expanded at a faster rate in 1996/97 than in the preceding year, due mainly to substantial increases in oil/gas revenues resulting from higher international oil and gas prices. Tax revenues also improved over the previous year despite falling short of the 1996/97 state budget target. Important factors contributing to higher tax revenues were strong economic growth, intensified collection, broadening of the tax base, and stricter law enforcement aimed at curbing tax evasion.

Both operational and investment expenditures mounted at a faster rate in 1996/97 compared to the

Chart 5.1
Fiscal Savings and Investment Expenditure in 1994/95 - 1996/97

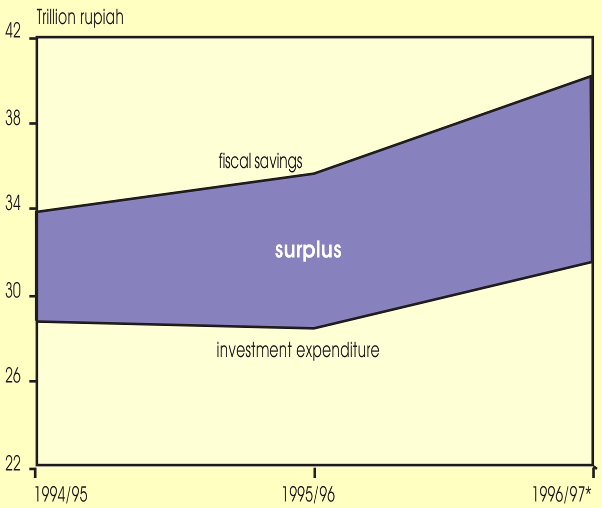


Table 5.1
Government Finance Operations

Item	1994/95 1)	1995/96 r	1996/97*	1995/96 r	1996/97*
	Trillion rupiah			% change	
Domestic revenue	68.2	75.8	85.8	11.1	14.6
Oil/gas and non-oil/gas	66.5	71.6	84.8	7.7	18.4
Oil/gas	13.5	14.9	19.9	10.4	33.6
Tax	44.5	48.4	55.8	8.8	15.3
Non-tax and net oil profit	8.5	8.3	9.1	–2.4	9.6
Other revenue (net) 2)	1.7	4.2	1.0		
Government expenditure	63.1	68.3	78.1	8.2	14.3
Operational expenditure 3)	34.5	40.0	46.7	15.9	16.8
Investment expenditure 4)	28.6	28.3	31.4	–1.0	11.0
Fiscal savings	33.7	35.8	39.1	6.2	12.3
Investment expenditure	28.6	28.3	31.4		
Savings - investment gap	5.1	7.5	7.7		
Financing	–5.1	–7.5	–7.7		
Domestic 5)	–2.7	–5.2	–4.1		
Net foreign borrowings 6)	–2.4	–2.3	–3.6		

1) Audited.
2) Including unsettled differences.
3) Routine expenditure excluding, inter alia, foreign debt amortization.
4) Development expenditure excluding, inter alia, operation and maintenance costs.
5) Minus means crediting on net government account with Bank Indonesia and commercial banks.
6) Development revenue in budget minus foreign debt amortization.

Sources : – Ministry of Finance
– Bank Indonesia

preceding year. Higher operational expenditures were driven partly by larger fuel subsidy, the consequence of higher crude oil prices. On the other hand, increased investment expenditure was aimed primarily at strengthening economic growth and reducing the existing disparities in development between different regions of Indonesia. Another significant expenditure growth item was human resources development.

Like in 1995/96, an important expenditure focus was the prepayment of foreign debt. As a result, amortization on foreign debt surpassed receipts from foreign borrowings.

Domestic Revenues

Domestic revenues recorded higher growth at 14.6%, up from 11.1% in the previous year (Table 5.1). Tax revenues strengthened by 15.3%, representing much stronger performance over the 8.8% growth in 1995/96. Taxation continued to play a dominant role in the budget with 64% of total domestic revenues, relatively unchanged from before. Nevertheless, tax revenue growth fell short of the target set down in the 1996/97 state budget, a result of lower than projected revenues from value added tax (VAT) and customs duties.

Growth in tax revenues during the reporting year was generated mostly by income tax and excise. Income tax collection gained as a result of strong economic growth in addition to efforts to intensify tax collection and broaden the tax base. Intensification took place through improved taxpayer compliance and a more effective income tax withholding system. To broaden the tax base, the Government also introduced new income taxes over several categories of income, such as income from the sale of land and/or property,[1] leasing of land and/or property,[2] interest or discount on bonds sold on the stock exchange,[3] and income from construction and consultant services.[4] The stronger excise revenues during the reporting year resulted from higher production of goods subject to the excise and the increased reference prices for these goods.

VAT and import duty revenues reached only 93.6% and 81.4% of target. VAT revenue growth was held back by such factors as VAT exemption for shipping and port services,[5] larger VAT refunds, and lower VAT revenues from the automotive sector. Despite these constraints, overall VAT revenues were up 11.1% compared to the previous year. Import duties fell short of target not only because of substantially reduced import growth, but also the tariff cuts stipulated in the January and June 1996 Deregulation Policy Packages. In addition to granting tariff reductions, the June 1996 Package also announced new import duties under the Common Effective Preferential Tariffs (CEPT) accord and the schedule of phased import tariff reductions by 2003.

With these various developments, the ratio of tax revenues to non-oil/gas GDP in 1996/97 reached 11.6%, about the same as in the previous year. The proportion of direct taxes (income tax and land and building tax) to non-oil/gas GDP went up slightly from 5.4% to 5.5%, while indirect taxes as a proportion of non-oil/gas GDP remained relatively stable at 6.2%.

Oil/gas tax revenues showed a remarkable increase of 33.6% compared to 10.4% in the previous year, a development attributable to strengthening international crude oil prices. In 1996/97, Indonesian crude oil price averaged $20.80 per barrel, considerably higher than the $16.50 per barrel benchmark price stipulated in the 1996/97 state budget. Oil prices improved as a result of supply shortages in the world market and strong demand driven by harsher than usual winter conditions in the northern hemisphere.

1) Government Regulation No. 27 of 1996, dated April 16, 1996.
2) Government Regulation No. 29 of 1996, dated April 18, 1996.
3) Government Regulation No. 40 of 1996, dated July 8, 1996.
4) Government Regulation No. 73 of 1996, dated December 20, 1996.
5) Presidential Decree No. 4 of 1996, dated January 25, 1996.

Non-tax revenues increased 9.6%, mostly as a result of higher revenues from government agencies. Part of these revenues comprised the Rp1.4 trillion proceeds from the sale of PT Telkom shares, as well as Rp400 billion from the conversion of reforestation funds to government equity in PT IPTN, the state-owned Indonesian aircraft manufacturer.

Government Expenditures

Government expenditures mounted by 14.3% in 1996/97, considerably surpassing the 8.2% expenditure growth of the previous year (Table 5.1) as a result of increased growth in operational and investment expenditure. The increase in operational expenditure came about mainly from higher government procurement and fuel subsidy of Rp1.4 trillion brought on by higher crude oil prices. Higher investment expenditure resulted mainly from increased spending on infrastructure and government efforts to mitigate inter-regional disparities in development. The latter in particular included expenditures under three Presidential schemes: the Presidential Instruction for Districts (Inpres Dati II), the Presidential Instruction for Least-developed Villages (Inpres Desa Tertinggal - IDT), and the Presidential Instruction for Health (Inpres Kesehatan).

Operational expenditures climbed 16.8% in 1996/97 to Rp46.7 trillion. The largest proportion of this expenditure was allocated for personnel (38.5%), followed by subsidies to autonomous regions (21%), and interest payments on foreign debt (13.9%). The share of personnel expenditure and subsidies to autonomous regions remained relatively constant in comparison to the previous year, while the share of interest payments on foreign debt eased substantially from 17.8%. Two factors explain this decline: the government policy of prepayment of foreign debt in recent years and the weakening of the Japanese yen against the United States dollar. Despite the more pronounced increase in operational expenditure, fiscal savings — the difference between domestic revenues and operational expenditures — improved from Rp35.8 trillion to Rp39.1 trillion. The higher fiscal savings thus provided the Government with additional resources to support investment expenditures.

Following the decline in the previous year, investment expenditures rose 11.0% to Rp31.4 trillion in 1996/97. About 55% of investment expenditure was allocated to economic sectors and a further 22% for housing, reflecting a continuation of previous budget policy. Educational expenditure, however, was given considerable priority with a hefty 16.2% increase in budget allocation, up from 13.8% in the year before. This reflected a renewed focus on human resources development.

Appropriation of the Surplus in Government Finance Operations

As mentioned earlier, overall government finance operations in 1996/97 generated a fiscal surplus of Rp7.7 trillion. Of this surplus, Rp3.6 trillion was appropriated for net payments against foreign debt (the difference between disbursement and amortization of government foreign debt) while the remainder was deposited in government account with Bank Indonesia and commercial banks.

It should be noted that outstanding official foreign debt declined from $58.6 billion in 1995/96 to $53,3 billion in the reporting year. This decline can be explained mainly by larger debt amortization, as well as by the weakening of the Japanese yen against the United States dollar.

Impact on Domestic Demand

Government rupiah expenditures, which exert a strong effect on domestic demand, increased 18.4% in nominal terms, up from 10.6% in the preceding year (Table 5.2). Real growth in government expenditure rose by 13.2%, well above the 1.8% real growth of the previous

Table 5.2
Budget Impacts on Aggregate Demand

Item	1994/95[1]	1995/96[r]	1996/97*	1995/96	1996/97
	Trillion rupiah			% change	
I. Government consumption	**25.2**	**32.0**	**38.7**	**27.0**	**20.9**
Domestic personnel expenditure	12.3	14.9	17.8	21.1	19.5
Domestic material expenditure	4.1	4.9	6.9	19.5	40.8
Subsidies to autonomous regions	7.3	8.3	9.8	13.7	18.1
Other routine expenditure	1.5	3.9	4.2	160.0	7.7
II. Gross domestic fixed capital formation	**24.8**	**23.3**	**26.8**	**–6.0**	**15.0**
Funding	20.9	18.6	22.4	–11.0	20.4
Project aid	3.9	4.7	4.4	20.5	–6.4
III. Total (I+II)	**50.0**	**55.3**	**65.5**	**10.6**	**18.4**

1) Audited.
Source : – Ministry of Finance
– Bank Indonesia

year. As a proportion of the GDP, domestic expenditure increased 12.4% in 1996/97 from 12.2% in the previous year (Table 5.3).

The increase in expenditure growth during the year under review was balanced by prudence in the allocation of these expenditures. This was reflected in higher expenditure growth on domestic capital formation (investment) and reduced expenditure growth for consumption. Expenditure on domestic capital formation increased by 15%, compared to a decline of 6% in the previous year. As a result, the ratio of government investment to the GDP rose from 4.9% to 5.1%. On the other hand, the growth of government consumption declined from the 27% to 20.9% in the reporting year. The ratio of government consumption to the GDP remained fairly constant at 7.3%.

Impact on Monetary Conditions and the Balance of Payments

During the reporting year, government finance operations generated a substantial contractionary impact on the money supply as a result of surplus government revenues over operational and investment expenditures. The contractionary impact declined from the Rp8.9 trillion in the preceding year to Rp7.2 trillion (Table 5.4). Much of this contractionary impact was generated by tax and non-tax revenues. The large rupiah contractionary impact reflects the prudent government stance in curbing domestic demand to maintain macroeconomic stability.

Table 5.3
Important Ratios in Government Revenues and Expenditures[1]

Item	1994/95[2]	1995/96[r]	1996/97*
1. Domestic expenditure to GDP	13.1	12.2	12.4
2. Gross domestic investment to GDP	6.5	4.9	5.1
3. Consumption to GDP	6.5	7.1	7.2
4. Fiscal saving to GDP	8.4	7.7	7.8
5. Non-oil/gas revenue to domestic revenue	79.5	74.7	75.3
6. Non-oil/gas revenue to GDP	13.9	12.4	12.3
7. Tax revenue to GDP	11.6	10.7	10.8
8. Tax revenue to non-oil/gas GDP	12.7	11.6	11.6

1) GDP in calendar year.
2) Audited.
Sources : – Ministry of Finance
– Bank Indonesia

Table 5.4
Government Finance Operation Impact on Monetary Conditions

Item	1995/96[r]	1996/97*
	Trillion rupiah	
Revenue in rupiah	**64.2**	**72.7**
Oil/gas	4.4	5.8
Non-oil/gas[1]	55.0	63.6
Other revenue (net)[2]	4.8	3.3
Expenditure in rupiah	**55.3**	**65.5**
Operational	33.7	40.6
Development	21.6	24.9
Monetary impacts[3]	**8.9**	**7.2**

1) Tax and non-tax revenue.
2) Including unsettled difference.
3) Plus means contraction.
Sources : – Ministry of Finance
– Bank Indonesia

Table 5.5
Government Finance Operation Impact on Balance of Payments

Item	1995/96r	1996/97*
	Equivalent to trillion rupiah	
Foreign exchange revenue	**23.4**	**26.5**
Oil/gas	10.4	14.1
Development	11.2	11.0
Others	1.8	1.4
Foreign exchange expenditure	**28.1**	**29.7**
Operational	7.9	8.5
Development	6.7	6.6
Foreign debt amortization	13.5	14.6
Incoming (+)/outgoing (–)[1]	**4.7**	**3.2**

1) Negative means foreign exchange outflows.
Sources : – Ministry of Finance
– Bank Indonesia

Concerning the balance of payments, government finance operations again generated a net foreign exchange outflow equivalent to Rp3.2 trillion, though this outflow was lower than the Rp4.7 trillion recorded for the previous year. This reduced outflow is mainly attributable to the strong performance of oil/gas revenues, which increased at a faster rate than amortization of official debt (Table 5.5).

Government Finance Operations in 1997/98

In 1997/98, domestic revenues are predicted to increase at a lower rate than in 1996/97. The budget also envisages considerably higher growth in government expenditures, especially for investment. As a result, overall government finance operations in 1997/98 are expected to generate a lower surplus than in past years (Table 5.6).

In 1997/98, the Government is looking to tax revenues to provide the main source of growth in domestic revenues. While some of the increased tax revenues will be generated by strong economic growth, part is also expected from intensification of tax collection, broadening of the tax base, more effective administrative control, and stronger enforcement. Oil/gas revenues, however, are predicted to decline as indicated by the lower benchmark oil price assumed in the 1997/98 budget.

Table 5.6
Government Finance Operations

Item	1995/96[1]	1996/97r	1997/98*	1996/97	1997/98*
	Trillion rupiah			% change	
Revenue	75.8	85.8	91.9	14.6	5.8
Oil/gas and non-oil/gas	71.6	84.8	88.1	18.4	3.9
Oil/gas	14.9	19.9	14.9	33.6	–25.1
Tax	48.4	55.8	64.7	15.3	15.9
Non-tax and net oil profit	8.3	9.1	8.5	9.6	–6.6
Other revenue (net)[2]	4.2	1.0	3.8	–50.0	81.0
Government Expenditure	68.3	78.1	88.6	14.3	13.4
Operational expenditure[3]	40.0	46.7	51.5	16.8	10.3
Investment expenditure[4]	28.3	31.4	37.1	11.0	18.2
Fiscal Savings	35.8	39.1	40.4	12.3	0.5
Investment Expenditure[4]	28.3	31.4	37.1		
Savings - Investment Gap	7.5	7.7	3.3		
Financing	–7.5	–7.7	–3.3		
Domestic[5]	–5.2	–4.1	–4.0		
Net foreign borrowings[6]	–2.3	–3.6	0.7		

1) Actual.
2) Including unsettled differences.
3) Routine expenditure excluding, inter alia, foreign debt amortization.
4) Development expenditure excluding, inter alia, operation and maintenance costs.
5) Minus means crediting on net government account with Bank Indonesia and commercial banks.
6) Development revenue in budget minus foreign debt amortization..
Sources : – Ministry of Finance
– Bank Indonesia

Higher increases in investment expenditures are projected for 1997/98 compared to 1996/97. Like in the past, priority will be assigned to specific sectors related to the economic infrastructure necessary for the business community and the population to play a greater role in national development. In addition, investment expenditure will also be allocated to regional development in an effort to bring about greater equity and alleviate poverty. Higher educational expenditures will aim at strengthening human resources development, and this will include a new budget allowance for the Presidential Instruction on Supplementary Nutrition for School Children (Inpres Program Makanan Tambahan untuk Anak Sekolah - PMT-AS). Other measures reflecting the drive for equity and poverty alleviation are reflected in the budget appropriation for the agricultural sector and other supporting measures, including the IDT and the Presidential Instruction for Rural Development.

A reduced impact on domestic demand is expected given that the 1997/98 budget projection envisages a lower proportion of expenditures on government consumption compared with the preceding year. On the other hand, expenditures for capital formation will be about the same. Overall domestic government expenditure is expected to increase at a slower rate than in previous years.

In the monetary sector, government finance operations in 1997/98 are expected to produce a lower rupiah contractionary impact compared to the previous year. High budget expenditures are projected for economic infrastructure, human resources development, and equitable distribution of the benefits of development. As regards the balance of payments, the predicted budgetary impact is a higher foreign exchange outflow as a result of lower oil/gas revenues.

Chapter 6
Banks and Other Financial Institutions

Banks

Against the backdrop of favorable economic developments in the reporting year, banks maintained their efforts to promote soundness so as to create an efficient, solidly established banking system. These steps have led to a strengthening of the banking structure and generally improved quality of earning assets, hence improving bank performance during the year under review.

Banks also continued to consolidate in order to strengthen their financial condition and enhance their competitiveness in anticipation of the soon-coming financial liberalization in ASEAN in the near future. These steps include the adoption of prudential practices and self-regulating principles, improvement of risk management, human resources development, and procurement of infrastructure, including technological applications.

With a view to supporting and providing guidance to banks in their efforts to strengthen their soundness, Bank Indonesia has taken steps to improve the quality of bank supervision and strengthen bank consolidation. To this end, Bank Indonesia has updated the procedures and systems of bank supervision and while building the skills of bank examiners, Bank Indonesia has also continued the efforts to strengthen the banking structure and encourage the resolution of problem loans and problem banks.

To strengthen the banking structure, Bank Indonesia, among others, has encouraged mergers among banks. Globalization and intensifying competition have led banks, especially small-scale and problem banks, to merge as a strategic measure. Merger stands to benefit banks as a result of the economies of scale and wider scope of business, in addition to improving the soundness, stability, and competitiveness of the banking sector. This would lead to the creation of a number of large banks with adequate scale and networks and smaller banks serving specialized market segments.

In the year under review, marked progress was achieved in the settlement of problem loans. The growth of problem loans decreased, and therefore the percentage of problem loans to total bank lending decreased significantly. Nonetheless, other steps will be taken to strengthen coordination with competent agencies.

In addition, Bank Indonesia continued to rescue problem banks by setting an action plan approved by Bank Indonesia on one hand and the management and shareholders on the other. In general, the plan can take forms of capital restructuring, management takeover or replacement, management assistance, mergers, and entry of new investors. Through this scheme, Bank Indonesia has succeeded in strengthening the financial condition of seven problem banks. To facilitate the rescue of problem banks, in the reporting year the Government issued a regulation on bank liquidation (Box: Government Regulation on Bank Liquidation). This regulation sets out the resolution for problem banks a clear guidelines, taking into account the overall condition of the financial system. However, since the nature of the problems faced by banks varies, solution will be carried out on a case by case basis.

Structure of the Banking System

In general, since banking deregulation enacted in October 1988, the competitiveness of Indonesia's banking structure has improved. During the year under review the

Government Regulation on Bank Liquidation

The principles of Indonesian banking system are set forth in Act No. 7 of 1992. Article 37 paragraphs 4 and 5 of the Act provide for revocation of operating licenses and liquidation of banks, but the Act does not specify the details of the procedure and technical steps involved. Meanwhile, in line with the rapid changes taking place in the banking environment, further explanation and elaboration has become necessary concerning various matters ranging from establishment and operations to bank closure. These provisions are needed to facilitate the implementation of existing regulations and enable action to be taken under specific situations that may arise during the course of banking operations. Although general regulations exist on the dissolution of enterprises, it is not possible for these regulations to be applied automatically to banks because banks are institutions of trust dealing mainly with the collection and distribution of funds from the public. Therefore, separate, specific procedures of dissolution and liquidation of banks are necessary. In view of these considerations, on December 3, 1996 the Government promulgated Government Regulation No. 68 of 1996 concerning the procedure of the revocation on operating licenses, dissolution, and liquidation of banks.

A key feature of regulation is that it is specific to banks to the exclusion of general regulations on corporate enterprises where any differences may exist (lex specialis). The regulation also emphasizes the public interest, firmly establishes bank closure as a last alternative course of action, prevents bankruptcy and bank dissolution from being initiated by the shareholders, places strict safeguards on bank secrecy, and requires the boards of directors and commissioners of a bank under liquidation to furnish any needed assistance to the liquidation team.

The special nature of Government Regulation No. 68 of 1996 places it as the foremost ruling among the various regulations that may apply to bank liquidation. The principle of priority for the public interest means that in case of any revocation on a bank operating license or the dissolution and liquidation of a bank, first priority of payment or refund is to public depositors, without prejudicing the right of other parties to receive settlement of outstanding liabilities. Liquidation itself is a last alternative, only to be taken if the problems of the bank have become so advanced as not only to endanger its own survival, but also give rise to systemic risk to the banking industry as a whole.

In liquidating a bank the bank owner is not allowed to initiate bankruptcy proceedings, because the ordinary bankruptcy procedure does not provide for priority of settlement to depositors. In addition, in case of bankruptcy, bank assets and liabilities would come under the control of an executor supervised by a commissioner judge, and these judges are generally lacking in banking expertise. The other consideration is that ordinary bankruptcy provides opportunity for shareholders to take the advantage of the liquidation to evade responsibility to creditors, including depositors. The last principle states that the boards of directors and commissioners and bank employees remain bound by bank secrecy. In addition, boards of directors and commissioners are also required to furnish any needed assistance to the liquidation team.

It is, of course, understood that the revocation of a bank operating license is closely associated with problems faced by the bank. Therefore, the new regulation also stipulates that before any revocation of a bank operating license, remedial measures should be undertaken to solve the problems facing the bank to prevent the situation from endangering the banking system as a whole. Remedial measures may be taken by Bank Indonesia, among others, by requesting the shareholders to increase capital, replacing the board of directors and/or commissioners, writing off bad debts by deducting loan losses against capital, conducting merger or consolidation with another bank, or selling the bank to buyers with adequate financial resources to take over all liabilities. Further courses of action that are available are to transfer bank operations to another party in part or in whole, and to sell a part of the bank assets and liabilities to other party.

If these efforts still fail to solve the problems facing the bank, Bank Indonesia shall propose the revocation of the bank operating license to the Minister of Finance. Therefore, in addition to filling a previously existing legal vacuum in the area of bank dissolution, this regulation also functions as a guide for bank owners and management in taking remedial measures with problem banks.

overall number of banks declined from 240 to 237 as a result of the merger of 6 banks into 3.

Besides the factors directly discouraging investors to establish new banks, such as a tighter competition and capital constraints, policies adopted by Bank Indonesia have also contributed to decline in the number of banks. Since three years ago, Bank Indonesia has tightened selectivity in issuing recommendations for new banks. Furthermore, Bank Indonesia has formally established new requirements for nominees of the board of directors, commissioners, and shareholders. To strengthen bank capital, especially for foreign exchange banks, in 1995 Bank Indonesia raised the minimum paid in capital to Rp150 billion and capital adequacy ratio (CAR) is to be increased in stages to 12% by 2001.

In the reporting year, the number of bank offices increased by 8.3% in 1995 as against 9.6% in 1996. This growth was due to an increase in the offices of state banks, domestic foreign exchange banks, and foreign as well as joint banks (Table 6.1). The growth of rural credit banks, however, moderated from 3.7% to 1.9%. Competition between rural credit banks and commercial banks seemed to adversely affect the growth of rural credit banks as seen in some regions such as Bali, West Nusa Tenggara, and Jakarta. In addition, the liquidation of 47 rural credit banks in the last two years also contributed to the decline in the number of rural credit banks.

By region, eastern Indonesian region recorded the highest growth of bank offices in 1996 (Table 6.2), which was associated with the more robust economic activity in the region following government policies aimed at boosting economic activity in the last several years. In terms of distribution, however, bank offices continued to be concentrated in western Indonesian region, and especially Jawa.

Improvements took place in the structure of the banking system with less concentration among the

Table 6.1
Number of Banks and Bank Offices in Indonesia

Bank	% growth		1996/97[1)]
	1995/96	1996/97	
A. Commercial Banks			
1. State commercial banks			
Number of banks	0.0	0.0	7
Number of offices [2)]	4.0	4.1	1,707
2, Local government banks			
Number of banks	0.0	0.0	27
Number of offices	8.5	6.1	745
3, Private national foreign exchange banks			
Number of banks	22.2	2.6	79
Number of offices	15.0	16.4	4,002
4, Private national non-foreign exchange banks			
Number of banks	–14.6	–5.7	83
Number of offices	–6.0	–3.6	794
5, Joint banks			
Number of banks	3.3	0.0	31
Number of offices	2.0	5.8	55
6, Foreign banks			
Number of banks	0.0	0.0	10
Number of offices	2.7	2.6	39
Sub-total			
Number of banks	0.0	–1.3	237
Number of offices	8.3	9.6	7,342
B, Rural Credit Banks			
1, Rural credit banks established after October 1988 package	6.2	3.1	1,348
2, Rural credit banks established before October 1988 package	–0.9	–0.6	644
Sub-total (1+2)	3.7	1.9	1,992
3, Rural financial institutions	0.0	0.0	7,323
a, Rural fund and credit institutions	0.0	0.0	1,978
b, Rural credit agencies	0.0	0.0	5,345
Total (1+2+3)	0.8	0.4	9,315

1) February 1997.
2) Excluding rural unit of BRI.

Table 6.2
Number of Commercial Bank Offices by Region

Region	% growth 1995	% growth 1996	1997[1)]
West	**9.0**	**9.3**	**6,255**
– Sumatera	6.0	7.0	1,039
– Jawa other than Jakarta	12.7	9.9	2,735
– Jakarta[2)]	6.5	9.7	2,481
Central	**5.8**	**5.5**	**614**
– Bali & West Nusa Tenggara	6.8	4.7	324
– Kalimantan	4.7	6.3	290
East	**13.0**	**11.9**	**533**
– East Nusa Tenggara, Maluku, Irian Jaya & East Timor	5.3	10.1	175
– Sulawesi	17.4	12.9	358
TOTAL	**9.0**	**9.2**	**7,402**

1) February 1997.
2) Including 73 foreign bank representative offices in Indonesia.

leading banks. The share of top 10 banks in terms of assets, deposits, and credit showed overall decline (Table 6.3).

Table 6.3
Banking Concentration

Based on Assets

Group of Banks	1987	1993	1995	1997*
	Percent			
Top 10 Banks	80.31	65.44	60.03	59.22
Top 20 Banks	88.65	77.74	72.99	72.68
Top 30 Banks	92.39	82.28	78.12	77.93

Based on Credit

Group of Banks	1987	1993	1995	1997*
Top 10 Banks	80.64	64.72	59.02	58.42
Top 20 Banks	88.38	77.05	72.26	72.42
Top 30 Banks	91.90	82.00	77.68	77.39

Based on Deposit

Group of Banks	1987	1993	1995	1997*
Top 10 Banks	75.18	63.59	60.47	58.42
Top 20 Banks	85.16	77.56	73.89	72.42
Top 30 Banks	89.99	83.24	79.96	77.39

Table 6.4
Herfindahl Index of Indonesian Banking

Item	1993	1994	1995	1997
Assets	0.053	0.047	0.044	0.041
Deposit	0.051	0.046	0.046	0.040
Credit	0.054	0.047	0.042	0.040

The decreasing market share of the top 10 banks reflects a strengthening of the banking structure with less concentration and greater competitiveness. This is also indicated by the lower concentration index (Table 6.4).[1)]

Table 6.5
Consolidated Balance Sheet of Commercial Banks

Item	1995/96 % change	1996/97 % change	1996/97 Out-standing (billion Rp)	1996/97 Share (%)
Assets				
Cash on hand	17.6	30.3	3,754	0.9
Demand deposits with Bank Indonesia	320.3	24.9	8,751	2.2
Foreign assets	18.8	27.7	19,264	4.8
Claims on government:				
– Central government	17.3	11.8	834	0.2
– Government institutions and enterprises	34.4	20.9	15,612	3.9
Claims on private enterprises and individuals	21.7	23.1	311,108	77.9
Others	70.2	36.6	40,280	10.1
Assets = Liabilities	**27.3**	**24.6**	**399,603**	**100.0**
Liabilities				
Demand deposits	23.3	25.9	39,871	10.0
Time and savings deposits	33.8	30.5	179,768	45.0
Foreign exchange deposits	23.1	23.5	51,246	12.8
Foreign liabilities	15.4	20.6	32,640	8.2
Government account	12.3	15.3	9,860	2.5
Borrowings from Bank Indonesia	0.8	6.4	11,966	3.0
Guarantee deposits	37.0	5.5	2,079	0.5
Capital, reserves, and P/L	38.8	28.0	40,935	10.2
Others	27.1	7.6	31,238	7.8

1) This index is often called as the Herfindahl Index (HI), constituting the summation of square of each individual bank market share. The higher the index, the more concentrated the banking structure, or the other way around.

Business Activities

In the year under review, business volume of banks as indicated in their total assets increased by 24.6%, which was lower than that of the preceding year (Table 6.5). However, the earning assets quality of banks improved, which contributed to stronger performance in the reporting year.

Funding

Funds mobilized by the banking sector showed a rapid growth rate of 28.3% in the year under review, reflecting the continued high growth of deposits. Demand deposits and savings recorded a higher growth rate than time deposits (Table 6.6). Growth of funds in foreign currencies slightly accelerated stemming from a higher increase in demand deposits in foreign currencies, up to 39.2% in 1996/97 compared to 32.8% in 1995/96.

Time deposits remained the largest source of banking funds. Time deposits from private corporations, insurance companies, foundations, and non-profit organizations experienced rapid growth. In contrast, time deposits placed by state-owned companies saw lackluster growth. In terms of share, individual depositors held the biggest proportion with 40.0% of total time deposits (Table 6.7).

Table 6.6
Mobilization of Funds by Type

Type	1995/96	1996/97	1996/97	
	% change		Outstanding (billion Rp)	Share (%)
Demand deposits	**24.7**	**29.1**	**57,004**	**19.9**
Rupiah	22.0	26.1	42,628	14.9
Foreign currency	32.8	39.2	14,376	5.0
Time deposits	**32.6**	**27.4**	**163,657**	**57.0**
Rupiah	38.1	29.8	119,283	41.6
Foreign currency	24.4	21.4	44,374	15.5
Savings	**25.0**	**29.6**	**66,321**	**23.1**
Total	**29.4**	**28.3**	**286,982**	**100.0**
Rupiah	30.9	29.1	228,232	79.5
Foreign currency	25.8	26.3	58,750	20.5

Table 6.7
Time Deposits with Commercial Banks in Rupiah and Foreign Currency by Ownership

Group of owners	1995/96	1996/97	1996/97
	% change		Share (%)
Residents	**3.7**	**29.7**	**99.8**
Government	6.8	7.6	3.4
Insurance companies	–0.7	34.2	4.6
State enterprises	–4.8	–0.3	4.9
Private companies	–0.5	51.4	21.9
Social institutions	–1.1	29.7	9.2
Individuals	4.1	26.7	40.0
Others [1]	16.0	28.4	15.8
Non-residents	**–69.4**	**128.8**	**0.2**
Total	**3.3**	**29.8**	**100.0**

1) Including government agencies/institutions and cooperatives.

Other sources of funds such as Bank Indonesia refinancing credit, bank capital, and other liabilities generally grew at a slower pace than in the previous year.

Use of Funds

In 1996/97 bank lending grew at a slightly faster pace by 26.3% compared with 23.6% in the preceding year. By type of credit, working capital credit experienced the most rapid growth (Table 6.8). By economic sector, the increase was recorded in all sectors except manufacturing. Lending to the mining sector, however, registered the highest growth.

