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SM/85/20
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

February 7, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Indonesia - Staff Report for the 1984 Article IV Consultation

The following corrections have been made in SM/85/20 (1/18/85):

Page 5, Table 2, last column, line 13: for "-2.05" read "-2.5"

Page 22, footnote 2, line 2: for "1980/81" read "1979/80"

Page 34, Basic Data, Selected aggregates as ratios to GDP, line 4:
for "External debt 5/" read "External public debt (excl. IMF) 5/"

columns 5 and 6:	for	"31.7"	"34.1"	
	read	"31.1"	"33.9"	
Balance of payments and reserves,	for	"-9.0"	"-11.8"	"-14.6"
columns 1-3, line-5:	read	"-8.5"	"-11.3"	"-14.3"
line-7:	for	"2.1"	"2.0"	"-2.9"
	read	"2.7"	"2.8"	"-2.7"

Footnote 6: for "by oil sector payments."
read "less oil sector payments."

Corrected pages are attached.

Att: (3)

Other Distribution:
Department Heads

Table 2. Indonesia: Summary of Central Government Operations, 1979/80-1985/86

(In billions of rupiah)

	1979/80	1980/81	1981/82	1982/83	1983/84	Budget 1984/85	Est. 1984/85	Provisional Budget 1985/86
Tax revenue	6,885	10,567	11,981	11,475	14,785	15,533	16,693	17,946
Of which: Oil/LNG	4,635	7,676	8,732	7,663	10,398	10,367	11,857	11,160
Nontax revenue	187	316	336	436	520	615	639	732
Grants	137	122	118	71	93	100	100	100
Total revenue and grants	7,209	11,005	12,435	11,982	15,398	16,248	17,432	18,778
Recurrent expenditure	4,239	6,169	7,383	7,281	8,441	10,002	9,432	11,853
Of which: Petroleum subsidies	535	1,021	1,316	962	925	1,147	577	532
Fertilizer subsidies	125	284	371	420	324	459	459	558
Development expenditure and net lending	2,545	3,828	6,409	7,730	8,697	9,324	7,924	9,359
Of which: Foreign-financed project expenditure	983	1,301	1,959	2,713	4,106	4,200	2,800	3,965
Total expenditure and net lending	6,784	9,997	13,792	15,011	17,138	19,326	17,356	21,212
Surplus/deficit (-)	425	1,008	-1,357	-3,029	-1,740	-3,078	76	-2,434
(Percent of GDP)	1.3	2.2	-2.5	-5.1	-2.4	-3.8	0.1	-2.5
Financing (net)	-425	-1,008	1,357	3,029	1,740	3,078	-76	2,434
Domestic	-1,216	-1,874	-88	854	-1,765	--	-2,571	-30
Monetary authorities	(-1,007)	(-1,542)	(-237)	(643)	(-1,645)	--	...	...
Commercial banks	(-209)	(-332)	(149)	(211)	(-120)	--	...	...
Foreign (net)	791	866	1,445	2,175	3,496	3,078	2,495	2,464
Memorandum items:								
Net domestic expenditure 1/	3,364	5,489	8,248	8,050	8,125	9,343	9,081	9,729
(percent of GDP)	10.3	12.0	15.2	13.6	11.2	11.2	10.9	10.2
Foreign-financed project expenditure 2/3/ (US$ mn.)								
Included above	1,815	1,989	3,079	4,017	4,210	...	3,046	...
Total for public sector 4/	1,928	2,373	4,078	5,311	4,599	...	3,098	...

Sources: Ministry of Finance; and Fund staff estimates.

1/ Net government domestic expenditure is defined as: total expenditure net of foreign-financed project expenditure less domestic non-oil revenues. It is taken as an approximation of the direct, first round impact of the budget on domestic demand.

2/ Includes defense expenditures, which are classified as current expenditure above.

3/ In this table, as different from the balance of payments table, only syndicated loans used for project spending are considered part of foreign project expenditure.