The increase in credit to mining activities was attributable to the higher lending to oil and other mining sub-sectors (coal and iron ore). Credit to the distribution and retail trade sub-sectors contributed to heavier credit expansion in the trade sector. In the agricultural sector, most of the increase was mainly used to finance plantation development and procurement of agricultural equipment. In the services sector, the highest increase was recorded in credit to real estate companies,

Table 6.8
Bank Credits

Item	1995/96	1996/97	1996/97	
	% change		Outstanding (billion Rp)	Share (%)
By type of credit	**23.6**	**26.3**	**306,125**	**100.0**
Investment	22.2	20.2	74,543	24.4
Working capital	23.0	28.9	200,637	65.5
Consumer	31.5	25.1	30,945	10.1
By economic sector	**23.6**	**26.3**	**306,125**	**100.0**
Agriculture	10.8	19.1	18,845	6.2
Mining	28.3	123.7	2,738	0.9
Manufacturing	16.0	11.2	81,234	26.5
Trade	24.0	30.6	73,462	24.0
Services	32.6	38.9	96,503	31.5
Others	32.0	25.1	33,343	10.9
By category of bank	**23.6**	**26.3**	**306,125**	**100.0**
State banks	17.6	16.0	110,900	36.2
Private national banks	28.2	36.8	159,248	52.0
Local government banks	26.9	38.3	7,194	2.4
Foreign and joint banks	26.5	14.2	28,783	9.4
In rupiah and foreign currency	**23.6**	**26.3**	**306,125**	**100.0**
Rupiah	23.4	26.3	244,960	80.0
Foreign currency	24.5	26.2	61,165	20.0

nearly doubling from 33.5% to 60.8%. However, growth in housing loans moderated from 29.3% to 21.9%.

By group of banks, credit extended by private national commercial banks and regional development banks recorded higher growth of 36.8% and 38.8%, respectively in the year under review as against 28.2% and 26.9% in the preceding year. On the other hand, the expansion of credits extended by state banks, foreign banks, and joint banks slowed down compared to that of the previous year. In terms of currency, the growth of credit both in rupiah and foreign currencies showed an increase.

In 1996 export credit increased by 19.5%, from Rp27.8 trillion in 1995 to Rp33.2 trillion. However, the ratio of export credit to total credit in foreign currencies was less than the 80% stipulated in the export credit regulation; as it turned out, export credit declined as a percentage of total foreign currency lending from 64.5% in 1995 to 60.8% in 1996.

Toward the end of the reporting year, Bank Indonesia introduced updated export credit regulations. Under the new provisions, commercial offshore borrowing (COB) are tied to export credit performance. Domestic commercial banks, foreign banks, and joint banks are required to extend export credit at a minimum of 80% of COB received in the same year. In addition, the new provisions provide a clearer definition of export credit. Failure for a bank to comply with the regulation will lead to a penalty linked to the amount of COB.

In general, bank lending continued to hold the largest share of financing by banks as reflected in the 76.6% ratio of credit to total bank assets. Hence, credit remained the biggest source of bank revenue. Therefore, Bank Indonesia has introduced close monitoring of bank credit plans, bank performance, and other factors because of potential impact on bank liquidity, solvability, and profitability, which in turn will affect macroeconomic developments. Accordingly, Bank Indonesia continued to encourage banks to improve their analysis, bookkeeping, and credit supervision.

These efforts have begun to show favorable results. In 1996 collectibility improved, while substandard, doubtful, and bad debts declined compared to the preceding year (Table 6.9). Hence, the proportion of non-performing loans to total credit decreased from 10.4% in the preceding year to 8.8%.

Table 6.9
Bank Credits by Collectibility

Item	1995	1996	1995	1996
	% change		Share (%)	
Performing	25.7	25.9	89.6	91.2
Non-performing	6.6	4.4	10.4	8.8
– Sub-standard	0.9	16.2	2.7	2.6
– Doubtful	14.9	–5.6	4.4	3.3
– Bad debt	1.6	8.0	3.3	2.9

Small-scale Business Credit

Bank Indonesia's strategy for financing small-scale businesses is a minimum requirement for credit to small-scale enterprises (Kredit Usaha Kecil - KUK) at 20% of total bank lending, in addition to technical assistance and institutional development. In case a bank does not meet required minimum KUK, Bank Indonesia will provide technical assistance intended to improve the access of small-scale enterprises to KUK financing. The technical assistance is developed through the Small-scale Enterprise Development Project (Proyek Pengembangan Usaha Kecil - PPUK), Bank and Self-help Group Link Project (Proyek Hubungan Bank dengan Kelompok Swadaya Masyarakat - PHBK), and the Micro-credit Project (Proyek Kredit Mikro - PKM). In addition, institutional development is aimed at promoting cooperation among banks in extending small-scale business credit including strengthening the role of rural financial institutions through establishing cooperation between rural credit banks (including rural Islamic banks) and commercial banks.

The growth of KUK rose by 17.6%, from Rp42.1 trillion in March 1996 to Rp49.5 trillion in March 1997. The proportion of KUK to total credit reached 22.6%, slightly higher than the compulsory ratio of 20%, with 113 banks (57%) complying with the KUK requirement. The number of accounts increased by 10.4% to 7.6 million at end of March 1997 of which 97.4% with a maximum credit line of Rp50 million. These figures reflect that most of the KUK went to small-scale businesses.

In the reporting year banks sought to strengthen cooperation in KUK operations. At the end of the reporting year, the Association of Private National Commercial Banks (Perhimpunan Bank-bank Umum Nasional Swasta - Perbanas) and the Association of Indonesian Rural Credit Banks (Persatuan Bank Perkreditan Rakyat Indonesia - Perbarindo) signed an agreement on cooperation in launching the Perbanas funds program (Dana Perbanas - Dabanas) and to establish the Dabanas Foundation with the funds provided by Perbanas member commercial banks. Under the program, Dabanas will be distributed to small-scale businesses (for productive activities) through rural credit banks. Furthermore, the program will be extended to include Perbanas and Perbarindo, state banks, and regional development banks under an arrangement called the National Banking Fund (DABANAS).

Technical assistance delivered by PPUK up to December 1996 showed improvements. The assistance included an identification of 1,754 projects valued at Rp1,210 billion for approximately 267,370 small-scale enterprises and cooperatives, most of which were launched through the nucleus-plasma partnership scheme. The number of projects, small-scale enterprises, and cooperatives to be financed by the KUK program rose by 7.7% and 14.9% respectively, with a credit volume rising by 35.2% compared to the preceding year. In addition, 167 projects were implemented under the Small-scale Business Integrated Partnership Scheme (Proyek Kemitraan Usaha Kecil Terpadu - PKUKT) with a total credit of Rp392 billion involving 40,380 small-scale entrepreneurs cooperating as partners with nucleus entities. The number of projects and partners to be financed under such scheme increased by 25.6% and 32.2%, respectively, with a credit volume rising by 48.5% compared to the preceding year. Besides, in the reporting year a lending model for a long-term financing scheme was introduced through the PPUK, which enables banks to finance a larger number of small-scale businesses and on a more consistent basis. Under the long-term scheme, four types of financing had been developed up to March 1997, namely for palm oil plantations, dairy farms, shrimp farms, and metal products industries.

The number of staff and bank credit officers trained at the Small-scale Enterprise Development Unit (Unit Pengembangan Usaha Kecil - UPUK) increased by 19% and 2.7% respectively to 9,593 and 2,383 persons. In addition, training was carried out for 1,500 prospective field consultant workers, an increase of 83.6%, and 299 coordinators. Training for credit officers rose only slightly as result of an increase in the in-house training programs conducted by banks, especially for those in charge of the KUK program. This development is in line with Bank Indonesia's intention to phase out its involvement in the PPUK and to transfer the program to banks with the support of other related institutions.

To help support the government program for poverty alleviation, Bank Indonesia has implemented the PHBK and the PKM. The number of self-help development institutions (lembaga pengembangan swadaya masyarakat - LPSM) participating in the PHBK increased by 8.8% to 185 units by the end of December 1996. Meanwhile, the number of self-help groups (kelompok swadaya masyarakat - KSM) served by banks increased by 62.5% to 7,587, with credit amounting to Rp51.7 billion for 273,852 group customers/members, up by 55.7% and 62.5% respectively, and with a repayment rate of 96.4%. These sound developments resulted, among others, from a 66.4% increase in the number of bank branch offices participating in the PHBK to 436 offices at the end of December 1996. Since the PHBK has yielded significant benefits, especially for rural economic development, the Government continued to expand the coverage areas of the project and to fully support its financing. During the year under review, foreign funds for financing this project were limited.

Up to the end of February 1997, 26 LPSM, 5 regional development banks, and 203 rural credit institutions, consisting of 105 rural savings and loan institutions and 98 rural credit banks, were selected as participants of the PKM. Credit allocated amounted to Rp2.6 billion and Rp1.8 billion of which has been realized for approximately 3,400 micro-debtors.

To encourage greater KUK lending, in addition to the technical assistance provided by Bank Indonesia through the abovementioned projects, the Ministry of Finance has issued a requirement for state banks to extend Credit for Feasible Projects (Kredit Kelayakan Usaha - KKU) at a maximum of Rp50 million. This credit is provided for productive activities according to feasibility; additional collateral is not deemed essential and the loan procedures are simplified. Since its implementation in October 1995 KKU lending had registered a marked growth, up from Rp28.6 billion for 1,659 small-scale enterprises at end of October 1995 to Rp441.5 billion for 28,778 small-scale enterprises at end of October 1996 respectively.

Furthermore, with a view to strengthening bank motivation and commitment for the development of small-scale enterprises, Bank Indonesia introduced changes to the KUK lending requirements, effective on April 1, 1997. The main concerns of the improvement include the adjustment of small-scale enterprise criteria as stipulated in Act No. 9 of 1995 concerning small-scale enterprises, increase in KUK ceiling from Rp250 million to Rp350 million, coverage of the KUK requirement to be extended to all commercial banks including foreign and joint banks, and penalty for banks failing to comply with the KUK requirement. The accumulated penalties will then be used as incentives for banks surpassing the required KUK as well as for subsidizing KUK insurance premiums and for technical assistance in small-scale enterprise development.

Off-balance Sheet Activities

In the year under review, off-balance sheet activities by banks showed higher growth. The growth reflects the increased diversification of bank operations, including fee-based income. As in the preceding year, most off-balance sheet activities comprised transactions in foreign currencies.

Total commitment and contingent receivables recorded a higher growth compared to those in the preceding year. Similar, though lower, growth was recorded in bank liabilities (Table 6.10). Meanwhile, cur-

Table 6.10
Off-balance Sheet Accounts

Item	1995	1996	1997[1)]
	% change		Outstanding (trillion Rp)
Claims	**48.4**	**67.7**	**164.9**
Commitment	53.5	68.3	129.1
– Undisbursed loan facility	–25.0	0.0	0.7
– Outstanding of current foreign exchange buying	56.1	69.4	128.4
Contingency	35.2	65.8	35.8
– Interest receipt under settlement	11.6	8.3	11.3
– Option (buying contract)	69.5	121.0	24.5
Liabilities	**24.4**	**26.8**	**309.1**
Commitment	24.7	205.8	197.8
– Undisbursed credit facility	19.8	46.8	70.0
– Outstanding of current foreign exchange buying	87.1	1,513.8	127.8
Contingency	24.2	–43.3	111.3
– Option (selling contract)	67.2	52.0	19.3
– Margin trading	–25.0	–33.3	0.2
– Guarantee extended	24.7	–50.2	64.7
– Others	19.1	–52.2	27.1
Total	**30.5**	**38.6**	**474.0**

rent outstanding foreign currency sales showed a marked increase, up from 87.1% in the previous year to 1,513.8%. In addition, option buying contracts grew at a higher level than those of selling contracts, bringing about a rise in the total trade volume as compared to the preceding year. These developments emphasize the need for caution on the part of bank to anticipate and control all forms of potential risk.

Business Performance

In 1996 bank performance as expressed, among others, as return on assets (ROA), return on equity (ROE), and operating costs on operating income (OCOI), showed improvement (Table 6.11).

In general, state banks, regional development banks, and foreign and joint banks showed positive progress in ROA, ROE, and OCOI. However, foreign exchange and non-foreign exchange private banks remained relatively unchanged. Better efficiency improvements took place at state banks.

Table 6.11
Banks' Performance Indicators

Profitability (ROA)

Group of Banks	1994	1995	1996
		Percent	
State banks	–0.30	0.50	0.90
Foreign exchange private national commercial banks	1.47	1.41	1.15
Non-foreign exchange private national commercial banks	0.80	0.39	0.36
Local government banks	1.60	2.23	2.40
Joint banks	1.53	2.56	2.55
Foreign banks	3.23	4.62	4.40
Total	**0.62**	**1.13**	**1.22**

Profitability (ROE)

Group of Banks	1994	1995	1996
		Percent	
State banks	–4.75	10.78	15.18
Foreign exchange private national commercial banks	12.03	17.95	15.04
Non-foreign exchange private national commercial banks	3.31	3.15	3.79
Local government banks	13.43	25.30	27.86
Joint banks	5.98	20.17	20.19
Foreign banks	20.30	40.08	35.67
Total	**2.95**	**16.14**	**16.38**

Efficiency Ratio

Group of Banks	1994	1995	1996
		Ratio	
State banks	1.04	0.96	0.93
Foreign exchange private national commercial banks	0.90	0.92	0.94
Non-foreign exchanger private national commercial banks	0.95	0.98	0.98
Local government banks	0.89	0.85	0.85
Joint banks	0.85	0.81	0.80
Foreign banks	0.80	0.75	0.75
Total	**0.95**	**0.92**	**0.92**

Compliance with Prudential Regulations

In the reporting year, bank efforts to comply with prudential regulations showed improvement, as reflected in the increased number of banks complying with the regulations.

With regard to capital, by the end of December 1996, the average CAR reached 11.8%, higher than the 8.0% compulsory ratio. Meanwhile, the number of banks failing to meet the requirement declined from 8.8% of total banks in the previous year to 7.5% in the year under review.

In addition, banks also demonstrated better compliance with prudential regulations in maintaining their liquidity, as reflected in the higher number of banks complying with loan to deposit ratio (LDR). By the end of December 1996, most banks (95.4%) met the LDR requirement. Average LDR was recorded at 78.31% at end of December 1996, while the maximum LDR for rating as sound is 110%.

In the meantime, the number of violations of the legal lending limit (LLL) remained relatively unchanged. In this connection, Bank Indonesia has examined all banks. In case of violation by any bank, Bank Indonesia will request the bank to set up an action plan to meet the LLL requirement. In addition, Bank Indonesia also took measures to place bank management on a list of disreputable characters in case of any proven intent to violate the LLL. Furthermore, Bank Indonesia will enforce cease and desist order if a bank fails to implement its approved action plans.

Meanwhile, the application of prudential regulations on foreign exchange transactions as reflected in the compliance with net open position (NOP) requirement showed encouraging improvements. At the end of 1996 most banks (96.2%) had complied with the NOP requirement.

Other Financial Institutions

Other financial institutions, consisting of finance companies, insurance companies, pension funds, the state pawnshop company, and the capital market have showed significant growths in recent years. This was primarily attributed to the rise in domestic investment, which has created demand for more funds and more diversified funding alternatives. The rise in business activities was also followed by an improved financial structure as reflected in the higher number of finance companies complying with prudential regulations. This was in line with government policies on sound business growth and prudence in macroeconomic management and the banking sector. During the preceding year, the Government enacted new prudential and supervisory regulations for finance companies. Regarding prudential conduct it was stipulated, among others, that the maximum total borrowings of a finance company may not exceed 15 times its capital, and similarly, offshore loans are limited to 5 times the capital. Meanwhile, supervision of finance companies is to be undertaken by Bank Indonesia.

Rising capital market activity during the year under review was driven by investor confidence in the sustainability of Indonesian economic fundamentals. In addition, stock market activity received a major boost from several state enterprises that went public. To promote the capital market, the Government has enacted various regulations on financial statements and taxation.

Finance Companies

A finance company is a company operating in leasing, factoring, consumer credit, credit card, venture capital, or multi-finance. However, since the characteristics of venture capital differ from the other business activities, a company operating in venture capital is not allowed to conduct the other activities.

In 1996, the number of finance companies other than venture capital companies decreased by 2 to 252 companies as a result of merger. In addition, the decline was also caused by the freeze on new licenses, effective December 1995. Meanwhile, total financing by finance companies increased by only 3%, representing a sharp decrease as against 55% in the preceding year.

A shift has taken place in the market share of finance company operations. In 1996, leasing companies registered the largest share (46%) while the market share of factoring companies, which was the largest in the previous year (45%), declined to 30%. Factoring activities decreased by 31% after a sharp 120% increase in the preceding year. Meanwhile, credit card operations dropped sharply because several finance companies no longer carried out credit card financing as a result of tight competition with banks operating in credit cards (Table 6.12).

With regard to source of funds, finance companies relied most heavily on borrowings from both domestic and foreign sources. Domestic sources of funds remained dominant although having declined slightly compared to that in the preceding year. Funds originating from bank loans recorded the largest share, namely 35% of total funds (Chart 6.1). In addition, 156 companies (62%) out of the existing 252 finance companies were closely linked with banks through ownership or management.

Meanwhile, the capital of finance companies rose by a significant 94 %, attributable to compliance with provisions on capital enacted in October 1995. Under this provision, finance companies obtaining licenses before the provision have to adjust their capital at the latest of October 1998. The minimum paid in capital has been raised to Rp10 billion for private national companies, Rp25 billion for joint companies, and Rp5 billion for cooperatives.

Chart 6.1
Finance Companies' Sources of Fund as of December 1996

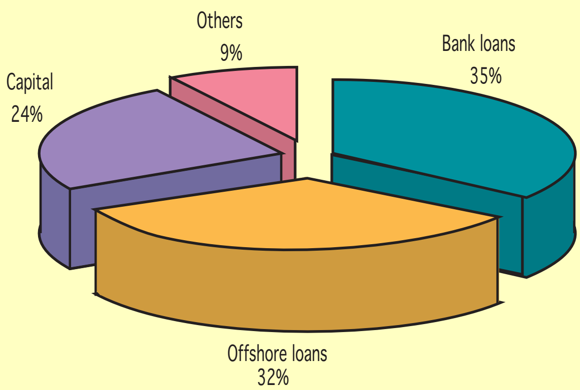
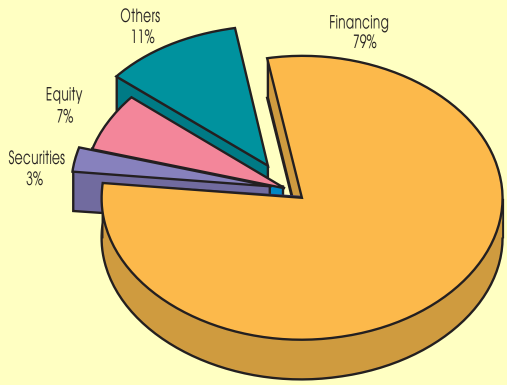


Table 6.12
Finance Companies[1)]

Item	1994	1995	1996*
		Billion rupiah	
Number of companies[2)]	**206**	**254**	**252**
Business activities	**16,674**	**25,867**	**26,586**
Leasing (contract value)	5,953	8,498	12,129
Factoring (financing value)	5,297	11,662	8,035
Consumer financing (contract value)	4,475	5,425	6,361
Credit card (financing value)	949	282	61
Financial position			
Total assets	19,067	23,899	33,591
Total equity	3,347	4,215	8,191
Net investment	14,787	18,719	26,691
Outstanding borrowings	**12,612**	**17,692**	**23,743**
Domestic	7,172	10,442	12,921
Foreign	5,440	7,250	10,822

1) End of period.
2) Unit.
Source : Ministry of Finance

Chart 6.2
Finance Companies' Fund Placement as of December 1996



Regarding the placement of funds, financing activities recorded the largest share at 79%, followed by equity participation with 7 % and securities buying at 3 % (Chart 6.2).

In line with the rise in financing activities, in the last three years (1994-1996) the ratio of financing by finance companies to bank credit has gained. In that period, ratio of assets held by finance companies to bank assets and ratio of financing by leasing companies to bank investment credit went up from 5.7 % and 11.0 % to 6.6 % and 17.2 % respectively. Meanwhile, the ratio of factoring to bank working capital loans tended to increase (Table 6.13). This progress was attributable to the relatively more flexible financing procedure than for credit extended by banks. In addition, finance companies are subject to a more relaxed regulatory environment than banks.

Compliance with various prudential regulations by finance companies has showed improvement. In November 1996, the number of companies failing to comply with the maximum ratio of borrowings to stockholders' equity decreased to 7 as against 19 companies in March 1996. The number of finance companies violating stipulations on the maximum amount of foreign borrowings and the maximum amount of equity participation also declined (Table 6.14).

In general, finance companies maintained strong earning assets quality. In the period of April-November 1996, approximately 97% of earning assets were rated as performing. However, there has been a decline in the percentage of performing assets, with a corresponding increase in assets classified doubtful and bad debts (Table 6.15).

Table 6.14
Violations on Regulation by Finance Companies

Type	Number of Companies		
	Mar-96	Jun-96	Nov-96
Loan			
Total loan to own capital ratio (> 15)	19	18	7
Foreign loan to own capital ratio (> 5)	19	14	7
Equity			
Number of equity to capital			
a. Over 40%	16	8	7
b. Maximum of 40%	196	212	207

Concerning venture capital, the number of venture capital and investee companies increased to 43 and 527. This increase was associated with government efforts to establish venture capital in various provinces with a view to promoting small- and medium-scale enterprises. Up to the end of 1996 there were 20 regional venture capital companies (perusahaan modal ventura daerah - PMVD), of which 19 companies were located in provinces and 1 company in a regency. These companies held venture capital in 482 investee companies.

In spite of the increase in the number of companies, total activities declined substantially. The decrease in activities occurred on joint venture and domestic pri-

Table 6.13
Financial Ratio of Finance Companies to Banks

	1994	1995	1996*
Finance companies' assets/banks' assets	5.7%	5.8%	6.6%
Leasing financing/bank investment credits	11.0%	14.3%	17.2%
Factoring financing/bank working capital credits	2.0%	7.7%	4.2%

Table 6.15
Earning Asset Collectibility

	Apr-96 billion Rp	%	Jun-96 billion Rp	%	Nov-96 billion Rp	%
Performing	24,154	97.06	24,750	96.96	28,287	96.91
Doubtful	379	1.46	385	1.51	444	1.52
Bad debts	382	1.47	392	1.54	458	1.57
Total	**29,915**	**100.00**	**25,527**	**100.00**	**29,189**	**100.00**

Table 6.16
Venture Capital Companies

Item	1994	1995	1996*
	Unit		
Number of Companies	20	33	43
Private national	7	10	12
Joint venture	7	7	11
Local companies	6	16	20
Number of Investee Companies	**47**	**154**	**527**
Private national	25	39	44
Joint venture	12	7	1
Local companies	10	108	482
Value of Activity 1)	49,556	117,817	41,853
Private national	27,679	99,013	19,082
Joint venture	21,369	14014	105
Local companies	508	4,790	22,666

1) Million rupiah.
Source : Ministry of Finance

Table 6.17
Number of Insurance and Reinsurance Companies1)

Item	1993	1994	1995	1996*
	Unit			
Life Insurance	46	49	53	56
State	1	1	1	1
Private national	38	40	37	38
Joint venture	7	8	15	17
Indemnity Insurance	**90**	**92**	**97**	**98**
State	2	2	3	3
Private national	74	75	78	77
Joint venture	14	15	16	18
Reinsurance	**4**	**4**	**4**	**4**
State	2	2	1	1
Private national	2	2	3	3
Joint venture	5	5	5	5
Total	**145**	**150**	**159**	**163**
Supporting Companies				
Insurance	**109**	**110**	**113**	**115**
Insurance broker	70	71	68	68
Reinsurance broker			8	10
Adjuster	21	21	19	19
Actuarial consultant	18	18	18	18

1) End of period
Source : Ministry of Finance

vate venture capital companies, mainly due to the prohibition on finance companies for operating in venture capital. Meanwhile, activities of PMVDs registered a sharp increase (Table 6.16). Total equity of venture capital companies in the last five years (1991-1996) reached Rp259.6 billion.

Insurance and Reinsurance Companies

In line with the favorable macroeconomic condition, the Government has encouraged insurance companies to maintain business expansion. Insurance activity has increased as reflected in the rising number of companies, total assets, premium income, and investment funds. By August 1996, the number of insurance and reinsurance companies had increased to 163 and the number of supporting companies to 115. Interestingly, there has been a sharp upsurge in joint venture insurance companies, particularly those operating in life insurance (Table 6.17). The increased number of joint ventures indicates that this business remains attractive for foreign investors and that the national insurance market has considerable potential.

Total assets went up by 19.8 % in 1995. The largest assets occurred in social security insurance companies, followed by life insurance, indemnity insurance, and reinsurance companies (Table 6.18).

Meanwhile, investment by insurance companies rose 26% to Rp13.4 trillion or 77.8% of total assets. Most of the funds were invested in time deposits (53%) and SBIs (20%). In 1994, investment in SBIs decreased by 76% and in 1995 rose drastically by 418%. On the contrary, investment in bonds dropped sharply (Chart 6.3).

Gross premium revenue in 1995 rose 25%, originating primarily from indemnity insurance and reinsurance, followed by life insurance and social security insurance companies. By this growth, the role of insurance companies, as reflected in the ratio of gross premium to GDP rose from approximately 1.5% in 1994 to 1.6% in 1995. This ratio was relatively small compared with that achieved by Malaysia (3.7%) and Singapore (3.0%).

Claims paid by insurance companies in 1995 increased by 21.6%. The payments were made primarily by indemnity insurance and reinsurance companies, fol-

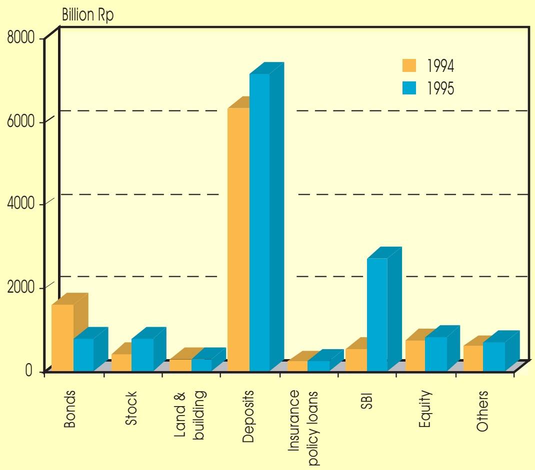
Table 6.18
Business Activity of Insurance and Reinsurance Companies [1)]

Item	1993	1994	1995
	Billion rupiah		
Total Assets	**11,267.2**	**14,415.4**	**17,269.8**
Life insurance	2,349.2	4,018.0	4,893.5
Social insurance	5,600.9	6,505.7	7,633.1
Indemnity insurance & reinsurance	3,317.1	3,891.7	4,743.2
Gross Premiums	**4,419.4**	**5,851.2**	**7,315.9**
Life insurance	1,062.0	1,625.1	2,078.7
Social insurance	1,324.9	1,539.0	1,905.2
Indemnity insurance & reinsurance	2,032.5	2,687.1	3,332.0
Claims	**2,487.3**	**2,050.8**	**2,455.0**
Life insurance	892.8	369.5	546.4
Social insurance	616.4	708.6	893.7
Indemnity insurance & reinsurance	978.1	972.7	1,014.9
Investments	**8,816.8**	**10,696.6**	**13,441.5**
Life insurance	1,819.5	2,614.9	3,368.7
Social insurance	5,007.6	5,669.4	7,048.9
Indemnity insurance & reinsurance	1,989.7	2,412.3	2,023.9

1) End of period.
Source : Ministry of Finance

lowed by life insurance companies. Even though total payments on claims increased, the ratio of claims to premium decreased slightly from 35% in 1994 to 33.6% in 1995.

Chart 6.3
Insurance Companies' Investment



Notwithstanding the encouraging growth, domestic insurance companies continue to face constraints with limited capital and skills. This led a quite number of insurance companies to carrying out reinsurance abroad as reflected in the rising insurance services account deficit in the balance of payments, up 81% from Rp457 billion in 1994 to Rp826 billion in 1995. In 1995, offshore reinsurance activities reached Rp836 billion, while domestic reinsurance was relatively small, only at Rp10.1 billion. To cope with this unfavorable development, the Government established Indonesian International Reinsurance (Reasuransi Internasional Indonesia) in early 1997 with paid up capital at Rp250 billion.

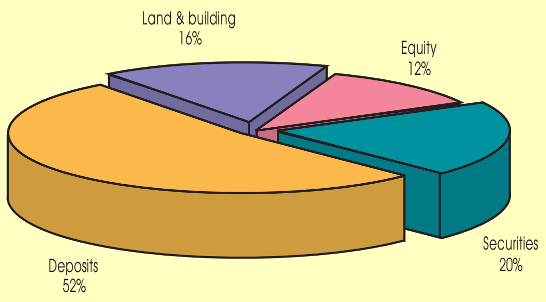
Pension Funds

Encouraged by various policy measures covering institutional development and expansion of business activities, pension funds have become considerably more active, as reflected in the rise in the number of offices as well as in the amount of total assets, investment, and member contributions.

In efforts to extend investment and minimize risks, pension funds are now allowed to invest in mutual funds.[2)] In addition to mutual funds, since 1997 pension funds have also placed funds in five other forms of investment, i.e., (i) time deposits and CDs, (ii) shares, bonds, and other marketable securities listed on stock exchanges in Indonesia, except options and warrants, (iii) money market securities issued by Indonesian legal entities, (iv) direct placement in stock or long-term bond issued by entities legally established in Indonesia, and (v) land and buildings in Indonesia.

2) Decree of the Minister of Finance No. 93/KMK.017/1997, dated February 28, 1997.

Chart 6.4
Pension Funds' Investment
as of December 1995



At mid-December 1996, Indonesia had 261 pension funds, consisting of 239 employer-managed pension funds and 22 financial institution pension funds. By comparison, at the end of 1995, the number of pension funds had risen 41.1% to 185 companies, consisting of 167 employer-managed pension funds and 18 financial institution pension funds.

Meanwhile, total assets held by pension funds increased by 47.1% to Rp14.3 trillion by the end of 1995. This increase was also followed by a rise in investments and member contributions. In the same period, investments rose 34.4% to Rp10.1 trillion. Investment in time deposits recorded the highest share, followed by placements in securities and holdings of land and buildings (Chart 6.4). Meanwhile, member contributions went up by a significant 102% to Rp1.23 trillion in 1995. Total payments on pension benefits in 1995 reached Rp588 billion.

State Pawnshops

Considering the important role of state pawnshops in promoting national development and in line with the government commitment to provide financial alternatives for the general public, the Government maintained its efforts to promote state pawnshop activities. With a view to expanding operations, the state pawnshop company (Perum Pergadaian) is eligible to issue bonds at a maximum amount of Rp400 billion, to be issued in stages commensurate with financial needs, based on the approval of the Ministry of Finance.[3)]

The change in status from state corporation to public corporation enables the state pawnshop corporation to raise its maximum amount of loans, issue bonds, and diversify operations. Concerning business expansion, in addition to its core business of lending, the state pawnshop corporation also provides appraisal and custodian services, as well as other pawnshop facilities of high quality jewelry. In Denpasar, Bali, the state pawnshop provides services for silversmiths for sourcing standard quality of semi-processed silver. In addition, the state pawnshop broadened its service areas by increasing the number of operational units to 598 offices, consisting of 544 branch offices and 54 sub-branch offices, as well as computerizing its operating system.

In line with the abovementioned measures, the operations of the state pawnshop corporation showed improvements, as reflected in the rise in the amount of loans and net profits, as well as the number of customers. In 1996, loans rose 23% to Rp1.7 trillion. Meanwhile, operating profit increased by 33% reaching Rp31.3 billion and number of customers increased by 5.7% to 5.03 million.

The Capital Market

In the year under review, the Indonesian capital market showed an increasingly bullish trend as reflected, among others, in the growing number of listed companies, market capitalization, and fund accumulation from stocks and bonds. In addition to the Indonesian macroeconomic condition, capital market growth was also attributable to external factors, particularly the Fedfund rate, and heavy inflows of portfolio capital.

In the year under review, the Government took several measures to support capital market growth. In

3) Government Regulation No.26 of 1996, dated April 4, 1996.

order to improve transparency in capital market activities, the Capital Market Supervisory Agency (Badan Pengawas Pasar Modal - Bapepam) introduced new guidelines on financial reporting.[4] These guidelines cover the design, coverage, and requirements of financial statements to be submitted by issuers or public corporations to the general public and Bapepam. These financial statements must conform to financial accounting standards and other accounting regulations effective on the capital market.

To stimulate bond transactions, the Government introduced a new regulation on taxation of interest income from bonds.[5] The rate of tax is fixed at a final 15% of interest income from bonds sold in the stock exchange. Under the former provision, the tax on interest income from bonds was grouped with other income tax, subject to a progressive rate ranging from 10% to 30%. These new tax regulations do not apply to bond interest earned by mutual funds.

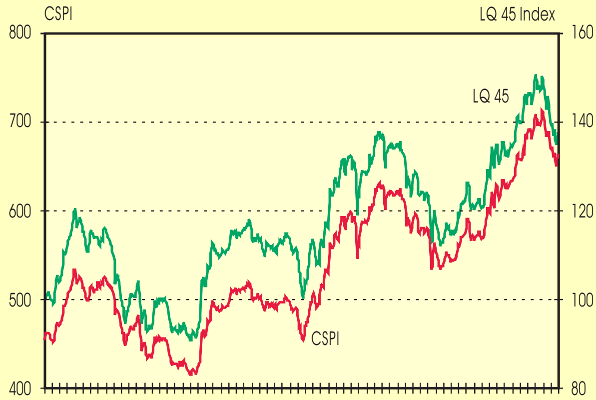
As the follow up to Act No. 8 of 1995 and to encourage domestic investors, particularly small-scale enterprises, the Government introduced several new regulations to promote mutual funds as a means of mobilizing investor funds for subsequent portfolio investment by a fund manager. To help promote mutual fund activities, the Director General of Taxation has introduced new income tax regulations for mutual funds.[6] In addition, to protect mutual fund investors, Bapepam has introduced a regulation concerning the proper market value of mutual fund portfolio investment.[7] This market value is essential for calculating net assets value at the end of each day as the basis for the calculation of net assets value per share/equity unit. In addition, Bapepam also stipulated guidelines for accounting, information presented in condensed financial statements of mutual funds, and reporting by mutual funds, in order to provide clarity and transparency.

As the implementation of the Capital Market Act, in August 1996 the Indonesian Stock Deposit Clearing Corporation (PT Kliring Deposit Efek Indonesia - KDEI) changed its name and function. KDEI, previously functioning as the clearing, guaranteeing, and settlement, was transformed into the settlement and custody institution, changing its name to Indonesian Stock Deposit Custodian Corporation (PT Kustodian Deposit Efek Indonesia). At the same time, the Indonesian Stock Clearing and Guarantee Corporation (PT Kliring dan Penjaminan Efek Indonesia - KPEI) was established to function as the clearing and guaranteeing institution.

Domination of a smaller number of highly capitalized companies in the movements of Jakarta Stock Exchange (JSX) composite index led to the introduction of the LQ 45 index on February 24, 1997. This index covers 45 issuers with high capitalization and liquidity, representing 70% of total market capitalization on the JSX. As such, it is well positioned to reflect price movements of all actively traded stocks (Chart 6.5).

In the year under review, the Surabaya Stock Exchange (SSE) also took steps to improve performance. Since September 19, 1996 the SSE has imple-

Chart 6.5
CSPI and LQ 45 Index at the JSX



4) Decree of the Chairman of the Capital Market Supervisory Agency No.Kep.97/PM/1996, dated May 28, 1996.
5) Government Regulation No. 46 of 1996, dated July 8, 1996.
6) Circular Letter of the Director General of Taxation No. SE-18/PJ.42/1996, April 30, 1996.
7) Decree of the Chairman of the Capital Market Supervisory Agency No. Kep.96/PM/1996, May 28, 1996.

mented the Surabaya - Market Information and Automated Remote Trading (S-MART). This system enables members of stock exchange to carry out remote transactions from their offices, while the transaction settlements are organized by KDEI through netting system. In addition, since October 22, 1996 the SSE has extended its trading hours by one hour. It is expected that those two changes will be able to increase trading activities so as to establish a liquid, efficient, secure, and well-organized stock exchange.

As a result of these measures and favorable economic and capital market fundamentals as well as relatively low international interest rates, capital market activity demonstrated encouraging progress as reflected in the increase in the number of listed companies, market capitalization, and the JSX composite index.

Table 6.19
Capital Market

Item	1995/96	1996/97 I	II	III	IV	Total/ End Position
Stocks						
Number of companies	248	257	260	267	271	271
Issuance						
- Volume (million stocks)	12.4	17.1	19.1	25.3	27.3	27.3
- Value (trillion rupiah)	36.8	42.3	44.7	50.0	52.1	52.1
Market capitalization (trillion rupiah)						
- JSX	175.2	184.4	185.3	215.0	228.2	228.2
- SSE 1)	174.9	181.7	163.0	187.6	202.4	202.4
Transactions						
- JSX						
- Volume (million stocks)	13.2	5.9	8.1	10.7	11.7	37.2
- Value (trillion rupiah)	40.5	17.6	18.4	24.9	26.4	89.1
- SSE 1)						
- Volume (million stocks)	1.4	0.2	0.1	0.8	0.5	1.6
- Value (trillion rupiah)	3.4	0.6	0.4	2.2	2.1	5.4
Composite stock price index						
- JSX	585.7	594.3	573.9	637.4	662.2	662.2
- SSE	400.1	410.1	512.9	569.3	594.0	594.0
Bonds						
Number of companies	50	53	53	55	57	57
Value (trillion rupiah)	8.7	10.6	10.7	11.5	13.5	13.5
Outstanding (trillion rupiah)	7.2	9.1	9.1	9.7	10.5	10.5

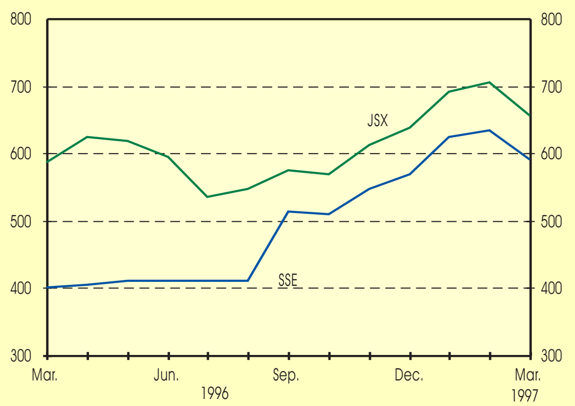
1) Including over-the-counter as of October 1995.
Source : Capital Market Supervisory Agency

During the reporting year the number of listed companies increased by 23 and value of issued shares by 41.6% (Table 6.19). The most heavily capitalized company to go public in the reporting year was Bank BNI with 4.3 billion shares valued at Rp7.1 trillion (3.0% of total market capitalization as of January 31, 1997). The entry of Bank BNI shares with high capital gains provided considerable stimulation for market activity.

In 1996/97 value of traded stocks increased higher than that of the previous year. The rate of market liquidity in the capital market — as reflected in the ratio of transaction value to market capitalization — showed an increase from 23% to 39%. Interestingly, this rate was lower than the equivalent rates in Hong Kong (51%) and Malaysia (60%).

The bullish capital market saw strongly climbing composite indices on the JSX and SSE (Chart 6.6). At the early of the reporting year, the JSX composite index increased to 623.9 (April 1996) but then decreased to close at 536.0 at end of July 1996. This sharp decline was associated with the July 27, 1996 riots and the rumors surrounding the President's physical condition, with additional pressure coming from speculation over the Fedfund rate. Foreign investors, who have remained a dominant force in the stock trading, engaged in heavy

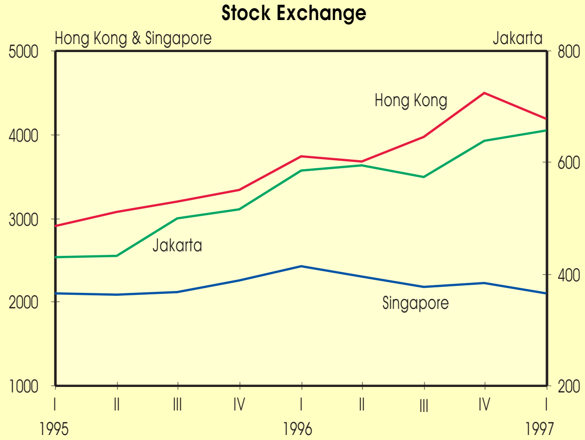
Chart 6.6
CSPI at the JSX and SSE



selling, which brought about pressure on the JSX composite index. However, with sustainable macroeconomic fundamentals and the Bank BNI initial public offer toward the end of the year, the capital market rebounded with the JSX composite index reaching 637.4 by end of the third quarter of 1996/97.

In January and February 1997, stock exchange activities remained bullish, among others, because of the shifting of portfolio investment from Thailand and the initial investment for portfolios at the beginning of the year. In addition, market sentiments were also positive with favorable performance reported by companies listed in the JSX and rising blue chip prices. In February 1997, the JSX composite index managed to soar above 700 points. However, in the last month of the reporting year the index came under correction as a result of expectations of a hike in the Fedfund rate related to extremely high growth of the United States capital market and moderate increases in retail prices. With this progress, at the end of the reporting year the JSX and SSE composite indices closed at 662.2 and 594.0 respectively. Compared to the region, the Indonesian capital market was reported to be in strong shape (Chart 6.7).

Chart 6.7
Stock Price Indices in Jakarta, Singapore, and Hong Kong Stock Exchange



Sources : – Capital Market Supervisory Agency
– Bank Indonesia

The LQ 45 index also followed the same trend as the JSX composite index. In February 1997, the LQ 45 index reached a high of 150.4 before closing the reporting year at 137.4 points.

At end of March 1997, the number of companies issuing bonds in the capital market also rose by 7 with bond offering value up by 55.2%. Outstanding bonds at end of the reporting year reached Rp10.5 trillion as against Rp7.2 trillion at end of the preceding year. During the reporting year, PLN undertook a major bond issue under the V series, worth Rp1.0 trillion. It is expected that bond market will continue to progress in the years to come in line with the potential growth of mutual funds. In addition, the relatively higher interest/discount rate on bonds than that on time deposits (24 months) has made bonds an attractive investment alternative.

In the year under review, the role of the capital market as alternative source of financing for business activities continued to expand. At end of the reporting year the ratio of funds accumulated in the capital market to bank credit reached 21.4%, compared to 18.8% at the end of the preceding year (Table 6.20).

In order to promote the role of domestic investors on the capital market, during the year under review Bapepam issued licenses to 38 new mutual funds, bring-

Table 6.20
Market Capitalization Ratio to Bank Credits

Period	Value[1] (a) (trillion Rp)	Bank Credits (b) (trillion Rp)	Market cap. ratio to bank credits (a : b) (percent)
1994/95	34.3	196.1	17.5
1995/96	45.5	242.4	18.8
1996/97*	65.6	306.1	21.4

1) Including stocks and bonds.
Sumber : – Capital Market Supervisory Agency
– Bank Indonesia

Table 6.21
Outstanding and Transactions of Stocks of Foreign Investors[1)]

Item	1995/96	1996/97				
		I	II	III	IV	Total/ End of period
Outstanding						
- Volume (billion stocks)	12.5	14.1	16.3	21.2	24.0	24.0
- Value (trillion Rp)	46.7	48.9	47.5	54.9	63.9	63.9
Stock trading						
Buying transactions						
- Volume (billion stocks)	8.0	3.3	3.9	5.5	6.2	18.7
- Value (trillion Rp)	29.3	12.1	10.9	13.6	16.5	53.1
Selling transactions						
- Volume (billion stocks)	6.7	3.2	3.7	4.7	6.0	17.6
- Value (trillion Rp)	25.3	11.4	10.6	11.3	16.3	49.6

1) At the Jakarta Stock Exchange .
Source : Capital Market Supervisory Agency

ing the total number of licensed mutual funds to 39. This sharp increase was attributable to the introduction of new regulations on mutual funds under the Capital Market Act (Act No. 8 of 1995). In February 1997, mutual funds were managing Rp3.7 trillion in funds, divided into 3.7 billion shares, up considerably from Rp300.0 billion and 600 million shares one year before. In line with the increase in mutual funds, domestic investors have gained a larger role in stock market turnover, up from 34% in the preceding year to 45.5%.

In the mean time, foreign investors also stepped up activity on the JSX. In the reporting year, foreign investor buying increased by 81.2% to Rp53.1 trillion, while selling transactions were up 96.0% to Rp49.6 trillion to produce a net purchase of Rp3.5 trillion (Table 6.21). At the end of March 1997, foreign ownership of stocks was recorded at 24.0 billion shares valued at Rp63.9 trillion.

Chapter 7
Payment System

Since the inception of the national development program, the Indonesian economy has made enormous strides as reflected, in particular, in the rapid growth in domestic and international financial transactions. This high growth in financial activity has led to an increasing need for a more secure, efficient, and reliable payment system in Indonesia. It is envisaged that this payment system would provide better access to the payment services needed by economic players in their current and future business activities. It would also strengthen the implementation of the monetary policy and contribute to the development of a sound banking system. Measures adopted by Bank Indonesia, the central bank of Indonesia, to strengthen Indonesia's payment system include the management and supervision of the cash payment system, consisting of banknotes and coins, and the provision of a nation-wide clearing system. In addition, Bank Indonesia is responsible for the management and supervision of payment settlements.

Development Policy for the Payment System

To improve the nation's payment system, Bank Indonesia has produced a blueprint setting forth the guidelines for the short term and long term policy and development of the national payment system. The blueprint comprises regulations, guidelines, and supervisory frameworks prepared in accordance with prevailing international agreements and guidelines governing clearing activities and settlements.

According to the blueprint, the program for strengthening of Indonesia's payment system will focus on the development of three key components: the large value transfer system (LVTS), the inter-city clearing system, and the retail payment system. All transaction settlements originating from these three component systems will be processed through an integrated system operated by Bank Indonesia. This will enable commercial banks to maintain better monitoring and control over their demand deposits with Bank Indonesia. In addition, Bank Indonesia will have access to timely and accurate information to reduce payment system risks, strengthen monetary management, and supervise commercial bank operations.

As an initial step, during the year under review Bank Indonesia introduced various improvements to its clearing operations in Jakarta, home to the busiest clearing activity in Indonesia. This effort was designed to speed up the clearing process and to strengthen operational discipline, both for Bank Indonesia in its capacity as clearing house and for the commercial banks operating as the clearing participants. Moreover, to ensure more rapid processing and improved security for clearing operations in Jakarta, an electronic clearing system is envisaged to come on-line within the near future (Box: Jakarta Electronic Clearing).

To enable commercial banks to manage liquidity more efficiently, Bank Indonesia has also introduced several improvements to its accounting system. Demand deposits held by commercial banks at Bank Indonesia have been simplified into the 'one bank one account' system. In addition, the internal accounting operation between the Bank Indonesia head office and its 42 regional offices now operates on-line. These improvements will provide commercial banks with faster, easier access to information on their consolidated demand deposits with Bank Indonesia, vital to their compliance with the statutory reserve requirement. This demand deposit system is also one of the

Jakarta Electronic Clearing

With the rapid growth in clearing activities in recent years, the need to develop for a faster, more accurate clearing system with greater security has become more pressing. With annual growth at 5-6% over the past three years, clearing volume in Jakarta local clearing region, the largest clearing operation in Indonesia, has reached about 300,000 notes per day. Rapid expansion in the branch networks of banks has also led to a much higher number of clearing participants. The Jakarta local clearing region current lists 780 direct participants, comprising bank branch offices, and 1,070 indirect participants in the form of sub-branch offices.

Slow clearing processes may result in delay in the settlement of transactions, with potential harm to the interests of both banks and customers as well. Furthermore, fund transfers also become subject to a time lag (float), hampering the effectiveness of the daily management of the monetary situation. The longer the time lag between payment order and settlement, the larger the float.

To create a faster, more efficient clearing process, Bank Indonesia is now developing the Jakarta Electronic Clearing System. This system, to be implemented gradually and completed in 1998, will apply computerized technology and electronic communication facilities. Electronic clearing will be supported by paper-based clearing system operating with image technology for faster, more accurate processing.

How the Electronic Clearing System Works

In the electronic clearing system, settlements among participating banks within a local clearing region will be managed by a clearing house through an electronic network. This system will enable the clearing process to operate faster, more accurately, and with greater security. Transfer of information and processing of notes, clearing data, and settlements will all take place at a much faster rate. The system will also assure greater accuracy in processing information while minimizing the risk of unprocessed clearing notes and providing faster access to information on clearing output.

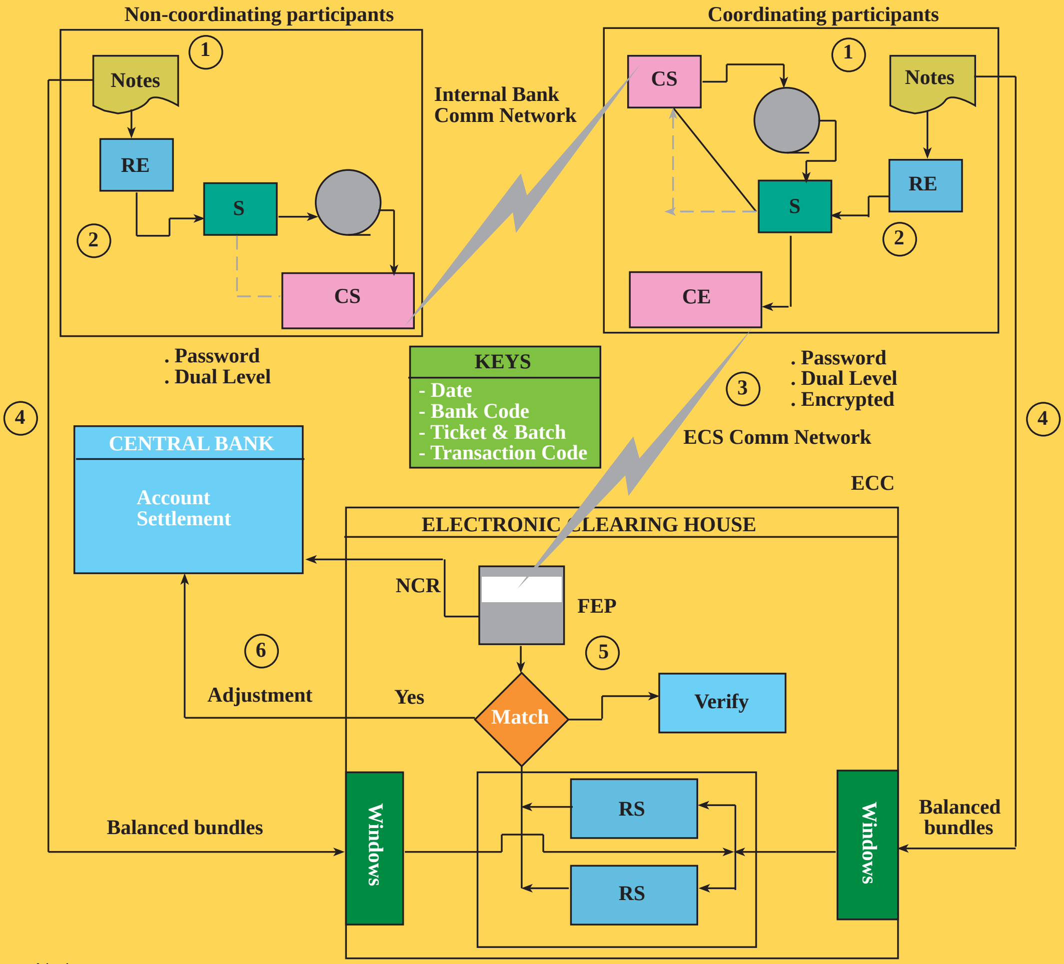
The Jakarta Electronic Clearing System has two major components: the central clearing computer at the clearing house and electronic clearing terminals for each participant. The interconnection between the two components is presented in Diagram 1.

The Jakarta Electronic Clearing System will provide electronic information transfer between participating banks and Bank Indonesia with the aim of reducing processing time. The mechanism of this system is described as follows.

1. The customer submits clearing notes at the bank.
2. The bank encodes, reads, and records the clearing note information using reader encoder (RE) machines.
3. The recorded information is then transferred electronically to the central clearing computer through a communications network.
4. The note is then sent to the clearing house, and like in existing clearing practice, is processed by a reader sorter (RS).
5. Using electronic data, the central clearing computer will calculate the clearing outputs and match them with the outputs from the RS machines.
6. The clearing house will then arrange settlement according to the electronic data transmitted by the bank and make adjustments on the following day according to the output of the matching process.

The central clearing computer comprises a front-end processor (FEP) and software. This computer system handles the data reception and processing, while

Diagram 1. How the Jakarta Electronic Clearing Works



Notes:

CC	=	Communication controller
CE	=	Communication equipment
CS	=	Communication server
FEP	=	Front-end processor
NCR	=	Net clearing result
S	=	Server

the settlements take place in a batch system through an interface with the main frame. The bank's electronic clearing terminal consists of hardware and software designed to for compatibility with any kind of computer that a bank might have. This software links the REs to the computer system to capture data and/or encode the magnetic ink character recognition (MICR) information on the notes. For the data communications network, this system will use digital telephone communications infrastructure through fiber optic cables, mainly for the reason that this infrastructure is widely available and offers high data transfer capacity. This network is expected to provide banks with ready, high-speed access with the central clearing computer at Bank Indonesia.

Clearing System Using Image Technology

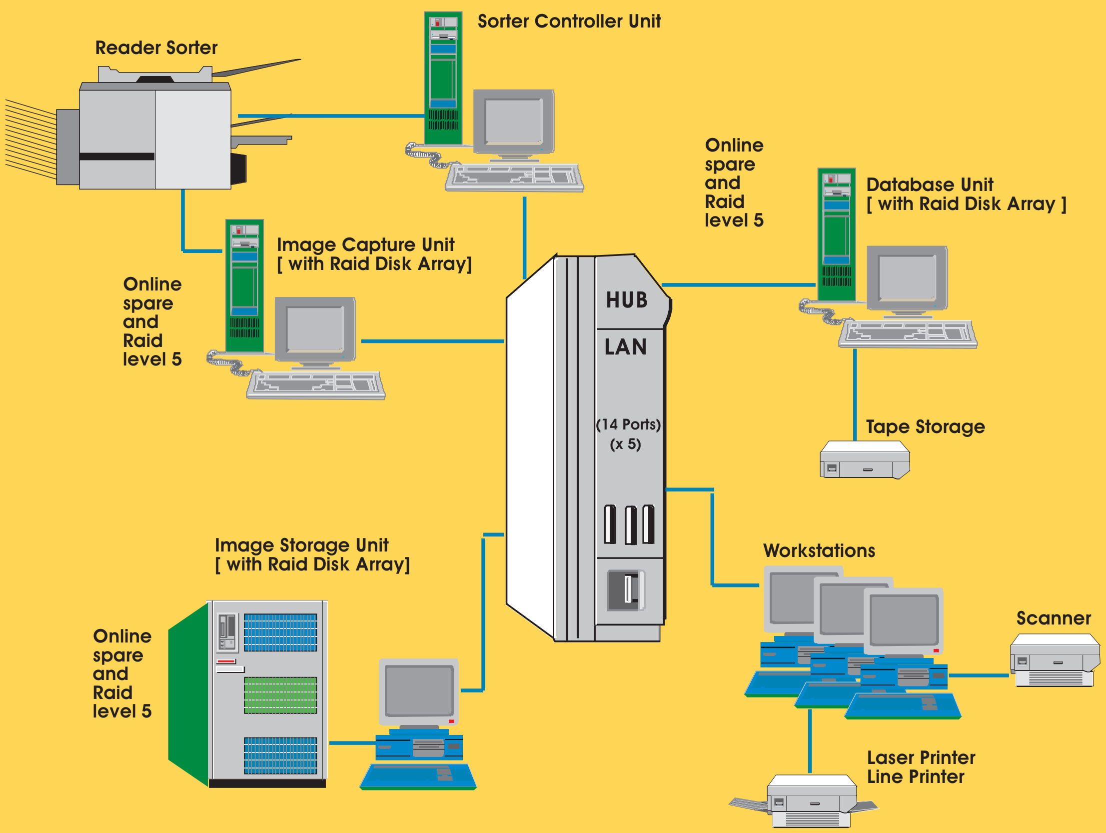
To support the implementation of electronic clearing, the existing paper-based system will be enhanced by using image technology. This system will use readers and sorters capable of capturing the entire information in the notes in rapid succession without having to rely on physical examination of the notes by human operators.

For the clearing house, image technology offers the advantages of minimizing the number of operators required for processing reject re-entry and balancing, speeding up the processing of reject re-entry and balancing, and providing easier means of tracing the causes of imbalances. These tasks are assisted by artificial intelligence software connected to the image database. Clearing participants will also be able to make use of the electronic images of notes sent by the clearing house through the electronic communications network.

The operating process and hardware and software configuration of this system is outlined as follows (Diagram 2).

1. The notes physically received by the clearing house from bank participants will be sorted and captured by the RS machines.

Diagram 2. Configuration of Clearing System Using Image Technology



2. In case of any imbalances in the clearing outputs, the sorted notes will be verified automatically using electronic image data.
3. The reject re-entry operator will then enter corrections according to information contained in the physical image of the note displayed.

prerequisites for the future implementation of interbank LVTS.

Another program to be phased in is the development of an on-line accounting system between Bank Indonesia and commercial banks. This system, designed to facilitate the intra-bank, interbank, and intercity electronic transfer of funds by banks through Bank Indonesia, is intended to solve the problem of 'transfers in transit' arising from different time zones in Indonesia. In addition, the system will also enable banks to speed up clearing settlements involving bank regional and branch offices.

To address the legal aspects of the payment system, Bank Indonesia has also begun drafting a regulation on electronic funds transfer (EFT) to support a system for electronic and non-paper based payments. Act No. 8 of 1997 on corporate documentation, which came into force on March 24, 1997, covers various aspects regarding regulations on EFT and corporate non-paper documentation.

Payment Instruments

In line with the ongoing process of monetization, cash and non-cash payment instruments are coming into much greater use in the economy. Use of cash instruments is reflected in the increase of currency issued by Bank Indonesia, consisting of banknotes and coins held by the public, commercial banks, and the Treasury. Furthermore, increasing use of information and communications technology in support of diversification of banking products has also led to even more rapid growth in the use of paper-based as well as electronic non-cash payment instruments.

Cash Payment Instruments

By the end of the reporting year, issued currency comprising banknotes and coins (Table 7.1) had increased to Rp27.1 trillion, having climbed 12.8% from the preceding year (Chart 7.1).

To satisfy rising public demand for banknotes and coins and maintain issued currency in proper physical condition, in 1996/97 Bank Indonesia produced Rp21.6 trillion worth of new banknotes and coins. Factors taken into account in determining the amount of new currency released into circulation include the growth and composition of currency in each denomination, inflows and outflows of currency in Bank Indone-

Chart 7.1
Issued Currency

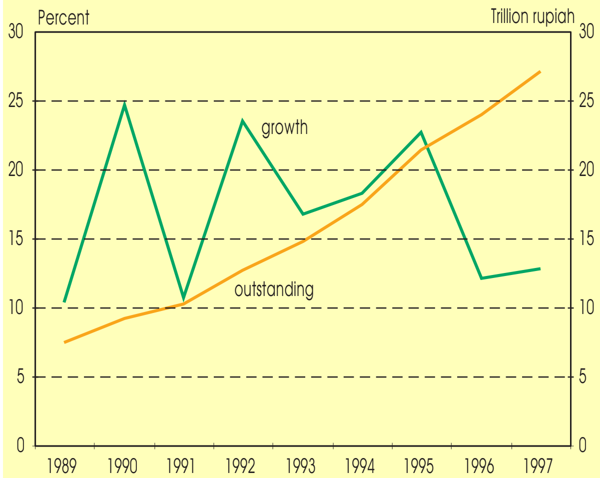


Table 7.1
Issued Currency

Item	1994/95	1995/96	1996/97
	Trillion rupiah		
Issued Currency	21.4	24.0	27.1
Banknotes	20.9	23.4	26.4
Coins	0.5	0.6	0.7

sia, replacement of currency no longer fit for circulation and developments of various macroeconomic indicators. During the year under review, inflows and outflows of currency in Bank Indonesia increased by 15.9% and 15.8% respectively (Table 7.2). It should also be noted that the circulation of currency in Indonesia poses some challenges in itself, considering the heterogeneous economic, demographic, and geographic condition as well as the available transportation between regions. Because of this, Bank Indonesia is continually involved in strengthening the role of its regional offices in the distribution of banknotes and coins, whether directly or indirectly through banks.

Table 7.2
Stock, Inflows, Outflows, and Printing of Currency

Item	1994/95	1995/96	1996/97*
	Billion rupiah		
Stock	5,438.4	23,328.5	19,863.4
Banknotes	5,352.6	23,252.2	19,634.6
Coins	85.8	76.3	228.8
Inflows	48,075.4	54,609.1	63,277.6
Banknotes	48,052.3	54,666.3	63,211.0
Coins	23.1	42.7	66.6
Outflows	52,025.4	57,337.7	66,371.9
Banknotes	51,926.4	57,194.8	66,220.1
Coins	99.0	142.9	151.8
Printing	19,889.6	30,742.9	21,621.1
Banknotes	19,807.9	30,618.0	21,420.4
Coins	81.7	124.9	200.7

Table 7.3
Valid Rupiah Banknotes and Coins

Banknotes			Coins		
Rp	50,000.00/	IY 93/95	Rp	1,000.00/	P
Rp	20,000.00/	IY 92/95	Rp	500.00/	MF
Rp	10,000.00/	IY 92	Rp	100.00/	BR
Rp	5,000.00/	IY 92	Rp	100.00/	IY 78
Rp	1,000.00/	IY 92	Rp	100.00/	IY 73
Rp	500.00/	IY 92	Rp	50.00/	KO
Rp	100.00/	IY 92	Rp	50.00/	IY 71
Rp	0.01/	DWK	Rp	25.00/	N
			Rp	25.00/	IY 71
			Rp	5.00/	IY 79
			Rp	5.00/	IY 74
			Rp	1.00/	IY 71

Notes
IY : Issuance Year, P : Palm, DWK : Dwikora,
N : Nutmeg, MF : Melati Flower, KO : Komodo
BR : Bull Racing

In 1996/97 Bank Indonesia adopted some measures for the rationalization of denominations of issued banknotes and coins. To keep pace with public demand, Bank Indonesia withdrew from circulation the Dwikora series banknotes in Rp0.05, Rp0.10, Rp0.25, and Rp0.50 denominations and the Rp2.00 coins of 1970 issue, Rp10.00 coins of 1971 issue, Rp10.00 coins of Tabanas 1974 issue, and the Rp10.00 coins of 1979 issue. Thus the overall number of denominations was cut back from 12 different banknotes and 16 varieties of coins to 8 denominations of banknotes and 12 denominations of coins by the end of the year (Table 7.3).

Banknotes

Banknotes in circulation, accounting for 97.4% of total issued currency, recorded 12.7% growth to Rp26.4 trillion. Most of this increase occurred in Rp20,000.00 banknotes, part of which replaced previously used banknotes of the Rp10,000.00 and Rp5,000.00 denominations. The increased use of Rp20,000.00 notes also

Table 7.4
Issued Banknotes by Denomination

Denomination	1995/97	1996/97	1996/97	
	% change		Outstanding (billion Rp)	Share (percent)
Rp 50,000.00	59.3	13.3	5,919.2	22.4
Rp 20,000.00	12.9	29.5	9,944.9	37.7
Rp 10,000.00	–3.2	–1.6	7,147.1	27.1
Rp 5,000.00	–9.1	–7.5	1,540.9	5.8
Rp 1,000.00	7.7	16.0	1,129.6	4.3
< Rp 1,000.00	9.0	17.5	1,571.9	2.8

corresponded with the growing popularity of the denomination on ATM networks. Rp20,000.00 banknotes represented the largest proportion of banknotes in circulation with 37.7% of the total, followed by the Rp10,000.00 and Rp50,000.00 denominations (Table 7.4).

During the reporting year, inflows and outflows of banknotes at all Bank Indonesia offices reached Rp63.2 trillion and Rp66.2 trillion respectively. In total, the distribution of currency during the reporting year reached Rp129.4 trillion, up by 15.8% from the preceding year. Meanwhile, the relative proportion of inflows and outflows of banknotes shows that Bank Indonesia Jakarta recorded a net outflow, as did all Bank Indonesia regional offices outside Jawa.