4/ Includes direct borrowing by public corporations (Pertamina and Garuda).

Table 3. Indonesia: Indicators of Monetary Developments, 1980/81-1984/85

(In billions of rupiah)

	End-March 1981	End-March 1982	End-March 1983	Revaluation Adjustment	March 1984	October (Prelim.) 1984	Staff Projection March 1985
Monetary developments							
Net foreign assets	6,913	6,833	7,016	1,823	9,849	11,281	11,900
Of which: Monetary authorities	(4,668)	(4,094)	(4,006)	(1,066)	(6,244)	(7,297)	...
Domestic credit	3,778	6,326	9,892	196	10,659	10,172	11,480
Government, net	(-4,523)	(-4,581)	(-4,050)	(-98)	(-5,917)	(-8,522)	(-9,150)
Public enterprises	(3,640)	(4,323)	(4,704)	(146)	(4,982)	(5,192)	(5,390)
Private sector	(4,661)	(6,584)	(9,238)	(148)	(11,594)	(13,502)	(15,240)
Total liquidity	7,906	10,151	12,247	620	15,758	17,104	18,450
Narrow money 1/	(37.3)	(29.9)	(8.9)		(9.2)	(5.0)	(7.3)
Rupiah broad money 1/	(36.6)	(30.6)	(13.4)		(30.9)	(17.1)	(17.6)
Rupiah quasi-money 1/	(34.5)	(32.5)	(27.3)		(89.5)	(36.0)	(33.6)
Foreign currency deposits 1/	(33.8)	(14.6)	(23.2) 2/		(17.9)	(16.7)	(14.2)
Interest rates (in percent)							
Rate on 12-month deposits							
At state banks	9.0	9.0	9.0		17.8	17.9	...
At national private banks	20.0	19.3	19.3		20.2	20.0	...

Sources: Bank Indonesia, and Fund staff estimates.

1/ Annual percentage change.
2/ Excluding the revaluation effect of the March 30, 1983 devaluation.

mission, therefore, urged that the facility be phased out; the authorities listened sympathetically, but were noncommital.

3. External policies

a. Exchange rate management

Faced with a marked strengthening of the U.S. dollar against most of the currencies in the indicator basket last summer, the rupiah's downward crawl against the U.S. dollar was temporarily accelerated; the rupiah depreciated against the dollar by close to 2 percent in August 1984 and at a similar rate in early September (Chart 2). Substantial conversion of rupiah-denominated assets into foreign exchange ensued, and the authorities believed that the exchange rate uncertainty was an important cause of the upheaval in the interbank money market in September. To dispel devaluation fears, the rupiah was slightly appreciated for a few days, and new measures (discussed above) were introduced to restore order in the interbank market. At the time of the mission's visit, discussions were underway with OPEC with regard to possible oil production cuts, and the authorities were concerned about the impact of this uncertainty on exchange market expectations. Under these circumstances, they believed it appropriate for the rupiah/U.S. dollar rate to be stabilized; moreover, domestic prices were almost stable during the July-October period. Noting the continued stability of the rate throughout its visit, the staff team inquired whether the basic policy stance on flexible rate management might have been changed. The authorities said that they remained fully committed to preserving the gain in competitiveness from the March 1983 devaluation.

The staff team agreed that exchange rate management had to be crafted carefully to avoid unwarranted speculation. In view of recent balance of payments developments and the modest size of the appreciation of the real effective exchange rate, the staff team's view was that the objective indicators did not suggest the need for an immediate, significant depreciation of the rate. However, it stressed the importance of allowing the rate to move flexibly. The present stability of the rate could create a false impression in the market about the underlying policy, and the rate could become "institutionalized" fairly quickly. Thus, adjustment, when it became necessary, might be interpreted as a shift in policy and create undue uncertainty. Soon after the oil production cuts agreed within OPEC were announced, the rupiah began to move downward slowly against the U.S. dollar, and during the six weeks through mid-December the rupiah depreciated vis-a-vis the U.S. dollar at an annual rate of about 7.5 percent.

At its meeting on November 14, 1983, the Executive Board noted that certain taxes on export receipts constitute multiple currency practices subject to approval under Article VIII, Section 3; these were granted temporary approval until December 31, 1984. On January 1, 1984, the MPO withholding tax on export receipts, considered by the Fund to constitute a multiple currency practice, was abolished. On May 4, 1984, the collection procedures for the export surcharge and the additional export surcharge, which gave rise to a multiple currency practice, were modified and the incidence of these taxes was shifted from the movement of funds to the physical movement of the goods being exported. Previously the taxes were collected by the foreign exchange banks at the time the exporter received payments. Under present procedures, the surcharges are collected by the Customs.

b. External debt management

External debt service has risen much more rapidly than debt in recent years, reflecting a relative shift toward medium-term credits at market-related interest rates. 1/ With net exports still below the peak levels of the early 1980s, the public debt service ratio has risen sharply, to close to 30 percent in 1984/85. 2/ In the discussions, the authorities agreed that the debt service burden should be reduced from current levels and that the degree of success will reside basically in the sustained implementation of policies to reduce the relative size of the current account deficit, including avoidance of large-scale restoration of public investment projects already rephased. In conjunction with those policies, an important step had been taken in October 1984 to strengthen external public debt management. A Presidential Decree was issued instructing the ministries that all use of foreign finance in the form of "export credits" would henceforth be subject to an aggregate annual ceiling, and that each project utilizing such financing would be subject to the approval of the Coordinating Minister for Economy, Finance, Industry and Development Supervision. The aggregate limit was set at $1.5 billion for 1984/85, against total requests for approval during the course of the year amounting to about three times that amount. For this purpose the term "export credit" is interpreted broadly to include all "nonconcessional" trade-related credits. 3/

With respect to private sector external debt, other than the external liabilities of the banking system, comprehensive data are

1/ Such credits (e.g., suppliers credits, LNG expansion loans, syndicated bank credits and purchases from the Fund) represented 37 percent of the stock of public external debt in March 1981. During the subsequent three years, net disbursements of these loans represented 73 percent of net inflows to the public sector; such loans rose to 53 percent of the total outstanding in March 1984.

2/ The ratio of public debt service to net exports rose from 12.1 percent in 1979/80 to 20.4 percent in 1983/84 and then jumped to an estimated 29.9 percent in 1984/85; using a more conventional measure, with the gross receipts of goods and services in the denominator, the estimated ratio in 1984/85 is 20.8 percent. Inclusion of a rough estimate of debt service on purely private debt yields a ratio of 24-25 percent of gross exports (Table 1).

3/ All trade-related credits, the terms of which are less favorable than the following are included: interest rate, no more than 3.5 percent; grace period, at least 7-10 years; maturity, at least 25 years.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with Indonesia in the light of the 1984 Article IV consultation with Indonesia conducted under Decision No. 5392 - (77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund welcomes the elimination in May 1984 of multiple currency practices which had arisen from certain export taxes, and notes with satisfaction that Indonesia maintains an exchange system which is free of restrictions on payments and transfers for current international transactions.

INDONESIA

Basic Data 1/

Area:	2,027 million sq. km.
Population (1983):	156.4 million
Rate of growth of population (1983):	2.2 percent per annum
Gross national product (1983):	$75.0 billion
Gross national product per capita (1983):	$480