In term of physical condition, large denominations have a longer useful life than smaller banknotes.

Table 7.5
Average Lifetime and Invalidity Marking Rate of Banknotes by Denomination

Item	Denomination			
	Rp50,000.00	Rp20,000.00	Rp10,000.00	Rp5,000.00
Lifetime (months)	30.0	26.0	16.0	12.0
Invalidity marking rate (%)	20.8	31.2	44.1	71.4

Assessment on the inflows of currency to Bank Indonesia revealed that approximately 20% of Rp50,000.00 banknotes were no longer fit for circulation. However, almost 100% of the Rp1,000.00 and smaller denominations flowing back into Bank Indonesia could not be returned into circulation. This indicates that the larger the denomination, the greater the lifetime of the banknote in circulation (Table 7.5).

Coins

The share of coins to total issued currency remained relatively unchanged from the preceding year at a low 2.6%, the result of the circulation of banknotes in similar denominations. In the coming year, Bank Indonesia will scale back the printing of these banknotes and printing of the Rp100.00 denomination banknotes will be discontinued. In addition, a new Rp500.00 coin redesigned in 1995/96 is to be minted and introduced into circulation next year.

At the end of the year under review, coins in circulation totalled Rp652.8 billion, up 15.0% from the previous year. This increase was recorded mainly in the Rp1,000.00 and Rp100.00 denominations (Table 7.6).

Inflows and outflows of coins in all Bank Indonesia offices indicated that outflows were dominant in Jakarta, whereas inflows were particularly heavy in Semarang, Central Jawa. Meanwhile, heavy demand

Table 7.6
Issued Coins by Denomination

Denomination	1995/96	1996/97	1996/97	
	% change		Oustanding (billion Rp)	Share (percent)
Rp 1,000.00	96.7	68.9	51.9	8.0
Rp 500.00	48.1	9.1	68.2	10.5
Rp 100.00	19.7	14.9	357.8	54.8
Rp 50.00	12.4	9.6	123.4	18.9
Rp 25.00	3.5	2.4	39.4	6.0
<Rp 25.00	0.1	0.0	11.9	1.8

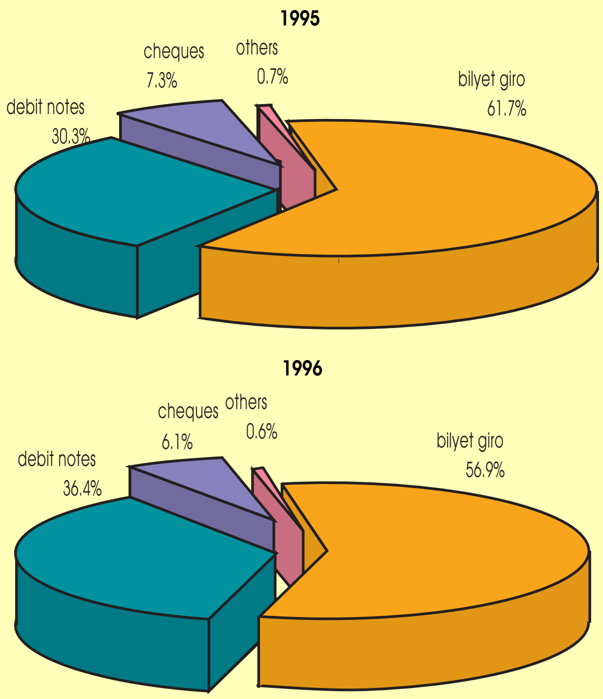
was also reported for coins in small denominations, especially in Central Jawa as reflected by the strong inflows and outflows of Rp500.00 and Rp100.00 denominations of coins in the region. To improve the distribution of coins of small denominations, Bank Indonesia is currently working on expanding distribution channels through rural financial institutions.

Non-cash Payment Instruments Using Paper Media

Non-cash paper instruments are coming into greater popularity along with the rising monetization of the economy, as reflected in the growing traffic of clearing and non-clearing instruments.

Patterns in the use of clearing instruments have been changing. In 1996, debit instruments accounted for 63.5% of total volume, down from 67.4% in the preceding year. In contrast, the proportion of credit instruments climbed to 36.5%, reflecting the higher use of individual instruments in important, high-value economic transactions.

Chart 7.2
Use of Paper Based Instruments in 1995 and 1996



Among debit instruments, debit notes accounted for a 36.4% share in 1996, up from 30.3% in the previous year (Chart 7.2). On the other hand, bilyet giro (equivalent to crossed cheques), the most popularly used debit instrument, declined as a percentage of the total from 61.7% to 56.9%. Cheques also experienced a proportionate decline, down from 7.3% to 6.1%, while use of other notes remained relatively unchanged.

Non-cash Payment Instruments Using Electronic Media

Intensified competition among banks has encouraged greater investment in banking technology to improve customer service. One service currently gaining widespread popularity is non-cash payment through electronic media commonly referred to as plastic cards. These include credit cards, debit cards, and ATM cards as well as more sophisticated products, such as Smart cards, EFT-POS, prepaid cards, and direct/phone banking.

Credit Cards

During the reporting year, credit card operations in Indonesia involved a total of 17 banks and 84 finance companies with a network of 44,000 merchant outlets nationwide. To provide improved service in major cities and tourist destinations, some merchant outlets have introduced credit authorization terminals (CATs) and electronic draft capture (EDC) terminals. The credit card operations of banks and finance companies are conducted in cooperation with international credit card companies such as Amex, Diners', JCB, MasterCard, and Visa. In addition, some banks and financial institutions have issued their own credit cards.

Transaction data is processed by member banks of the Indonesian Credit Card Association (Asosiasi Kartu Kredit Indonesia - AKKI) to calculate the net position among credit card issuers, while settlements are directly conducted by the individual banks. However, with charge cards such as Amex and Diners' Club, the settlements take place directly between the credit card companies and the merchant outlets and card holders.

Credit cards have gained widespread popularity in Indonesia as a payment instrument in retail transactions, with a total of 1.6 million credit cards reported in circulation in 1996. During the year, the number of issued cards increased 29.8%, which compares favorably with the 28.1% growth of the previous year. Total transaction volume climbed 35.2% to Rp4.7 trillion, rising significantly faster than the 22.4% growth one year earlier.

Debit Cards

To enhance their banking services, seven banks in recent years have launched debit cards. For a bank, debit cards carry less risk since customer transactions are deducted directly from the actual account balance held by the customer.

In the year under review, the number of debit cards in Indonesia increased by 56.0% to 945.4 thousand. Transaction volume reached Rp303.7 billion with growth considerably higher at 27.6% compared to only 6.5% in the previous year. The rapid increase of card holders are attributable to various conveniences offered through debit card transactions thereby increasing the appeal of these facilities to the public. Two more banks are now offering attractive means of payment to encourage more customers to use these cards.

Other Payment Instruments

The benefits of electronic technology caught on with the growing popularity of ATMs, EFT-POS, direct/phone banking, and Smart cards. Among these payment instruments, ATM cards have gained the most widespread use and are employed for withdrawing cash, depositing funds, retrieving account information, and transferring funds between accounts. ATM use has now even expanded to payments of electricity, water, and telephone bills.

Table 7.7
Use of ATM in Indonesia

Item	1994	1995	1996
Units	1,037	1,585	3,036
Number of cards (thousand)	1,673	2,151	2,934
Volume of transactions (billion rupiah)	–	5,934	9,952

During the reporting year, the ATM network in Indonesia expanded to 3,036 machines operated by 64 banks. Some banks have their own networks, while others cooperate with other banks in using the services of an information technology company. Indonesia has also seen rapid growth in overall ATM transaction volume, which in the reporting year reached Rp10 trillion (Table 7.7). Some of these banks operate their ATMs in cooperation with international networks, such as Maestro, Alto, Plus, Cirrus, Visa, and MasterCard.

This dramatic increase in the use of cards has also been accompanied by the development of new electronic payment instruments as part of the constant effort of banks to improve quality of service. To ensure that further development of plastic cards takes place within the necessary parameters of an efficient and secure payment system, Bank Indonesia plans to develop general operational guidelines and regulations governing technical standards to be applied to all parties dealings with the payment system.

International Transfer Payments

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) operates an international network for electronic transfer of payments. In Indonesia, SWIFT membership now extends to 52 domestic banks and 10 joint-venture banks and branch offices of for-

Chart 7.3
Fund Transfer Orders through SWIFT in 1995 and 1996

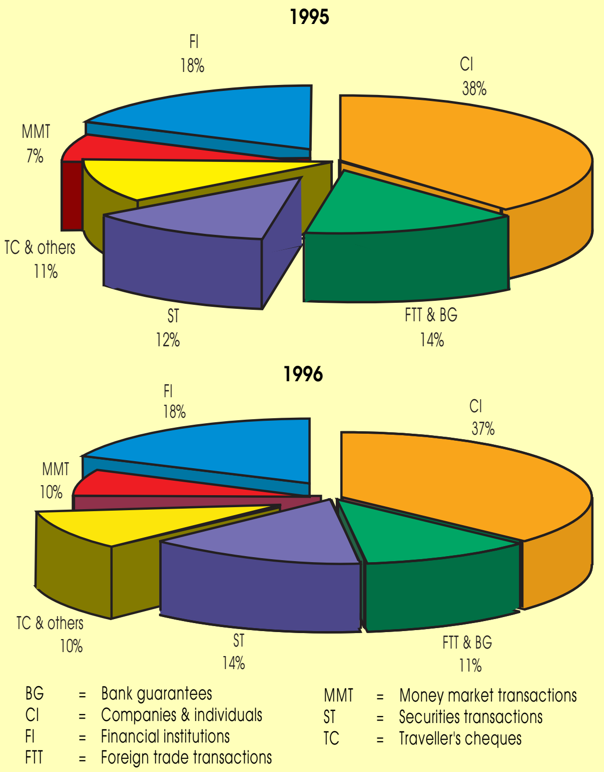


Table 7.8
Clearing Circulation and Rejection in Indonesia

Item	Growth 1995 (Percent)	Growth 1996 (Percent)	1996 Total
Circulation			
- Nominal	67.0	11.5	5,694 1)
- Notes	5.2	2.1	107.9 2)
Rejection on bad cheques and bilyet giro			
- Nominal	-12.6	22.3	3.2 1)
- Notes	-13.4	28.1	0.6 2)
Rejection to circulation ratio			
- Nominal			0.06 3)
- Notes			0.59 3)

1) In trillion rupiah.
2) In million notes.
3) In percent.

eign banks. As in past years, the largest proportion of messages carried through the SWIFT system involved the transfer of funds of individuals and companies (Chart 7.3).

Clearing Activity

At present, interbank clearing in Indonesia continues to use a paper-based system held in 103 local clearing regions. Processing is undertaken by Bank Indonesia, or in the absence of a Bank Indonesia regional office, by an appointed regional commercial bank. Processing is divided into three categories: automatic local clearing in Jakarta, Medan, and Surabaya; the semi-automatic local clearing now taking place in 50 cities (up from 44 cities in the preceding year); and manual local clearing in a further 50 cities.

During the reporting year, 2,378 bank offices participated directly in clearing, processing a total of Rp5,694.0 trillion in transactions. This level of activity represented 11.5% growth compared to the preceding year, a considerably lower figure than the 67.0% growth recorded in 1995 (Table 7.8). Total clearing volume in 1996 was 107.9 million clearing notes, which at 2.1% represented significantly lower compared to 5.2% in the preceding year. The value of rejected clearing increased by 22.3% in 1996 to Rp3.2 trillion.

Geographically, Jakarta remained the biggest clearing region in Indonesia, both in terms of clearing volume and overall value of transactions (Table 7.9). In 1996, the share of clearing volume and value in Jakarta reached 50.4% and 90.3% of the national total. In the same period, the share of clearing notes in the western Indonesian region outside Jakarta and the eastern Indonesian region were recorded at 44.9% and 4.7%, with corresponding share of value at 8.4% and 1.3%.

Table 7.9
Clearing Circulation and Rejection by Region in 1996

Item	Nominal Value		Volume	
	Rupiah (trillion Rp)	Share (%)	Notes (thousand)	Share (%)
Circulation				
- Jakarta	5,139.6	90.3	54,382.0	50.4
- Western Indonesian region (outside Jakarta)	480.4	8.4	48,352.6	44.9
- Eastern Indonesian region	74.0	1.3	5,054.4	4.7
Rejection on bad cheques and bilyet giro				
- Jakarta	1.7	54.0	263.0	41.2
- Western Indonesian region (outside Jakarta)	1.3	40.4	340.3	53.3
- Eastern Indonesian region	0.2	5.6	34.7	5.5
	Percent			
Rejection to circulation ratio				
- Jakarta		0.03		0.48
- Western Indonesian region (outside Jakarta)		0.27		0.70
- Eastern Indonesian region		0.27		0.68

In Jakarta, clearing transaction has reached approximately 300 thousand notes per day, with growth averaging 5-6% each year for the last three years. The number of member banks participating in the clearing process during the period has also increased by 9.3% a year. The rapid expansion in Jakarta clearing activity has led to the introduction of computer technology and electronic communications equipment used mainly for the sending, processing, and distributing of clearing notes. These measures are expected to facilitate even faster, more accurate processing of clearing transactions.

Further improvements were introduced to the clearing system in Jakarta at the beginning of the reporting year with a new clearing schedule, changed from T+0 to T+1. New rules were also enacted for the use of individual credit notes worth more than Rp1 billion to be included in the interbank money market clearing schedule for same day settlement.

Chapter 8
International Economic Cooperation

The increasing openness, along with stronger globalization, has made the Indonesian economy more integrated with the world economy. This means that products which in the beginning were intended for domestic markets have now had a greater chance to enter the international market. At the same time, products of other countries have also the same chance to penetrate the domestic market. Efforts to increase efficiency and improve the quality of the domestic products to be able to compete in the international market have naturally become more pressing. In the monetary, financial, and banking sectors, the trend of financial globalization as characterized among others by proliferating financial innovations and increasing securitization has been increasing for some time. These developments have opened up opportunities for Indonesia to reap the benefit of financial globalization. Yet, on the other side, domestic monetary and financial condition is becoming more susceptible to developments in the international financial market.

Under an increasingly open economy, the importance of international and regional cooperation among countries has become more pronounced. Indonesia is among countries that have actively participated in these cooperation that covers three broad areas, namely (i) trade, (ii) monetary, finance and banking, and (iii) economic development. In the international front, a number of trade and investment liberalization efforts were initiated in 1996/97, at both global and regional level. At the global level, the ministerial meeting of the World Trade Organization (WTO) in December 1996 reaffirmed the members' commitment to implement free trade and also discussed a number of important issues, such as investment liberalization and working standard conformity. Meanwhile, at the regional level, the meetings of APEC leaders in Manila and the Association of South-east Asian Nations (ASEAN) also stressed the importance of accelerating the process of trade liberalization among member countries, especially in the area of services.

In the monetary, financial, and banking areas, Indonesia through the International Monetary Fund (IMF) forum reaffirmed its commitment on domestic and international policies to support strong economic growth policies accompanied by monetary stability and equitable distribution. In the mean time, in responding to challenges in the financial and banking sector stemming from the openness of economy, Bank Indonesia continued to strengthen its cooperation with other central banks multilaterally through a number of fora, such as the Bank for International Settlements (BIS), Executive's Meeting of East Asia and Pacific Central Bankers (EMEAP), and South-east Asia Central Banks (SEACEN), and bilaterally through regular meetings with several central banks.

In the area of economic development, meanwhile, the World Bank together with the IMF continued the efforts to reduce debt burden of low income countries and to alleviate poverty. At the regional level, the Asian Development Bank (ADB) continued its program to finance poverty alleviation projects as well as projects to improve public health, education, and other social projects.

Cooperation in Trade

World Trade Organization

The most important agenda of the WTO during 1996/97 was the ministerial conference in Singapore in December 1996. The conference had four main objectives, i.e. (i) to evaluate the implementation of commitments, agreements, and decisions of the WTO, (ii) to review the on-going negotiation and approved work plan, (iii) to study world trade development, and (iv) to outline ways to respond to challenges on world economic development.

A number of issues that were deliberated in this conference were, inter alia, trade liberalization in services and expansion of coverage in trade liberalization. The meeting agreed on the agenda of negotiation on basic telecommunication, financial services, and freight. The discussion on basic telecommunication started in February 1997 in Geneva, while negotiation on financial services will commence in mid-April 1997. The result of those negotiations will replace the prevailing interim agreement.

The conference also discussed a number of new issues, such as labor standard, investment liberalization, and government procurement. These new issues were mostly raised by the developed countries which ran counter to the interest of the developing countries which wanted to focus only on the performance review of the agreed agenda. The discussion finally arrived in some compromises, for instance, in the context of investment liberalization, it was agreed that the WTO will only conduct a study with no binding nature as in any negotiation.

In anticipation to the accelerated trade liberalization process, the Indonesian government has prepared a number of steps including the formation of the services coordinating team (Tim Koordinasi Bidang Jasa) to coordinate the preparation of negotiation process, to assist private sectors to face free trade era, and to comply with the results of the negotiation.

In expediting the implementation of openness principles, the WTO obliged each member to set up one or more inquiry points as center of information regarding the liberalization process in particular sector of the economy including information on the existing regulation. Accordingly, the Government of Indonesia has set up one inquiry point on banking sector in Bank Indonesia.[1] The inquiry point functions as a center of information on banking matters in Indonesia to answer any question from member countries regarding banking regulation in Indonesia; informing notification of trade regulation to the Council on Trade in Services/WTO; and, if necessary, proposing complaint to other members who inflict financial loss upon Indonesia.

Asia-Pacific Economic Cooperation

The APEC leaders meeting in 1996/97 was the fourth meeting after the meeting in Blake Island (USA), Bogor (Indonesia), and Osaka (Japan). One important message of APEC Economic Leaders Meeting (AELM) in Manila, the Philippines, in November 1996, was the agreement to move from the vision and planning to the action phase of liberalization. In this meeting, the APEC economic leaders formulated the Manila Action Plan for APEC (MAPA) that includes (i) implementing the stages of trade liberalization and investment, (ii) conducting the cooperation efforts in trade sector, (iii) supporting the member interest in the WTO, (iv) strengthening the economic cooperation, and (v) inviting the private sector as partner in the APEC process. Basically, the implementation of the MAPA has implications on three aspects, i.e. Individual Action Plans (IAPs), Collective Action Plans (CAPs), and Economic-Technic (Eco-Tech) Cooperation.

As scheduled in Osaka Action Agenda, IAPs began to be implemented on January 1, 1997. IAPs are living documents, which can be renewed regularly through consultation process. Within the framework of APEC approach, consultation among APEC members is conducted by responding to the IAP of other member countries without any legally binding. This method is totally different from the liberalization process method in

1) Decree of the Board of Managing Directors of Bank Indonesia No. 29/137/KEP/DIR, dated December 4, 1996.

the General Agreement on Trade in Services (GATS) framework which is binding.

In the context of CAPs, most of the CAPs agreement that were legitimized in the Philippines covered several coloborative projects in supporting trade and investment liberalization. It is important to note, however, that decision to prioritize certain sectors to be liberalized will have some implications on tariff and non-tariff schedule of reduction. The priority sectors, consequently, have to formulate in such a way that will not dillute the agenda of liberalization, i.e. 2010 for developed countries and 2020 for developing countries.

With regard to the cooperation in Eco-Tech, the AELM has legitimized the Framework for Strengthening Economic Cooperation and Development. The six priorities of cooperation has been (i) to develop the human resources, (ii) to enhance the stable, secure, and efficient capital market, (iii) to strengthen the economic infrastructures, (iv) to improve the development of the future technology, (v) to improve the quality of life through implementing sustainable growth and development within the framework of sound environment, and (vi) to improve the performance of the small and medium enterprises (SMEs). On the follow up discussion, a number of differences on the projects to be emphasized still occurred. For some of the developed countries, the current 330 APEC cooperating projects were too many. On the contrary, the developing countries argued that the Eco-Tech cooperation should be formulated in a more concrete way. Those different opinions were reflected on the suggestions of the result of the First APEC Senior Official Meeting (SOM), in Victoria, Canada, in January 1997. In that meeting, Indonesia proposed the needs of clear mechanism for monitoring the execution of economic and technical cooperation that has not yet been set until now.

ASEAN Cooperation

In the reporting year, the discussions among the ASEAN countries on the liberalization of trade on services were still continuing. A series of agreements and several meetings have been initiated in the fora of Coordinating Committee on Services (CCS), the ASEAN financial ministerial meeting, the ASEAN Chamber of Commerce and Industry Court meeting, and the First ASEAN Business Meeting.

The CCS meeting started in Bandung, January 1996, and subsequently in Jakarta for eight times. Those meetings were the follow up of the ASEAN Summit Conference in Bangkok, Thailand, in December 1995 which delivered the ASEAN Framework Agreement on Services (AFAS). The purpose of the AFAS is to establish an ASEAN free trade area on services and in the first phase AFAS focused on seven services sectors (fast tract), i.e., finance, telecommunications, tourism, airlines, freight, business, and construction. In the CCS meeting, each ASEAN member has to submit the Schedule of Commitment (SOC) on the liberalization of trade on services which is freer than the commitment in GATS/WTO. The nature of the AFAS commitments is legally binding to each member countries, the same as that of applied to the WTO member countries.

Meanwhile, the ASEAN Finance Ministerial Meeting in Phuket Island, Thailand, in March 1997, agreed upon the liberalization of trade in services, especially in financial services. This agreement encompassed financial and banking sector, as well as insurance and also taxation. In the financial and banking matters, the meeting focused on how to enhance the growth of commercial banks in the region to face a more competitive global financial sector. On insurance and taxation, the meeting agreed to further step up the cooperation among member countries in promoting the insurance business climate and avoiding the double taxation. Besides, the ministers also signed the agreement on custom union which covered several aspects, such as harmonization on custom procedure, product classification, and tariff assessment to facilitate the flow of investment and trade in ASEAN region. Furthermore, the meeting also evaluated the effectiveness of the ASEAN Swap Arrangement (ASA) in assisting member countries in stabilizing their exchange rates. ASA — a short term loan facility that can be disbursed promptly in reciprocal currencies — made available to help ASEAN member countries that faced a short term international liquidity problem. The current ASA was the fifth supplementary agreement and it will be ended in August 1997.

On the other hand, the private sectors also take initiatives in anticipating ASEAN market liberalization era. Accordingly, the 53rd ASEAN Chamber of Commerce and Industry Court Meeting in Jakarta, in March 1997, set the face to enhance the cooperation among ASEAN business entrepreneurs and to improve the investment activities in several sectors that currently facing numerous constraints. Those sectors are capital goods manufacturing industry, food and agriculture product, and tourism. At the same time, the private sector also conducted the First ASEAN Business Summit (FABS) that stressed on the importance of strategic alliance between ASEAN entrepreneurs and foreign partners.

Cooperation in Monetary, Finance, and Banking

International Monetary Fund

In the reporting year, the important developments discussed in the IMF agenda were the strengthening of the IMF financial resources, the surveillance, the initiative in reducing the debt burdens of low income countries, and the implementation of the guidelines set out in the Interim Committee's "Declaration on Partnership for Sustainable Growth".

To strengthen its financial resources, the IMF has been discussing the eleventh general review of quota, the Special Drawing Rights (SDR) allocation and the extension of the existing General Arrangement to Borrow (GAB). Since 1995, the discussion of the quota review has not come into conclusion as yet. Different views on the increase in varying degree between 25% and 80% and the distribution between proportional and selective increase were not converged yet. Besides, member countries have also different opinion on the cut-off-rate for countries that are eligible to have an ad-hoc quota increase (between 1.3 and 1.5).

In the same token, the IMF's member countries have not agreed yet on the new allocation of SDRs to increase international liquidity. Some developed countries preferred the low increase (around 26%), while developing countries supported the Managing Director proposal with around 33% (SDR26.6 billion) increase. Only after the developing countries accepted special allocation (which is executed once and through an amendment of the Fund's Articles of Agreement) and general allocation as well, some progresses have then been recorded.

In the reporting year, the agreement of new facility, that is the New Arrangement to Borrow (NAB), was established as an expansion of GAB (around SDR17 billion). The facility is intended to help member countries in coping with balance of payments difficulties. The IMF will then have new arrangement to borrow, if it doesn't have sufficient fund, up to SDR34 billion that comes from 25 creditor countries, of which 3 of them from South-east Asia (Malaysia, Thailand, and Singapore).

In order to improve the quality of surveillance and transparency, the IMF required member countries to provide standardized economic and financial statistics which are comprehensive, timely, accessible, and reliable. Presentation of the standardized data consists of the Special Data Dissemination Standard (SDDS) for members that need access to the international capital market, and the General Data Dissemination Standard (GDDS) for all member countries. The initiated standardized data comprise four dimensions, i.e., (i) coverage, frequency, and timeliness, (ii) accessibility by the public, (iii) integrity, and (iv) quality of the disseminated data. The difference between those two standards is that the specification of the SDDS is appropriately tighter and more demanding than that of the GDDS. The implementation of the SDDS will be presented in the Dissemination Standard Bulletin Board (DSBB) that can be accessed by public via internet web. From April 1996 to December 1998, member countries could join the SDDS on a voluntary basis and Indonesia was one of the 42 countries joining the SDDS.

Meanwhile, in the context of improving the regional surveillance especially in the ASEAN region, Bank Indonesia in collaboration with the IMF conducted international seminar on "Macroeconomics Issues Faced by ASEAN Countries" in Jakarta, November 1996. The seminar mainly discussed the current issues within the environment of generally overheated economy in the ASEAN countries and concluded that in an era of increasing globalization, ASEAN countries need to consider several actions in order to maintain steady and sustainable growth. Those actions include (i) to strengthen the economic fundamental by maintaining low inflation rate, reducing trade balance deficit, raising domestic savings and investment, avoiding exchange rate misalignment, improving financial system, and expanding availability of infrastructure, (ii) to continue structural reformation, trade liberalization, and transparency, and (iii) to prepare conducive climate to maintain steady growth by sustaining macroeconomic stability and building good governance.

In helping the highly indebted poor countries (HIPCs), the IMF together with the World Bank supported an assistance through Enhanced Structural Adjustment Facility (ESAF) operations. Unfortunately, up to now, the Fund has not had adequate budget in funding ESAF program for both permanent and temporary scheme (2000-2004 period). Indeed, funding of this program is still under discussion especially in selling part of the Fund's gold and bilateral contributions of several member countries. Indonesia was one of the member in ESAF that facilitated bilateral contribution amounted to SDR5 million. This contribution was withdrawn from 2% of Indonesia's annual interest income borned from the placement of its foreign exchange amounting to SDR25 million in the period of 1994-2004.

Following the Madrid Declaration, October 1994, the 47th IMF Interim Committee Meeting, April 1996, has established the Declaration of Partnership for Sustainable Growth. The meeting agreed on ways to overcome the new challenge in the global environment, thereof member countries should have some pre-conditions as stated in the Partnership Declaration for Sustaining Global Growth. The declaration covered the importance of the soundness of monetary, fiscal, and structural policy; the need to apply sound macroeconomic policy and to avoid the increasing macroeconomic imbalances; to create a conducive climate for private savings to increase; to promote efforts to reduce inflation; to maintain trade liberalization; to stimulate current account convertibility; to enlarge achievement of balance budget; to accelerate the quality and composition of budget adjustment; to conduct concrete structural reformation; to pursue the good governance in all sectors; and to reach a sound banking industry.

Central Bank Cooperation

In the reporting year, Bank Indonesia continued to maintain close cooperation with other central banks and international financial institutions. Several meetings have been conducted in the form of bilateral, regional, as well as international fora. In the bilateral forum, Bank Indonesia continuously maintains a regular meeting with the Monetary Authority of Singapore, Bank Negara Malaysia, Hong Kong Monetary Authority, and the Bank of Thailand. Meanwhile, in the regional and international fora, Bank Indonesia is an active member of several international institutions such as the SEACEN, SEANZA, EMEAP, and BIS.

In the context of the SEACEN fora, besides research and training that are routinely carried out, in the reporting year SEACEN also conducted the 32nd SEACEN Governor Meeting that took place in Bangkok, in February 1997. The result of the meeting was to accept the work program and its 1997/98 budget, and also a scholarship program for five participants from member countries whose per capita GNP was under $800. This scholarship was funded by the SEACEN Trust Fund (STF) facility. The meeting also discussed asset price inflation in the ASEAN countries due to the fact that property sector has been rising since the end of the 1980s.

In the broader region, Bank Indonesia actively maintained the relationship with monetary authorities from Asia-Pacific countries (EMEAP forum). This forum consisting of central banks and monetary authorities in Asia-Pacific region is informal in nature to share information and to ster cooperation between members. The first EMEAP Central Bank Governor Meeting was held in Japan in July 1996 endorsing some important agreements, i.e., establishing two working groups, respectively on the money market development and the central bank operation area, and one study group on the banking supervision development. Furthermore, to create concrete cooperation the meeting has also prepared EMEAP work program including arranged a Red Book as a guide for developing money market and Green Book as a guide for banking supervision.

Additionally, in supporting the efforts to strengthen economic cooperation and also diversifying Indonesia's export market, Bank Indonesia continued to enhance cooperation with other central banks of non-Indonesia's main trading partners through banking arrangement. This cooperation was mainly intended the contracting parties (central banks) to facilitate with the best effort policies to any obstacles in payment settlement, without any financial obligation from each central bank. In the reporting year, Bank Indonesia signed two banking arrangements with the Central Bank of the Republic of Uzbekistan and Czech National Bank. In total, up until now, Bank Indonesia has signed banking arrangement with ten central banks, four in Eastern Europe and six in Asia.

On improving the banking supervision, Bank Indonesia has actively participated in both the BIS fora, i.e., Basle Committee Meeting on Banking Supervision, International Conference of Banking Supervisors (ICBS), and bilateral cooperation with other monetary authorities. To maintain a sound banking system in supporting a stable world financial system, the Basle Committee Meeting on Banking Supervision which was held in March 1997 established basic principles of effective banking supervision applied to G-10 and non-G-10 countries. Meanwhile, the ICBS was formed as a forum for universal and global banks to exchange information, conduct supervisory cooperation, and also formulate effective banking supervision method. The ICBS meeting was conducted every two years by the Basle Committee on Banking Supervision. The ICBS meeting held in Stockholm, June 1996, concluded two basic points, i.e., the agreement to conduct supervision of cross border banking, and the revision of the banking supervision methods. In addition, in the bilateral forum, in the reporting year Bank Indonesia signed a bilateral agreement with the Government of Republic of Germany on banking supervision matters as stated in Verbal Notes, January 9, 1997. It was agreed that supervisory works of Bank Indonesia toward Indonesian banks and/or financial institutions located in Germany could be simplified, besides mutual exchange of banking supervisor between these two countries.

Cooperation in Development

World Bank

The 1996 World Bank Development Committee meeting discussed topics including implementation of the debt initiative for the heavily indebted poor countries and the role of multilateral development banks. The meeting welcomed the donor countries to an increase of International Development Association (IDA) financing to around $22 billion for the period of 1997-99 of which around $600 million came from the World Bank, to support the development in poor countries. Along the line of the IMF Interim Committee meeting, the Development Committee meeting also endorsed the Program of Action proposed by the World Bank and IMF to reduce poor countries' indebtedness through HIPC initiative. The World Bank agreed to allocate IBRD's net income in the HIPC initiatives up to $500 million as an initial contribution. The meeting also re-emphasized the role of multilateral development banks in supporting the sustainable development, reduction of poverty, infrastructure investment, the role of private sector in development, and cooperation among multilateral development banks.

Islamic Development Bank

The 21st Board of Governors Annual Meeting of the Islamic Development Bank (IDB) in Conakry, Guinea, in November 1996 endorsed the Chairman and Deputy Chairman of the Board of Governors for 1996/97 period and the Procedural Committee for the 22nd Board of Governors Annual Meeting that will be held in November 1997 in Damascus, Syria. In the Procedural Committee Meeting, Indonesia, supported by Brunei Dar-Es-Salaam and Malaysia has been appointed as Executive Director on behalf of sub-Asia region. The meeting also endorsed membership of Burkina Faso and Yemen in Islamic Corporation for the Insurance of Investment and Export Credit (ICIIEC). Meanwhile, Tajikistan was accepted as the 51st IDB member. In an informal meeting, the IDB, Indonesia, Brunei Dar-Es-Salaam, Malaysia, and Chief Representative of the Mindanao Province (the Philippines) discussed on the acceleration of development of Mindanao. In this respect, the IDB stated the willingness to organize international seminar on investment and business opportunity in Mindanao.