	1979/80	1980/81	1981/82	1982/83	1983/84 2/	1984/85 3/
			(In percent)			
Selected aggregates as ratios to GDP						
Gross investment 4/	20.9	20.9	22.4	22.6	23.9	22.5
National savings 4/	22.8	24.7	21.4	15.8	17.0	18.8
Current account (BOP basis)	5.3	3.9	-3.2	-7.5	-5.3	-4.1
External public debt (excl. IMF) 5/	26.2	20.5	19.9	23.5	31.1	33.9
Debt service/net exports 6/	12.1	10.6	13.1	19.2	20.4	29.9
Interest payments	1.5	1.2	1.0	1.3	1.9	2.7
Central Government revenue	22.1	23.9	22.8	20.1	21.4	20.6
Central Government expenditures	21.2	22.0	25.5	25.2	23.8	20.5
Central Government overall balance	1.3	2.2	-2.5	-5.1	-2.4	0.1
Domestic bank financing	-3.7	-4.0	-0.2	1.4	-3.1	-3.0
Foreign financing	2.3	1.9	2.7	3.6	5.5	2.9
			(Percentage change)			
National output and prices						
GDP at constant prices 4/	5.1	7.6	7.1	-0.4	5.1	6.0
GDP at current prices 4/	40.8	41.9	18.9	10.4	20.7	17.6
Rice production 4/	2.0	12.8	10.5	2.5	4.9	6.4
Crude oil production 4/	-2.7	-0.6	1.4	-16.5	0.5	...
Consumer prices 5/	20.8	17.0	10.2	8.6	13.3	4.2
Monetary sector 5/						
Money	35.6	37.3	29.9	8.9 7/	9.2	7.3
Liquidity (money and quasi-money)	39.6	36.3	28.4	20.6 7/	28.7	17.1
Net domestic credit	-7.9	0.4	57.1	56.4 7/	8.0	7.7
Net government deposits	128.5	86.7	2.6	-11.6 7/	45.4	54.6
Credit to public enterprises and private sector	14.3	28.4	31.4	27.8 7/	18.9	24.4
External sector 8/						
Exports, f.o.b.	54.0	24.5	-2.9	-14.2	9.2	-0.4
Gross oil/LNG sector exports	53.6	43.0	4.8	-16.2	1.6	-4.8
Non-oil exports	54.9	-9.5	-25.4	-5.8	36.6	11.5
Non-oil imports	19.7	33.2	26.1	5.8	-8.7	-5.3
Terms of trade (deterioration -)	42.6	21.1	8.7	0.6	-4.4	-0.5
Nominal effective exchange rate 9/	7.8	-3.1	6.8	-3.0	-28.0	...
Real effective exchange rate 9/	15.9	3.3	9.4	0.1	-23.2	...
			(In billions of U.S. dollars)			
Balance of payments and reserves						
Exports, f.o.b.	17.5	21.8	21.1	18.1	19.8	19.7
Oil (gross)	(10.0)	(14.1)	(14.6)	(11.8)	(12.1)	(10.8)
LNG (gross)	(1.3)	(2.1)	(2.3)	(2.4)	(2.4)	(3.0)
Non-oil/LNG	(6.2)	(5.6)	(4.2)	(3.9)	(5.3)	(5.9)
Non-oil imports	-8.5	-11.3	-14.3	-15.1	-13.8	-13.1
Oil/LNG sector payments	-4.3	-5.6	-7.2	-7.0	-7.1	-6.4
Current account	2.7	2.8	-2.7	-6.8	-4.2	-3.2
Overall balance	3.8	3.9	-0.3	-3.3	2.4	0.6
Gross official reserves 5/10/	4.9	7.8	6.6	4.3	6.7	6.8 11/
(In months of next year's non-oil imports)	(5.0)	(6.4)	(5.1)	(3.7)	(6.1)	(...)
Banking system, net foreign assets 5/	7.2	11.2	10.8	7.5	10.0	10.5 11/
(In months of next year's non-oil imports)	(7.3)	(9.2)	(8.4)	(6.50	(9.2)	(...)

1/ Fiscal year ending March.
2/ Preliminary estimates.
3/ Staff estimates.
4/ On the calendar year basis.
5/ End of period.
6/ Net exports are defined as merchandise exports plus recorded service receipts less oil sector payments.
7/ Including valuation changes due to the March 30 devaluation.
8/ On a U.S. dollar basis.
9/ Depreciation is negative. Twelve-month percentage change to end of period. Trade-weighted notification index.
10/ Includes contingency reserves against forward liabilities.
11/ September 1984.