On loans extended to Indonesia, in the reporting year, the pledge of the IDB was around $100 million, a rise from $70 million in the preceding year. This loan has been used mainly to finance hospital and electricity projects.

Asian Development Bank

The 29th ADB Board of Governors Annual Meeting was held in Manila, the Philippines, from April 30 to May 2, 1996. The issues discussed in the meeting were the election of the new ADB President and the 7th replenishment of Asian Development Fund (ADF). The ADF is a special fund used to help member countries with income per capita under $610. The term of loan ranged from 35 to 40 years and services charge around 1%. Indonesia has received several limited ADF funds and the last one was in 1991 amounting to $118.3 million. Although Indonesia's per capita income has increased, Indonesia still needs the ADF assistance for poverty alleviation projects, social health improvement projects, and education as well as other social projects. In the 7th ADF meeting in Tokyo, December 1996, the Government of Indonesia agreed to contribute $10 million to the ADF.

Consultative Group for Indonesia

The 5th meeting of the Consultative Group for Indonesia (CGI) was held in Paris, in June 1996. The main objective of the meeting was to set the amount of aid needed by Indonesia for the coming fiscal year. This meeting was preceded by discussion on economic performance of Indonesia and progress of projects financed by the CGI. Donor countries' delegations welcomed the progress achieved by Indonesia although they came out with several points that should be addressed by the Government of Indonesia, especially on the efforts to promote the increasing role of private sector in development. The meeting suggested that the Government should re-direct its investment priority to human resources development, such as education and health, and reform the existing law coupled with the efforts to improve its economic efficiency and transparency in its policies.

In the 5th CGI meeting, Indonesia acquired loans commitment up to $5,260.5 million, compared with $5,360 million in 1995. Of this amount, $2,566.3 million originated from bilateral loans and $2,671.7 million from multilateral loans. Japan committed up to $1,916.7 million while the IBRD and ADB committed $1,200 million each. As in the previous year, financing through the CGI was primarily focused on human resources development, poverty alleviation, agriculture, and infrastructure development. In addition, the 6th CGI meeting will be held in July 1997, in Tokyo, Japan.

APPENDICES

APPENDIX A

Condensed Balance Sheet 1)
as of March 31, 1995, 1996, and 1997
(Billion Rupiah)

Assets	1995	1996	1997
1. Gold and foreign assets	37,554	47,594	64,088
a. Gold and foreign currencies	37,122	47,295	63,862
b. Other foreign assets	432	299	226
2. Claims on public sector	1,038	3,325	116
a. Central Government	1,030	3,322	116
b. Official entities	8	3	0
3. Claims on commercial banks	12,581	17,756	19,016
4. Money market securities	4,337	2,599	2,737
5. Claims on private sectors	1,640	909	859
6. Other assets	3,236	3,978	3,833
Total	**60,386**	**76,161**	**90,649**

Liabilities	1995	1996	1997
1. Monetary liabilities	23,175	31,052	35,352
a. Banknotes and coins	21,367	24,003	27,065
b. Commercial banks' demand deposits	1,439	6,670	7,905
c. Private sectors' demand deposits	369	379	382
2. Foreign exchange deposits	1,266	2,380	2,749
a. Foreign exchange banks' demand deposits	1,236	2,364	2,748
b. Other deposits in foreign currencies	30	16	1
3. Foreign liabilities	1,415	1,290	976
a. Foreign exchange liabilities	798	945	767
b. Other foreign liabilities	617	345	209
4. Government deposits	13,570	20,237	19,916
a. Current account	11,805	18,559	18,204
b. Counterpart funds	1,084	1,273	1,385
c. Import guarantee deposits	681	405	327
5. Bank Indonesia Certificates	11,183	10,822	20,996
6. Capital account	1,969	2,070	2,589
7. Other liabilities	7,808	8,310	8,071
Total	**60,386**	**76,161**	**90,649**

1) Unaudited.

APPENDIX B

Government Commissioner and Board of Directors

as of March 31, 1997

Government Commissioner

Sofjan Djajawinata

Board of Directors

Governor

J. Soedradjad Djiwandono

Managing Directors

Hendrobudiyanto
Boediono
Heru Soepraptomo
Mansjurdin Nurdin
Haryono
Paul Soetopo Tjokronegoro
Mukhlis Rasyid

APPENDIX C

Organization and Personnel

To improve the effectiveness and efficiency in assuming the tasks in monetary management, in the year under review Bank Indonesia reorganized its departments dealing with the monetary sector. As a follow up of the reorganization in the banking sector in 1994/95 and in light of the strategic role of branch offices in achieving Bank Indonesia's vision, in the reporting year Bank Indonesia also reorganized its regional offices throughout the country.

Despite the reorganization, the number of departments and offices remained unchanged with 19 departments at the head office in Jakarta, 42 regional offices throughout the country, and 5 representative offices abroad.

The number of personnel at the end of March 1997 was 6,374 persons; 3,292 of them were posted at the head office, 2,987 at the regional offices, and 95 at the representative offices.

Number of Personnel

No.	Year	Head Office	Regional Offices	Representative Offices 1)	Total
1.	1995/96	4,199	3,521	56	7,776
2.	1996/97	4,145	3,483	70	7,698
3.	1996/97	3,292	2,987	95	6,374

1) Including those studying abroad.

Department Directors

Accounting Department	:	Bun Bunan Hutapea
Bank Supervision Department I	:	Koesworodjati
Bank Supervision Department II	:	Ahmad Basuki
Bank Supervision Department III	:	S. Budi Rochadi
Banking Regulation and Development Department	:	Sukarwan
Communication and Security Department	:	Santo Silaban
Credit Department	:	Abdul Salam
Currency Circulation Department	:	Gusti Made Setat
Economic and Monetary Statistics Department	:	Erman Munzir
Economic Research and Monetary Policy Department	:	Achjar Iljas
Foreign Exchange Department	:	Bambang Trianto
Human Resources Department	:	Achwan
Internal Control Department	:	Sjahrial Hamid
Internal Resources Research and Development Department	:	Aulia Pohan
International Department	:	Sumitro
Legal and Secretariat Department	:	Bambang Setijoprodjo
Logistics Department	:	Imam Sukarno
Monetary Management Department	:	C. Harinowo
Rural Credit Bank Supervision Department	:	J.B. Murtiwijono

Representatives

Kuala Lumpur	:	Harisman
London	:	H.Y. Susmanto
New York	:	Sulastinah Tirtonegoro
Singapore	:	Siswanto DJ.
Tokyo	:	Haswandi S. Effendy

Regional Office Managers

Category I

Bandung	:	Warsono Santoso
Medan	:	Moh. Ma'ruf Saleh
Semarang	:	Moeharno
Surabaya	:	M. Ashadi

Category II

Bandar Lampung	:	Goegoen Roekawan
Banjarmasin	:	Maskan Iskandar
Denpasar	:	Adi Putra Hasan
Manado	:	Prihono Bagio
Padang	:	Abubakar Karim
Palembang	:	Azis Sanuri
Ujung Pandang	:	Sidik Suharto
Yogyakarta	:	Adji Mulawarman Hasan

Category III

Ambon	:	Sumadi
Banda Aceh	:	Ahmad Lastawan Ramly
Cirebon	:	Imrandani
Jambi	:	Irman Djaja Dalimi
Jayapura	:	Rubino
Malang	:	Langka Ardimudinar
Mataram	:	RD. Sukmana
Pekanbaru	:	Dedy Rohendy
Pontianak	:	Warjoto
Samarinda	:	Muhammad Ali Tarmizi
Solo	:	Moeljono

Category IV

Balikpapan	:	Dedy Sutady
Bengkulu	:	Djatiwalujo
Dili	:	Sabar Lumbantoruan
Jember	:	M. Khusnan Sofwan
Kediri	:	Nugroho Endropranoto
Kendari	:	Winarno
Kupang	:	Budhi Santoso
Palangka Raya	:	Rizaf Anwar
Palu	:	Anang Atje
Pematang Siantar	:	Eddy Suwardi
Purwokerto	:	Mulyadi
Tasikmalaya	:	Suwondo
Tegal	:	Edi Siswanto

Category V

Batam	:	Agus Sumedi
Lhokseumawe	:	Muchlis Rusli
Padang Sidempuan	:	Budiman Usman
Sampit	:	Asri Amin
Sibolga	:	Iman A. Kusrochjono
Ternate	:	Suyanto

APPENDIX D

Provisions on Monetary and Banking Activities Issued by Bank Indonesia in 1996/97

Date	Number	Subject
1996		
April 10	CL No. 29/3/ULN	Amendment on the Decree of the Minister of Finance on tariffs and procedure of export tax and/or surcharge payment and deposit
June 4	DBMD No. 29/32/KEP/DIR	Amendment on requirements to trade the foreign exchange earned from export, to guarantee export transactions to be more realistic and secure
June 4	DBMD No. 29/33/KEP/DIR	Procedure of import transaction payment, to improve the smoothness of the flows of imported goods
June 4	DBMD No. 29/34/KEP/DIR	Transfer of authority in fixing the fees of export draft negotiation and L/C opening to banks in order to create a sound competition in bank services to exporters and importers
June 4	JD of Min. of Industy and Trade, Min. of Finance, and Gov. of Bank Indonesia No. 128/MPP/Kep/6/1996, No. 377/KMK.01/1996, and No. 29/4/Kep/GBI	Special facility for designated exporters in the form of easing in customs, taxation, and banking affairs
June 4	JD of Min. of Industy and Trade, Min. of Finance, and Gov. of Bank Indonesia No. 129/MPP/Kep/6/1996, No. 376/KMK.01/1996, and No. 29/5/Kep/GBI	Revocation on the JD of the Minister of Industry and Trade, the Minister of Finance, and the Governor of Bank Indonesia on the improvement of general provisions on import
July 26	DBMD No. 29/68/KEP/DIR	Amendment on provisions on credit for primary cooperatives members in financing smallholder sugar cane intensification program (TRI), covering the description of TRI refinancing credit and fees for primary cooperatives and its method of calculation
September 11	DBMD No. 29/87A/KEP/DIR CL No. 29/03/UPPB	Amendment on provision on statutory reserve requirement in rupiah and foreign currency from 3% to 5% of deposits and other liabilities both in rupiah and foreign currency, to be effective on April 16, 1997
September 11	DBMD No. 29/87/KEP/DIR	Revocation and withdrawal of Dwikora series banknotes of Rp0.05, Rp0.25, and Rp0.50 denominations and coins of Rp2.00 of 1970 issue, Rp10.00 of 1971 issue, Rp10.00 of Tabanas 1974 issue, and Rp10.00 of 1979 issue from circulation

Note
CL : Circular Letter; DBMD : Decree of the Board of Managing Directors;
JD : Joint Decree

Date	Number	Subject
October 15	CL No. 29/3/UOPM	Confirmation on the characteristics of Bank Indonesia certificate and important means in reassuring it from forgery
December 18	CL No. 29/06/UPPB	Obligation of the form, content, and procedure of issuance of bank guarantee to comply with the Minister of Finance Decree on the use of bank guarantee in import duty, excise, administration fine, and tax payments
December 31	DBMD No. 29/150/KEP/DIR	Provisions on domestic L/C as one of payment means in supporting the smoothness of domestic trade
December 31	DBMD No. 29/151/KEP/DIR	Improvement on the trade of foreign exchange earned from export, to support export and develop foreign currency market
December 31	DBMD No. 29/152/KEP/DIR CL No. 29/55/ULN	Provisions on the trade of claims based on domestic L/C, to expedite domestic supply of goods for export
1997		
January 28	CL No. 29/41/ULN	Confirmation on the procedure of export tax payment and deposit related to the Minister of Finance Decree on tariffs and procedure of export tax payment and deposit
March 26	DBMD No. 29/192/ULN	Improvement of guidance for bank's commercial offshore borrowing. The borrowing received are linked to export financing

Supplementary Tables

Table 1
World Economic Growth
(percent)

Country	1992r	1993r	1994r	1995r	1996*
World	**2.7**	**2.7**	**4.0**	**3.7**	**4.0**
Industrial Countries	**1.7**	**0.9**	**2.9**	**2.1**	**2.3**
7 Major Industrial Countries	1.8	1.0	2.8	2.0	2.3
United States	2.7	2.3	3.5	2.0	2.5
Japan	1.1	0.1	0.6	1.4	3.6
Germany	2.2	–1.1	2.9	1.9	1.4
France	1.2	–1.3	2.8	2.2	1.3
Italy	0.6	–1.2	2.1	3.0	0.9
United Kingdom	–0.5	2.1	3.8	2.5	2.3
Canada	0.8	2.2	4.1	2.3	1.4
Others	2.5	2.0	4.5	4.2	3.7
Developing Countries	**6.5**	**6.5**	**6.8**	**6.0**	**6.5**
Africa	0.7	0.9	2.9	2.8	4.9
Middle East and Europe	6.1	4.3	0.3	3.7	4.4
Latin America	3.1	3.7	5.0	1.3	3.5
Asia	9.4	9.3	9.6	8.9	8.3
NIEs Asia	5.8	6.3	7.6	7.5	6.2
China	14.3	13.5	12.6	10.5	9.7
ASEAN	6.2	7.2	8.1	8.2	7.4
Indonesia	6.5	6.5	7.5	8.2	7.8
Singapore	6.2	10.4	10.1	8.8	7.0
Malaysia	7.8	8.3	9.2	9.5	8.4
Thailand	8.1	8.3	8.8	8.7	6.7
Philippines	0.3	2.1	4.4	4.8	5.5
Vietnam	8.6	8.1	8.8	9.5	9.5
Countries in Transition	**–13.5**	**–7.6**	**–7.6**	**–0.8**	**0.2**
Central and Eastern Europe	–8.8	–4.0	–1.8	1.6	1.6
Russia	–19.0	–12.0	–15.0	–4.0	–2.8
Transcaucasus and Central Asia	–15.1	–9.4	–13.5	–4.1	2.2

Sources : – IMF, World Economic Outlook, March 1997
– Bank Indonesia

Table 2
World Inflation
(percent)

Country	1992r	1993r	1994r	1995r	1996*
Industrial Countries	**3.3**	**2.9**	**2.3**	**2.4**	**2.3**
7 Major Industrial Countries	3.2	2.8	2.2	2.3	2.2
United States	3.0	3.0	2.6	2.8	2.9
Japan	1.7	1.2	0.7	–0.1	0.1
Germany	5.1	4.5	2.7	1.8	1.5
France	2.4	2.1	1.7	1.8	2.0
Italy	5.2	4.5	4.0	5.4	3.9
United Kingdom	4.7	3.0	2.4	2.8	2.9
Canada	1.5	1.8	0.2	2.2	1.6
Others	4.9	4.1	4.1	3.9	3.3
Developing Countries	**38.8**	**46.9**	**51.4**	**21.3**	**13.1**
Africa	32.2	29.5	38.6	32.1	25.0
Middle East and Europe	26.6	24.7	32.4	33.9	24.5
Latin America	153.2	212.6	213.7	36.0	20.4
Asia	7.0	10.4	14.7	11.8	6.6
NIEs Asia	5.9	4.6	5.7	4.7	4.3
China	5.4	13.0	21.7	14.8	6.0
Indonesia	4.9	9.8	9.2	8.6	6.5
Singapore	2.3	2.2	3.1	1.7	1.4
Malaysia	4.7	3.5	3.7	3.4	3.5
Thailand	4.1	3.3	5.0	5.8	5.8
Philippines	8.9	7.6	9.1	8.1	8.4
Vietnam	17.5	5.2	14.5	12.8	6.0
Countries in Transition	**597.1**	**537.1**	**264.0**	**119.2**	**39.8**
Central and Eastern Europe	263.7	307.0	141.0	70.5	31.2
Russia	1,353.0	896.0	302.0	190.2	47.8
Transcaucasus and Central Asia	880.2	1,096.1	1,532.7	260.2	69.0

Sources : – IMF, World Economic Outlook, March 1997
– Bank Indonesia

Table 3
Interest and Exchange Rates
(percent)

Item	1992r	1993r	1994r	1995r	1996*
Interest Rate in Industrial Countries					
Short term (3 month LIBOR)	3.82	3.31	4.77	6.04	5.51
Long term	7.80	6.50	7.00	6.70	6.00
Exchange Rate					
Yen/USD	126.65	111.20	102.21	94.06	108.78
DM/USD	1.56	1.65	1.62	1.43	1.51
USD/GBP	0.57	0.67	0.65	0.63	0.64

Sources : - IMF, World Economic Outlook, March 1997
- IMF, International Financial Statistics

Table 4
World Trade
(percent)

Item	1992r	1993r	1994r	1995r	1996*
Volume	**5.0**	**4.1**	**8.9**	**9.2**	**5.6**
Price					
Industrial goods	3.6	–5.6	3.1	11.4	–2.5
Non-oil/gas primary commodities	0.1	1.8	13.6	8.2	–1.2
Oil	–1.6	–11.6	–5.5	8.0	18.9

Source : IMF, World Economic Outlook, March 1997

Table 5
Current Accounts in Industrial and Developing Countries
(percent of GDP)

Country	1992r	1993r	1994r	1995r	1996*
7 Major Industrial Countries					
United States	–1.0	–1.5	–2.1	–2.0	–2.1
Japan	3.0	3.1	2.8	2.2	1.4
Germany	–1.0	–0.7	–1.0	–0.9	–0.8
France	0.3	0.7	0.5	1.1	1.4
Italy	–2.3	1.1	1.5	2.5	3.7
United Kingdom	–1.7	–1.7	–0.4	–0.6	–0.2
Canada	–3.8	–4.0	–3.0	–1.4	0.0
Developing Countries					
China	1.5	–2.7	0.6	0.2	–0.1
Indonesia	–2.6	–1.6	–1.7	–3.4	–3.4
Singapore	11.3	7.2	15.9	17.7	15.7
Malaysia	–3.4	–4.8	–6.3	–8.5	–6.0
Thailand	–5.7	–5.9	–5.6	–8.1	–8.2
Philippines	–1.9	–5.5	–4.6	–4.9	–4.3

Sources : – IMF, World Economic Outlook, March 1997
– Bank Indonesia

Table 6
Gross Domestic Product by Expenditure
(billion rupiah)

Type of expenditure	1993r	1994r	1995*	1996*
	1993 prices			
Consumption	222,715.1	232,480.1	252,551.9	274,135.1
Private	192,958.4	202,037.5	221,701.3	242,107.5
Government	29,756.7	30,442.6	30,850.6	32,027.6
Gross domestic fixed capital formation	86,667.3	98,589.0	112,350.3	126,024.2
Change in stock [1)]	10,545.5	17,063.2	18,312.1	16,493.8
Exports of goods and services	88,230.9	96,260.1	104,491.4	111,057.9
less Imports of goods and services	78,383.0	89,751.6	103,937.9	113,941.9
Gross Domestic Product	**329,775.8**	**354,640.8**	**383,767.8**	**413,769.0**
Net factor income from abroad	–12,552.6	–12,965.1	–16,875.9	–19,627.3
Gross National Product	**317,223.2**	**341,675.7**	**366,891.9**	**394,141.7**
less Net indirect taxes	21,171.1	23,105.9	23,123.2	22,288.5
less Depreciation	16,488.8	17,732.0	19,188.4	20,688.5
National income	**279,563.3**	**300,837.8**	**324,580.3**	**351,164.7**
	Current market prices			
Consumption	222,715.1	252,528.0	300,472.9	348,164.5
Private	192,958.4	221,514.0	264,888.7	308,469.2
Government	29,756.7	31,014.0	35,584.2	40,695.3
Gross domestic fixed capital formation	86,667.3	105,380.6	129,117.0	155,125.0
Change in stock [1)]	10,545.5	15,681.3	17,285.0	17,651.7
Exports of goods and services	88,230.9	100,503.7	119,593.5	138,675.2
less Imports of goods and services	78,383.0	91,873.8	114,147.5	131,659.9
Gross Domestic Product	**329,775.8**	**382,219.7**	**452,380.9**	**528,956.4**
Net factor income from abroad	–12,552.6	–14,278.6	–19,582.6	–22,358.0
Gross National Product	**317,223.2**	**367,941.1**	**432,798.3**	**506,598.4**
less Net indirect taxes	21,171.1	24,720.6	27,486.5	28,493.3
less Depreciation	16,488.8	19,111.0	22,619.0	26,447.8
National income	**279,563.3**	**324,109.5**	**382,692.8**	**451,657.3**
Memorandum item:				
Per capita Gross Domestic Product				
in thousands of rupiah	1,758.0	2,004.6	2,334.9	2,687.6
in $	842	928	1,039	1,140
Per capita Gross National Product				
in thousands of rupiah	1,691.1	1,929.7	2,233.8	2,574.0
in $	810	893	994	1,092
Per capita National Income				
in thousands of rupiah	1,490.3	1,699.8	1,975.2	2,294.9
in $	714	787	879	973

1) Residual.
Source : Central Bureau of Statistics

Table 7
Gross Domestic Product by Sector
(billion rupiah)

Sector	1993 prices				Current market price			
	1993	1994	1995*	1996*	1993	1994	1995*	1996*
Agriculture, livestock, forestry, and fishery	**58,963.4**	**59,2291.2**	**61,766.8**	**62,937.2**	**58,963.4**	**66,071.5**	**77,639.3**	**86,212.1**
Foodcrops	32,093.4	31,407.8	32,851.5	32,959.3	32,093.4	34,941.0	41,958.0	46,298.6
Non-foodcrops	9,014.8	9,471.6	9,918.3	10,287.9	9,014.8	10,587.2	12,676.4	14,085.7
Livestock and products	6,202.7	6,451.4	6,719.8	7,013.8	6,202.7	7,102.3	7,998.5	9,088.9
Forestry	6,267.6	6,300.9	6,303.6	6,412.3	6,267.6	6,897.4	7,390.4	7,839.7
Fishery	5,384.9	5,659.5	5,973.6	6,263.9	5,384.9	6,543.6	7,616.0	8,899.2
Mining and quarrying	**31,497.3**	**33,261.6**	**35,502.2**	**38,033.5**	**31,497.3**	**33,507.1**	**38,045.1**	**43,893.2**
Oil and natural gas	23,120.8	23,719.6	23,719.9	23,763.7	23,120.8	23,070.0	24,639.9	26,398.3
Others	8,376.5	9,542.0	11,782.3	14,269.9	8,376.5	10,437.1	13,405.2	17,494.9
Manufacturing Industry	**73,556.3**	**82,649.0**	**91,580.7**	**101,682.5**	**73,556.3**	**89,240.7**	**109,395.0**	**133,088.4**
Oil/gas	9,793.8	10,268.8	9,782.4	10,040.4	9,793.8	10,439.1	11,398.6	12,110.9
Petroleum oil refinery	5,540.5	5,547.9	5,392.1	5,602.7	5,540.5	5,855.1	6,599.1	7,060.9
LNG	4,253.3	4,720.9	4,390.3	4,437.7	4,253.3	4,584.0	4,799.5	5,050.0
Non-oil/gas	63,762.5	72,380.2	81,798.3	91,642.1	63,762.5	78,801.6	97,996.4	120,977.5
Electricity, gas, and water supply	**3,290.2**	**3,702.7**	**4,276.9**	**4,816.2**	**3,290.2**	**4,577.1**	**5,624.5**	**6,561.0**
Construction	**22,512.9**	**25,857.5**	**29,197.8**	**32,810.6**	**22,512.9**	**28,016.9**	**34,451.9**	**42,279.2**
Trade, hotel, and restaurant	**55,297.6**	**59,504.1**	**64,113.7**	**69,005.8**	**55,297.6**	**63,858.7**	**75,874.0**	**88,451.2**
Wholesale and retail trade	44,604.8	47,619.5	51,290.4	55,285.9	44,604.8	51,133.8	60,892.0	70,805.6
Hotel and restaurant	10,692.8	11,884.6	12,823.3	13,719.9	10,692.8	12,724.9	14,982.0	17,645.6
Transportation and communications	**23,248.9**	**25,188.6**	**27,555.0**	**29,914.0**	**23,248.9**	**27,352.7**	**30,778.3**	**35,553.7**
Transportation	20,101.2	21,400.2	22,965.1	24,451.6	20,101.2	23,191.1	25,523.0	29,299.2
Communication	3,147.7	3,788.4	4,589.9	5,462.4	3,147.7	4,161.6	5,255.3	6,254.5
Financial, rental, and corporate services	**28,047.8**	**30,901.0**	**34,369.0**	**37,983.2**	**28,047.8**	**34,505.6**	**39,890.9**	**46,839.6**
Bank [1)]	14,005.3	15,944.6	18,164.5	20,480.4	14,005.3	17,817.5	21,232.8	25,531.5
Rental and corporate services	14,042.5	14,956.4	16,204.5	17,502.8	14,042.5	16,688.1	18,658.1	21,308.1
Services	**33,361.4**	**34,285.1**	**35,405.7**	**36,586.0**	**33,361.4**	**35,089.4**	**40,681.9**	**46,078.0**
Public administration	22,458.0	22,752.0	23,045.9	23,292.5	22,458.0	22,754.9	26,555.2	29,531.5
Private	10,903.4	11,533.1	12,359.8	13,293.5	10,903.4	12,334.5	14,126.7	16,546.5
GROSS DOMESTIC PRODUCT	**329,775.8**	**354,640.8**	**383,767.8**	**413,769.0**	**329,775.8**	**382,219.7**	**452,380.9**	**528,956.4**
Non-oil/gas	**296,861.2**	**320,652.4**	**350,265.5**	**379,964.9**	**296,861.2**	**348,710.6**	**416,342.4**	**490,447.2**
Oil/gas	**32,914.6**	**33,988.4**	**33,502.3**	**33,804.1**	**32,914.6**	**33,509.1**	**36,038.5**	**38,509.2**

1) Including other financial institutions and financial supporting services.

Source : Central Bureau of Statistics

Table 8
Terms of Trade Effects on Gross Domestic Product
(billion rupiah)

Item	1993r	1994r	1995	1996*
1. Exports of goods and services at current market prices	88,230.9	100,503.7	119,593.5	138,675.2
2. Exports of goods and services at 1993 market prices	88,230.9	96,260.1	104,491.4	111,057.9
3. Export deflator [(1 : 2) x 100]	100.0	104.4	114.5	124.9
4. Imports of goods and services at current market prices	78,383.0	91,873.8	114,147.5	131,659.9
5. Imports of goods and services at 1993 market prices	78,383.0	89,751.6	103,937.9	113,941.9
6. Import deflator [(4 : 5) x 100]	100.0	102.4	109.8	115.6
7. Terms of trade index [(3 : 6) x 100]	100.0	102.0	104.3	108.0
8. Changes of terms of trade index (%)	–1.3	2.0	2.3	3.5
9. Real import capacity on export (1 : 6) x 100	88,230.9	98,148.1	114,663.0	128,403.0
10. Terms of trade effect (9 – 2)	0	1,888.0	10,171.6	17,345.1
11. Changes of terms of trade effects (%)	–	–	438.8	70.5
12. GDP at 1993 market prices	329,775.8	354,640.8	383,767.8	413,769.0
13. Changes of GDP at 1993 market prices (%)	7.3	7.5	8.2	7.8
14. GDY (10 + 12)	329,775.8	356,528.8	393,939.4	431,114.1
15. Changes of GDY (%)	6.9	8.1	10.5	9.4

Source : Central Bureau of Statistics

Table 9
Selected Manufacturing Products

Product	Unit	1992/93	1993/94	1994/95	1995/96	1996/97*
Oil-based fuels 1)	**million barrels**	**211.8**	**211.0**	**208.3**	**206.1**	**232.3**
LNG 2)	**million MMBTUs**	**1,247.8**	**1,301.2**	**1,379.1**	**1,341.9**	**1,357.4**
LPG 2)	**thousand tons**	**2,825.0**	**2,890.2**	**2,500.0**	**2,727.0**	**3,256.1**
Plywood and sawn timber						
Plywood	thousand m3	9,874.0	9,924.0	9,367.9	8,766.2	7,362.9
Sawn timber	thousand m3	3,534.4	2,244.0	1,729.8	2,014.2	8,558.5
Fertilizer						
Urea fertilizer	thousand tons	5,026.4	5,132.7	5,435.3	5,866.7	6,189.5
ZA and TSP fertilizer	thousand tons	1,550.8	1,708.9	1,820.0	1,725.0	1,623.7
Cement	**thousand tons**	**17,279.8**	**18,990.0**	**21,907.3**	**23,129.0**	**25,108.9**
Pulp 3)	**thousand tons**	**1,340.5**	**1,304.0**	**1,314.3**	**2,022.0**	**2,266.6**
Paper	**thousand tons**	**2,222.6**	**2,489.3**	**2,736.9**	**3,879.6**	**4,013.7**
Textile and weaving yarn						
Textile	million meters	6,710.0	7,878.5	8,001.0	8,221.0	8,989.0
Weaving yarn	thousand bales		4,101.4	5,171.0	5,219.0	8,281.0
Garment	million dozen	77.2	92.9	96.0	115.0	122.2
Staple fiber	thousand tons	333.2	403.5	440.5	476.3	523.1
Motor vehicle tires						
Automobile tires	thousand units	8,772.0	9,385.9	11,911.2	14,615.3	15,747.6
Motorcycle tires	thousand units	7,923.4	7,646.7	8,096.6	9,931.0	10,427.6
Basic metal						
Sponge iron	thousand tons	1,298.6	1,428.6	1,507.3	1,714.0	2,038.5
Steel ingot	thousand tons	2,267.3	2,737.8	1,941.0	2,609.0	2,400.0
Concrete steel bar	thousand tons	1,297.9	1,459.6	1,293.0	2,256.2	2,592.6
Wire rod	thousand tons	522.1	526.0	671.6	696.3	. . .
Steel wire	thousand tons	187.5	198.0	152.5	117.4	. . .
Steel pipe	thousand tons	453.3	509.2	445.9	547.1	520.6
Galvanized iron sheet	thousand tons	285.6	309.1	368.0	458.0	415.0
Aluminum plate	thousand tons	42.9	44.1	46.4	50.5	16.7
Transportation means						
Automobiles	thousand units	174.7	233.4	325.0	381.0	298.2
Motorcycles	thousand units	457.3	454.8	781.4	1,027.0	1,534.3
Aircrafts	units	7.0	9.0	7.0	8.0	. . .
Helicopters	units	27.0	7.0	7.0	. . .	. . .
Steel vessels	thousand BRT	50.8	57.5	102.4	112.5	68.1
Others						
Clove cigarettes	billion pieces	134.2	135.5	150.1	159.6	164.5
White cigarettes	billion pieces	39.9	44.3	94.3	45.5	51.3
Refined coconut oil	thousand tons	586.6	639.4	661.4	702.2	745.6
Olein	thousand tons	1,162.4	1,249.6	1,505.5	1,731.3	1,991.0
Laundry soap	thousand tons	243.7	275.4	326.9	337.9	354.0
Detergent	thousand tons	243.9	261.0	307.8	337.1	325.5
Electric/telecommunication cords	thousand tons	93.9	107.3	138.5	173.1	145.0
Light bulbs/TL bulbs	million units	301.8	374.9	487.7	524.6	527.2
Radio and radio cassette recorders	thousand units	5,293.0	5,660.0	7,358.0	9,230.9	9,585.1
Car radio cassette recorders	thousand units	1,650.0	1,700.0	1,560.0	1,950.0	1,960.0
Television set	thousand units	1,856.0	1,476.0	1,918.0	2,455.5	3,201.1
Refrigerators	thousand units	237.0	279.6	323.6	404.5	1,103.4
Sewing machines	thousand units	25.1	53.2	55.8	69.8	. . .
Storage batteries	thousand units	10,300.0	11,600.0	12,180.0	14,300.0	5,825.0
Dry batteries	million units	1,380.6	1,463.4	1,536.5	2,154.8	2,188.2
Pesticide sprayers	thousand units	365.2	381.6	390.4	410.0	556.5
Hand tractors	units	9,350.0	9,350.0	9,817.5	10,189.0	11,860.0
Diesel engines	thousand units	71.0	71.0	74.5	78.2	21.5
Hullers	units	1,511.0	1,511.0	1,586.5	1,679.0	1,980.0
Sports shoes	million pairs	259.4	437.1	461.3	560.0	584.3
Leather shoes	million pairs	80.2	63.2	65.5	75.0	83.9

1) End of calendar year.
2) For 1996/97 in calendar year. MMBTUs : mille mille British thermal units.
3) Including integrated pulp industry.

Sources : – Ministry of Industry and Trade
– Ministry of Mining and Energy

Table 10
Selected Agricultural Products
(thousand tons)

Product	1992	1993	1994	1995	1996*
Foodcrops					
Rice	31,356	31,318	30,317	32,334	32,874
Corn	7,995	6,460	6,869	8,246	9,142
Cassava	16,516	17,285	15,729	15,441	16,910
Sweet potatoes	2,171	2,088	1,845	2,171	2,029
Peanuts	739	639	632	760	747
Soybeans	1,870	1,709	1,565	1,680	1,510
Mung beans	326	322	284	325	308
Cash crops					
Rubber	1,398	1,476	1,499	1,535	1,578
Smallholder	1,030	1,102	1,139	1,156	1,179
Estate	368	374	360	379	399
Copra	2,455	2,606	2,649	2,690	2,704
Palm oil	3,266	3,421	4,008	4,350	4,747
Palm kernels	559	602	797	848	717
Sugar cane	2,306	2,330	2,454	2,354	2,473
Tea	154	165	139	155	169
Smallholder	32	37	30	34	37
Estate	122	122	109	121	132
Coffee	437	439	450	455	469
Smallholder	409	410	422	427	440
Estate	28	29	28	28	29
Tobacco	112	121	130	133	136
Smallholder	110	119	128	130	134
Estate	2	2	2	3	2
Pepper	65	66	54	54	56
Nutmeg	17	21	19	2	...
Cloves	73	67	78	77	...
Cacao	112	258	270	274	244
Forestry					
Log 1)	26,049	26,848	24,027	25,067	25,662
Livestocks					
Meat	1,239	1,378	1,493	1,564	1,672
Egg	572	573	689	729	785
Milk (million liters)	367	388	427	433	458
Fishery					
Sea	2,692	2,886	3,080	3,275	3,453
Inland	851	909	900	921	1,008

1) Fiscal year in thousand cubic meters.
Sources : – Supplement to the President's Report to Parliament, August 16, 1996
– Ministry of Agriculture

Table 11
Outputs, Harvested Areas, and Average Production of Paddy and Secondary Crops

Crop	1992	1993	1994	1995	1996*
Outputs (thousand tons)					
Paddy 1)	31,357	31,318	30,313	32,334	32,874
Corn (kernel)	7,996	6,460	6,869	8,246	9,142
Cassava	16,516	17,285	15,729	15,441	16,910
Sweet potatoes	2,171	2,088	1,845	2,171	2,029
Peanuts	739	639	632	760	747
Soybeans	1,870	1,709	1,565	1,680	1,510
Mung beans	326	322	284	325	308
Harvested areas (thousand hectares)					
Paddy 1)	11,103	11,013	10,735	11,439	11,520
Corn (kernel)	3,629	2,940	3,109	3,652	3,680
Cassava	1,351	1,402	1,330	1,324	1,407
Sweet potatoes	230	224	197	229	214
Peanuts	720	624	643	739	697
Soybeans	1,666	1,470	1,407	1,477	1,276
Mung beans	393	374	292	361	338
Average production (quintals per hectare)					
Paddy 1)	28.3	28.4	28.1	28.3	28.5
Corn (kernel)	22.0	22.0	22.1	22.6	24.9
Cassava	122.3	123.0	117.0	116.6	120.2
Sweet potatoes	94.4	93.2	94.0	94.9	94.9
Peanuts	10.3	10.2	9.83	10.3	10.7
Soybeans	11.2	11.2	11.1	11.4	11.8
Mung beans	8.3	8.6	9.7	9.0	9.1

1) Equivalent to rice.
Sources : – Supplement to the President's Report to Parliament, August 16, 1996
– Ministry of Agriculture

Table 12
Selected Mining and Quarrying Outputs [1)]

Output	Unit	1992/93	1993/94	1994/95	1995/96	1996/97*
O i l	million barrels	550.4	599.9	591.6	586.7	582.8
Crude oil	million barrels	483.4	493.7	527.7	524.9	. . .
Condensate	million barrels	64.7	64.4	63.9	61.8	. . .
Natural gas	billion cubic feet	2,614.1	2,502.0	2,985.7	2,998.7	3,164.0
T i n	thousand tons	29.3	30.4	30.0	35.4	51.0
C o a l	thousand tons	23,684.4	28,559.5	35,298.5	41,806.3	47,338.6
Copper (concentrate)	thousand tons	905.6	960.0	1,109.3	1,608.7	1,758.9
Nickel						
Nickel ore	thousand tons	2,378.4	1,926.5	2,253.3	2,853.6	3,426.9
Ferro-nickel [2)]	thousand tons	5.4	5.3	7.0	10.2	9.6
Nickel matte [2)]	thousand tons	41.0	40.6	47.9	49.0	37.0
Bauxite	thousand tons	868.0	1,338.7	1,122.5	971.9	842,0
Gold	kilograms	40,325.4	43,908.8	45,272.1	61,201.5	83,659.7
Silver	kilograms	98,720.9	88,902.6	152,776.7	158,131.6	254,893.2

1) For 1996/97 in calendar year.
2) Indicating the amount of nickel content.
Sources : – Supplement to the President's Report to Parliament, August 16, 1996
– Ministry of Mining and Energy

Table 13
Selected Tourism Indicators

Item	Unit	1992	1993	1994	1995	1996*
Foreign tourists [1]	**thousand persons**	**3,064**	**3,403**	**4,006**	**4,324**	**4,195**
Ports of entry						
Airports	areas	13	23	23	23	23
Seaports	areas	11	11	11	11	11
Tourist points of interest	**areas**	**23**	**23**	**23**	**23**	**23**
Facilities						
Star-rated hotel	units	496	564	624	697	725
Number of rooms	units	47,290	53,134	59,091	66,357	69,994
Occupation rate	percent	51	51	52	52	51
Non-star-rated hotel [2]	units	6,998	7,274	7,663	7,964	7,964
Travel agencies [3]	**units**	**1,341**	**1,539**	**1,760**	**2,041**	**2,225**

1) For 1996 those recorded through 7 ports of entry.
2) Including Melati rated and others.
3) Including branch offices and agents.
Source : Ministry of Tourism, Post, and Telecommunication

Table 14
Selected Telecommunication Indicators

Item	Unit	1992	1993	1994	1995	1996
Telephone						
Central's capacity	line units	2,092,849	2,915,065	3,866,578	4,824,282	5,537,465
Installed capacity	line units	1,985,608	2,409,576	3,426,756	4,467,291	4,916,848
Customers	line units	1,548,927	1,863,947	2,462,831	3,290,854	3,919,301
Non-PBH	line units	1,430,832	1,713,345	2,209,694	2,822,264	3,416,110
PBH	line units	75,248	92,601	171,975	360,333	380,124
Coin public telephones	line units	32,620	41,674	49,969	56,906	63,325
Card public telephones	line units	2,884	7,882	18,765	33,751	34,976
Telecommunication stalls	line units	7,343	8,445	12,428	17,600	24,766
Utilized capacity	percent	78.01	77.36	71.87	73.67	79.71
Cellular						
Customers	line units	35,546	53,438	78,024	218,593	462,807
Telex						
Customers	line units	16,517	16,430	15,672	14,562	14,586
Accomplished dialing						
Local	percent	40.5	44.7	52.7	55.2	57.5
Long distance direct dialing	percent	26.0	36.3	42.7	47.6	51.8
Number of lines per 100 residents	line units	0.83	0.99	1.28	1.69	1.86
International direct dialing coverage						
Customers	line units	152,696	225,000	303,000	350,000	...
Cities of origin	cities	115	115	...	...	...
Countries of destination	countries	196	204	219	229	...

Source : Ministry of Tourism, Post, and Telecommunication

Table 15
PLN Electric Power Installed Capacity
(MW)

Year	Electric generators						Total
	Water powered	Steam powered	Gas and steam powered	Diesel powered	Gas powered	Geothermal powered	
1992/93	2,178	3,941	1,312	2,059	1,223	140	10,853
1993/94	2,178	3,891	1,817	2,097	1,243	140	13,569
1994/95	2,178	4,755	3,942	2,164	982	305	14,327
1995/96	2,180	4,821	4,413	2,218	1,020	308	14,970
1996/97 1)	2,180	4,920	4,412	2,350	1,105	308	15,275

1) Up to December 1996.
Source : State Electric Company (PLN)

Table 16
Electric Power Production
(million KWH) 1)

Year	PLN	Non-PLN	Total
1992/93	40,877	1,057	41,934
1993/94	45,469	1,250	46,719
1994/95	52,075	1,304	53,379
1995/96	59,830	1,281	61,111
1996/97 2)	50,749	1,315	51,794

1) Only those distributed by PLN to general public.
2) Up to December 1996.
Source : State Electric Company (PLN)

Table 17
Approved Domestic Investment Projects by Sector
(billion rupiah)

Sector	1992	1993	1994	1995	1996	Total [1)] 1968 – 1996 Value	Projects
Agriculture, forestry, and fishery	**2,485.3**	**3,092.5**	**7,401.0**	**16,071.4**	**16,071.4**	**62,894.8**	**1,618**
Agriculture	1,769.4	2,735.0	4,544.8	7,127.8	15,283.7	51,532.6	990
Forestry	533.7	257.5	261.5	1,476.4	45.6	3,434.8	294
Fishery	182.2	100.0	2,594.7	1,429.7	742.1	7,927.4	334
Mining	**236.3**	**69.2**	**112.4**	**205.1**	**406.1**	**5,392.6**	**167**
Manufacturing	**19,079.2**	**24,032.1**	**31,921.7**	**43,341.8**	**59,217.7**	**310,721.1**	**6,245**
Food	1,487.1	2,073.1	4,044.8	5,160.1	13,748.3	35,605.2	954
Textile	2,538.9	3,539.0	5,518.3	7,176.6	3,365.8	48,804.0	1,299
Wood	637.7	1,373.6	1,171.2	2,009.8	1,128.9	15,591.5	801
Paper	5,323.2	2,208.7	3,749.3	6,032.6	12,763.9	46,046.9	383
Chemical and pharmaceutical	3,355.2	7,767.1	5,377.8	9,021.6	13,392.7	75,415.5	1,270
Non-metal mineral	3,441.2	5,399.2	8,546.9	9,088.9	7,964.8	50,211.2	412
Basic metal	1,320.9	186.7	1,663.9	2,380.5	4,460.7	21,750.0	208
Metal products	904.6	1,460.8	1,783.5	2,338.5	2,375.9	16,707.2	819
Others	70.4	23.9	66.0	133.3	16.7	589.6	99
Construction	**215.4**	**186.6**	**731.1**	**847.7**	**1,550.0**	**5,125.6**	**142**
Hotel	**3,114.7**	**3,051.3**	**4,341.9**	**3,792.5**	**5,019.3**	**29,593.4**	**689**
Transportation	**860.1**	**3,827.4**	**3,119.8**	**3,965.9**	**3,065.0**	**16,825.1**	**884**
Real estate and office building	**1,746.2**	**4,392.9**	**3,803.8**	**5,337.2**	**9,425.7**	**32,490.9**	**347**
Other services	**1,604.5**	**798.4**	**1,857.4**	**2,265.8**	**5,906.0**	**15,243.9**	**288**
T o t a l	**29,341.7**	**39,450.4**	**53,289.1**	**69,853.0**	**100,715.2**	**478,287.4**	**10,380**

1) From July 1968 to December 1996, after taking into account cancellation and shifting of projects from foreign to domestic investment.
Source : Capital Investment Coordinating Board

Table 18
Approved Domestic Investment Projects by Province
(billion rupiah)

Province	1992	1993	1994	1995	1996	Total 1) 1968 –1996 Value	Projects
Jawa and Madura	**16,437.2**	**27,278.0**	**36,466.0**	**41,807.1**	**43,772.3**	**290,389.0**	**6,863**
Jakarta	4,001.9	8,828.9	5,968.3	11,645.2	14,395.5	55,469.7	1,676
West Jawa	7,876.1	11,681.8	15,863.0	19,338.0	19,213.5	150,646.3	3,184
Central Jawa	1,507.2	2,768.1	5,766.9	5,499.0	3,366.9	31,854.7	707
Yogyakarta	116.9	220.6	422.9	39.6	222.5	2,022.7	121
East Jawa	2,935.1	3,778.6	8,444.9	5,285.3	6,573.9	50,395.6	1,175
Sumatera	**5,695.8**	**4,473.7**	**8,518.6**	**13,074.9**	**24,033.6**	**86,877.6**	**1,653**
Aceh	1,450.1	304.9	127.6	280.6	1,474.8	5,434.4	113
North Sumatera	1,935.6	1,491.8	804.7	1,703.8	2,364.0	12,709.9	419
West Sumatera	42.9	15.9	573.3	716.4	3,066.7	6,298.1	136
Riau	1,175.2	961.4	3,682.5	4,309.9	8,854.8	32,653.1	415
Jambi	55.3	279.3	1,066.5	737.7	925.5	5,435.8	81
South Sumatera	519.6	854.0	360.5	3,628.2	5,024.1	12,887.5	256
Bengkulu	161.9	57.5	192.9	1,167.2	404.7	3,273.2	56
Lampung	355.2	508.9	1,710.6	531.2	1,919.0	8,185.6	177
Kalimantan	**3,257.2**	**3,377.5**	**4,113.7**	**8,378.9**	**18,432.4**	**49,823.6**	**774**
West Kalimantan	322.3	540.2	932.0	1,051.0	9,316.4	18,391.5	234
Central Kalimantan	2.3	2.8	873.2	1,857.9	2,182.9	5,351.6	127
South Kalimantan	1,157.7	1,107.8	366.1	195.2	2,709.9	7,160.1	154
East Kalimantan	1,774.9	1,726.7	1,942.4	5,274.9	4,223.2	18,920.4	259
Sulawesi	**699.9**	**1,138.9**	**1,656.8**	**2,710.9**	**6,272.9**	**18,572.1**	**451**
North Sulawesi	188.3	275.4	583.6	1,062.9	326.1	3,918.9	103
Central Sulawesi	33.2	122.5	30.9	1,219.5	2,636.8	5,110.6	70
South Sulawesi	178.4	679.4	673.0	376.5	2,597.5	7,307.8	244
Southeast Sulawesi	300.0	61.6	369.3	51.9	712.5	2,234.8	34
Nusa Tenggara	**939.3**	**116.5**	**69.2**	**205.1**	**244.6**	**3,083.7**	**125**
West Nusa Tenggara	596.0	98.0	46.9	183.7	0.7	1,858.8	73
East Nusa Tenggara	343.3	18.5	22.3	21.4	243.9	1,224.9	52
Bali	**676.7**	**444.6**	**1,716.3**	**1,320.8**	**561.3**	**8,938.3**	**291**
East Timor	**202.9**	**0.0**	**55.1**	**2.0**	**450.0**	**735.7**	**11**
Maluku	**107.0**	**2,192.0**	**51.4**	**1,750.6**	**282.6**	**6,570.8**	**125**
Irian Jaya	**1,325.7**	**429.2**	**642.0**	**602.7**	**6,665.5**	**13,296.6**	**87**
T o t a l	**29,341.7**	**39,450.4**	**53,289.1**	**69,853.0**	**100,715.2**	**478,287.4**	**10,380**

1) From July 1968 to December 1996, after taking into account cancellation and shifting of projects from foreign to domestic investment.

Source : Capital Investment Coordinating Board

Table 19
Approved Foreign Direct Investment Projects by Sector
(million $)

Sector	1992r	1993r	1994	1995	1996	Total [1] 1968 – 1996	
						Value	Projects
Agriculture, forestry, and fishery	**231.4**	**160.1**	**729.9**	**1,384.3**	**1,521.5**	**5,845.4**	**263**
Agriculture	65.9	138.2	690.4	1,153.1	1,306.2	4,547.0	151
Forestry	137.6	– –	– –	– –	135.5	650.2	28
Fishery	27.9	21.9	39.5	231.2	79.8	648.2	84
Mining	**2,312.0**	– –	-□-	-□-	**1,696.7**	**6,792.1**	**123**
Manufacturing	**5,686.5**	**3,421.4**	**18,738.8**	**26,891.9**	**16,072.2**	**115,221.4**	**2,931**
Food	212.8	161.6	1,234.8	1,331.8	691.4	5,375.9	229
Textile	599.6	419.4	396.4	471.1	514.6	6,512.1	501
Wood	33.5	38.6	68.1	262.9	101.1	1,264.5	210
Paper	686.4	201.6	5,120.1	2,540.5	2,907.3	23,847.4	85
Chemical and pharmaceutical	2,342.6	1,177.1	7,743.2	19,404.4	7,404.6	50,511.9	669
Non-metal mineral	850.0	97.8	631.9	289.3	789.8	5,054.5	123
Basic metal	46.6	180.3	2,081.6	291.7	650.9	7,719.9	100
Metal products	862.8	1,115.0	1,423.1	2,258.0	2,938.6	14,440.7	914
Others	52.2	30.0	39.6	42.2	73.9	494.5	100
Construction	**41.2**	**96.9**	**76.5**	**205.8**	**296.8**	**1,327.8**	**241**
Hotel	**919.8**	**394.4**	**343.6**	**998.8**	**1,716.5**	**10,588.0**	**188**
Transportation	**14.2**	**85.4**	**145.1**	**5,539.5**	**694.6**	**8,078.7**	**123**
Real estate and office building	**921.8**	**598.0**	**1,027.8**	**1,192.0**	**3,000.3**	**9,791.7**	**158**
Other services	**213.1**	**3,385.6**	**2,622.6**	**3,702.3**	**4,932.8**	**15,991.3**	**816**
T o t a l	**10,340.0**	**8,141.8**	**23,724.3**	**39,914.7**	**29,931.4**	**173,636.4**	**4,843**

1) From June 1967 to December 1996, after taking into account cancellation and shifting of projects from foreign to domestic investment.
Source : Capital Investment Coordinating Board

Table 20
Approved Foreign Direct Investment Projects by Province
(million $)

Province	1992r	1993r	1994	1995	1996	Total 1) 1968 - 1996	
						Value	Projects
Jawa and Madura	**6,018.8**	**6,569.5**	**14,356.3**	**27,491.9**	**17,908.4**	**111,761.0**	**3,712**
Jakarta	1,131.2	1,669.1	1,832.3	4,030.8	4,403.9	25,552.7	1,406
West Jawa	4,506.6	2,508.0	4,446.3	12,474.4	7,760.1	50,872.6	1,734
Central Jawa	42.5	50.3	1,830.2	726.7	3,273.7	8,520.5	135
Yogyakarta	48.4	56.3	0.2	79.5	69.0	291.9	15
East Jawa	290.1	2,285.8	6,247.3	10,207.5	2,401.7	26,523.3	422
Sumatera	**2,452.4**	**1,362.3**	**5,515.0**	**5,464.0**	**4,297.6**	**34,381.8**	**588**
Aceh	0.3	528.6	1,050.2	1,624.8	525.8	4,117.8	27
North Sumatera	657.8	72.3	225.3	658.1	614.7	5,985.7	109
West Sumatera	3.2	65.7	97.7	118.4	79.3	478.7	28
Riau	1,734.4	609.4	3,964.3	598.8	1,664.5	10,340.8	335
Jambi	– –	0.3	39.3	24.1	9.0	7,367.3	4
South Sumatera	5.6	-0-	82.9	1,968.3	1,292.3	4,634.7	40
Bengkulu	-0-	34.0	8.6	19.7	64.2	181.5	16
Lampung	51.1	52.0	46.7	451.8	47.8	1,275.3	29
Kalimantan	**441.2**	**12.8**	**2,058.3**	**1,649.2**	**2,876.6**	**9,394.6**	**161**
West Kalimantan	-0-	2.0	7.7	175.3	547.1	836.0	40
Central Kalimantan	6.0	-0-	0.0	73.4	140.2	481.3	35
South Kalimantan	361.4	9.8	1,951.0	84.9	19.2	2,894.5	33
East Kalimantan	73.8	1.0	99.6	1,315.6	2,170.1	5,182.8	53
Sulawesi	**91.4**	**40.2**	**1,448.4**	**2,394.4**	**2,552.6**	**8,388.1**	**103**
North Sulawesi	25.6	32.0	40.5	164.3	72.3	808.9	38
Central Sulawesi	2.0	-0-	6.3	105.6	10,0	161.4	25
South Sulawesi	3.2	8.2	1,395.3	2,114.0	2,467.5	7,339.3	39
Southeast Sulawesi	60.6	-0-	6.3	0.5	2.8	78.5	11
Nusa Tenggara	**44.9**	**3.8**	**7.3**	**99.9**	**1,385.0**	**1,585.8**	**39**
West Nusa Tenggara	42.0	1.3	2.3	61.9	1,316.2	1,460.0	24
East Nusa Tenggara	2.9	2.5	5.0	38.0	68.8	125.8	15
Bali	**476.0**	**47.8**	**29.2**	**228.7**	**380.0**	**3,144.4**	**187**
East Timor	**-0-**	**-0-**	**-0-**	**29.2**	**2.8**	**32.1**	**–**
Maluku	**0.9**	**-0-**	**-0-**	**244.7**	**4.9**	**368.3**	**15**
Irian Jaya	**814.4**	**105.4**	**309.9**	**2,322.5**	**523.5**	**4,580.3**	**38**
Jumlah	**10,340.0**	**8,141.8**	**23,724.4**	**39,914.7**	**29,931.4**	**173,636.4**	**4,843**

1) From June 1967 to December 1996, after taking into account cancellation and shifting of projects from foreign to domestic investment.
Source : Capital Investment Coordinating Board

Table 21
Approved Foreign Direct Investment Projects by Country of Origin
(million $)

Country of origin	1992r	1993r	1994	1995	1996	Total 1) 1968 –1996 Value	Total 1) 1968 –1996 Projects
Europe	**1,364.6**	**930.0**	**3,385.4**	**8,951.6**	**5,233.4**	**33,185.6**	**705**
Netherlands	96.2	311.4	165.7	360.1	1,329.5	4,620.0	157
Belgium	21.7	9.9	0.0	9.3	39.5	325.1	27
United Kingdom	978.2	301.1	2,957.1	6,322.1	3,390.6	20,809.2	217
Germany	36.7	120.6	113.1	1,344.6	164.9	3,645.1	101
France	19.9	158.0	37.1	498.4	70.8	1,038.9	59
Switzerland	11.5	17.9	70.8	44.9	160.1	855.3	58
Others	200.4	11.1	41.6	372.2	78.0	1,892.0	86
America	**942.2**	**526.5**	**1,027.0**	**2,795.2**	**754.5**	**8,866.0**	**333**
United States	922.5	444.5	977.0	2,770.6	642.1	7,962.5	261
Canada	0.1	46.5	39.0	10.5	35.8	135.6	39
Others	19.6	35.5	11.0	14.1	76.6	767.9	33
Asia	**4,334.4**	**3,652.5**	**14,168.8**	**9,234.7**	**18,371.3**	**78,878.4**	**3,081**
Hong Kong	1,020.6	384.1	6,041.7	1,763.3	1,105.6	14,577.8	358
Japan	1,527.7	836.0	1,562.5	3,792.0	7,655.3	27,778.6	919
South Korea	618.3	661.4	1,849.1	674.7	1,231.4	7,509.6	418
Malaysia	15.8	36.7	421.8	877.0	1,393.3	3,040.1	146
Philippines	0.3	–	35.9	31.2	3.1	89.8	16
Singapore	465.1	1,454.6	1,664.4	1,468.5	3,131.0	13,266.2	595
Taiwan	579.9	131.4	2,487.6	567.4	534.6	8,568.9	506
Thailand	55.8	2.7	11.7	34.5	1,610.6	1,746.6	28
Others	50.9	145.6	94.1	26.1	1,706.4	2,300.8	95
Australia	**84.8**	**158.0**	**53.3**	**3,712.4**	**515.7**	**5,973.2**	**259**
Africa	**4.4**	**384.0**	**6.4**	**0.0**	**5.7**	**872.0**	**19**
Joint countries	**3,609.6**	**2,490.8**	**5,083.5**	**15,221.0**	**5,050.8**	**45,861.2**	**446**
T o t a l	**10,340.0**	**8,141.8**	**23,724.4**	**39,914.7**	**29,931.4**	**173,636.4**	**4,843**

1) From June 1967 to December 1996, after taking into account cancellation and shifting of projects from foreign to domestic investment.
Source : Capital Investment Coordinating Board

Table 22
Monthly Average Wages by Economic Sector
(thousand rupiah)

Economic sector	Average minimum wage			Average maximum wage		
	1994	1995	1996	1994	1995	1996
Plantation	240	272	271	1,835	1,927	1,941
Mining and quarrying	487	506	573	4,669	4,906	5,297
Manufacturing	207	238	241	3,112	3,453	3,453
Construction	296	327	409	2,777	3,047	3,621
Electricity, gas, and water supply	173	267	312	2,744	3,552	3,908
Trade/bank and insurance	326	368	399	4,506	4,904	5,808
Transportation	467	494	494	4,311	4,399	4,399
Services	235	281	333	2,509	2,780	2,780

Source : Ministry of Manpower

Table 23
Consumer Price Index (Composite of 27 Cities)
(April 1988 through March 1989 = 100)

End of period	Foodstuffs	Housing	Clothing	Miscella-neous	General Index	Changes in the General Index[1] (%)
1991/92	125.82	134.59	120.76	136.14	130.34	+9.78
1992/93	140.81	149.41	133.22	147.76	143.96	+10.03
1993/94	149.02	165.06	143.55	155.77	154.41	+7.04
1994/95	167.29	180.76	151.70	163.48	168.18	+8.57
1995/96						+8.86
April-June	170.92	185.13	153.31	168.11	172.14	+2.34
July-September	173.69	187.18	155.35	170.92	174.57	+1.41
October-December	179.14	188.93	157.42	173.33	177.83	+1.85
January-March	190.39	192.15	162.05	175.45	183.65	+3.26
1996/97						+5.17
April	186.67	193.41	162.84	184.00	185.08	+0.78
May	185.63	194.15	163.77	184.88	185.19	+0.06
June	184.71	194.48	163.89	185.23	185.06	–0.07
July	186.64	195.30	164.72	186.25	186.32	+0.68
August	185.99	195.82	164.99	188.41	186.83	+0.27
September	184.48	196.84	165.50	188.63	186.76	–0.04
October	184.50	197.86	165.82	190.48	187.52	+0.41
November	187.59	197.91	165.99	190.56	188.59	+0.57
December	189.99	198.00	166.76	190.72	189.62	+0.55
January	193.50	198.50	167.73	192.48	191.58	+1.03
February	198.32	198.48	169.74	193.38	193.60	+1.05
March	197.63	198.92	170.02	192.60	193.36	–0.12

1) Annual and quarterly changes of CPI are calculated on a cumulative basis as summation of the monthly percentage changes.
Source : Central Bureau of Statistics

Table 24
Wholesale Price Index [1]
(1983 = 100)

Group	1992/93	1993/94	1994/95	1995/96	1996	Changes of 1996 over 1995 (%)
Agriculture	225	260	313	367	399	12.43
Mining and quarrying	202	222	244	273	296	11.42
Manufacturing	206	220	237	260	265	3.58
Imports	208	212	218	234	243	5.40
Exports	159	154	165	182	203	14.21
Oil/gas	143	131	135	146	173	21.12
Non-oil/gas	212	231	268	304	306	2.65
General index	197	205	222	245	259	7.86

1) Average figures in the fiscal/calendar year.
Source : Central Bureau of Statistics

Table 25
Balance of Payments [1]
(million $)

Item	1992/93	1993/94	1994/95	1995/96 r	1996/97*
A. Balance of goods and services	**–2,561**	**–2,940**	**–3,488**	**–6,987**	**–8,097**
1. Merchandise, exports f.o.b.	35,303	36,504	42,161	47,754	52,186
imports f.o.b.	–27,317	–29,127	–34,122	–41,502	–45,852
2. Freight and insurance on imports	–2,995	–3,194	–3,751	–4,569	–5,048
3. Other transportation	–903	–981	–929	–962	–1,000
4. Travel	1,904	2,174	2,892	3,149	3,971
5. Investment income	–5,887	–5,872	–7,064	–7,851	–8,484
5.1. Oil and LNG sector	–2,355	–1,987	–1,942	–2,052	–2,282
5.2. Direct investment and others	–3,532	–3,885	–5,122	–5,799	–6,220
6. Government, not included elsewhere	–214	–153	–164	–190	–210
7. Other services	–2,452	–2,291	–2,511	–2,816	–3,660
Balance of goods (1)	**7,986**	**7,377**	**8,039**	**6,252**	**6,334**
Balance of services (2 through 7)	**–10,547**	**–10,317**	**–11,527**	**–13,239**	**–14,431**
B. Grants	**250**	**200**	**240**	**230**	**250**
8. Private	–0–	–0–	– –	– –	– –
9. Government	250	200	240	230	250
C. Current account (A + B)	**–2,311**	**–2,740**	**–3,248**	**–6,757**	**–7,847**
D. Capital movements	**3,510**	**4,784**	**3,894**	**8,582**	**6,888**
D.1. Other than reserves	4,949	5,511	4,510	11,233	10,786
10. Direct investment and other long-term capital movements	4,815	5,213	4,259	11,160	10,731
10.1. Direct investment	1,705	1,917	2,566	5,357	6,546
10.2. Bonds	– –	– –	– –	– –	– –
a. Official	– –	– –	– –	– –	– –
b. Private	–0–	–0–	–0–	–0–	–0–
10.3. Other long-term capital movements	3,110	3,242	1,693	5,803	4,185
a. Official	665	863	–135	–439	–1,001
b. Private	2,445	2,379	1,828	6,242	5,186
11. Short-term capital movements	134	298	251	73	55
11.1. Official	–0–	–0–	–0–	–0–	–0–
11.2. Private	134	298	251	73	55
D.2. Reserves	–1,439	–727	–616	–2,651	–3,898
12. Monetary gold	52	–148	9	–43	142
13. Special Drawing Rights	2	–0–	–0–	–7	6
14. Reserves position in the Fund	–169	6	–27	15	15
15. Foreign exchange	–1,324	–585	–598	–2,615	–4,061
16. Others	–0–	–0–	–0–	–1	–0–
E. Errors and Omissions (between C and D) [2]	**–1,199**	**–2,044**	**–646**	**–1,825**	**959**

1) Presentation follows the IMF standard.
2) Positive is for credit and negative for debit.

Table 26
Export Value [1]
(million $)

Item	1992/93	1993/94	1994/95r	1995/96r	1996/97*
Non-oil/gas	**24,825**	**27,170**	**31,716**	**37,138**	**39,591**
Wood and wood products	4,343	6,152	5,171	5,226	5,461
Log	13	11	59	68	55
Plywood	3,270	4,507	3,359	3,390	3,549
Sawn timber	93	147	168	154	134
Others	967	1,486	1,585	1,614	1,723
Rubber	1,054	974	1,511	2,011	1,788
Coffee	264	345	747	650	609
Palm oil	495	555	965	988	994
Shrimp and other animal products	1,266	1,476	1,636	1,694	1,730
Shrimp	745	883	980	1,020	1,033
Others	521	593	656	674	697
Tea	143	144	102	94	108
Foodstuffs	579	619	698	757	884
Tapioca	119	74	47	80	48
Others	460	546	651	677	836
Pepper	55	56	86	161	93
Tobacco	79	71	71	79	389
Copra cakes	63	65	71	75	107
Hides	43	41	49	44	36
Cacao	202	187	233	241	277
Rattan and rattan products	298	346	356	378	286
Textile and textile products	5,876	5,651	5,716	6,145	6,191
Handicrafts	605	689	991	568	562
Electrical appliances	1,100	1,290	2,038	2,779	3,898
Urea fertilizer	147	168	192	281	291
Cement	104	47	30	13	13
Iron steel	395	451	767	583	540
Paper	405	520	1,002	1,467	1,366
Glasswares	137	159	166	215	211
Footwears	1,355	1,650	1,936	2,085	2,123
Mining products	2,195	2,278	2,725	3,912	3,751
Tin	145	86	145	278	289
Copper	719	744	903	1,574	1,525
Aluminum	199	166	251	341	314
Nickel	283	329	368	397	348
Gold	170	202	75	61	81
Natural sands	20	10	21	43	29
Others	659	740	962	1,218	1,165
Others	3,622	3,236	4,457	6,692	7,883
Oil [2]	**6,363**	**5,512**	**6,312**	**6,529**	**7,436**
Gas	**4,117**	**3,822**	**4,133**	**4,087**	**5,159**
LNG	3,764	3,507	3,746	3,603	4,612
LPG	353	315	387	484	547
Total	**35,305**	**36,504**	**42,161**	**47,754**	**52,186**

1) Commodity classification system changed from CCCN to HS in 1991/92, shifting the grouping of some export commodities.
2) Consisting of crude oil and oil products.

Table 27
Export Volume
(thousand tons)

Item	1992/93	1993/94	1994/95r	1995/96r	1996/97*
Non-oil/gas	**80,343**	**109,618**	**105,556**	**159,113**	**114,584**
Wood and wood products	9,224	8,317	6,696	6,631	6,248
Log	262	214	753	736	530
Plywood	5,701	5,993	5,034	5,035	4,729
Sawn timber	248	172	175	159	139
Others	3,013	1,937	734	701	850
Rubber	1,529	1,253	1,296	1,453	1,362
Coffee	270	331	262	269	363
Palm oil	1,033	1,563	1,903	1,719	1,691
Shrimp and other animal products	410	527	567	569	542
Shrimp	159	136	129	127	124
Others	251	391	438	442	418
T e a	127	120	90	86	88
Foodstuffs	1,536	2,253	2,497	2,257	2,010
Tapioca	521	813	432	633	398
Others	1,051	1,439	2,066	1,624	1,612
Pepper	50	30	37	62	30
Tobacco	35	35	55	28	28
Copra cakes	486	492	803	857	840
Hides	3	3	2	2	1
Cacao	158	184	215	217	214
Rattan and rattan products	126	114	115	107	76
Textile and textile products	728	762	844	922	921
Handicrafts	312	115	129	131	109
Electrical appliances	171	175	238	299	296
Urea fertilizer	715	1,453	1,307	1,310	1,315
Cement	1,873	872	600	239	184
Iron steel	652	984	972	775	690
Paper	652	872	1,387	1,856	2,292
Glasswares	267	337	368	456	572
Footwears	186	211	224	221	180
Mining products	56,064	83,412	80,674	133,093	89,510
T i n	25	17	27	45	45
Copper	1,010	1,022	1,127	1,561	1,680
Aluminum	143	297	404	983	570
Nickel	1,660	1,613	1,756	1,957	1,751
Gold [1)]	. . .	. . .	6,354	4,070	6,476
Natural sands	37,100	19,700	46,200	88,300	49,900
Others	16,126	60,763	31,160	40,248	35,564
Others	3,736	5,204	4,273	5,556	5,022
O i l (million barrels) [2)]	**348**	**352**	**389**	**383**	**360**
G a s					
LNG (million MMBTUs) [3)]	1,240	1,277	1,368	1,264	1,354
LPG	2,492	2,546	2,530	2,610	2,534

1. Volume in kilogram.
2. Consisting of crude oil and oil products.
3. MMBTUs : mille mille British thermal units.

Table 28
Non-oil/gas Export Value by Country of Destination
(million $)

Continent/country	1992/93	(%)	1993/94	(%)	1994/95	(%)	1995/96r	(%)	1996/97*	(%)
Africa	**541.0**	**2.2**	**477.2**	**1.8**	**608.8**	**1.9**	**693.6**	**1.9**	**635.5**	**1.6**
America	**4,713.9**	**19.0**	**5,352.5**	**19.7**	**6,346.9**	**20.0**	**6,983.0**	**18.8**	**7,820.7**	**19.8**
United States	4,005.8	16.1	4,577.9	16.8	5,391.4	17.0	5,837.2	15.7	6,584.4	16.6
Canada	279.9	1.1	411.7	1.5	332.4	1.0	366.4	1.0	382.6	1.0
Others	428.2	1.7	362.9	1.3	623.1	2.0	779.4	2.1	853.7	2.2
Asia	**14,086.2**	**56.7**	**15,369.2**	**56.6**	**17,617.1**	**55.5**	**20,689.5**	**55.7**	**22,375.9**	**56.5**
ASEAN	4,784.2	19.3	4,062.2	15.0	4,830.4	15.2	5,743.1	15.5	6,301.8	15.9
Brunei Darussalam	31.9	0.1	30.2	0.1	46.9	0.1	26.3	0.1	31.0	0.1
Malaysia	521.9	2.1	571.8	2.1	766.8	2.4	1,069.0	2.9	1,112.4	2.8
Philippines	179.7	0.7	251.6	0.9	383.4	1.2	623.8	1.7	547.2	1.4
Singapore	3,623.6	14.6	3,726.4	13.7	3,203.0	10.1	3,412.0	9.2	3,950.5	10.0
Thailand	427.1	1.7	367.0	1.4	430.3	1.4	612.0	1.6	660.8	1.7
Hong Kong	950.4	3.8	1,001.3	3.7	1,423.6	4.5	1,575.4	4.2	1,601.6	4.0
South Korea	719.8	2.9	1,022.0	3.8	1,112.5	3.5	1,437.5	3.9	1,323.3	3.3
Taiwan	788.5	3.2	1,011.6	3.7	1,159.4	3.7	1,084.3	2.9	1,104.0	2.8
China	763.5	3.1	655.0	2.4	825.0	2.6	943.8	2.5	984.6	2.5
India	68.6	0.3	95.7	0.4	265.1	0.8	378.9	1.0	423.1	1.1
Pakistan	108.9	0.4	112.3	0.4	143.8	0.5	115.4	0.3	126.0	0.3
Japan	4,140.8	16.7	5,545.9	20.4	5,983.8	18.9	7,000.1	18.8	8,021.9	20.3
Middle East	1,171.4	4.7	547.9	2.0	467.0	1.5	1,420.6	3.8	1,407.0	3.6
Iraq	3.4	0.0	5.2	0.0	9.2	0.0	5.9	0.0	1.1	0.0
Iran	27.2	0.1	0.0	0.0	0.0	0.0	141.7	0.4	118.2	0.3
Saudi Arabia	638.3	2.6	508.4	1.9	422.2	1.3	481.8	1.3	524.4	1.3
Kuwait	50.3	0.2	0.0	0.0	0.0	0.0	64.4	0.2	76.3	0.2
Jordan	32.5	0.1	0.0	0.0	0.0	0.0	66.0	0.2	47.8	0.1
Arab Emirates	391.7	1.6	0.0	0.0	0.0	0.0	554.3	1.5	543.7	1.4
Others	28.1	0.1	34.3	0.1	35.7	0.1	106.5	0.3	95.4	0.2
Others	589.1	2.4	1,315.3	4.8	1,404.3	4.4	990.4	2.7	1,082.6	2.7
Europe	**5,046.3**	**20.3**	**5,499.1**	**20.2**	**6,579.4**	**20.7**	**7,436.3**	**20.0**	**8,117.8**	**20.5**
European Community	4,716.3	19.0	5,046.5	18.6	6,025.7	19.0	6,747.7	18.2	7,419.7	18.7
Netherlands	1,009.8	4.1	1,120.8	4.1	1,389.9	4.4	1,497.3	4.0	1,576.4	4.0
Belgium-Luxemburg	391.3	1.6	368.1	1.4	421.2	1.3	542.9	1.5	667.4	1.7
United Kingdom	848.6	3.4	987.7	3.6	1,067.7	3.4	1,159.0	3.1	1,198.5	3.0
Italy	486.5	2.0	474.1	1.7	580.2	1.8	676.9	1.8	563.0	1.4
Germany	1,051.2	4.2	1,155.1	4.3	1,324.6	4.2	1,453.6	3.9	1,429.2	3.6
France	465.3	1.9	451.2	1.7	450.7	1.4	533.3	1.4	567.7	1.4
Others	463,7	1.9	507.4	1.9	791.3	2.5	884.7	2.4	1,417.6	3.6
Former Soviet Union	69.2	0.3	0.0	0.0	0.0	0.0	140.9	0.4	130.4	0.3
Other Eastern Europe	105.3	0.4	112.3	0.4	202.9	0.6	241.6	0.7	219.7	0.6
Other	155.5	0.6	322.3	1.2	350.8	1.1	306.1	0.8	347.9	0.9
Australia & Oceania	**430.9**	**1.7**	**472.0**	**1.7**	**563.9**	**1.8**	**599.4**	**1.6**	**640.2**	**1.6**
Others	**3.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**736.2**	**2.0**	**0.9**	**0.0**
Total	**24,823.0**	**100.0**	**27,170.0**	**100.0**	**31,716.0**	**100.0**	**37,138.0**	**100.0**	**39,591.0**	**100.0**

Table 29
Non-oil/gas Import Value by Country of Origin [1)]
(million $)

Continent/country	1992/93	(%)	1993/94	(%)	1994/95	(%)	1995/96r	(%)	1996/97 *	(%)
Africa	**176**	**0.7**	**72**	**0.3**	**296**	**1.0**	**360**	**1.0**	**509**	**1.2**
America	**4,352**	**18.3**	**3,536**	**14.0**	**4,973**	**16.3**	**6,347**	**16.9**	**7,254**	**17.5**
United States	3,518	14.8	2,527	10.0	3,810	12.5	4,617	12.3	5,298	12.8
Latin America	395	1.7	540	2.1	727	2.4	968	2.6	996	2.4
Canada	390	1.6	398	1.6	403	1.3	654	1.7	848	2.0
Others	49	0.2	72	0.3	42	0.1	108	0.3	113	0.3
Asia	**11,855**	**49.9**	**13,743**	**54.3**	**16,562**	**54.4**	**19,662**	**52.3**	**20,198**	**48.7**
ASEAN	1,694	7.1	1,557	6.2	1,966	6.5	2,944	7.8	3,582	8.5
Brunei Darussalam	1	0.0	0	0.0	1	0.0	1	0.0	5	0.0
Malaysia	323	1.4	414	1.6	433	1.4	618	1.6	710	1.7
Philippines	49	0.2	42	0.2	60	0.2	68	0.2	100	0.2
Singapore	1,073	4.5	900	3.6	1,051	3.5	1,423	3.8	1,668	4.0
Thailand	248	1.0	201	0.8	422	1.4	835	2.2	1,045	2.5
Hong Kong	205	0.9	215	0.8	190	0.6	237	0.6	257	0.6
India	167	0.7	350	1.4	254	0.8	586	1.6	888	2.1
Iraq	0	0.0	0	0.0	0	0.0	2	0.0	2	0.0
Japan	5,673	23.9	7,144	28.2	8,457	27.8	9,488	25.2	9,146	22.0
South Korea	1,817	7.7	1,830	7.2	2,074	6.8	2,278	6.1	2,510	6.0
Myanmar	7	0.0	16	0.1	55	0.2	116	0.3	34	0.1
Pakistan	90	0.4	42	0.2	24	0.1	142	0.4	59	0.1
China	657	2.8	839	3.3	1,573	5.2	1,357	3.6	1,350	3.3
Saudi Arabia	163	0.7	324	1.3	233	0.8	302	0.8	177	0.4
Taiwan	1,123	4.7	1,217	4.8	1,391	4.6	1,686	4.5	1,663	4.0
Others	260	1.1	209	0.8	373	1.1	525	1.4	584	1.4
Australia & Oceania	**1,201**	**5.1**	**1,152**	**4.5**	**1,432**	**4.7**	**2,340**	**6.2**	**2,664**	**6.4**
Europe	**6,167**	**26.0**	**6,809**	**26.9**	**7,162**	**23.5**	**8,887**	**23.6**	**10,877**	**26.2**
European Community	5,166	21.8	5,506	26.8	5,653	18.6	6,936	18.4	8,363	20.2
Netherlands	600	2.5	521	2.1	454	1.5	570	1.5	514	1.2
Belgium-Luxemburg	269	1.1	332	1.3	281	0.9	384	1.0	408	1.0
United Kingdom	628	2.6	659	2.6	567	1.9	966	2.6	1,108	2.7
Italy	677	2.9	804	3.2	939	3.1	757	2.0	1,332	3.2
Germany	1,901	8.0	2,170	8.6	2,298	7.6	2,844	7.6	3,106	7.5
France	733	3.1	690	2.7	694	2.3	948	2.5	1,137	2.7
Others	358	1.5	331	1.3	420	1.1	468	1.2	758	1.8
Former Soviet Union	46	0.2	106	0.4	276	0.9	377	1.0	362	0.9
Other Eastern Europe [2)]	67	0.3	118	0.5	264	0.9	135	0.4	193	0.5
Others	888	3.7	1,079	4.3	984	3.2	1,440	3.8	1,958	4.7
Total	**23,751**	**100.0**	**25,311**	**100.0**	**30,476**	**100.0**	**37,597**	**100.0**	**41,502**	**100.0**

1) Import value, f.o.b.
2) Comprising Czech, Slovak, East Germany, Hungary, Poland, Romania, Bulgaria, and former Yugoslavia.

Table 30
Money Supply
(billion rupiah)

End of period	M1 1) Outstanding	M1 1) Share (%)	Quasi money 2) Outstanding	Quasi money 2) Share (%)	M2 3) Outstanding	M2 3) Changes (%) Annual	M2 3) Changes (%) Quarterly
1992	28,779	24.2	90,274	75.8	119,053	20.2	3.2
1992/93	30,592	24.8	92,568	75.2	123,160	22.2	3.5
1993	36,805	25.3	108,397	74.7	145,202	22.0	6.5
1993/94	37,908	25.5	110,921	74.5	148,829	20.8	2.5
1994	45,374	26.0	129,138	74.0	174,512	20.2	7.1
1994/95	44,908	24.7	136,793	75.3	181,701	22.1	4.1
1995	52,677	23.7	169,961	76.3	222,638	27.6	8.0
1996							
January	52,183	23.4	170,682	76.6	222,865	26.5	0.1
February	53,960	23.7	173,988	76.3	227,948	26.8	
March	53,162	22.9	179,331	77.1	232,493	28.0	4.3
April	53,586	22.5	184,418	77.5	238,004	30.2	
May	53,751	22.2	188,402	77.8	242,153	30.8	
June	56,448	22.6	192,995	77.4	249,443	29.8	7.3
July	57,716	22.8	195,676	77.2	253,392	28.7	
August	57,598	22.6	197,686	77.4	255,284	26.3	
September	59,684	23.0	200,242	77.0	259,926	26.1	4.2
October	59,595	22.2	208,725	77.8	268,320	27.1	
November	60,182	21.7	217,177	77.4	277,359	28.5	
December	64,089	22.2	224,543	77.8	288,632	29.6	11.0
1997							
January	65,876	22.6	224,977	77.4	290,853	30.5	
February	64,985	22.2	228,255	77.8	293,240	28.6	
March	63,565	21.6	231,016	78.4	294,581	26.7	2.1

1) Consisting of currency and demand deposits.
2) Consiting of time and savings deposits, in rupiah and foreign currency, and demand deposits in foreign currency held by the domestic private sector.
3) Consisting of M1 and quasi money.

Table 31
Factors Affecting Money Supply
(billion rupiah)

Item	1994	1994/95	1995	1995/96	1996 I	1996 II	1996 III	1996 IV	1997 I	1996/97
Changes of broad money (M2)	**29,310**	**32,872**	**48,126**	**50,792**	**9,855**	**16,950**	**10,483**	**28,706**	**5,950**	**62,088**
Narrow money M1	8,569	7,000	7,293	8,254	485	3,286	3,236	4,405	–524	10,403
Currency	4,203	3,562	2,173	2,219	314	150	-216	1,432	825	2,191
Demand deposits	4,366	3,438	5,130	6,035	171	3,136	3,452	2,973	–1,349	8,212
Quasi money 1)	20,741	25,872	40,823	42,538	9,370	13,664	7,247	24,301	6,474	51,685
Effecting factors :										
Foreign assets (net)	–4,428	–3,976	7,354	9,102	2,650	2,458	836	12,071	–138	15,227
Claims on central government	–4,686	–2,710	–7,472	–5,200	1,581	–3,093	914	–2,159	229	–4,107
Claims on entities/ enterprises and individuals	37,360	39,485	48,809	48,328	7,176	15,041	14,118	20,070	11,841	62,827
Claims on official entities/ public enterprises	–485	–574	1,305	3,252	2,011	2,265	96	265	347	2,479
Claims on private enter- prises and individuals	37,845	40,059	47,504	45,076	5,165	12,776	14,022	19,805	11,494	60,348
Net other items	1,064	73	–565	–1,438	–1,552	2,544	–5,385	–1,276	–5,982	–11,859

1) Consisting of time and savings deposits, in rupiah and foreign currency, and demand deposits in foreign currency held by residents.

Table 32
Interest Rates on Time Deposit in Rupiah and Foreign Currency
(percent per annum)

Maturity	March 1995		March 1996		March 1997	
	Rupiah	Foreign currency	Rupiah	Foreign currency	Rupiah	Foreign currency
State banks						
1 month	13.00-14.00	6.00-6.50	14.00-15.50	6.00-6.50	13.50-14.00	6.00-6.50
3 months	14.00-14.00	6.50-6.63	14.00-15.50	6.00-6.50	13.50-14.00	6.00-6.50
6 months	15.00-15.00	7.00-7.50	15.00-16.50	6.25-7.50	14.50-15.00	6.00-7.00
12 months	14.50-15.00	7.00-7.81	15.00-16.50	6.25-7.50	14.50-15.00	6.00-7.50
24 months	15.00-15.00	–	15.00-16.50	–	–	–
Private national banks						
1 months	12.50-16.50	6.00-8.75	14.00-17.50	6.25-8.00	14.00-17.50	6.25-8.00
3 months	13.00-17.00	6.00-9.00	14.50-18.00	6.50-8.50	14.00-18.00	6.50-8.50
6 months	13.50-18.00	6.25-9.00	15.50-19.00	6.50-8.50	14.50-18.50	6.75-8.50
12 months	14.50-18.00	6.25-9.00	15.00-19.00	6.50-8.00	14.50-19.00	6.75-8.5
24 months	16.00-16.00	–	16.00-16.00	–	15.50-15.50	–
Foreign and joint banks						
1 month	9.50-13.50	2.00-6.00	10.50-14.50	3.00-6.00	7.50-14.00	3.00-6.00
3 months	9.75-13.50	2.50-6.25	10.75-15.00	3.00-6.25	8.25-14.50	3.00-6.25
6 months	9.50-14.50	3.00-6.75	11.00-16.00	3.00-6.75	8.50-15.00	3.00-6.50
12 months	10.00-14.50	3.50-7.25	12.00-16.00	3.00-6.75	8.50-15.50	3.00-6.75

Table 33
Interbank Call Money in Jakarta

End of period		Value of transaction (billion rupiah)	Weighted average interest rate (percent per annun)
1984 :	January – December	12,250	19.39
1985 :	January – December	8,055	9.95
1986 :	January – December	8,022	13.26
1987 :	January – December	9,323	14.50
1988 :	January – December	12,491	14.93
1989 :	January – December	22,906	12.40
1990 :	January – December	38,904	14.94
1991 :	January – December	48,420	15.32
1992 :	January – December	57,808	12.09
1993 :	January – March	17,112	11.41
	April–June	26,067	10.03
	July–September	20,957	6.83
	October–December	25,970	7.15
1994 :	January – March	25,616	7.44
	April–June	27,535	9.31
	July–September	27,579	10.75
	October–December	30,261	11.64
1995 :	January–March	33,451	12.75
	April–June	40,276	15.10
	July–September	57,297	13.03
	October–December	58,233	13.66
1996 :	January	23,296	12.82
	February	19,253	13.30
	March	20,010	12.40
	January–March	62,559	12.83
	April	38,019	15.12
	May	42,169	14.86
	June	43,644	13.93
	April–June	123,832	14.61
	July	50,863	14.37
	August	53,921	15.07
	September	43,574	14.81
	July–September	148,358	14.75
	October	47,993	14.84
	November	49,666	12.98
	December	45,156	13.05
	October–December	142,815	13.63
1997 :	January	52,345	12.72
	February	41,032	12.75
	March	44,744	10.73
	January-March	138,121	12.08

Table 34
Discount Rates on Certificate of Deposit
(percent per annun)

Maturity	1996				1997
	March	June	September	December	March
1 month	10.25-16.50	10.25-16.50	10.25-16.50	10.25-16.50	10.25-16.00
3 months	10.50-17.00	10.50-17.00	10.50-17.00	10.50-17.00	10.50-16.00
6 months	10.50-17.00	10.50-17.00	10.50-17.00	10.50-17.00	10.50-16.50
12 months	11.00-17.00	11.00-17.00	11.00-17.00	11.00-17.00	11.00-16.50

Table 35
Issuance, Repayment, and Outstanding of Bank Indonesia Certificates (SBIs)
(billion rupiah)

Period	Issuance	Cumulative	Repayment	Cumulative	Outstanding
1992/93	**79,850**	**298,327**	**68,079**	**275,317**	**23,010**
April–June	13,073	231,550	8,770	216,008	15,542
July–September	16,272	247,822	13,832	229,840	17,982
October–December	18,988	266,810	16,371	246,211	20,599
January–March	31,517	298,327	29,106	275,317	23,010
1993/94	**149,240**	**447,567**	**152,479**	**427,796**	**19,771**
April–June	19,390	317,717	23,670	298,987	18,730
July–September	43,579	361,296	43,646	342,633	18,663
October–December	52,391	413,687	47,619	390,252	23,435
January–March	33,880	447,567	37,544	427,976	19,771
1994/95	**78,240**	**525,807**	**86,836**	**514,632**	**11,175**
April–June	16,759	464,326	21,292	449,088	15,238
July–September	16,992	481,318	18,139	467,227	14,091
October–December	24,487	505,805	23,524	490,751	15,054
January–March	20,002	525,807	23,881	514,632	11,175
1995/96	**106,882**	**632,689**	**111,023**	**625,655**	**7,034**
April–June	21,171	546,978	21,341	535,973	11,005
July–September	27,485	574,463	27,981	563,954	10,509
October–December	30,048	604,511	28,707	592,661	11,850
January–March	32,496	637,007	33,528	626,189	10,818
1996					
January	9,364	613,875	10,308	602,969	10,906
February	9,840	623,715	9,598	612,567	11,148
March	13,292	637,007	13,623	626,190	10,818
April	7,581	644,588	8,073	634,262	10,326
May	12,270	656,858	11,889	646,152	10,706
June	9,128	665,986	7,373	653,526	12,461
July	9,835	675,821	10,800	664,326	11,496
August	9,820	685,641	9,135	673,461	12,181
September	9,765	695,406	10,476	683,937	11,470
October	11,318	706,724	9,818	693,754	12,971
November	29,548	736,272	25,785	719,539	16,734
December	26,186	762,458	24,367	743,906	18,553
1997					
January	16,394	778,852	15,053	758,960	19,894
February	15,287	794,139	12,029	770,989	23,152
March	10,158	804,297	12,214	783,203	21,096

Note :
SBI was introduced in February 1984. Since July 1987 the 7 day SBI started to be auctioned. Since October 1988 it was expanded with the 180 day SBI and since February 23, 1991 with the 360 day SBI.

Table 36
Discount Rates on Bank Indonesia Certificate
(percent per annum)

Period	7 days	14 days	28 days	90 days	180 days	360 days
1992/93						
April–June	16.00–15.00	16.50–15.50	17.00–16.00	17.50–16.50	18.00–17.00	18.50–17.50
July–September	14.00–13.50	14.50–14.00	16.00–15.00	16.45–15.50	17.00–16.00	17.50–16.50
October–December	13.00–13.00	13.50–13.50	14.00–13.50	14.25–13.75	14.50–14.00	14.50–14.00
January–March	12.00–11.50	12.50–12.00	13.00–12.50	13.25–13.00	13.50–13.00	13.50–13.25
1993/94						
April–June	11.50–6.00	12.00–6.25	12.50–930	12.75–9.08	13.12–11.00	13.50–11.00
July–September	10.13–5.88	10.50–6.00	10.75–7.00	10.25–8.00	11.00–8.95	12.00–11.50
October–December	10.00–6.50	10.25–8.00	10.37–8.25	10.62–9.25	11.50–9.50	12.50–9.87
January–March	8.75–5.00	9.00–7.12	9.62–7.75	10.25–8.37	10.00–9.00	10.50–9.50
1994/95						
April–June	9.50–8.12	10.00–8.62	10.00–9.00	11.75–10.50	12.00–10.75	–
July–September	10.00–6.50	10.75–9.75	11.00–10.62	11.75–11.75	12.25–12.25	12.25–12.25
October–December	11.50–11.00	12.00–11.00	12.75–11.75	12.67–12.67	13.00–13.00	–
January–March	13.25-10.50	13.50-13.13	14.25-13.75	14.50-14.49	14.75-14.50	
1995/96						
April–June	13.50-12.00	14.00-13.63	14.75-14.25	14.25-14.38	–	–
July–September	12.75-9.50	13.00-12.50	14.13-13.25	14.00-13.75	–	14.50-14.50
October–December	13.00-11.00	13.25-12.88	14.25-13.50	14.25-14.00	–	–
January–March	13.00-10.40	13.25-12.38	14.00-13.25	–	–	–
1996						
January	13.00-10.00	13.25-12.00	14.00-13.25	14.25-14.25	–	–
February	13.00-8.50	13.25-12.00	14.00-13.00	14.25-14.25	14.38-14.38	14.50-14.50
March	13.00-12.69	13.25-13.13	14.00-13.00	–	–	–
April	12.75–12.75	13.13–13.13	14.00–13.50	–	–	–
May	12.75–12.75	13.25–13.13	14.00–13.50	–	–	–
June	12.75–12.75	13.25–13.00	14.00–13.50	–	–	–
July	12.75–12.75	13.25–13.00	14.00–13.50	–	–	–
August	12.75–12.75	13.25–13.00	14.00–13.50	–	–	–
September	12.75–12.75	13.00–13.00	14.00–13.50	–	–	–
October	12.75–12.75	13.00–13.00	14.00–13.50	14.50–14.25	–	–
November	12.75–11.83	13.00–12.13	13.75–13.00	14.12–14.00	–	–
December	12.00–11.44	12.25–11.63	13.00–12.75	13.75–13.75	14.00–13.80	14.25–14.10
1997						
January	11.00-9.94	11.50-10.94	12.50-11.95	13.25-13.05	13.50-13.50	13.75-13.75
February	9.94-8.25	10.94-9.50	11.75-11.75	12.80-12.30	13.00-12.50	13.25-13.25
March	8.25-7.50	9.50-8.62	11.22-10.83	11.85-11.85	–	–

Table 37
Money Market Securities (SBPU) Transactions between Bank Indonesia and Banks
(billion rupiah)

Period	Buying	Selling	Outstanding
1992/93	**32,137**	**33,714**	**2,619**
April–June	4,788	6,176	2,808
July–September	7,221	8,034	1,995
October–December	10,459	9,634	2,820
January–March	9,669	9,870	2,619
1993/94	**24,521**	**24,408**	**2,732**
April–June	6,425	7,533	1,511
July–September	6,620	6,506	1,625
October–December	2,791	3,021	1,395
January–March	8,685	7,348	2,732
1994/95	**95,478**	**94,074**	**4,137**
April–June	16,739	16,132	3,340
July–September	22,578	22,540	3,371
October–December	19,627	19,158	3,839
January–March	36,542	36,247	4,137
1995/96	**124,995**	**126,551**	**2,580**
April–June	49,294	49,303	4,128
July–September	25,416	27,378	2,165
October–December	28,921	26,882	4,205
January–March	21,364	22,988	2,580
1996			
January	6,244	8,382	2,066
February	8,701	9,495	1,273
March	6,419	5,111	2,580
April	18,472	19,811	1,241
May	20,414	20,678	977
June	15,158	14,918	1,218
July	6,098	6,604	712
August	8,124	7,148	1,688
September	6,289	6,638	1,339
October	9,193	10,308	224
November	7,061	6,909	376
December	9,351	9,556	171
1997			
January	6,271	5,517	925
February	6,082	6,336	672
March	3,600	1,602	2,670

Table 38
Funds Mobilized by Commercial Banks [1)]
(billion rupiah)

End of period	Demand deposits			Time deposits			Savings deposits	Total
	Rupiah	Foreign currency	Sub-total	Rupiah [2)]	Foreign currency	Sub-total		
1992	19,464	4,298	23,762	45,182	20,437	65,619	25,469	114,850
1992/93	20,074	5,003	25,077	42,453	21,763	64,216	28,343	117,636
1993	24,639	7,722	32,361	50,854	23,856	74,710	35,608	142,679
1993/94	23,834	7,968	31,802	49,004	26,179	75,183	37,613	144,598
1994	29,750	9,347	39,097	62,382	28,608	90,990	40,319	170,406
1994/95	27,710	7,724	35,434	66,311	31,156	97,467	40,921	173,822
1995	34,529	9,579	44,108	88,894	34,538	123,432	47,224	214,764
1996								
January	35,900	10,587	46,487	87,193	34,747	121,940	48,057	216,484
February	36,113	9,912	46,025	88,970	36,014	124,984	49,711	220,720
March	33,814	10,330	44,144	91,867	36,547	128,414	51,170	223,728
April	35,301	10,329	45,630	95,303	37,084	132,387	51,804	229,821
May	35,403	10,455	45,858	97,351	38,697	136,048	52,608	234,514
June	37,774	11,239	49,013	100,829	38,358	139,187	53,499	241,699
July	39,964	10,959	50,923	101,760	40,111	141,871	54,550	247,344
August	38,898	10,420	49,318	102,564	40,730	143,294	54,969	247,581
September	41,166	10,907	52,073	104,826	39,464	144,290	55,838	252,201
October	41,019	11,547	52,566	109,889	40,159	150,048	58,048	260,662
November	41,294	13,494	54,788	114,496	41,300	155,796	59,582	270,166
December	44,817	12,675	57,492	119,165	43,496	162,661	61,565	281,718
1997								
January	43,410	13,398	56,808	118,317	42,857	161,174	62,245	280,227
February	44,872	13,344	58,216	118,147	43,098	161,245	64,897	284,358
March	42,628	14,376	57,004	119,283	44,374	163,657	66,321	286,982

1) Including funds held by the Central Government and non-residents.
2) Including certificates of deposit.

Table 39
Government Revenue
(billion rupiah)

Item	1991/92 1)	1992/93 1)	1993/94 1)	1994/95	1995/96 Budget	1995/96 Actuals	1996/97 Budget
Oil/gas and non-oil/gas revenues	**42,582**	**48,863**	**56,113**	**66,418**	**66,265**	**71,558**	**78,203**
Oil and gas receipts	15,070	15,331	12,503	13,537	13,275	14,849	14,120
O i l	12,481	12,095	9,472	10,004	9,812	10,977	10,315
Gas	2,589	3,236	3,031	3,533	3,463	3,872	3,805
Non-oil/gas receipts	27,512	33,532	43,610	52,881	52,990	56,709	64,083
Income tax	9,727	12,516	14,759	18,764	19,239	20,520	23,708
Value-added tax on goods and services and sales tax on luxury goods	9,146	10,742	13,943	16,545	16,655	18,350	21,788
Import duties	2,871	3,223	3,555	3,900	3,543	3,248	3,451
Excise duties	1,915	2,242	2,626	3,153	3,299	3,668	4,033
Export duties	17	9	14	131	44	201	160
Land and building tax	944	1,107	1,485	1,647	1,923	1,924	2,277
Others	299	253	283	302	320	510	570
Non-tax and net oil receipt	2,593	3,440	6,945	8,439	7,967	8,288	8,096
Net other revenues 2)	**2,003**	**279**	**3,846**	**2,701**	**0**	**4,104**	**3,100**
Total of Domestic Revenue	**44,585**	**49,142**	**59,959**	**69,119**	**66,265**	**75,662**	**81,303**

1) Audited.
2) Errors and omissions.
Sources : – Ministry of Finance
– Bank Indonesia

Table 40
Government Expenditure
(billion rupiah)

Item	1991/92 1)	1992/93 1)	1993/94 1)	1994/95	1995/96		1996/97
					Budget	Actuals	Budget
Operational expenditure	**22,207**	**25,788**	**30,129**	**33,401**	**37,287**	**39,529**	**44,862**
Personnel expenditure	8,170	9,554	11,145	12,595	15,347	15,372	18,281
Rice allowance	930	891	834	973	1,140	1,134	1,194
Salaries and pensions	6,351	7,595	9,145	10,181	12,416	12,351	14,763
Food allowance	397	479	493	756	835	866	1,122
Other domestic personnel expenditure	281	315	418	368	511	572	710
Overseas personnel expenditure	211	274	255	317	445	449	492
Material expenditure	2,328	2,928	3,032	4,319	4,745	5,274	6,589
Domestic	2,176	2,731	2,848	4,101	4,457	4,969	6,257
Overseas	152	197	184	218	288	305	332
Subsidies to local governments	4,376	5,383	6,909	7,272	8,409	8,344	10,012
Irian Jaya/non-personnel expenditure	286	387	334	353	477	481	516
Other autonomous regions/ personnel expenditure	4,091	4,996	6,575	6,919	7,932	7,863	9,496
Amortization and interest payment	5,292	6,060	6,278	6,249	7,494	7,450	8,111
Domestic debt	240	275	121	104	319	251	291
Foreign debt	5,052	5,785	6,157	6,145	7,175	7,199	7,820
Food stock expenditure	- -	- -	- -	--	- -	--	--
Subsidies on fertilizer	300	175	175	815	143	212	137
Others including national defence and security	1,741	1,688	2,590	2,151	1,149	2,877	1,732
Investment expenditure	**22,374**	**26,257**	**27,706**	**29,206**	**30,016**	**28,839**	**33,598**
Ministries/institutions	7,083	9,560	10,368	10,568	10,285	9,668	11,954
Regional development	4,113	5,035	5,516	7,353	7,321	7,319	8,461
Subsidies to villages	249	326	392	433	426	426	459
Subsidies to regencies	583	802	916	2,558	2,525	2,518	2,905
East Timor	- -	- -	- -	- -	- -	- -	- -
Subsidies to provinces	582	700	741	1,331	1,277	1,277	1,424
Land and building tax	859	983	1,334	1,683	1,750	1,751	2,072
Construction of primary schools	515	645	595	538	499	498	595
Subsidies for construction/ reconstruction of market	5	2	3	- -	- -	- -	- -
Public health services	287	316	340	412	370	364	526
Subsidies for afforestation and reforestation	74	96	111	- -	- -	- -	- -
Presidential instruction on road infrastructure	979	1,165	1,084	- -	- -	- -	- -
Presidential instruction on least-developed villages	- -	- -	- -	398	474	485	480
Other expenditure	2,588	1,081	1,069	1,447	651	682	769
Government equity participation	988	138	381	425	50	80	55
Others	1,600	943	688	1,022	601	602	714
Development budget reserves	- -	- -	- -	- -	- -	--	--
Project aid	8,590	10,581	10,753	9,838	11,759	11,170	12,414
T o t a l	**44,581**	**52,045**	**57,835**	**62,607**	**67,303**	**68,368**	**78,460**

1) Audited.
Sources : – Ministry of Finance
– Bank Indonesia

Table 41
Development Expenditure by Sector
(billion rupiah)

Area	1991/92[1)]	1992/93[1)]	1993/94[1)]	1994/95	1995/96 Budget	1995/96 Actuals	1996/97 Budget
General government	**866**	**867**	**1,100**	**1,297**	**1,652**	**1,541**	**1,953**
Finance	0	0	0	132	129	110	125
Science, technology, and research	331	392	535	502	711	614	805
State apparatus and control	483	400	486	551	664	676	818
Law	52	75	79	106	139	126	173
Politics and international	0	0	0	6	9	14	32
Education	**2,161**	**2,608**	**2,718**	**3,021**	**3,304**	**2,925**	**3,902**
Education	2,161	2,608	2,718	2,992	3,267	2,892	3,856
Youth and sports	0	0	0	29	37	33	46
Health	**725**	**966**	**1,084**	**1,255**	**1,249**	**1,062**	**1,421**
Population and family welfare	170	235	275	273	301	237	328
Health	555	731	809	982	948	825	1,093
Social security and welfare	**52**	**70**	**75**	**78**	**104**	**91**	**272**
Social welfare	52	70	75	71	89	77	186
Women's role, children, and youth	0	0	0	7	15	14	86
Housing and settlement	**3,884**	**4,765**	**5,324**	**6,606**	**7,241**	**7,034**	**7,834**
Transmigration area development	3,042	3,896	4,370	5,677	6,139	5,866	6,509
Mass housing and settlement	842	869	954	929	1,102	1,168	1,325
Recreation and religion services	**169**	**534**	**457**	**332**	**381**	**307**	**474**
National culture and belief in Oneness of God	29	37	44	47	55	51	69
Religion	47	67	77	131	183	142	254
Information, communications, and mass media	93	430	336	154	143	114	151
Economy	**14,159**	**16,123**	**16,522**	**14,963**	**15,393**	**15,304**	**16,978**
Energy	2,452	4,640	3,983	3,806	3,800	4,619	3,996
Agriculture and forestry[2)]	2,112	2,383	2,855	2,812	3,520	2,843	4,091
Mining and industry	1,061	1,244	968	540	592	533	611
Transportation and communications	5,651	6,648	7,193	6,349	6,863	6,704	7,763
Other economic services	2,883	1,208	1,523	1,456	618	605	517
T o t a l	**22,016**	**25,933**	**27,280**	**27,552**	**29,324**	**28,264**	**32,834**

1) Audited.
2) Excluding subsidies on fertilizer.
Sources : – Ministry of Finance
– Bank Indonesia

Table 42
Demand Deposits in Rupiah and Foreign Currency with Commercial Banks by Group of Banks
(billion rupiah)

End of period	State banks			Private national banks			Local government-owned banks			Foreign & joint 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	Sub-total
1992	9,281	2,013	11,294	7,347	981	8,328	1,950	0	1,950	886	1,304	2,190	19,464	4,298	23,762
1992/93	9,393	2,387	11,780	7,933	1,161	9,094	1,652	0	1,652	1,096	1,455	2,551	20,074	5,003	25,077
1993	11,009	1,716	12,725	9,952	4,279	14,231	2,406	0	2,406	1,271	1,728	2,999	24,638	7,723	32,361
1993/94	9,836	1,951	11,787	10,441	4,273	14,714	2,054	0	2,054	1,503	1,744	3,247	23,834	7,968	31,802
1994	12,364	2,142	14,506	12,124	5,088	17,212	3,452	0	3,452	1,811	2,116	3,927	29,751	9,346	39,097
1994/95	11,696	1,197	13,693	11,460	3,332	14,792	2,912	1	2,913	1,642	2,393	4,035	27,710	7,723	35,434
1995	13,659	2,739	16,038	14,335	4,140	18,475	4,610	1	4,611	1,925	3,058	4,983	34,529	9,578	44,108
1996															
January	13,755	3,025	16,780	15,035	4,286	19,321	4,743	5	4,748	2,366	3,272	5,638	35,899	10,588	46,487
February	13,646	2,533	16,179	15,384	4,211	19,594	4,440	2	4,442	2,644	3,167	5,811	36,114	9,912	46,025
March	12,705	2,276	14,981	15,274	4,525	19,799	3,556	2	3,558	2,279	3,527	5,806	33,814	10,330	44,144
April	12,623	2,162	14,785	16,670	4,757	21,427	3,242	2	3,244	2,766	3,408	6,174	35,301	10,329	45,630
May	12,800	1,956	14,756	16,651	4,837	21,488	3,513	2	3,515	2,439	3,660	6,099	35,403	10,455	45,858
June	12,987	1,863	14,850	18,323	5,685	24,008	3,745	3	3,748	2,719	3,688	6,407	37,774	11,239	49,012
July	13,451	1,989	15,440	19,684	5,137	24,821	4,038	2	4,040	2,791	3,831	6,622	39,964	10,959	50,923
August	14,279	1,672	15,951	18,042	5,111	23,153	4,063	2	4,065	2,514	3,635	6,149	38,898	10,420	49,318
September	14,799	1,820	16,619	19,410	4,907	24,317	4,132	2	4,134	2,825	4,178	7,003	41,166	10,907	52,073
October	14,522	1,934	16,456	19,552	5,552	25,104	4,304	2	4,306	2,641	4,059	6,700	41,019	11,547	52,566
November	14,459	3,582	18,041	19,548	5,770	25,318	4,371	2	4,373	2,916	4,140	7,056	41,294	13,494	54,788
December	15,536	2,836	18,372	21,620	5,601	27,221	4,375	2	4,377	3,286	4,236	7,522	44,817	12,675	57,492
1997															
January	14,437	3,094	17,531	21,496	5,839	27,335	4,194	1	4,195	3,283	4,464	7,747	43,410	13,398	56,808
February	14,624	2,770	17,394	22,769	5,989	28,758	3,990	2	3,992	3,489	4,583	8,072	44,872	13,344	58,216
March	14,111	3,024	17,134	21,873	6,764	28,637	3,287	2	3,289	3,358	4,585	7,943	42,628	14,376	57,004

Table 43
Time Deposits in Rupiah with Commercial Banks by Ownership
(billion rupiah)

End of period	Residents										Non-residents	Total
	Government	Official entities	Insurance companies	State enterprises	Private enterprises	Social institutions	Coopera-tives	Individuals	Others	Sub-total		
1992	1,503	610	1,538	4,507	8,194	5,152	102	21,067	2,127	44,800	382	45,182
1992/93	1,610	600	1,604	3,624	7,906	5,021	90	19,644	1,936	42,035	418	42,453
1993	2,206	876	2,306	4,768	10,153	5,515	139	20,284	4,247	50,494	360	50,854
1993/94	2,370	633	2,547	3,626	9,551	5,772	134	20,386	3,628	48,647	357	49,004
1994	2,820	1,135	3,482	3,993	14,014	7,040	256	24,995	4,248	61,983	399	62,382
1994/95	2,701	1,388	3,463	3,874	12,606	7,375	224	28,280	5,739	65,830	481	66,311
1995	3,549	1,658	4,113	6,143	17,329	8,512	281	36,150	10,751	88,486	408	88,894
1996												
January	3,393	1,680	4,064	5,913	16,319	8,463	234	37,214	9,618	86,898	295	87,193
February	3,708	1,554	3,989	5,780	16,956	8,270	241	36,993	11,348	88,839	131	88,970
March	3,790	1,821	4,084	5,851	17,251	8,419	241	37,627	12,658	91,742	125	91,867
April	4,114	1,885	4,288	6,259	17,040	8,597	234	38,734	14,051	95,202	101	95,303
May	4,193	1,862	4,343	6495	17,362	8,772	232	39,365	14,621	97,245	106	97,351
June	4,142	2,035	4,292	6,613	18,366	8,935	233	39,874	16,241	100,731	98	100,829
July	4,343	2,038	4,211	6,715	19,194	9,332	235	40,562	15,007	101,637	123	101,760
August	4,466	1,988	4,318	6,636	20,487	9,296	243	40,592	14,409	102,435	129	102,564
September	4,377	1,926	4,604	6,664	21,029	9,724	290	41,807	14,246	104,667	159	104,826
October	4,506	2,251	4,582	6,539	23,273	10,176	301	43,165	14,894	109,687	202	109,889
November	3,746	2,163	4,800	6,585	24,636	10,563	321	44,899	16,605	114,318	178	114,496
December	3,990	2,134	4,933	6,131	26,792	10,684	341	46,617	17,359	118,981	184	119,165
1997												
January	3,914	2,006	5,108	6,171	24,963	10,655	287	47,279	17,717	118,100	217	118,317
February	3,814	2,031	5,151	6,332	24,736	10,832	314	47,529	17,165	117,904	243	118,147
March	4,079	1,991	5,480	5,836	26,117	10,923	322	47,668	16,581	118,997	286	119,283

Table 44
Time Deposits in Rupiah and Foreign Currency with Commercial Banks by Maturity
(billion rupiah)

End of period	24 months	12 months	6 months	3 months	1 month 1)	Others	Total
1992	612	12,564	15,378	15,050	18,503	3,512	65,619
1992/93	501	13,046	14,560	14,679	18,104	3,326	64,216
1993	585	15,393	19,592	15,718	18,883	4,539	74,710
1993/94	617	15,670	19,198	17,321	18,520	3,857	75,183
1994	533	13,407	20,753	20,380	28,276	7,641	90,990
1994/95	591	14,044	23,234	21,714	31,132	6,752	97,467
1995	1,374	19,231	29,548	26,931	36,870	9,478	123,432
1996							
January	1,419	19,233	29,096	27,059	37,431	7,702	121,940
February	1,375	19,748	29,287	27,209	39,326	8,129	124,984
March	1,318	20,393	29,777	27,813	40,560	8,553	128,414
April	1,326	21,364	31,100	28,680	42,404	7,513	132,387
May	1,110	21,695	31,968	28,662	43,206	9,407	136,048
June	1,121	23,270	32,884	28,533	42,037	11,342	139,187
July	1,136	22,547	33,435	29,234	44,146	11,373	141,871
August	1,191	23,101	34,762	29,598	46,257	8,385	143,294
September	1,205	23,179	35,821	29,449	45,632	9,004	144,290
October	1,126	23,950	36,683	30,985	47,256	10,048	150,048
November	1,190	24,001	38,897	31,129	49,668	10,911	155,796
December	1,214	25,255	40,598	32,932	50,511	12,151	162,661
1997							
January	1,290	26,763	40,694	33,299	48,771	10,357	161,174
February	1,226	27,472	41,841	33,511	48,181	9,014	161,245
March	1,334	27,711	42,190	33,251	47,411	11,730	163,657

1) Including mature time deposits.

Table 45
Savings Deposits with Commercial Banks by Type

End of period	Savings deposits withdrawable anytime		Savings Deposits		Other Savings Deposits		Total	
	Depositors (thousand)	Outstanding (billion Rp)	Depositors (thousand)	Outstanding (billion Rp)	Depositors (thousand)	Outstanding (billion Rp)	Depositors (thousand)	Outstanding (billion Rp)
1996								
July	35,462	49,060	228	128	15,309	5,362	50,999	54,550
August	36,499	49,473	227	127	14,702	5,369	51,428	54,969
September	49,508	50,297	198	118	15,601	5,423	65,307	55,838
October	37,582	52,471	203	131	15,054	5,446	52,839	58,048
November	37,549	53,807	206	129	16,164	5,646	53,919	59,582
December	38,044	55,858	216	130	15,324	5,577	53,584	61,565
1997								
January	38,328	56,711	216	127	15,225	5,407	53,769	62,245
February	38,836	59,188	220	130	15,368	5,579	54,424	64,897
March	38,767	60,521	238	139	15,522	5,661	54,527	66,321

Table 46
Commercial Bank Credits in Rupiah and Foreign Currency by Economic Sector [1)]
(billion rupiah)

Item	1991/92	1992/93	1993/94	1994/95	1995/96	June 1996	Sep. 1996	Dec. 1996	Mar. 1997
Credits in rupiah	**96,451**	**100,996**	**126,753**	**157,206**	**193,951**	**209,450**	**220,550**	**234,490**	**244,960**
Agriculture	8,372	9,262	10,646	12,399	13,955	14,452	14,997	15,158	16,158
Mining	594	540	292	338	533	688	659	716	1,353
Manufacturing	25,515	30,965	37,609	43,130	48,817	51,341	51,663	51,984	53,071
Trade	28,039	27,510	32,130	37,326	44,668	48,316	52,050	55,763	57,331
Services	18,161	22,282	31,246	43,829	59,336	66,605	71,220	78,391	83,737
Others	15,770	10,437	14,830	20,184	26,642	28,053	29,981	32,478	33,310
Credits in foreign currency	**19,288**	**23,171**	**30,417**	**38,943**	**48,472**	**51,305**	**52,845**	**58,431**	**61,165**
Agriculture	527	865	1,790	1,892	1,874	1,926	2,169	2,472	2,687
Mining	136	184	363	616	691	1,049	924	977	1,385
Manufacturing	9,896	12,508	15,874	19,837	24,206	24,707	25,611	26,866	28,163
Trade	3,868	5,024	6,433	8,038	11,565	12,790	13,386	14,823	16,131
Services	3,586	3,592	5,945	8,549	10,117	10,811	10,729	13,265	12,766
Others	1,275	998	12	11	19	22	26	28	33
Total	**115,739**	**124,167**	**157,170**	**196,149**	**242,423**	**260,755**	**273,395**	**292,921**	**306,125**
Agriculture	8,899	10,127	12,436	14,291	15,829	16,378	17,146	17,630	18,845
Mining	730	724	655	954	1,224	1,737	1,583	1,693	2,738
Manufacturing	35,411	43,473	53,483	62,967	73,023	76,048	77,274	78,850	81,234
Trade	31,907	32,534	38,563	45,364	56,233	61,101	65,436	70,586	73,462
Services	21,747	25,874	37,191	52,378	69,453	77,416	81,949	91,656	96,503
Others	17,045	11,435	14,842	20,195	26,661	28,075	30,007	32,506	33,343

1) Excluding interbank credit, credit to the Central Government and non-residents, and foreign currency components of project aid.

Table 47
Commercial Bank Credits in Rupiah and Foreign Currency by Type and Economic Sector [1]
(billion rupiah)

Item	1991/92	1992/93	1993/94	1994/95	1995/96	June 1996	Sep. 1996	Dec. 1996	Mar. 1997
Working Capital Credits	**88,349**	**87,484**	**114,218**	**145,388**	**180,411**	**196,726**	**206,480**	**222,478**	**231,582**
Agriculture	3,035	2,958	3,543	4,076	4,960	5,139	5,390	5,893	6,805
Mining	254	287	288	466	953	1,437	1,236	1,288	2,198
Manufacturing	23,627	26,984	35,386	45,520	49,074	51,737	52,733	54,602	55,749
Trade	28,996	28,349	31,612	38,829	47,435	51,998	55,214	58,695	60,675
Services	16,335	18,658	28,369	39,029	51,328	58,340	61,900	69,494	72,812
Others	16,069	10,247	14,842	20,195	26,661	28,075	30,007	32,506	33,343
Investment Credits	**27,390**	**36,683**	**42,952**	**50,761**	**62,012**	**64,029**	**66,915**	**70,443**	**74,543**
Agriculture	5,864	7,169	8,893	10,215	10,869	11,239	11,756	11,737	12,040
Mining	443	436	189	215	271	300	347	405	540
Manufacturing	11,784	16,489	18,097	20,447	23,949	24,311	24,541	24,248	25,485
Trade	2,911	4,185	6,951	6,535	8,798	9,103	10,222	11,891	12,787
Services	5,412	7,216	8,822	13,349	18,125	19,076	20,049	22,162	23,691
Others	976	1,188	--	--	--	--	--	--	--
Total	**115,739**	**124,167**	**157,170**	**196,149**	**242,423**	**260,755**	**273,395**	**292,921**	**306,125**
Agriculture	8,899	10,127	12,436	14,291	15,829	16,378	17,146	17,630	18,845
Mining	730	724	655	954	1,224	1,737	1,583	1,693	2,738
Manufacturing	35,411	43,473	53,483	62,967	73,023	76,048	77,274	78,850	81,234
Trade	31,907	32,534	38,563	45,364	56,233	61,101	65,436	70,586	73,462
Services	21,747	25,874	37,191	52,378	69,453	77,416	81,949	91,656	96,503
Others	17,045	11,435	14,842	20,195	26,661	28,075	30,007	32,506	33,343

1) Excluding interbank credit, credit to the Central Government and non-residents, and foreign currency components of project aid.

Table 48
Bank Credits in Rupiah and Foreign Currency by Group of Banks and Economic Sector 1)
(billion rupiah)

Group of banks	1991/92	1992/93	1993/94	1994/95	1995/96	June 1996	Sep. 1996	Dec. 1996	Mar. 1997
1. State banks	**61,751**	**69,066**	**73,443**	**81,333**	**95,619**	**100,379**	**104,059**	**108,925**	**110,900**
Agriculture	7,744	8,559	9,989	11,026	11,657	11,898	12,216	12,111	12,381
Mining	568	498	214	534	612	1,006	897	921	1,257
Manufacturing	22,420	27,615	28,452	30,059	32,846	32,272	33,250	33,562	34,807
Trade	15,319	15,759	15,798	16,385	19,900	21,152	22,457	22,887	22,934
Services	8,402	11,249	10,987	14,489	19,181	20,960	22,462	25,510	25,251
Others	7,298	5,386	8,003	8,840	11,423	12,091	12,777	13,934	14,270
2. Private national banks	**42,300**	**42,465**	**64,967**	**90,792**	**116,401**	**128,298**	**135,930**	**149,955**	**159,248**
Agriculture	923	1,261	1,959	2,722	3,582	3,919	4,395	4,912	5,805
Mining	63	96	185	226	352	404	369	388	1,013
Manufacturing	8,315	10,064	15,427	20,633	24,560	26,677	28,074	29,638	29,841
Trade	13,959	14,021	19,437	24,850	31,662	34,838	37,286	41,752	44,423
Services	11,448	12,863	23,072	33,418	44,382	50,189	52,452	58,841	63,451
Others	7,592	4,160	4,887	8,943	11,863	12,271	13,354	14,424	14,715
3. Local government-owned banks	**2,628**	**2,941**	**3,383**	**4,099**	**5,201**	**5,605**	**6,279**	**6,457**	**7,194**
Agriculture	99	128	147	168	211	221	213	229	245
Mining	4	5	9	8	10	13	14	14	15
Manufacturing	158	261	269	321	370	353	385	375	371
Trade	836	850	844	904	1,053	1,126	1,129	1,100	1,130
Services	888	1,011	1,015	1,194	1,534	1,637	2,117	2,170	2,699
Others	643	686	1,099	1,504	2,023	2,255	2,421	2,569	2,734
4. Foreign and joint banks	**9,060**	**9,695**	**15,377**	**19,925**	**25,202**	**26,473**	**27,127**	**27,584**	**28,783**
Agriculture	133	179	341	375	379	340	322	378	414
Mining	95	125	247	186	250	313	303	370	453
Manufacturing	4,518	5,533	9,335	11,954	15,247	15,747	15,565	15,275	16,215
Trade	1,793	1,904	2,484	3,225	3,617	3,985	4,564	4,847	4,975
Services	1,009	751	2,117	3,277	4,357	4,629	4,918	5,135	5,102
Others	1,512	1,203	853	908	1,352	1,459	1,455	1,579	1,624
5. Sub-total (1 through 4)	**115,739**	**124,167**	**157,710**	**196,149**	**242,423**	**260,755**	**273,395**	**292,921**	**306,125**
Agriculture	8,899	10,127	12,436	14,291	15,829	16,378	17,146	17,630	18,845
Mining	730	724	655	954	1,224	1,736	1,583	1,693	2,738
Manufacturing	35,411	43,473	53,483	62,967	73,023	36,049	77,274	78,850	81,234
Trade	31,907	32,534	38,563	45,364	56,233	61,101	65,436	70,586	73,462
Services	21,747	25,874	37,191	52,378	69,454	37,415	81,949	91,656	96,503
Others	17,045	11,435	14,842	20,195	26,661	28,076	30,007	32,506	33,343

1) Excluding interbank credit, credit to the Central Government and non-residents, and foreign currency components of project aid.

Table 49
Certificates of Deposit
(billion rupiah)

End of period		State banks	Private banks	Total
1992		456	1,722	2,178
1992/93		507	1,375	1,882
1993		686	1,705	2,391
1993/94		468	1,494	1,962
1994		329	2,122	2,451
1994/95		802	2,717	3,519
1995		2,938	4,827	7,765
1996	January	3,001	4,489	7,490
	February	3,918	5,314	9,232
	March	3,805	6,749	10,554
	April	4,116	7,847	11,963
	May	4,206	8,349	12,555
	June	5,339	8,826	14,165
	July	4,472	8,463	12,935
	August	4,388	8,005	12,393
	September	4,063	8,199	12,262
	October	4,309	8,640	12,949
	November	4,336	10,051	14,387
	December	4,320	11,061	15,381
1997	January	4,353	11,418	15,771
	February	3,855	11,243	15,098
	March	3,205	11,113	14,318

Table 50
Banknote Flow in Bank Indonesia Jakarta and Regional Offices
(trillion rupiah)

Office	1995		1996	
	Inflow	Outflow	Inflow	Outflow
Jakarta	11.72	21.29	9.61	19.30
Bandung	10.34	6.33	11.82	6.96
Semarang	8.87	4.65	9.90	5.09
Surabaya	10.04	9.00	11.44	10.34
Medan	3.98	4.17	4.49	4.55
Padang	2.76	3.68	3.07	4.10
Ujung Pandang	3.21	3.65	4.00	4.14
Banjarmasin	2.54	3.48	2.91	3.90
Total	**53.47**	**56.25**	**57.25**	**58.36**

Table 51
Share of Currency Outflow in Bank Indonesia Jakarta and Regional Offices by Denomination in 1996
(%)

Office	Rp50,000.00	Rp20,000.00	Rp10,000.00	Rp5,000.00	<= Rp1,000.00	Total
Jakarta	26.37	44.53	23.92	1.82	3.35	100.00
Bandung	29.85	11.15	26.56	3.55	9.83	100.00
Semarang	25.90	8.78	28.18	2.85	7.52	100.00
Surabaya	25.49	17.92	27.69	3.05	18.48	100.00
Medan	12.23	7.24	40.73	6.91	7.26	100.00
Padang	19.23	6.16	37.72	5.19	6.13	100.00
Ujung Pandang	14.60	5.63	46.07	6.89	7.67	100.00
Banjarmasin	17.69	6.53	42.42	5.46	5.15	100.00

Table 52
Coin Flow in Bank Indonesia Jakarta and Regional Offices
(billion rupiah)

Office	1995		1996	
	Inflow	Outflow	Inflow	Outflow
Jakarta	8.43	83.47	13.53	94.88
Bandung	7.00	8.17	14.50	8.64
Semarang	13.12	11.45	22.46	8.83
Surabaya	1.98	10.29	3.92	10.42
Medan	0.66	8.78	1.39	6.52
Padang	0.61	4.89	0.62	4.32
Ujung Pandang	0.95	4.81	1.26	4.86
Banjarmasin	0.51	3.71	1.02	4.57
T o t a l	**33.27**	**135.58**	**58.71**	**143.04**

APPENDIX F

List of Abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
AELM	APEC Economic Leaders Meeting
AFAS	ASEAN Framework Agreement on Services
AKKI	Asosiasi Kartu Kredit Indonesia (Indonesian credit card association)
AMEX	American Express
APEC	Asia-Pacific Economic Cooperation
ASA	ASEAN Swap Arrangement
ASEAN	Association of South-east Asian Nations
ATM	Automatic Teller Machine
Bapepam	Badan Pengawas Pasar Modal (Capital Market Supervisory Agency)
BG	Bank Guarantee
BIS	Bank for International Settlements
BKPM	Badan Koordinasi Penanaman Modal (Investment Coordinating Board)
B/L	Bill of Lading
Bulog	Badan Urusan Logistik (National Buffer Stock Agency)
CAP	Collective Action Plan
CAR	Capital Adequacy Ratio
CAT	Credit Authorization Terminal
CCS	Coordinating Committee on Services
CD	Certificate of Deposit
CEPT	Common Effective Preferential Tariffs
CGI	Consultative Group for Indonesia
COB	Commercial Offshore Borrowing
COR	Cut-off Rate
CPI	Consumer Price Index
CSPI	Composite Stock Price Index
Dabanas	Dana Perbanas (Perbanas funds)
DSBB	Dissemination Standard Bulletin Board
DSR	Debt Service Ratio
EDC	Electronic Draft Capture
EDI	Electronic Data Interchange
EFT	Electronic Fund Transfer
EFT-POS	Electronic Fund Transfer-Point of Sales

EMEAP	Executive's Meeting of East Asia and Pacific Central Bankers
ESAF	Enhanced Structural Adjustment Facility
FABS	First ASEAN Business Summit
Fedfund	Federal Reserve Funds
FEP	Front-end Processor
GAB	General Arrangement to Borrow
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDDS	General Data Dissemination Standard
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
IAP	Individual Action Plan
IBRD	International Bank for Reconstruction and Development
ICBS	International Conference on Banking Supervisors
ICIIEC	Islamic Cooperation for the Insurance of Investment and Export Credit
IDA	International Development Association
IDB	Islamic Development Bank
IDT	Inpres Desa Tertinggal (Presidential Instruction for Least-developed Villages)
IFC	International Finance Company
ILO	International Labor Organization
IMF	International Monetary Fund
Inpres	Instruksi Presiden (presidential instruction)
IPTN	PT Industri Pesawat Terbang Nusantara (state-owned Indonesian aircraft manufacturer)
JATS	Jakarta Automated Trading System
JCB	Japan Central Bureau
JSX	Jakarta Stock Exchange
KADI	Komite Anti Dumping Indonesia (Indonesian Anti-dumping Committee)
KAPET	Kawasan Pengembangan Ekonomi Terpadu (integrated economic development area)
KDEI	PT Kliring Deposit Efek Indonesia (Indonesian Stock Deposit Clearing Corporation)
KKU	Kredit Kelayakan Usaha (credit for feasible projects)
KLBI	Kredit Likuiditas Bank Indonesia (Bank Indonesia financing credit)
KMK	Kredit Modal Kerja (working capital credit)
KPEI	PT Kliring dan Penjaminan Efek Indonesia (Indonesian Stock Clearing and Guarantee Corporation)
KPR	Kredit Pemilikan Rumah (credit for house ownership)
KSM	Kelompok Swadaya Masyarakat (self-help group)
KUK	Kredit Usaha Kecil (credit to small-scale enterprises)
L/C	Letter of Credit
LDR	Loan to Deposit Ratio

LIBOR	London Interbank Offered Rate
LLL	Legal Lending Limit
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LPSM	Lembaga Pengembagan Swadaya Masyarakat (self-help development institution)
LSM	Lembaga Swadaya Masyarakat (self-help institution)
LVTS	Large Value Transfer System
MAPA	Manila Action Plan for APEC
MICR	Magnetic Ink Character Recognition
MMBTU	Mille Mille British Thermal Unit
MSCF	Mille Standard Cubic Feet
MW	Megawatt
MWh	Megawatt/hour
NAB	New Arrangement to Borrow
NFA	Net Foreign Asset
NIEs	Newly Industrializing Economies
NIOF	Net Inter-office Fund
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OMO	Open Market Operation
PDN	Posisi Devisa Neto (foreign exchange net open position)
PEB	Pemberitahuan Ekspor Barang (customs export declaration)
Perbanas	Perhimpunan Bank-bank Umum Nasional Swasta (Private National Commercial Bank Association)
Perbarindo	Persatuan Bank Perkreditan Rakyat Indonesia (Rural Credit Bank Association)
PHBK	Pengembangan Hubungan Bank dengan KSM (Bank and Self-help Group Link Project)
PKM	Proyek Kredit Mikro (Micro-credit Program)
PKUKT	Proyek Kemitraan Usaha Kecil Terpadu (Small-scale Business Integrated Partnership Scheme)
PLN	Perusahaan Listrik Negara (State Electric Company)
PMA	Penanaman Modal Asing (foreign investment)
PMDN	Penanaman Modal Dalam Negeri (domestic investment)
PMT-AS	Program Makanan Tambahan untuk Anak Sekolah (Presidential Instruction on Sepplementary Nutrition for School Children)
PMVD	Perusahaan Modal Ventura Daerah (regional venture capital company)
PPUK	Proyek Pengembangan Usaha Kecil (Small-scale Enterprise Development Project)
PT	Perseroan Terbatas (limited corporation)
RE	Reader/Encoder machine
Reindo	Reasuransi Internasional Indonesia

Repelita	Rencana Pembangunan Lima Tahun (Five Year Development Plan)
RMDS	Reuters Monitor Dealing System
ROA	Return on Assets
ROE	Return on Equity
RR	Reserve Requirement
RS	Reader/Sorter machine
S-MART	Surabaya - Market Information and Automated Remote Trading
SBI	Sertifikat Bank Indonesia (Bank Indonesia Certificate)
SBPU	Surat Berharga Pasar Uang (money market securities)
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Rights
SEACEN	South-east Asian Central Banks
SEANZA	South-east Asian and New Zealand Central Banks
SIBOR	Singapore Interbank Offered Rate
SMEs	Small and Medium Enterprises
SOC	Schedule of Commitments
SOM	Senior Official Meeting
SSE	Surabaya Stock Exchange
STF	SEACEN Trust Fund
SWIFT	Society for Worldwide Interbank Financial Communication
TIPSE	Tim Pengkajian Strategi Ekspor (Team for the Assessment of Export Strategy)
TRI	Tebu Rakyat Intensifikasi (Smallholder Sugar Cane Intensification Program)
UPUK	Unit Pengembangan Usaha Kecil (small-scale enterprise development unit)
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization