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# Indonesia
# Maintaining Stability, Deepening Reforms

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# ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| ACC | Anti-Corruption Commission |
| ADB | Asian Development Bank |
| ADF | Asian Development Fund |
| AFTA | ASEAN Free Trade Area |
| APBN | State Budget |
| APBN-P | Preliminary State Budget |
| ASEAN | Association of Southeast Asian Nations |
| BAPEPAM | Capital Market Supervisory Board |
| BAPPENAS | National Planning Development Agency |
| BCA | Bank Central Asia |
| BI | Bank Indonesia |
| BII | Bank Internasional Indonesia |
| BIS | Bank for International Settlements |
| BNI | Bank Negara Indonesia |
| BKKBN | National Family Planning Coordinating Board |
| BKN | Civil Service Agency |
| BKPK | Coordinating Agency for Poverty Reduction |
| BKPM | Investment Coordinating Board |
| BLBI | Bank Indonesia Liquidity Support |
| BOP | Balance of Payments |
| BPK | Supreme Audit Board |
| BPKP | Financial & Development Supervisory Board |
| BPS (CBS) | Central Bureau of Statistics |
| BULOG | State Logistics Agency |
| CAR | Capital Adequacy Ratio |
| CEIC | CEIC Data Company Ltd. |
| CGI | Consultative Group on Indonesia |
| CPI | Consumer Price Index |
| CY | Calendar Year |
| DAK | Special Allocation Fund |
| DAU | General Allocation Fund |
| DIP | Authorization to spend |
| DPKS | Social Electricity Development Fund |
| DPR | House of Representatives |
| FDI | Foreign Direct Investment |
| FSA | Financial Supervisory Authority |
| FSPC | Financial Sector Policy Committee |
| FY | Fiscal Year |
| GBHN | State Policy Guidelines |
| GDP | Gross Domestic Product |
| GOI | Government of Indonesia |
| GTZ | German Technical Corporation |
| HIV | Human Immunodeficiency Virus |
| IBRA | Indonesian Bank Restructuring Agency |
| ILO | International Labor Organization |
| IMF | International Monetary Fund |
| INDOSAT | Indonesian Satellite |
| IPO | Initial Public Offering |
| IPP | Independent Power Procedure |
| IPRSP | Interim Poverty Reduction Strategy Paper |
| JITF | Jakarta Initiative Task Force |
| JSX | Jakarta Stock Exchange |
| KDP | Kecamatan Development Program |
| Keppres | Presidential Decree |
| KHM | Minimum Living Needs |
| KPC | Kaltim Prima Coal |
| KPKPN | Commission for the Audit of the Wealth of State Officials |
| KPPOD | The Regional Autonomy Watch |
| KPPU | Commission for Business Competition |
| Kwh | Kilowatt hour |
| LOI | Letter of Intent |
| LTO | Large Taxpayer's Office |
| MDGs | Milenium Development Goals |
| MenPAN | State Ministry for Administrative Reforms |
| MOF | Ministry of Finance |
| MOHA | Ministry of Home Affairs |
| MOU | Memorandum of Understanding |
| MPR | People's Consultative Assembly |
| NBFI | Non-Bank Financial Institution |
| NGO | Non Government Organization |
| NPLs | Non-performing Loans |
| NPPO | National Public Procurement Office |
| NTB | West Nusa Tenggara |
| OC | Oversight Committee |
| OECD | Organization for Economic Co-operation and Development |
| OPK | Special Market Operation |
| PER | Public Expenditure Review |
| Perda | Regional Regulation |
| Persero | State-owned limited liability company |
| PLN | State Electricity Company |
| PROPENAS | National Development Program |
| PPS | Public Prosecution Service |
| PRS | Poverty Reduction Strategy |
| PSI | Pre-Shipment Inspection |
| RASKIN | Rice for the Poor |
| REPETA | Annual Development Plan |
| SGP | Scholarships and Grants Program |
| SMEs | Small and Medium Enterprises |
| SMERU | Social Monitoring and Early Response Unit |
| SBI | Bank Indonesia Certificates |
| SOE | State-Owned Enterprises |
| SUSENAS | National Socio-Economic Survey |
| UNCTAD | United Nations Conference on Trade and Development |
| UNSFIR | United Nations Support Facility for Indonesian Recovery |
| VAT | Value Added Tax |
| WDI | World Development Indicator |
| WTO | World Trade Organization |

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# EXECUTIVE SUMMARY

Indonesia experienced another year of modest growth amidst a hesitant global recovery, and a deteriorating investment climate. Significant progress was made in democratization, macroeconomic stability and fiscal sustainability, but growth did not pick up and progress in poverty reduction stalled. Growth remained largely consumption driven, as investors increasingly felt the pinch of a cooling investment climate and a weak legal system. The Bali bombing threatened to sink hopes for higher growth, but that risk has been mitigated thanks to the remarkable resolve the Government has shown in the aftermath of the tragedy. The swift action on security, a fiscal stimulus, and acceleration of structural reforms are likely to limit the damage of the attack. That same resolve should now be used to pursue the reforms that can accelerate growth, create jobs, and further reduce poverty. The Government must move now, *before* the elections distract politicians, or tempt them into taking popular, but harmful measures such as those recently taken in trade. The Government should stay the course on macroeconomic policies, maintain fiscal sustainability, revamp the investment climate and rebuild the broken institutions in the legal system.

*Increasing stability.* Since the beginning of the Megawati administration, financial markets have been generally supportive of macroeconomic stability. Political stability, sound macroeconomic policies, and structural reforms strengthened the Rupiah and stock market, and allowed interest rates to fall without re-igniting inflation. Credit agencies also upgraded Indonesia's debt, although it remains well below investment grade. Although the Bali bombing is still clouding Indonesia's economic outlook, financial markets returned to pre-attack levels within a month. Much of this was due to the Government's quick actions on security and the acceleration of reforms soon after the attack.

*Modest growth.* Stronger financial markets and macroeconomic performance did not translate into higher growth. The modest 3.4 percent growth expected for 2002 has, as before, been largely fueled by consumption, supported by large formal sector wage increases and credit from a recovering banking system. A slower recovery of the world economy in the aftermath of September 11 and a stronger Rupiah limited trade's contribution to growth. Investment failed to recover, in part because enterprises are still deeply in debt, but more importantly because the investment climate is deteriorating. Red tape and corruption in key Government services, sharp increases in legal minimum wages and uncertainty in labor regulations, excessive taxation by some local governments, a looming power crisis, and a weak legal system make Indonesia an unattractive place to invest in. Added security concerns after Bali will not help either, and some long-time investors have already called it quits. For 2003 the Government expects GDP to grow by 4 percent, one percent less than before the Bali bombing. This is at the high end of most forecasts, but at the bottom of the league of Asia's former crisis countries.

*Poverty reduction mixed.* Poverty reduction showed mixed results in this modest growth environment. Poverty has come down strongly from its crisis peaks of 27 percent of the population in 1999 to 16 percent in February 2002, because of recovering wages and relatively modest food price increases resulting from a stronger Rupiah. But poverty rose in the year up to February 2002, largely due to a spike in food prices during the floods in early 2002, which affected large parts of the country. With so many Indonesians close to the poverty line, small price changes in key food items can have large impacts on poverty. The slowdown in growth as a result of the Bali bombing may keep as much as 1 million people more in poverty than without the attack. Indonesia did less well in improving non-income measures of poverty, such as health and education outcomes. The relatively successful decentralization, which makes local governments responsible for most of health and education, could improve this, if poor regions receive a high enough share of the resources transferred by the center. Modest growth was not enough to make a dent in unemployment. Official numbers show unemployment of some 8.4 percent of the labor force, but over three times as many are underemployed, and some 2-2.5 million people enter the labor market each year. Many of them fail to find jobs.

*Fiscal consolidation continues.* Despite modest growth, the Government has managed an impressive fiscal consolidation. Even with the post-Bali fiscal stimulus taken into account, the deficit for 2003 will be lower than that of 2002, continuing the downward trend of the last three years. Lower deficits, a stronger Rupiah, a higher nominal GDP and debt buy-backs also pushed down government debt to GDP. The ratio is likely to hit 72 percent by the end of 2002, over 20 percentage points down from 2 years ago. The reduction in the budget deficit was primarily due to a reduction in fuel subsidies, which declined from over 5 percent of GDP in 2000 to well below 1 percent in 2003. They are now largely restricted to those for kerosene, the fuel of the poor. The Government has reduced the impact of price increases for fuel and utilities on the poor. In addition to limiting price increases for kerosene and low capacity power supply, it has funded a compensation program that targets low income Indonesians with extra rice distribution, education grants, and health cards. Nevertheless, the price increases remain controversial. The budget deficit also fell because central government development spending declined over the last few years, but much of the tab was picked up by regional governments, which spent more. For 2003, the approved budget aims for a deficit of 1.8 percent of GDP, half a percentage point higher than originally planned because of the Bali stimulus. This deficit would require $6.3 billion in foreign financing, of which, some $2.4-2.8 billion would have to come from aid disbursements of CGI members.

*Structural reforms progress.* Structural reforms under the Megawati administration have by and large remained on track. Reforms accelerated markedly after the Bali attack. Recognizing the importance of sending positive signals after Bali, the Government renewed reform efforts on a wide front. Key steps taken in recent months include the passage of the Law on the Anti-Corruption Commission, the sale of an IBRA bank, and announcements of more sales. IBRA recovery targets were met, and even privatization receipts, although the original aim to sell stakes in 25 enterprises was not met by a long shot, amidst growing political opposition against privatization. The agreement on past liquidity credits reached between the Government and the central bank, the restructuring of recapitalization bonds, and the start of treasury bonds auctions all underpin fiscal sustainability, and will contribute to a reduction in Indonesia's risk premium. Less encouraging were developments in trade policy, where a succession of tariff and non-tariff measures, from sugar, cloves to textile, signal a more protectionist stance. Particularly worrying are plans to further increase the tariff on rice, a measure that would hurt the poor, even the poor farmer, while achieving little for Indonesia's food security or farm productivity.

*Challenges ahead*. Five years after the onset of the crisis, macroeconomic stability has gained much ground, thanks to the Government's macroeconomic policies and supporting reforms. Now, aside from maintaining stability, the Government needs to tackle those issues that hold back growth, employment, and poverty reduction. In many ways, these are the harder issues, and they must be addressed in a year before the elections. Improving the investment climate and restoring the rule of law in Indonesia will therefore require the same resolve and determination as the Government has shown after the Bali bombing.

*Maintaining macroeconomic stability.* Maintaining Indonesia's hard-won macroeconomic stability requires the Government to continue its prudent macroeconomic policies, maintain fiscal sustainability, and keep the pace of structural reforms.

Maintaining fiscal sustainability over the next few years will be particularly challenging. The Bali fiscal stimulus, while appropriate, will cause a slowdown in fiscal consolidation, requiring a redoubling of efforts in the years beyond 2003. The Government's plan for a 'second fiscal stimulus" by means of tax relief for businesses would add to budget pressures. And the Government's desire not to seek further rescheduling under the Paris Club, together with the still large amount of recapitalization bonds due in 2004 and 2005 would require careful management of government debt and financing. The Government should therefore:

- Continue to raise revenues by accelerating the reforms initiated in tax and customs administration.
- Cut waste and corruption by improving government procurement and financial management.
- Develop savings options by evaluating the effectiveness of existing programs and projects.
- Devolve more expenditure responsibilities by finalizing arrangements for onlending to the regions, and expanding the DAK.
- Minimize debt financing of the budget through continued IBRA asset sales and privatization.

- Maximize the use of concessional aid funds by improving the disbursement on current existing commitments.

On structural reforms, the Government should use the year ahead to speed up corporate restructuring, and tackle remaining reforms in the financial sector, by:

- Continuing IBRA's asset sales, and complete the sale of banks already selected.
- Improving the governance of state banks, and pursuing their announced sales.
- Further building a solid financial safety net through improvement in supervision, an orderly phase-out of IBRA, and a gradual transition to the new financial sector regulatory authority.

To accelerate growth and investment, the Government must improve the country's investment climate. The formation of the National Investment Team announced in the aftermath of Bali is promising. It will need to be a focused, cabinet level team sufficiently empowered to address all of the key issues affecting the investment climate. The team will have its plate full, as Government must:

- Reduce bureaucracy and red tape. From investment approval to tax and customs administration, regulations that are needlessly cumbersome and give rise to discretion and corruption should be cut.
- Ensure that labor regulations balance the interests of employers and employees, while maintaining labor market flexibility. The Government should also consider how it could give more guidance to the regions in their decisions on minimum wages.
- Contain the downside of decentralization by clarifying the functions of levels of government, and by granting the regions a proper tax base, while limiting the type of taxes they can levy.
- Avoid a power crisis by investing in transmission, and restoring the financial viability of the sector.
- Continue to hand over state assets to the private sector. Beyond revenues, privatizing enterprises in competitive or well-regulated sectors still has much scope to improve the country's productivity.

Perhaps the most effective way to improve the investment climate is to send a strong signal that the Government means business in reforming the justice sector. There are no easy or quick solutions to the sector's deeply rooted problems, and all of its key institutions need major repairs, which cannot be expected overnight. Five years after the end of the New Order regime, many of the elements of a reform program have been identified, including the need for a national framework for legal reforms. The current "National Law Summit" process is a step in the right direction, but Government must ensure that the outcome of the process leads to a clearly articulated long-term strategy for justice sector reform, and measurable progress towards the goals outlined in that strategy. This requires:

- Leadership at the highest levels of government on the issue of justice sector reforms.
- Preparation by the Attorney General's Office and the judiciary of comprehensive governance reform action programs for their respective institutions
- A needs assessment for existing and new institutions in the justice sector to determine adequate funding and resources for them.

Making growth work for the poor requires a broad-based strategy comprising all elements of government policy. The Government should be commended for embarking on a process to develop such a strategy. It is expected that at the time of the CGI the Government will have published a roadmap for drafting such a strategy. As Indonesia moves forward to develop its full poverty reduction strategy, it will be important to focus on:

- Defining priority areas of policy and public action for equitable growth and poverty reduction, and create the analytical basis in these areas to come to the right policy decisions.
- Identifying national poverty reduction objectives, indicators, and targets. The Millennium Development Goals can serve as useful guides in this respect, but the Government should translate these to Indonesia's own circumstances.
- Mainstreaming the poverty reduction strategy in the government's core planning, policy and budgeting processes, and Propenas and Repeta.

If the Government manages to maintain stability, and deepen reforms as spelled out in this report, it will be in a position to deliver a healthier economy with more growth and less poverty in 2004.

# RINGKASAN EKSEKUTIF

Indonesia sekali lagi menjalani satu tahun dengan pertumbuhan sederhana di tengah pemulihan global yang tidak menentu, dan iklim investasi yang memburuk. Kemajuan signifikan telah dibuat dalam hal demokratisasi, kestabilan makroekonomi serta keberlanjutan fiskal, tetapi pertumbuhan tidak meningkat dan kemajuan dalam hal pengurangan kemiskinan melambat. Sebagian besar pertumbuhan masih digerakkan oleh konsumsi, sementara para investor semakin merasakan tekanan iklim investasi yang terus mendingin dan sistem hukum yang lemah. Pengeboman di Bali mengancam akan menenggelamkan harapan untuk pertumbuhan yang lebih tinggi, tetapi risiko telah dikurangi berkat tekad luar biasa yang diperlihatkan oleh Pemerintah setelah tragedi tersebut. Tindakan cepat di bidang keamanan, pendorong dalam bidang fiskal, dan percepatan reformasi struktural kemungkinan akan membatasi kerugian akibat serangan tersebut. Tekad yang sama hendaknya digunakan sekarang untuk mengejar reformasi yang dapat mempercepat pertumbuhan, menciptakan lapangan kerja, dan melanjutkan upaya pengurangan kemiskinan. Pemerintah harus bergerak sekarang, *sebelum* pemilihan umum mengalihkan perhatian para politisi, atau menggoda mereka untuk mengambil langkah-langkah yang populer, tetapi merugikan seperti yang baru-baru ini terjadi dalam bidang perdagangan. Pemerintah perlu meneruskan kebijakan-kebijakan makroekonomi, mempertahankan keberlanjutan fiskal, mengubah iklim investasi dan membangun kembali lembaga-lembaga yang hancur dalam sistem hukum.

*Meningkatkan kestabilan*. Sejak awal pemerintahan Megawati, pasar keuangan umumnya telah mendukung kestabilan makroekonomi. Kestabilan politik, kebijakan makroekonomi yang sehat, dan reformasi struktural telah memantapkan Rupiah dan pasar bursa, dan memungkinkan suku bunga jatuh tanpa menggerakkan kembali inflasi. Lembaga-lembaga pemberi pinjaman juga telah meng-*upgrade* hutang Indonesia, walaupun tetap jauh dibawah *grade* investasi. Walaupun pemgeboman di Bali masih meninggalkan kesan suram pada perekonomian Indonesia, pasar keuangan telah kembali ke level pra-pengeboman dalam waktu satu bulan. Hal ini banyak diakibatkan oleh tindakan pemerintah yang cepat di bidang keamanan dan percepatan reformasi segera setelah terjadinya serangan tersebut.

*Pertumbuhan Sederhana*. Pasar keuangan dan kinerja makroekonomi yang lebih kuat tidak tercermin dalam bentuk pertumbuhan yang lebih tinggi. Pertumbuhan sederhana sebesar 3,4 persen yang diharapkan untuk tahun 2002, seperti sebelumnya, terutama digiatkan oleh konsumsi, didukung oleh kenaikan upah yang besar di sektor formal dan kredit dari sistem perbankan yang sedang pulih. Pemulihan perekonomian dunia yang lebih lambat setelah 11 September dan Rupiah yang menguat telah membatasi kontribusi perdagangan terhadap pertumbuhan. Investasi ternyata tidak pulih, antara lain karena perusahaan-perusahaan masih terlilit hutang, tetapi yang lebih penting karena iklim investasi memburuk. Birokrasi dan korupsi yang terjadi dalam pelayanan-pelayanan utama pemerintah, kenaikan tajam pada tingkat upah minimum berdasarkan undang-undang dan ketidakpastian peraturan tenaga kerja, pengenaan pajak yang berlebihan oleh beberapa pemerintah daerah, ancaman krisis tenaga listrik, dan sistem hukum yang lemah membuat Indonesia menjadi tempat yang tidak menarik untuk investasi. Kekuatiran yang bertambah mengenai keamanan setelah kasus Bali juga tidak akan membantu, dan beberapa investor lama telah pergi. Selama tahun 2003 pemerintah mengharapkan PDB meningkat 4 persen, satu persen dibawah level sebelum pemboman di Bali. Ini berada pada level yang tinggi menurut kebanyakan perkiraan, tetapi berada di level bawah negara-negara Asia yang dahulu mengalami krisis.

*Pengurangan kemiskinan tidak konsisten.* Pengurangan kemiskinan memperlihatkan hasil yang tidak konsisten dalam lingkungan pertumbuhan yang sederhana ini. Kemiskinan mengalami penurunan yang sangat nyata dari puncak krisis sebesar 27 persen dari jumlah penduduk pada tahun 1999 menjadi 16 persen pada bulan Februari 2002, karena pulihnya tingkat upah dan kenaikan yang relatif terbatas pada harga makanan akibat menguatnya Rupiah. Tetapi kemiskinan mulai begerak naik pada tahun tersebut sampai bulan Februari 2002, terutama akibat harga makanan meningkat tajam selama banjir di awal tahun 2002, yang mempengaruhi sebagian besar wilayah negeri ini. Dengan begitu banyak orang Indonesia berada di dekat garis kemiskinan, perubahan kecil pada harga bahan makanan pokok bisa berdampak besar terhadap kemiskinan. Melambatnya pertumbuhan akibat pengeboman di Bali bisa menempatkan sebanyak 1 juta orang ke dalam kemiskinan lebih banyak dibanding dengan sebelum terjadinya serangan. Indonesia tidak terlalu berhasil mengambil langkah-langkah non-penghasilan untuk mengatasi kemiskinan, seperti di bidang kesehatan dan pendidikan. Desentralisasi yang relatif sukses, yang membuat pemerintah daerah bertanggung jawab atas sebagian besar bidang kesehatan dan pendidikan, dapat meningkatkan hal ini, bila daerah-daerah miskin menerima bagian sumber daya yang cukup besar yang dialihkan oleh pusat. Pertumbuhan yang terbatas ternyata tidak cukup menghasilkan sesuatu yang berarti untuk mengatasi pengangguran. Angka-angka resmi memperlihatkan tingkat pengangguran sekitar 8,4 persen dari angkatan kerja, tetapi lebih dari tiga kali sebanyak itu tidak mendapatkan pekerjaan yang memadai, sedangkan sekitar 2-2,5 juta pencari kerja memasuki pasar tenaga kerja setiap tahun. Banyak di antaranya, tidak berhasil mendapatkan pekerjaan.

*Konsolidasi fiskal berlanjut.* Walaupun tingkat pertumbuhan terbatas, Pemerintah telah berhasil menangani konsolidasi fiskal secara mengesankan. Bahkan dengan memperhitungkan dorongan fiskal paska-Bali, defisit untuk tahun 2003 akan lebih rendah daripada tahun 2002, yang akan melanjutkan kecenderungan yang menurun selama tiga tahun terakhir. Defisit yang lebih rendah, Rupiah yang menguat, PDB nominal yang lebih tinggi dan pembelian-kembali hutang juga telah menekan hutang pemerintah turun sampai ke PDB. Rasio ini agaknya akan menjadi 72 persen pada akhir tahun 2002, turun lebih dari 20 persen sejak 2 tahun yang lalu. Berkurangnya defisit anggaran terutama disebabkan oleh berkurangnya subsidi bahan bakar, yang turun dari 5 persen lebih dari PDB pada tahun 2000 menjadi kurang dari 1 persen di tahun 2003. Sekarang subsidi ini dibatasi pada subsidi untuk minyak tanah, bahan bakar bagi kaum miskin. Pemerintah telah mengurangi dampak kenaikan harga bahan bakar dan biaya listrik/telepon terhadap kaum miskin. Selain membatasi kenaikan harga untuk minyak tanah dan suplai listrik berkapasitas rendah, pemerintah telah mendanai suatu program kompensasi yang mentargetkan rakyat Indonesia berpenghasilan rendah dengan distribusi beras ekstra, beasiswa pendidikan, dan kartu kesehatan. Namun demikian, kenaikan harga tetap merupakan kontroversi. Defisit anggaran juga turun karena pembelanjaan pembangunan pemerintah pusat menurun selama beberapa tahun terakhir, tetapi banyak dari rekening tersebut diambil oleh pemerintah daerah, yang membelanjakan lebih banyak. Untuk tahun 2003, anggaran yang disetujui diharapkan defisit 1,8 persen dari PDB, setengah persen lebih tinggi daripada yang direncanakan semula karena adanya alasan peristiwa Bali. Defisit ini akan membutuhkan $6.3 milyar pembiayaan dari luar negeri, di antaranya, sekitar $2.4-2.8 milyar akan berasal dari pencairan dana bantuan para anggota CGI.

*Kemajuan reformasi struktural.* Reformasi struktural di bawah pemerintahan Megawati umumnya masih berada di jalur yang tepat. Reformasi mengalami percepatan yang nyata setelah serangan Bali. Menyadari pentingnya mengirimkan sinyal-sinyal yang positif setelah peristiwa Bali, Pemerintah memperbaharui upaya-upaya reformasi secara luas. Langkah-langkah utama yang diambil pada bulan-bulan belakangan ini mencakup diterimanya Undang-Undang mengenai Komisi Anti-Korupsi, penjualan sebuah bank BPPN, dan pengumuman tentang lebih banyak penjualan. Sasaran pemulihan oleh BPPN telah terpenuhi, dan bahkan penerimaan dari privatisasi, meskipun sasaran semula untuk menjual saham dalam 25 perusahaan tidak terpenuhi sama sekali, di tengah perlawanan politik yang terus meningkat terhadap privatisasi. Kesepakatan mengenai kredit likuiditas di masa lalu yang dicapai antara Pemerintah dan bank sentral, restrukturisasi obligasi rekapitalisasi, dan mulainya lelang obligasi modal semuanya memantapkan keberlanjutan fiskal, dan akan memberikan kontribusi kepada pengurangan premi risiko Indonesia. Yang kurang menggembirakan adalah perkembangan dalam kebijakan perdagangan, di mana serentetan langkah tarif dan non-tarif, mulai dari gula sampai ke cengkeh dan tekstil, memberi sinyal adanya sikap yang lebih bersifat proteksionis. Yang khususnya mengkhawatirkan adalah rencana-rencana untuk menaikkan lagi tarif atas beras, suatu langkah yang akan merugikan kaum miskin, bahkan petani miskin, padahal hanya sedikit hasil yang dicapai dari segi keamanan bahan pangan atau produktivitas pertanian Indonesia.

*Berbagai tantangan yang dihadapi.* Lima tahun setelah mulainya krisis, kestabilan makroekonomi telah banyak mencapai kemajuan, berkat kebijakan makroekonomi Pemerintah dan dukungan reformasi. Sekarang, selain mempertahankan kestabilan, Pemerintah perlu menanggulangi masalah-masalah yang menghambat pertumbuhan, lapangan kerja, dan pengurangan kemiskinan. Dalam banyak hal, ini merupakan masalah-masalah yang lebih berat, dan harus ditangani dalam waktu satu tahun sebelum pemilihan umum. Karena itu, perbaikan iklim investasi dan pemulihan supremasi hukum di Indonesia akan menuntut tekad dan ketetapan hati yang sama seperti diperlihatkan oleh Pemerintah setelah pengeboman di Bali.

*Memperlihatkan kestabilan makroekonomi.* Untuk mempertahankan kestabilan makroekonomi Indonesia yang telah dicapai dengan perjuangan berat Pemerintah dituntut untuk melanjutkan kebijakan makroekonomi yang berhati-hati, mempertahankan keberlanjutan fiskal, dan meneruskan kecepatan langkah reformasi struktural.

Mempertahankan keberlanjutan fiskal selama beberapa tahun berikutnya khususnya akan merupakan tantangan. Dorongan fiskal setelah peristiwa Bali, meskipun tepat, akan menyebabkan perlambatan konsolidasi fiskal, yang menuntut penggandaan upaya di tahun-tahun setelah 2003. Rencana Pemerintah untuk menghasilkan 'dorongan fiskal kedua' melalui keringanan pajak bagi bisnis akan menambah tekanan terhadap anggaran. Dan keinginan Pemerintah untuk tidak mengupayakan penjadwalan-ulang lebih lanjut berdasarkan Paris Club, bersama dengan obligasi rekapitalisasi yang masih besar jumlahnya yang sudah harus dibayar pada tahun 2004 dan 2005 akan menuntut pengelolaan yang hati-hati terhadap hutang dan pembiayaan pemerintah. Karena itu Pemerintah perlu:

- Terus meningkatkan pendapatan dengan mempercepat reformasi yang telah dimulai dalam administrasi perpajakan dan bea cukai.
- Mengurangi pemborosan dan korupsi dengan memperbaiki pengelolaan pengadaan dan keuangan pemerintah.
- Mengembangkan pilihan-pilihan tabungan dengan mengevaluasi keefektifan program-program dan proyek-proyek yang ada.
- Melimpahkan lebih banyak tanggung jawab pengeluaran dengan merampungkan penyelenggaraan-penyelenggaraan untuk memberikan pinjaman-lanjutan kepada daerah, dan memperluas DAK.
- Meminimalkan pembiayaan hutang dari anggaran dengan melanjutkan penjualan aset-aset BPPN dan privatisasi.
- Memaksimalkan penggunaan dana-dana konsesional dengan meningkatkan pencairan dana berdasarkan komitmen yang ada sekarang.

Mengenai reformasi struktural, Pemerintah perlu menggunakan setahun di muka untuk mempercepat restrukturisasi perusahaan, dan mengupayakan reformasi yang masih tersisa di sektor keuangan, dengan:

- Meneruskan penjualan aset BPPN, dan menyelesaikan penjualan bank-bank yang telah dipilih.
- Memperbaiki *governance* bank-bank negara, dan terus mengupayakan penjualannya yang telah diumumkan.
- Lebih jauh membangun jaring pengaman keuangan yang mantap melalui perbaikan di bidang pengawasan, penghapusan peran BPPN secara tertib, dan transisi bertahap kepada wewenang pengaturan yang baru di sektor keuangan.

Untuk mempercepat pertumbuhan dan investasi, Pemerintah harus meningkatkan iklim investasi di negeri ini. Formasi Tim Investasi Nasional yang diumumkan setelah peristiwa Bali cukup menjanjikan. Tim tersebut perlu menjadi tim setingkat kabinet dan terfokus, dengan diberi kuasa yang memadai untuk menangani semua permasalahan pokok yang mempengaruhi iklim investasi. Tim tersebut akan sibuk, karena Pemerintah harus:

- Mengurangi birokrasi dan urusan formal yang bertele-tele. Mulai dari persetujuan investasi sampai ke administrasi perpajakan dan bea-cukai, peraturan-peraturan yang membebani tanpa alasan yang kuat dan membuka peluang untuk keleluasaan pejabat dan korupsi semuanya harus dihentikan.
- Memastikan bahwa peraturan-peraturan tenaga kerja memberi keseimbangan antara kepentingan para majikan dan para karyawan, sambil mempertahankan kelenturan pasar tenaga kerja. Pemerintah juga perlu mempertimbangkan untuk memberikan lebih banyak pengarahan kepada daerah dalam mengambil keputusan mengenai upah minimum.
- Mengendalikan kelemahan-kelemahan desentralisasi dengan mengklarifikasi fungsi-fungsi berbagai tingkat pemerintah, dan dengan memberikan kepada daerah suatu basis perpajakan

yang pantas, sambil membatasi jenis pajak yang dapat mereka pungut.

- Menghindari krisis tenaga listrik dengan mengadakan investasi dalam bidang transmisi, dan memulihkan kelayakan dari segi keuangan pada sektor tersebut.
- Terus menyerahkan aset-aset negara kepada sektor swasta. Selain masalah pendapatan, perusahaan-perusahaan yang melakukan privatisasi dalam sektor-sektor yang bersaing atau yang diatur dengan baik masih memiliki banyak ruang untuk memperbaiki produktivitas negeri ini.

Barangkali cara yang paling efektif untuk memperbaiki iklim investasi adalah mengirimkan sinyal yang kuat bahwa Pemerintah bersungguh-sungguh mereformasi sektor peradilan. Tidak ada solusi gampang atau cepat bagi persoalan-persoalan yang telah berakar dalam di sektor tersebut, dan semua lembaga-lembaga utamanya membutuhkan perbaikan besar-besaran, yang tidak dapat diharapkan dalam satu malam. Lima tahun setelah akhir rejim Orde Baru, banyak elemen program reformasi yang telah diidentifikasi, termasuk perlunya sebuah kerangka nasional untuk reformasi hukum. Proses "Pertemuan Tingkat Tinggi Hukum Nasional" saat ini merupakan sebuah langkah menuju ke arah yang tepat, tetapi Pemerintah harus memastikan bahwa hasil proses menghasilkan sebuah strategi jangka-panjang yang dinyatakan dengan jelas untuk reformasi sektor peradilan, dan kemajuan yang dapat diukur untuk mencapai sasaran-sasaran yang digariskan dalam strategi tersebut. Ini menuntut:

- Kepemimpinan pada berbagai tingkat pemerintah yang paling tinggi yang menyangkut masalah reformasi pada sektor peradilan.
- Persiapan oleh Kantor Jaksa Agung dan kehakiman mengenai rencana tindakan reformasi *governance* yang komprehensif untuk lembaga mereka masing-masing.
- Penilaian tentang kebutuhan bagi lembaga-lembaga yang sudah ada maupun yang baru dalam sektor peradilan untuk menentukan pembiayaan dan sumber daya yang memadai bagi mereka.

Agar pertumbuhan memberikan hasil bagi kaum miskin, dibutuhkan strategi berbasis luas yang terdiri atas semua elemen kebijakan pemerintah. Pemerintah patut dipuji atas tindakannya memulai sebuah proses untuk mengembangkan strategi tersebut. Diharapkan bahwa saat berlangsungnya CGI, Pemerintah sudah akan menerbitkan sebuah pedoman untuk menyusun draft strategi tersebut. Dengan terus bergerak maju untuk mengembangkan sepenuhnya strategi pengurangan kemiskinan, Indonesia perlu memusatkan perhatian kepada:

- Penetapan bidang-bidang prioritas dalam kebijakan dan tindakan publik untuk mencapai pertumbuhan yang merata dan pengurangan kemiskinan, dan penciptaan dasar analitis pada bidang-bidang ini agar dapat mencapai keputusan-keputusan kebijakan yang tepat.
- Mengidentifikasi tujuan-tujuan, indikator-indikator, dan sasaran-sasaran pengurangan kemiskinan secara nasional. Sasaran-sasaran Pembangunan Milenium dapat berfungsi sebagai pedoman yang bermanfaat dalam hal ini, tetapi Pemerintah perlu menterjemahkannya sesuai dengan keadaan-keadaan di Indonesia.
- Menetapkan arus-utama strategi pengurangan kemiskinan dalam proses inti perencanaan, kebijakan dan penganggaran oleh pemerintah, serta Propenas dan Repeta.

Bila Pemerintah mampu mempertahankan kestabilan, dan memperdalam reformasi sebagaimana diuraikan dalam laporan ini, pemerintah akan sanggup menyediakan sebuah perekonomian yang lebih sehat dengan lebih banyak pertumbuhan dan kemiskinan yang semakin berkurang pada tahun 2004.

# CHAPTER 1: RECENT ECONOMIC DEVELOPMENTS AND POLICY

Indonesia experienced another year of improving macroeconomics and modest growth. Political stability, macroeconomic policies and continued fiscal consolidation supported the markets and macro-economic stability. Banks also continued their recovery, and corporate debt restructuring is progressing, albeit at a slow pace. Indonesia's external debt indicators are improving, and government debt to GDP is falling rapidly. Despite these improvements in the macro environment, growth remained below that of other former crisis countries, and largely consumption driven. With a continued weak investment climate, the improving international environment may not do much to improve the outlook for growth. But the economic impact of the Bali bombing on October 12 could be less severe than initially feared. The Government can take credit for this, as it reacted quickly to address security concerns, announced a fiscal stimulus and accelerated structural reforms in the aftermath of the tragedy. To maintain macro economic stability, the Government should stay the course on macro economic policies, keep the momentum in structural reforms, and assure fiscal sustainability.

### *Political Developments*

Increased political stability under the Megawati Government supported further democratization, and calmed the markets. The 2001 and 2002 MPR sessions were unusually quiet, and the 2nd and 3rd amendments to the constitution mark a major shift in Indonesian politics. A directly elected President and Vice President, removal of the military from parliament, the creation of a regional chamber of parliament and a constitutional court foreshadow a very different dynamic in the 2004 election and beyond, and reinforce civil supremacy over the military. Less promising is the recall mechanism included in the revised Law on Political Parties, which could reinforce accountability for elected representatives to party leadership rather than the electorate. Many observers were also disappointed with the outcomes of the trial on human rights abuses in East Timor. But the year ended on a positive note with the agreement on cessation of hostilities in Aceh, which found wide domestic and international support, and promises a more peaceful future in the province and the country.

### *Financial Market Sentiment*

Political stability, continued solid macroeconomic management, and renewed reforms supported financial market sentiments (Figure 1.1). The Paris Club agreement of April 2002, and subsequent London Club agreement gave further rise to a positive momentum, and to an upgrading of Indonesia's credit ratings, although these remain well below investment grade. Market confidence lifted the Rupiah from Rp.10,500 per dollar by the end of 2001 to levels below Rp.9,000 per dollar for most of the year. The stock market rallied 150 points to 550 by mid-year, only to fall below 400 again, amidst global malaise in shares. The spread of Indonesia dollar bonds narrowed to 300 basis points over US Treasuries,[1] and policy interest rates came down from over 17 percent to less than 13 percent by the end of 2002. The Bali bombing knocked off 10 percent of the stock market value, and some 3.5 percent off the Rupiah. But markets were quick to recover after the Government accelerated its reform efforts, and showed quick results in investigating the bombing and in taking further security measures. Fitch confirmed its unchanged Indonesia credit rating in early December.

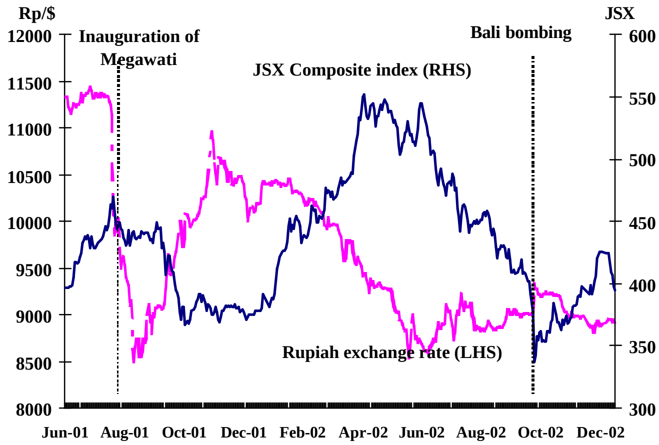
### *The Real Economy*

Growth has remained modest and has been largely consumption driven. Growth in the first three quarters of 2002 amounted to 3.4 percent, about the same as for the year 2001, but 1.5 percentage points below that of the year 2000. While growth accelerated in the third quarter, the budget assumption of 4 percent growth for 2002 now seems out of reach, as the impact of the Bali bombing will be felt in the last quarter. Growth is still below that of other former Asian crisis countries, and Indonesia is the only country that has not yet reached pre-crisis high GDP levels. GDP per capita in Rupiah terms is still some 10 percent below that of 1997, whereas in dollar terms it is still down over 30 percent (Figure 1.2).

Growth remains consumption driven. Consumers reacted positively to the stability that took hold after President Megawati assumed office. They also benefited from rapidly rising formal wages and strong growth in consumer credit, which expanded by

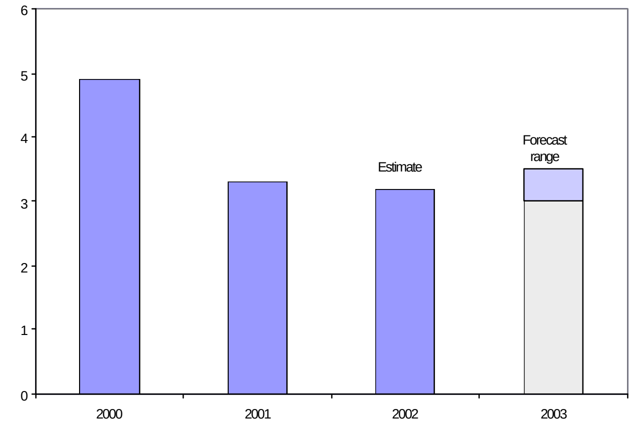
***Figure 1.1: A Snapshot of Indonesia's Economy in 2002***

***Markets quickly recovered to pre-Bali bombing level…***
(Rp./$ exchange rate and JSX index)



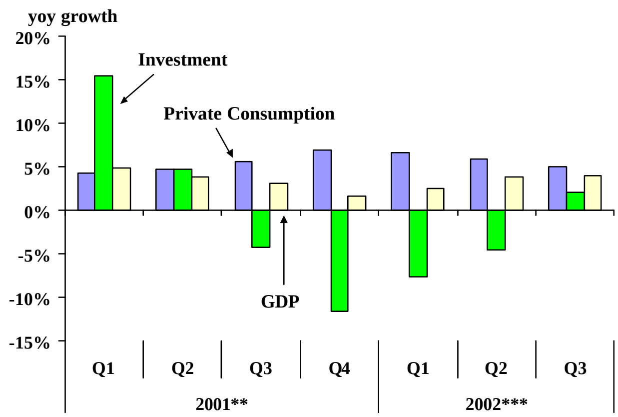

*Source: CEIC data base.*

***…but growth remains modest…***
(GDP Growth 2000-2003, percent)



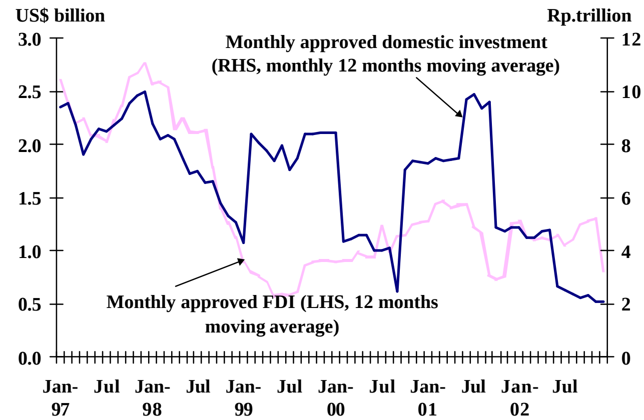

*Source: CEIC data base, staff calculation.*

***…and is largely consumption driven…***
(year-on-year growth, percent)



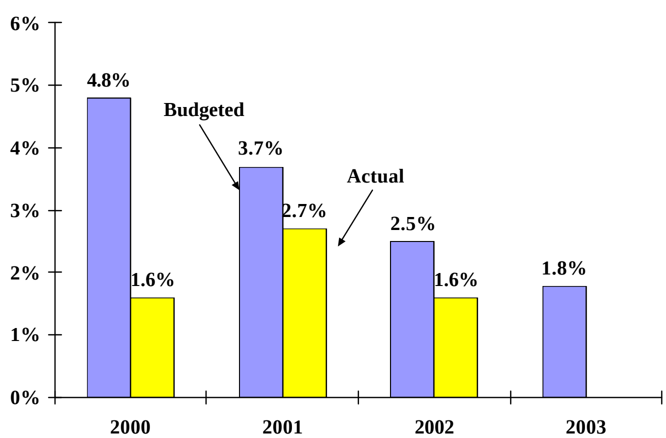

*Source: BPS, staff calculation.*

***…while investment is unlikely to recover soon***
(Investment approvals)



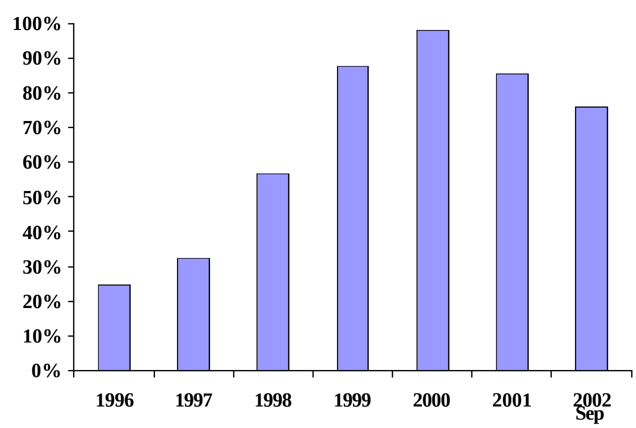

*Source: Bank Indonesia, CEIC data, staff calculation.*

***But fiscal consolidation continues…***
(budget deficit to GDP ratio, planned and actual)



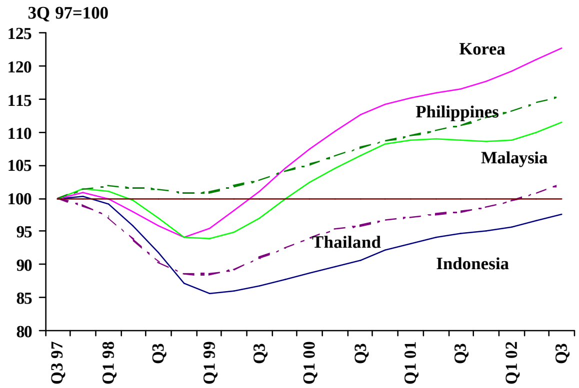

*Note: 2001, 2002 preliminary.*
*Source: MOF.*

***…and government debt is on the decline***
***(Percent of GDP)***




*Source: staff calculation.*

***Figure 1.2: Indonesia's GDP is still below pre-crisis levels*** (Index, 1997 Q3-100)



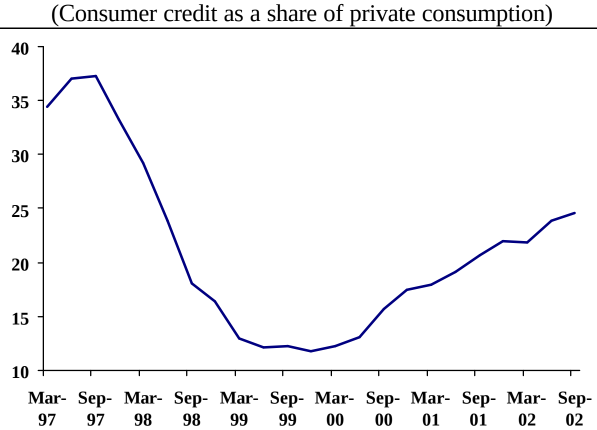

*Source: CEIC data, staff calculation.*

43 percent in the second quarter of 2002 (Figure 1.3), although slowing more recently. Private consumption growth has started to slow in the third quarter of 2002, and consumer confidence dipped after the Bali bombings, although by less than feared.[2] Recent data on durable goods sales suggest that consumption growth is still holding up, albeit at a more moderate pace. The growth in car sales slowed from 11.6 percent (year-on-year) in October to 3.7 percent in November, but motorbike sales were still 38 percent higher in October compared to a year ago.

Investment suffered from a deteriorating investment climate. Investment fell 3.5 percent over the first three quarters of 2002 compared to the same period last year, although some recovery is apparent in recent quarters. Investment approvals were also sharply down in 2002 (Figure 1.1), and domestic investment approvals fell even sharper than those of foreign

***Figure 1.3: Credit finances an increasing share of consumption***

(Consumer credit as a share of private consumption)




*Source: Bank Indonesia, BPS, Staff calculation.*

investment. Added to long-standing investor concerns (Chapter 2) are the increased security concerns after the Bali bombing. Even long-time foreign investors such as SONY decided to move their production elsewhere, following the move of several textile companies earlier in the year.

Some consolation for poor investment numbers lies in shaky statistics. The national accounts, especially the ones on a quarterly basis, remain weak, and subject to frequent, and large revision (Box 1.1). Weak investment is confirmed by data on capital goods imports, but data on cement consumption suggest that there could be more investment than meets the statistician's eye. Cement use is now 80 percent higher than in January 2000, and year-on-year growth in cement consumption was over 30 percent in October, 2002. But little of this seems to be used to build up productive capacity: most of the cement is sold in bags, not bulk, suggesting that it is being used for housing or perhaps very small scale business. It does mean, however, that housing investment in the national accounts may be underestimated.

Net exports still contribute to growth but at a declining rate. In the third quarter of 2002, exports and imports started growing again for the first time since the second quarter of 2001. Net exports shrank sharply as imports growth outpaced exports growth.

***Box 1.1: Out of Stock!***

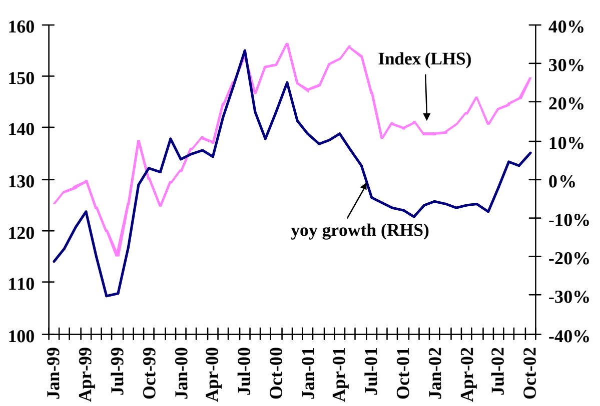
*If one believes the national accounts, Indonesia's businesses must suffer from empty shelves throughout the country: changes in stock have been negative since the fourth quarter of 1997. Before rushing to the stores to grab the last of your favorite items, consider the quality of the national accounts. Unlike other countries, change in stocks in Indonesia's accounts includes both actual change in stocks and statistical discrepancies. The latter is likely to explain most of the decline, if not all. If true, then other items in the national accounts are likely to be over-estimated. Prime candidates are private consumption and net exports. Quarterly private consumption is forecast on the basis of the consumption elasticity to GDP as derived from the 1999 SUSENAS household survey, and is likely to be error-prone, as the elasticity might have been unusually high in 1999, in the wake of the crisis. Moreover, smuggling and an underreporting of imports to export bonded zones are likely to give an upward bias to net exports. BPS is working on improving their quarterly national accounts statistics, but meanwhile, these numbers should be used with caution.*

International trade statistics suggest a declining contribution to growth from net exports for the rest of the year. But Indonesia's terms of trade have started to improve again since the middle of the year (Figure 1.4), on the back of rising prices of oil and agricultural commodities, implying that income may rise somewhat faster than GDP.

The impact of the Bali bombing on production is likely to remain moderate. The hotel and restaurant industry has a 3.1 percent share in GDP, although not all of this is tourism. Indirect contributions from tourism to manufacturing and retail trade may add 1-2 percent to tourism-related industries. In Egypt, a country with a similar size of tourism industry, visitors numbers declined by about 17 percent after the terrorist attacks in Luxor (by 50 percent in the first 3 months), and tourism inflows on the balance of payments fell by 25 percent, a loss which was only gradually recovered. After the May 1998 riots, the number of visitors to Indonesia was also down by 19 percent. Spending by visitors fell as well, for an average loss in balance of payments contribution of some 36 percent. The decline in visitors may well be sharper now, as terrorism is more on the forefront of the minds of people around the world.

The effect on visitor numbers is only gradually becoming apparent. According to BPS, the number of visitors to Indonesia in October was down only 2 percent from the year before, but in November it fell by 21 percent. The number of visitors to Bali was down 50 percent in the same month. While many hotels reported to be fully booked around the year-end holidays, this was achieved by giving steep discounts, and high spending tourists from Europe and the USA stayed away. With this in mind, and assuming a 15-20 percent decline in visitors, Indonesia's 2003 GDP would be 0.7-1 percent of GDP lower than before. It should be noted that already before the attack, the hotel sector only grew by a modest 1.2 percent (Q1-Q3, year-on-year) as it was only slowly recovering from the September 11 attack in 2001. Restaurant value added grew by 5.9 percent over the same period. The impact on the Bali economy, which is likely to be much more severe than that on Indonesia as a whole, is discussed in a separate note submitted to the CGI delegates.

***Figure 1.4: Terms of trade improving again***
(1993=100, wholesale price index) started to improve



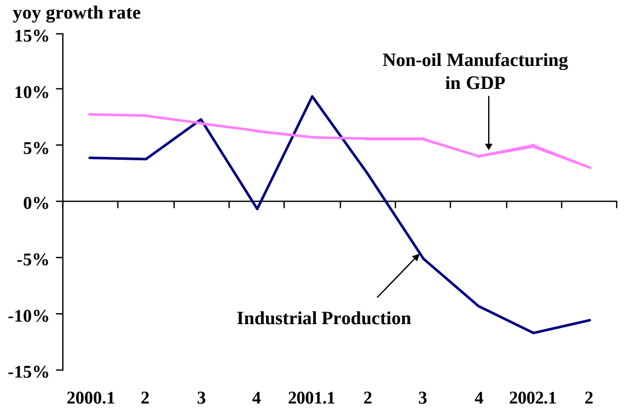

*Source: BPS, staff calculation.*

Indonesia's manufacturing industry already showed a marked slowdown in manufacturing before the Bali attack. Growth in manufacturing, which peaked in Q4 2001, amounted to 3.3 percent (year-on-year) for the first three quarters of 2002, substantially lower than 6.1 percent in 2000 and 4.3 percent in 2001. Part of the slowdown can be ascribed to the floods in early 2002, which disrupted supplies and caused a loss of working days. The slowdown was most pronounced in the transportation sector, which grew by 0.8 percent in the first three quarters of 2002 (year-on-year) and by –4.1 percent in the third quarter, after growing more than 20 percent in 2001. Some companies reported production cuts after the Bali bombing, in anticipation of sluggish sales ahead. Longer holidays in December 2002, decided on by the Government to boost demand, may affect production in the final quarter as well, although in anticipation some businesses increased production in October and November.

Amidst this slowdown in manufacturing, it is some comfort that smaller enterprises seem to do better than big ones (Figure 1.5). Growth in industrial production, which only reflects the production of larger enterprises has been falling, whereas output of non-oil manufacturing remained positive. The difference in trends suggests that small enterprises, which are captured in manufacturing statistics, are doing better than the bigger ones. This is confirmed by numbers on credit, which show that growth in credit to SMEs was high until the first quarter of 2002, although it leveled off since then.

Agricultural growth was unexpectedly strong in the second and third quarters of 2002 mainly led by food crops, and agriculture was a leading sector of the

**Figure 1.5: Smaller enterprises are doing better**
(Growth in industrial production
and non-oil manufacturing, percent)




*Source: BPS.*

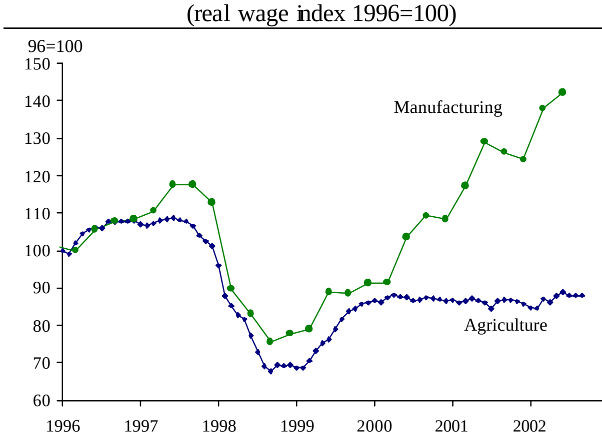
economy. Electricity production has started to slow down. It expanded by 8.4 percent in 2001 more than double GDP growth, but its growth slowed to 5.8 percent in the first three quarters of 2002. For many, the high growth in electricity supply reinforced the impression that statistics did not capture all growth in Indonesia's economy. However, the expansion of the number of users and the relative prices of electricity have been a major underlying cause of growth. The number of users expanded rapidly even during the crisis, and for a long period of time electricity tariffs lagged behind general price increases. Also, the increases in diesel prices relative to electricity prices may have induced many users to switch from own-generated power to the PLN net.

### *Poverty, Wages and Income*

Poverty reduction made significant progress since 1999, but stalled more recently. The poverty headcount ratio declined form over 27 percent in 1999 to 16 percent in 2002 because of recovering real wages and lower relative price rises in food (See Chapter 4). The core headcount poverty index based on a more limited annual survey of spending items drifted up from 13.2 percent in February 2001 to 14.5 percent in February 2002.[3] This uptick was largely caused by a rapid increase in rice prices in the aftermath of the floods in early 2002. The shift in growth from the larger, formal sector firms to SMEs and agriculture may expand the job opportunities for the poor. But the outlook for poverty reduction is clouded by the Bali bombing. Assuming the attack only affects growth, not exchange rates and prices, about 1 million more people will be in poverty than without the attack.[4]

Formal sector wages have been rising rapidly (Figure 1.6). By mid-2002, real wages in manufacturing were 35 percent higher than in the same quarter of 1996, and the year-on-year increase was 10 percent. One driving force behind this is the steep rise in minimum wages across the country. In 2002, an average minimum wage increased by 30 percent. Government wages also rose in July 2001, by some 15-20 percent, as a result of consolidating several allowances with the base wage.[5] In addition, those with a job in the formal sector may have been able to captured some of the recovery in enterprise profitability. Real wages in agriculture, largely in the informal sector, are still 12 percent below their 1996 levels, and the year-on-year growth was a mere 1 percent, if deflated by the CPI. For the poor, who spend more on food, real wages even declined in the year up to the first quarter. Because of the administrative wage increases in the formal sector, informal sector wages reflects market developments better than the formal ones. The minimum wage hike is likely to have more impacts on labor-intensive industries such as textile or office electronics, since their employment costs are higher than other industries.[6] Almost two thirds of the labor force works in the informal sector, and do not directly benefit from the minimum wage increases. At the same time, the rapid wage increases could have affected unemployment: according to BPS, open unemployment rose by 400,000 people to 8.4 million people in the first half of 2002. Experts believe that underemployment could be as much as 3 times that number. Of the unemployed, 61 percent were young men in the 15-24 age range.

**Figure 1.6: Formal and informal sector wages diverge**
(real wage index 1996=100)




*Source: BPS.*

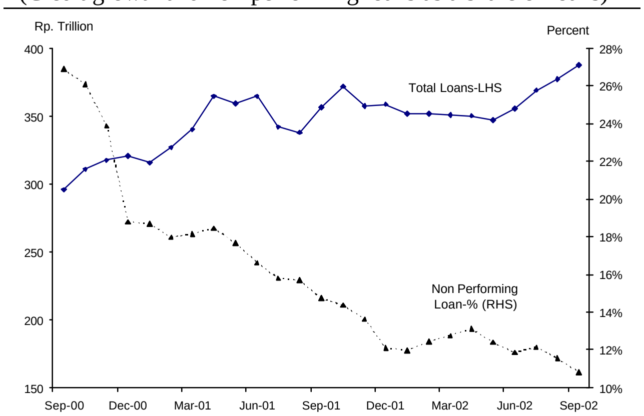
### *Monetary Developments and Banking*

Inflation came down significantly from its peak early in the year, but then stayed put amidst looser monetary policy. CPI inflation rate peaked at 15 percent (year-on-year) in February 2002 in the wake of administrative hikes in electricity and transportation, and the floods. Inflation declined to 10.1 percent in July, and remained more or less at that level stable until the end of the year. The interest rate on central bank paper fell sharply from 17.6 percent at end-2001 to less than 13 percent at the end of 2002. Much of the decline was warranted in light of the declining Indonesia risk premium a stronger Rupiah. Indeed, the monetary conditions index, which takes into account the exchange rate level, shows that monetary policy remained relatively tight throughout the year 2002, although base money growth, which had been on track since the start of 2002, rose more than anticipated in the run-up to Idul Fitri.

The banking system consolidated its recovery, and bank credit has continued to grow (Figure 1.7). Credit outstanding has increased by some 13 percent in the year until October. As was to be expected, growth in investment loans has been negative, but consumer credit grew by more than 40 percent in the year until September. The growth in credit is mostly a positive sign,[7] as it is matched with improving indicators for the banking system's health. The reported Capital Adequacy Ratio (CAR) for the 145 banks in the country at the end August 2002 was 23.2 percent, although this partly reflects the leading banks' relatively low volume of risky assets. This signals stronger banks, but earnings, and thus the build-up of capital, are still low, and banks remain vulnerable to asset quality problems. Return on assets for all banks was 1.2 percent in the first half of 2002, about the same as for 2001. For state banks and IBRA banks this number was only 0.6 percent and 0.9 percent, and IBRA banks made a loss in 2001. Nevertheless, only a small number of IBRA controlled banks reported insolvency mid-year and these were merged in September 2002. The reduction in non-performing loans of the last two years has come to a halt. For the banking system as a whole, NPLs were 10.8 percent at end-September 2002, but for some of the larger banks (including state owned banks) this percentage is much higher. The central bank postponed application of the prudential requirements of 5 percent of NPLs, which was to have come into effect by the end of 2002.

**Figure 1.7: Recovering banks**

(Credit growth and non-performing loans as a share of loans)



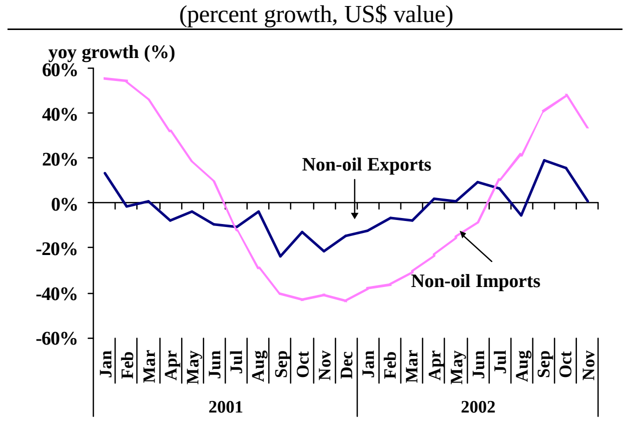

*Source: Bank Indonesia.*

### *International Trade and Payments*

Indonesia's international trade has started to recover from the sharp decline it experienced during last year's global slowdown. Non-oil export value growth turned positive in April 2002 after 12 straight months decline, and imports followed in July (Figure 1.8). However, the recovery in export receipts was due to increases in prices, not volumes. Between May and July 2002, the latest data available, while exports value increased by 1.8 percent, export volume decreased by 10.3 percent year-on-year. The November trade data showed the impact of the Bali bombing, and export growth sharply decelerated because of the sharp increase in insurance premiums, and tighter security measures on trade originating in Indonesia. For now, the trade balance remains for now in a comfortable surplus of $23.6 billion in the first 11 months of 2002, compared to $23.2 billion

**Figure 1.8: Both export and import values are rising**

(percent growth, US$ value)




*Source: BPS.*

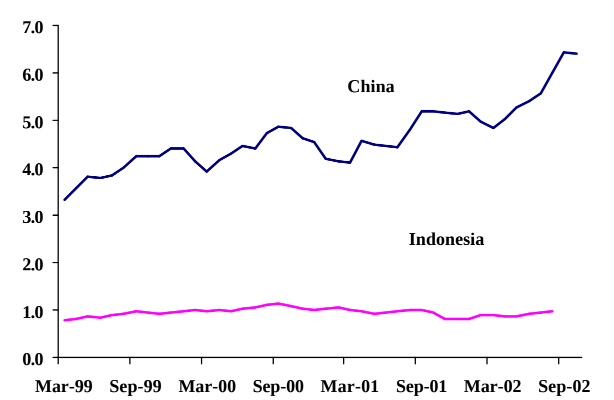
over the same period in 2001, but the rapid rise in imports and continued real exchange rate appreciation may narrow the surplus in the period ahead. In addition, tourism inflows are likely to decline after the Bali bombing. In 2001, tourism revenues amounted to some $5.3 billion, and a 15-20 percent drop in visitor numbers could leave a hole of $800million-$1billion on the services account.

Exports of labor-intensive textile and footwear products, a traditional Indonesian export stronghold, remain stagnant. The large wage increase and the real appreciation of the Rupiah of over 25 percent since end-2001, may have priced some of the producers out of this highly competitive market. Some of the meager performance could be due to the "China effect." China's export structure is quite similar to that of Indonesia, and the latter is therefore more likely to experience competition in third markets.[8] China is indeed rapidly gaining market share in the G-7 countries, whereas Indonesia's share is flat, or even declining (Figure 1.9). Competition from China could mean lower prices for Indonesia's traditional exports in the years to come. At the same time, lower trade barriers in China are an opportunity for Indonesia's exports: Indonesia's non-oil exports to China shows a rapid increase over the last year. Exports to China were $1.9 billion in the first 11 months of 2002, which is 33 percent higher than the same period of 2001. China is now Indonesia's fourth largest exports destination after the US, Japan and Singapore.

The year 2002 saw a marked slowdown in private capital outflow. In 2001, private capital outflow still amounted to $8.3 billion Private capital outflows slowed substantially since the fourth quarter of 2001 (Figure 1.10), and amounted to only $2.8 billion in the first three quarters of 2002. Some of this decline reflects lower debt repayments on a falling stock of foreign private debt, but portfolio investors showed renewed interest in Indonesia for the first time in years. Acceleration of IBRA sales, and privatization of two banks and INDOSAT Telecom further boosted capital inflows in the second half of 2002. In contrast to portfolio capital, foreign direct investment stayed away, and is unlikely to return in the current investment climate. FDI inflows remain barely positive in sharp contrast to the rapid inflows before the crisis. And while the third quarter of 2002 showed some unexpected recovery,[9] the outlook for FDI remains subdued in light of the declining approvals signaled above. Official capital flows turned negative in 2001 for the first time since the start of the crisis, on the back of lagging reforms in the political turmoil of the latter days of the Gus Dur presidency. Official net flows remained slightly negative in 2002, but together with the Paris Club and London Club rescheduling agreements they were sufficient to rebuild gross reserves to over $30 billion by the end of 2002, some $4 billion more than a year before.

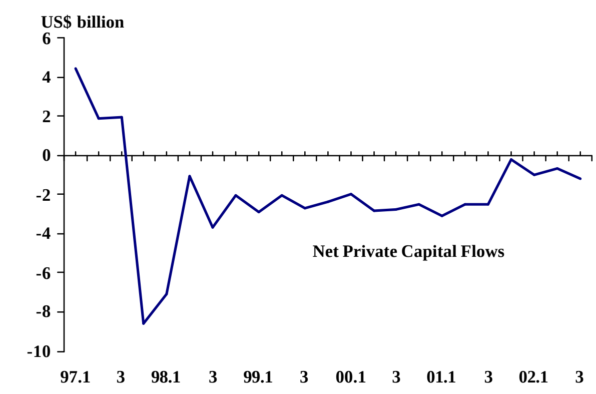
Indonesia's external vulnerability continues to decline (Figure 1.11). In September 2002 external debt to GDP hit 72 percent, down from almost 120 percent at the peak of the crisis in 1998. The decline is largely due to an increase in dollar GDP, as nominal debt in dollars continues to increase. Debt due within a year amounted to $16 billion, or 58 percent of gross reserves by mid-year.[10] This has come down considerably from the 100 percent at the peak of the crisis, but is still considerably higher than that of other

***Figure 1.9: China effect***
(Share of Indonesia and China in G-7 imports, percent)



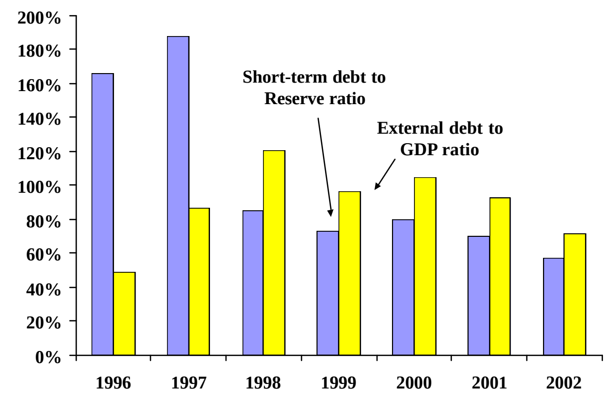

*Source: CEIC data, staff calculation.*

***Figure 1.10: Less private capital outflow***
(Private capital flows on the balance of payments, $ billions)




*Source: Bank Indonesia.*

**Figure 1.11: Declining external vulnerability**
(Debt to GDP and short term debt to reserves, percent)




*Source: Bank Indonesia, staff estimates.*

former crisis countries such as Thailand (39 percent), Korea (41 percent) and Malaysia (32 percent). Government external debt (including IMF) increased from $67 billion to $73 billion because of official aid, whereas private debt (including SOEs) declined from $78 billion to $58 billion between 1998 and 2002.

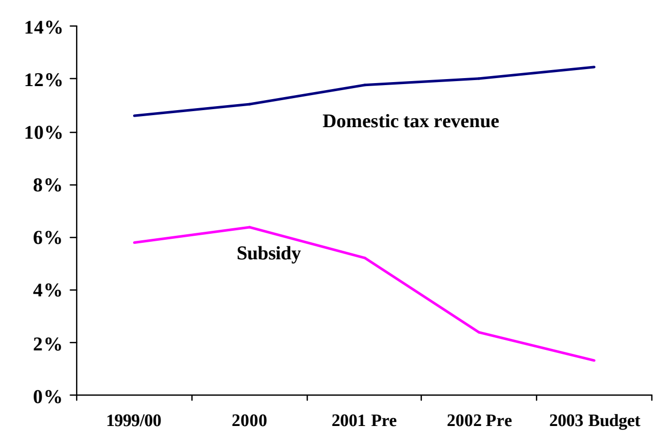
### *Fiscal Consolidation Continues*

Indonesia's authorities managed to keep fiscal consolidation on track, despite the planned fiscal stimulus to counter the Bali impact. The Government deficit has been in decline since 2001, dropping from a budgeted 3.7 percent of GDP that year to a planned 1.8 percent of GDP in 2003. This remarkable fiscal consolidation has largely been achieved by a reduction in fuel subsidies, and to a lesser extent by lower domestic interest rates and an increase in tax revenues (Figure 1.12). Fuel subsidies as a percentage of GDP are projected to decline from over 6 percent in the year 2000 to 0.7 percent in 2003. Fuel subsidies were cut first by the June 2001 fuel prices increases and subsequently reduced further in January 2002, when the system of fuel pricing changed to one that tied domestic prices to international prices. For 2003, domestic fuel prices moved to 100 percent of international prices, although price fluctuations remain within a band.[11]

The fuel price increases sparked renewed controversy at the beginning of 2003. Street protests, absent in the latest two rounds of increases, emerged again as the price hikes coincided with increases in electricity and telephone tariffs. The price increases for telephone and electricity were part of a multi-year program agreed last year, and were automatically implemented by telecom operators and PLN. The fuel price increases were discussed extensively with Parliament during the budget discussions. Yet, the price increases, which could add some 1.5 percentage point to inflation for the year, took many by surprise. The Government has taken considerable care to avoid excessive impact on the lower income strata. Kerosene, a fuel mostly consumed by the poor, remain heavily subsidized, and the price increase was only Rp. 100 per liter. The electricity tariff in the "lifeline" category for small users also remains low, and increased by less than other tariffs. And few, if any of the poor have a fixed line telephone. In addition, as after previous fuel price increases, the Government uses part of the savings to finance a "compensation fund." This fund finances programs targeted for the poor, including programs in rice, education, health, clean water, and transport. A BPKP audit of the program over 2001 found it to work reasonably well, although funds were disbursed two months late in 2001. It also failed to keep transport prices from increasing, one of the aims of the program, largely because municipalities that set fares did not cooperate. They took the fuel price increases as an opportunity to approve hefty bus fare increases.

Primary budget surpluses, an appreciating exchange rate, and increases in nominal GDP have resulted in an unexpectedly rapid decline in debt to GDP.[12] The ratio dropped from its peak of 98 percent in 2000 to 86 percent at the end of 2001, and is expected to reach 72 percent by the end of 2002. The Government has also made considerable progresses in managing its

**Figure 1.12: Fiscal consolidation led by subsidy reduction**
(tax revenues and subsidy outlays, percent of GDP)




*Note: 2001, 2002 preliminary.*
*Source: Ministry of Finance.*

external and domestic debt repayment profile. The successful completion of the third Paris Club rescheduling in April 2002 and subsequent London Club rescheduling in September 2002 limited foreign debt repayment to manageable proportions. The Paris Club decided to reschedule US$5.4 billion in interest and principal between April 2002 and December 2003. The London Club creditors agreed to reschedule syndicated loans on equivalent terms as the Paris Club rescheduling. The role of the Paris Club rescheduling has been significant: for the 2003 state budget, the amount of rescheduling equals 78 percent of the budget deficit.

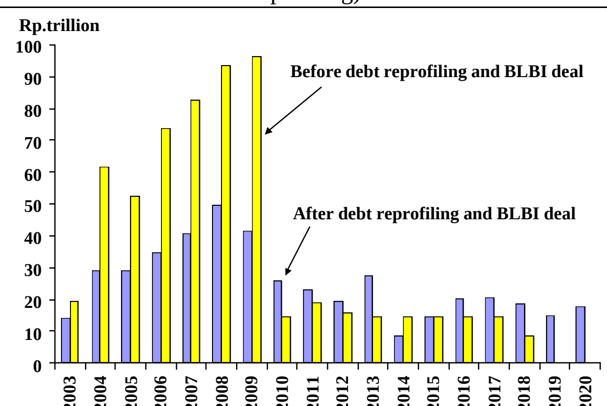
The Government has taken several important steps to make domestic debt more manageable. The sovereign bonds law, the agreement to reprofile recapitalization bonds held by state banks, the resolution on past liquidity credits (BLBI) and the buyback of some recapitalization bonds all help smoothing out domestic debt repayment over the coming years. Government promptly used the new bonds law to auction off Rp.2 trillion of new bonds in December. The issue with 8 years maturity yielded some 14.5 percent, or 1.5 percentage points higher than the SBI rates the Government is paying on recapitalization bonds. Government reprofiled maturities of some Rp.172 trillion in bonds held by state banks, of which some Rp.22 trillion would have matured in 2004, and Rp.13 trillion in 2005. The interest rate on the new bonds preserves the net present value of the bonds, and will cost the budget Rp.768 billion a year in additional interest. The Government is still awaiting Parliament's approval on the BLBI settlement, in which the Government and Bank Indonesia agreed to swap Rp.160 trillion out of Rp.218 trillion BLBI bonds with so-called 'perpetual promissory note' (PPN). Finally, the Government bought back some Rp. 8.7 trillion in bonds through IBRA asset swaps, and plans to buy back more in 2003. With these steps, the Government has cut domestic debt due in 2004 and 2005 in less than half (Figure 1.13), thus reducing a major fiscal risk, and contributing to macroeconomic stability and lower interest rates.

### *The Budget*

In 2002, the Government is likely to have stayed well below the targeted budget deficit of 2.5 percent of GDP. Non-oil income tax and VAT are likely to remain well below the target because of lower than projected growth. But oil revenues are considerably higher than planned, and together with lower spending on subsidies and some delays in development expenditures compensate the shortfalls. The 2003 state budget approved by Parliament in November aims for a deficit of 1.8 percent of GDP. This is higher than the proposed 1.3 percent of GDP included in the Government's budget submission in August, 2002, but still continues the downward trend of the past three years. Revenues are expected to be 17.3 percent of GDP, whereas expenditures amount to 19.1 percent of GDP.

*Bali stimulus.* The approved budget aims to feather off the negative impact of the Bali events. The deficit is about 0.5 percent higher than before the Bali attack. The Bali stimulus is reflected in the increase in development spending compared to the original budget submission of August.[13] Development expenditures are now projected at Rp.65.1 trillion or 3.4 percent of GDP, compared to the Government's August proposal of Rp.54.5 trillion or 2.8 percent of GDP. Since the additional expenditures are financed by non-tax measures and additional financing, the measures have the potential to benefit economic growth and employment in the aftermath of Bali. Increased allocations went mainly to transportation, education, social welfare, and security. For now, however, few concrete proposals for the additional spending are on the table. The exceptions are some of the donor-financed contributions to the stimulus, which largely consist of an acceleration of disbursement on existing projects, and an expansion of existing projects into the affected areas. Recently, the Government has also announced a "second

***Figure 1.13: Debt reprofiling reduces debt service burden***
(Principal repayments of FR and VR before and after reprofiling)




*Source: Ministry of Finance, staff calculation.*

stimulus package" containing tax breaks for businesses, the merits of which remain to be seen.

*Personnel spending.* Personnel spending is set to rise considerably in 2003. Personnel expenditure is projected to increase by 22 percent, from Rp.41 trillion to Rp.50 trillion. This rather steep rise in the wage bill includes a 10 percent wage hike, a 2.5 percent wage drift, and concurrent increase in family allowance. The increase also covers the higher share of pensions that the Government must cover from the budget. The rapid increases in base wage over the last several years has dragged along pensions, and put the already weak civil service pension fund on an unsustainable footing. On top of the increase in the wage bill, additional personnel spending are included in the "Balance Fund" transferred to the regions. The Government has decided to pay for the hiring of more personnel (some 7,000 doctors, and 80,000 teachers), and to cover the costs of the wage increase and increased teachers allowances to the regions. This decision, apart from costing the treasury some Rp.5.5 trillion, or 0.25 percent of GDP, is problematic because it seems to go against the spirit of decentralization, which assigns the functions of health and education to the region, as well as the right to hire and fire civil servants. It will also give the regions the impression that it is the central Government that will take care of the wage bill, and therefore they may be less inclined to pursue civil service reforms. Finally, since the last wage increase in 2001, transfers to the regions have increased by some Rp.30 trillion, more than enough for the regions to pay for the wage increase themselves.

*Decentralization and central development spending.* The *Big Bang* decentralization of 2001 went much better than many had expected.[14] The massive transfer of expenditure responsibilities, civil servants to regional governments and the introduction of a new intergovernmental fiscal system went by smoothly, although much remains to be done. Among others, responsibilities of levels of government need further clarification, civil service reforms at the local level should be encouraged, and the intergovernmental fiscal system needs to become more equalizing.

Government continues to spend much of its development budget on regional tasks. For the 2002 budget, of Rp.53 trillion in planned development spending, some Rp.30 trillion was spent on regional tasks. In part, this is a transitional issue: the central Government continued to finance ongoing projects at the time of the 2001 decentralization. However, the central Government, encouraged by Parliament, is *increasing* rather than decreasing spending on those regional tasks. For example, the education budget especially for primary education has been rising rapidly from 0.5 percent of GDP in 2001 to 0.7 percent in 2003. While the emphasis on education is laudable, the division of responsibilities among levels of government would demand that this spending responsibility would be transferred to the regions, and only in part financed by the center, for instance through a special grant allocation.

The Government will start a special allocation fund, or DAK, for the regions in 2003. The DAK, which is supposed to finance regional tasks within central Government priorities, is still very small at Rp.2.3 trillion. Apart from the Rp.0.5 trillion in earmarked forestry revenues, the transfer will include allocations for health center and school rehabilitation, and rural roads repair. In light of the highly unequal distribution of revenues among the regions, and the limited funding available, those funds can best be distributed among the poorest regions.

*Military Spending.* The military has seen large increases in budget allocation over the last few years. Their budget increased from 1.1 percent of GDP in 2000 to 1.3 percent in 2003, whereas the share of the budget going to the military rose from 6.4 to 10.2 percent over the same period. The military's share in development spending increased from 4.5 to 11 percent of the total. The increased allocation to the military may well be appropriate: Indonesia's budgetary spending on defense is still very low compared to neighboring countries, who spend some 2.5-3 percent of GDP. As a result of this underfunding, the military has ventured extensively in legal and illegal businesses to supplement their budget allocation.[15] Apart from the merits of the nature of these businesses, and the rather embarrassing clashes with the police, who are sometimes competing for the same business, these practices raise issues of accountability and civilian supremacy over the military. Accountability over the military's extra-budgetary revenues is weak, and has become weaker since the 2001 law on foundations has apparently restricted the Supreme Auditor's right to audit the military foundations, which manage much of the businesses. Despite the increase in budgetary allocation, however, there seems to be no plans to eliminate the extra-budgetary sources of funding, or improve accountability over budgetary ones.

### *External Financing Needs in 2003*

Like the budget deficit, total financing requested from the CGI shows a declining trend. Total CGI financing request for FY2003 is projected as $2.4-2.8 billion or some $0.7 billion less than in 2002 (Table 1.1). With a deficit of 1.8 percent of GDP, the total budgetary financing needs in FY2003 are expected to be $3.8 billion. Of this, about $2.5 billion will be financed domestically, including from privatization and IBRA asset sales, while on net some expensive domestic debt is being repaid. Net disbursement from foreign sources will therefore need to be $1.3 billion. Amortization (after the Paris Club principal and interest payments rescheduling) is $1.9 billion, resulting in gross foreign financing needs are $3.2 billion. Non-CGI sources, including export credits, finance about $0.6 billion. Therefore, $2.7 billion should come from CGI financing. Given the uncertainty that usually surround these numbers, the amount actually being requested from the CGI is in the range of $2.4-2.8 billion. Compared to the Government proposal before the Bali Bombing, the CGI financing request has increased only by $0.2 billion, although the budget deficit as a percent of GDP has increased by 0.5 percent or $0.8 billion. Thus, most of the stimulus is domestically financed, largely from additional IBRA recoveries.

**Table 1.1: External financing needs and CGI disbursement request**

| | $ billions |
|---|---|
| Budget deficit | 3.8 |
| Domestic finance | 2.5 |
| Privatization receipts | 0.9 |
| IBRA asset recovery | 2.0 |
| Others | -0.4 |
| Foreign finance | 1.3 |
| Net disbursement | 1.3 |
| Amortization | 4.9 |
| Total financing needed | 6.3 |
| Rescheduling | 3.0 |
| Non-CGI financing a/ | 0.6 |
| Total CGI financing requested | 2.4-2.8 |

*a/ export credits and non-CGI member financing.*

*Source: World Bank staff estimates.*

### *Progress in Structural Reforms*

The Megawati Government has shown renewed energy for reforms. The IMF supported program, which had slipped during the last year of the Gus Dur Government, was quickly brought back on track, and has, by and large, remained that way. Some delays in reforms reflect the realities of a new democratic Indonesia, as Parliament got engaged in several reform steps. For instance, for each of the banks to be divested, Parliament has set up a special committee to oversee each step in the sale, and even formed its own opinion on the pricing of the sales. In other cases, such as the anti-corruption commission, it was disagreement within government on the authorities of this commission that kept the Government from meeting its original target. Some debate also ensued on Indonesia's relations with the IMF, and the MPR, the consultative assembly, instructed the Government to set up a team to investigate options for the program.

After the Bali attack, the Government markedly accelerated reforms, and a host of measures were finalized in quick succession. Key steps taken in recent months include the passage of the Law on the Anti-Corruption Commission, the sale of an IBRA bank, and announcements of more bank sales. IBRA recovery targets were met. As noted before, the BLBI settlement reached between Government and the central bank, the restructuring of recapitalization bonds, and the start of treasury bonds auctions were all concluded in the final quarter. Even privatization receipts exceeded their budgetary targets with the sale of Indosat in December. However, the original aim to sell stakes in 25 enterprises was not met by a long shot, amidst growing political opposition against privatization.

The Government has achieved several notable successes in financial sector reforms over the past year as well. Firstly, the Government sold majority stake in two nationalized banks, BCA and Niaga, despite pockets of opposition to the sales. Secondly, IBRA has sold more than Rp.80 trillion (face value) of NPLs through a transparent auction mechanism, yielding a reasonable 27 percent recovery rate (Table 1.2). Thirdly, the Government reviewed compliance of the former bank owners with their settlement agreements with IBRA. The review process is now substantially complete, and the President has instructed to release and discharge compliant former bank owners. This step stirred some controversy, in part because of the lack of clarity on the coverage of the release and discharge. Also, the Government is yet

**Table 1.2: IBRA Loan Sale Programs**
(Rp. billions)

| Year | Sales Program | Book Value | Pro-ceeds | Recovery Rate |
|---|---|---|---|---|
| 1999 | Credit Cards | 76.0 | 39 | 51.3% |
| 2000 | CLS I | 1,025 | 622 | 60.7% |
| | CLS II | 2,180 | 891 | 40.9% |
| | SME Loans | 4,291 | 1,387 | 32.3% |
| 2001 | CCAS III | 3,011 | 1,003 | 33.3% |
| | CCAS IV Batch I | 8,183 | 2,076 | 25.4% |
| | CCAS IV Batch II | 2,660 | 554 | 20.8% |
| 2002 | CCAS IV Batch III | 2,787 | 728 | 26.1% |
| | CCAS V | 3,000 | 671 | 22.4% |
| | CULS | 9,517 | 2,375 | 25.0% |
| | PPAK | 81,200 | 22,110 | 27.2% |

*Note: CLS (Corporate Loan Sales) and CCAS (Corporate Core Asset Sales) are disposal of restructured loans through an open auction. CUCLS (Corporate Un-restructured Loan Sales) is disposal of un-restructured loans through an open auction.*

*Source: IBRA.*

to take action against recognized defaulters. Fourthly, Parliament passed an anti-money laundering law, that, among others, allows the authorities to more easily track and freeze criminal and terrorist funds. Finally, the Government has started to draft legislation for a consolidated supervisory regulator, the FSA, and has started building the pre-requisites to for a self-funding deposit insurance protection scheme. Altogether, more progress on the financial sector reform agenda has been achieved in 2002 than since the 1999 bank closures and recapitalization.

Corporate restructuring is progressing as well. As IBRA remains the largest creditor in Indonesia, the sales of its assets could spur corporate restructuring. As of end-May 2002, the latest data available, corporate debt stood at Rp.1,121 trillion or $127.6 billion in May 2002, $17 billion more than at end-2001. Much of the increase is due to accumulated arrears, and some 57 percent of all debt is non-performing (Table 1.3). Of these non-performing loans, IBRA held some Rp.144 trillion ($16 billion in face value) by the end of 2002, less than half the book value of a year ago. Some concern were raised on IBRA's sales because they apparently allowed for debtors to buy back their loans at a discount through third parties, even though IBRA's rules explicitly banned such practice.

The Jakarta Initiative Task Force (JITF) also met its corporate debt restructuring target for the year 2002.

**Table 1.3: Profile of Indonesian Corporate Debt**
(May 2002, $ billions)

| | Non Performing | Performing | Total |
|---|---|---|---|
| Large Private Corporation | 65.8 | 27.4 | 93.3 |
| Small Medium Enterprise | 3.7 | 22.1 | 25.8 |
| State Owned Enterprises | 3.6 | 4.9 | 8.5 |
| **Total** | **73.1** | **54.5** | **127.6** |

*Source: JITF.*

As of December 2002, cumulative restructured debt reaching MOU signing stage amounted to $18.8 billion and JITF was mediating active cases amounting $10.1 billion with 40 companies. In mid-2002, the FSPC extended JITF's mandate period by one year to the end of 2003. The banking sector has expressed its concerns on the slow negotiation progress, since some dishonest debtors use the voluntary mechanism just to extend their debt moratorium. By looking at the IBRA's NPLs sales with large discounted prices to the markets, some recalcitrant debtors would expect the same type of discount from their banks. Although JITF has the capacity to report such cases to FSPC, this has not yet happened. Moreover, bankruptcy procedure under the current court system may be more frustrating for the creditors than the JITF procedure because of the weak judiciary and commercial courts system (Chapter 3). Beyond IBRA sales and JITF, corporate financial restructuring seems to continue as well. Companies listed on the Jakarta Stock Exchange reduced their net debt to equity ratios from over 90 percent at the end of 2000 to a projected 57 percent at the end of 2002, thereby reducing their vulnerability to shocks.[16]

The Government was also inching towards the World Bank's 'high case' scenario. To have access to higher lending and more IDA from the World Bank, the Government must meet certain high case conditions, including maintaining macroeconomic stability, improving fiduciary management in government, and increasing the poverty focus of Government policies. Bringing the IMF supported program back on track, and completing the interim poverty reduction strategy (Chapter 4) has brought the high case a bit closer.

Less encouraging were developments in trade policy, where a succession of tariff and non-tariff measures, signal a more protectionist stance. Particularly worrying are plans to further increase the tariff on rice, a measure that would hurt the poor, even the poor farmer, while achieving little for Indonesia's food security or farm productivity. Plans also exist to strongly expand the role of BULOG, the state logistics agency, beyond its current role in rice security and rice for the poor. Finally, some of the measures hand import licenses of restricted items to the industries using them in production, effectively giving them a transfer at the cost of consumers without helping the domestic producer of these items while providing rent-seeking opportunities to those handing out the licenses.

### *Economic Outlook 2003*

Already before the Bali bombing, prospects for the Indonesian economy were less than rosy. Although the recovery in the world economy is likely to accelerate next year, slowing consumer demand growth, and continued modest expectations on investment growth suggested that the 5 percent underlying the Government's budget submission of last August was too high. After the Bali bombing, growth is likely to fall short further. The consensus among investment banks is that the direct impact of the Bali bombing on 2003 would be between 0.6 and 1 percentage point lower growth. This impact matches the effects a possible decline in tourist inflows (15-20 percent) is likely to have on the hotel and restaurant sector and small-scale industry serving tourism.

The Government's reaction to the Bali event makes an erosion of confidence now less likely than just after the event, and any indirect impact on consumption or investment is likely to remain limited. The planned fiscal stimulus, if smoothly implemented, could add to Indonesia's growth as well. The Government expects a growth rate of 3.5-4 percent for 2003, which is at the higher end of the forecast spectrum, but still within a margin of error from the World Bank's expectation of 3-3.5 percent (Table 1.4). Possible budget shortfalls due to lower growth are more than offset by the likely higher oil revenues, as the budget assumes a rather conservative oil price.

Four percent growth is at the bottom end of the growth expectations for former crisis countries. The forecast is still subject to considerable risks, including the risk of disturbances in the Middle East. Although a conflict there may drive up oil prices further, and therefore benefit Indonesia's budget, those same oil prices could well sink a recovery in industrialized countries, and cut into Indonesia's exports and growth.

***Table 1.4: 2003 Economic Outlook post Bali***

| | **Government** | **World Bank** |
|---|---|---|
| GDP growth (percent) | 3.5-4.0 | 3.0-3.5 |
| Inflation (percent) | 9.0 | 9.0 |
| Exchange rate (Rp./$) | 9,000 | 9,000 |
| Oil prices ($) | 22.0 | 23.5 |

*Source: MOF and staff estimates.*

### *Maintaining Macroeconomic Stability*

Maintaining the hard-won macro-economic stability remains a pre-condition for more rapid growth. As Indonesia's experience has shown, structural reforms and fiscal sustainability are key to macro-economic stability. Both reduce the country's risk and encourage capital inflows, and thereby contribute to a stronger Rupiah and lower domestic interest rates. This encourages investment and growth, but also reinforces fiscal consolidation, as for every 1 percent reduction in interest rates, interest payments drop by more than Rp.2 trillion, or 0.1 percent of GDP. The Government should therefore retain the recent momentum in structural reforms and ensure fiscal sustainability.

Perhaps the key structural reforms outstanding are those in the financial sector. Although the sector is emerging from the crisis, and banks are on the mend, the remaining reform agenda is a large one. Failure to address it could be costly, as contingent liabilities from the banking sector remain the country's largest fiscal risk. The outstanding issues can broadly be defined as legal, policy, and technical in nature. The legal constraints facing creditors are discussed in Chapter 3. The key policy issues to be addressed by Government and the central bank include:

- Further consolidating the financial sector. With 141 banks, 246 licensed finance companies, 7,700 licensed rural banks and micro finance institutions and countless un-licensed credit providers, there is still substantial scope for consolidation.
- Developing a lender of last resort facility.

- Developing a strategy for the resolution of troubled banks after IBRA's 2004 sunset;
- Planning and implementing a transition from the current blanket guarantee scheme to a deposit insurance protection plan.
- integration of the prior four points into a well grounded and resourced Financial Supervisory Authority.
- Improving access of the poor to finance through strengthening micro-finance institutions.

The technical aspects of the financial sector reform agenda requiring Government's continued attention include:

- Disposing transparently and competitively of IBRA's remaining stock of assets.
- Preparing a plan for dissolution and transfer of responsibilities for IBRA's early-2004 sunset.
- Strengthening state bank's governance, and improving the Government's capacity of majority shareholder to safeguard the state banks' operations.

Finally, building upon the recent momentum achieved, the Government should utilize all measures within its power to minimize the fiscal costs of resolving the banking crisis and preclude its possible recurrence. Looking beyond the financial sector per se, it is time the Government moves against those responsible for the worst excesses of the past banking violations. The Government must rigorously pursue those recalcitrant bank shareholders previously referred to the Attorney General's Office and those who have defaulted on their settlement agreements. Such actions will deter other violators of banking regulations. At the same time, those that have met their obligations should be released and discharged according to the original agreements between Government and former shareholders.

Each of these legal, policy and technical measures are overdue and together represent the building blocks for the 'blueprint' of the future of the Indonesian banking system. The Government and the central bank are urged to form a high level panel with private banking experts design a financial sector reform strategy to break from the past ad hoc or 'fire fighting' mode and bring more coherence and direction to the nation's financial architecture.

***Fiscal Sustainability***

Maintaining fiscal sustainability will be a key challenge for the Government in the years ahead. Despite a falling debt to GDP ratio, and the debt reprofiling already undertaken, the Government faces very large financing requirements. In part this is due to the slowdown in fiscal consolidation because of the Bali attack. But the key reason is that Government is considering to end the Paris Club rescheduling starting 2004. This would add some $3 billion in additional debt service. In addition, on current projections, some Rp.25 trillion in recapitalization bonds is due, even after the recent reprofiling and implementation of the BLBI agreement. To manage these considerable budgetary pressures, the Government must pursue multiple options that would result in continuous fiscal consolidation, and sound management of debt and financing for 2004 and beyond.

To continue fiscal consolidation the Government must redouble its efforts in tax and customs administration already embarked upon. The Large Tax Payers' Office is showing initial success, and the Government should continue implementation of this reform, and expand the concept to other tax offices around the country. And while it is early days, the customs administration—long chided for its reputation for corruption and inefficiency—seems to move on reforms as well, including an expansion of the "Gold Card" program of simplified customs clearance.

On the expenditure side, finding further savings will be harder now that the obvious cuts in fuel subsidies have run most of their course. Yet, several options remain:

- The Rp.5.5 trillion additional transfer to the regions to compensate for salary increases could be phased out.
- Some of the Rp.30 trillion in central development spending on regional tasks can be devolved. The rich regions can easily absorb more spending obligations. But the Government should create the channels to help finance these obligations for the poor regions.
- Improvements in procurement rules—notably in Keppres 18/2000—could reduce collusion and corruption, and therefore save in development spending. Among others, wider advertising and *post*-qualification rather than registration could increase competition and reduce costs.

- A fundamental expenditure review could identify programs and projects that no longer meet the Government's priorities, or are ineffective in doing so. Such a review would need to start soon for it to have an effect on the 2004 budget.

These savings would be off-set in part by additional spending on operations and maintenance, which, for some of the Government's key institutions, including those in the justice sector (Chapter 3) have fallen far short of needs.

Beyond containing the budget deficit, the Government has several options for financing the 2004 gap. The Government should carefully weigh the pros and cons of each of the options. First, it should maximize its non-debt financing of the budget deficit through IBRA sales and privatization. Second, it must maximize its use of concessionary financing.

Even beyond 2003, IBRA will still have assets on its book, which could still generate revenues in the order of the Rp.18 trillion planned for 2003. The Government must decide how it intends to realize this potential, with the expected closure of IBRA due in February 2004. Privatization still has significant financing potential as well, even apart from the benefits that returning assets to the private sector have for competitiveness and the investment climate (Chapter 3).

Barring major movements in the exchange rate, concessional external financing is less expensive than domestic debt,[17] and if available, the Government should maximize its use. Availability depends in part on the Government's reform efforts: the more rapid the reforms, the more financing would be available—witness for instance the "High Case" of the World Bank, which would give access to more financing on even more concessional terms. But the Government must also make more use of *available* concessional financing.

In recent years, the disbursement on outstanding commitment has been low, and for 2002 it hit a low of 15 percent. Based on the end-2001 data on project pipelines, every 10 percent increase in disbursement ratio raise project finance disbursement by $900 million. To achieve this, the Government must:

- Resolve issues in decentralization, including on-lending from center to regions, and fiduciary management in the regions.
- Improve procurement and financial management to avoid delays on fiduciary grounds.
- Accelerate progress in structural reforms to trigger adjustment lending.

It should be noted that faster disbursement on foreign project loans only helps in reducing financing needs if a concurrent cut in Rupiah financing takes place. This reinforces the need for a public expenditure review with the aim to cut inefficient spending.

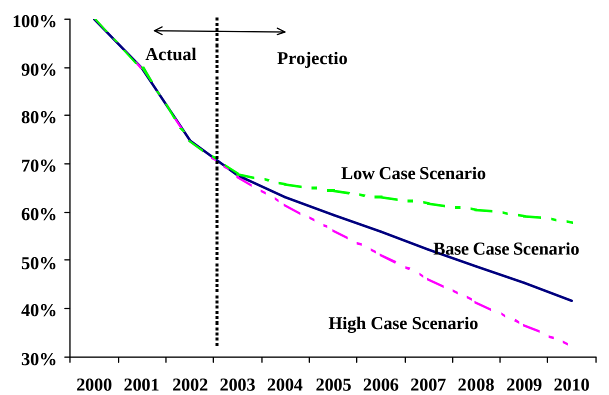
Finally, the Government has still several options to raise domestic financing. It could:

- *Refinance through the placement of new bonds.* The start of treasury bonds auctions in December is encouraging, and the Government should actively encourage a secondary market, by providing the necessary regulations and infrastructure. Such a market would make holding bonds more attractive.
- *Take additional domestic debt restructuring measures*. The Government's debt buyback plan is behind schedule. For 2003, the Government should pursue its debt buyback as planned, but focus on bonds maturing in 2004 and 2005 rather than those maturing later.
- *Pursue additional debt reprofiling with non-state banks.* In case a market-based refinancing is not available, the Government could explore whether current holders of recapitalization bonds would be willing to extend maturities.

Beyond the difficult years of 2004 and 2005, the prospects for fiscal sustainability lighten up. Barring another crisis, the Government debt to GDP ratio is set to decline under a wide spectrum of assumptions, provided that fiscal consolidation continues. In the base case, the Government debt to GDP ratio would decline steadily from the 2000 peak, dip below 50 percent in 2008, and reach its pre-crisis level of 25 percent by 2016 (Figure 1.14). The decline is more rapid in the high case, and significantly slower in the low case. In all cases, however, government debt to GDP will remain high for a significant time to come. This puts a premium on prudent fiscal management, and sound debt management. Investing in the institutions responsible for that will therefore have a high pay-off in terms of macroeconomic stability.

It will take more than macroeconomic stability to bring higher growth to Indonesia. Improving the investment climate, and in particular strengthening the country's legal institutions to establish the rule of law is key. In many ways, the reforms needed for that are more difficult than the policies needed to maintain macroeconomic stability, as it requires rebuilding and nurturing of institutions that have been weak for a generation. It is to those reforms the next chapters turn.

***Figure 1.14: Debt to GDP is set to decline***
(Government debt as a percent of GDP)




*Note: The base case scenario assumes: a real GDP growth rate of 3.5 percent in 2002, 3.3 percent in 2003, 4 percent in 2004 and 4.5 percent onwards. The inflation rate is 10.5 percent in 2002, 9 percent in 2003, 8 percent in 2004 and 6 percent onwards; The primary surplus is 2.4 percent of GDP in 2002, 2.5 percent in 2003, and 2.7 percent onwards. The average interest rate of foreign debt is constant at [4.6] percent; The real exchange rate is constant from 2004 onwards; It assumes BLBI deals and debt reprofiling in 2003, debt buybacks in 2003.* The high case (low case) assumes higher (lower) growth, a somewhat higher (lower) primary surplus, and a stronger (weaker) exchange rate.

*Source: staff estimates.*

## *Endnotes*

[1] It should be noted that the Indonesian benchmark Yankee bond is now only thinly traded.

[2] The Danareksa consumer confidence indicator dropped from 98.8 in early October to 94.1 in early November. A value of 100 indicates a neutral stance, whereas values below 100 indicate declining confidence.

[3] BPS improved remarkably the timeliness of its household survey data. Whereas before the processing time for the SUSENAS household data was well over a year, and sometimes more, the bureau managed to clean and process the data within six months. In addition, BPS' now regular surveys formal and informal wages, thereby enabling quarterly monitoring of income developments.

[4] This is a lower estimate than the one presented at the interim CGI in November, 2002. The difference is that that estimate assumed a depreciation in the exchange rate, and an increase in the relative price of food as a result of the bombing. The current estimate assumes that the exchange rate remains unaffected by the attack.

[5] Civil servants had received 3 wage increases since the start of the crisis in the form of "cost of living increase" allowances. In 2001 these were consolidated with the base wage, which meant that family and child allowances, which are related to the base wage, went up as well, with about 15 percent in total.

[6] Large and medium manufacturing statistics (2000) says the employment costs to total output ratios are higher in apparel, leather and office machinery industries.

[7] Some growth in credit, however, was due to IBRA debtors obtaining bank credit to buy back their debts at a discount, despite the fact that such was prohibited in the auction rules.

[8] See for instance Kathie Krumm "Overview Presentation" at the *Trade Workshop* Jakarta, November 7, 2002, available on http://www.worldbank.or.id.

[9] The recovery may be due to a change in statistical recording.

[10] Data are derived from joint BIS-IMF-OECD-World Bank statistics on external debt, and therefore not compatible with debt outstanding data in the above paragraph.

[11] If the current high oil prices continue, this would imply that fuel subsidies would be higher than budgeted.

[12] World Bank (2000) "Indonesia: Managing Government Debt and its Risks".

[13] Using the Government's budget numbers, the stimulus can be calculated as follows: lower growth would increase the deficit by about 0.3 percent of GDP. Additional development spending of 0.5 percent of GDP would have increased the deficit to 2.1 percent of GDP, but additional domestic revenues of 0.3 percent of GDP reduce the stimulus effect. Overall, therefore the stimulus is in the order of 0.5 percent of GDP.

[14] See World Bank, 2003, *Decentralizing Indonesia*, forthcoming.

[15] See for instance, John McBeth, *The Army's Dirty Business*, Far Eastern Economic Review, November 7, 2002, and World Bank 2000, *Accelerating Reforms in Uncertain Times*, CGI brief, Jakarta, October.

[16] Data from ING Bank.

[17] The Government's budget is hedged against exchange rate movements because of oil and gas revenues, which more than offset foreign exchange flows on interest and net foreign financing.

# CHAPTER 2: INVESTMENT CLIMATE CHANGE

To move from macroeconomic stability to more rapid growth, Indonesia needs to improve its investment climate. There is a widespread perception that the country's investment climate has been deteriorating. No doubt, this perception is in part due to the fact that in a democratic Indonesia, discontent is more easily voiced. Labor protests are no longer suppressed, businesses can now complain openly about corruption, taxation, and other menaces without the risk of losing access to valuable business, and a free press is now capable and eager to report on protests and complaints from both sides. Moreover, now that macro-economic stability has become less of an issue, the focus of attention may have shifted to other issues, including the investment climate. Beyond perception and rhetoric, though, Indonesia is facing fundamental problems in its investment climate, ranging from increased violence and crime, to corruption and bureaucratic delay and inefficiency, uncertainty in labor relations, and excessive taxation by some local governments. The Bali bombing undoubtedly added to concerns on security. A further threat looming on the horizon is that of a faltering infrastructure, and power shortages. Most prominently, and most problematic for business is the weak justice sector, a topic that deserves a chapter by itself (Chapter 3). This chapter will look at some of the other pressing issues that are affecting Indonesia's investment climate.

### *A Deteriorating Climate*

Indonesia's investment climate is seen to be deteriorating, and now ranks among the worse in the world. The recent World Investment Report 2002 by the United Nations Conference on Trade and Development (UNCTAD) ranked Indonesia at number 138 out of 146 countries surveyed for Foreign Direct Investment (FDI) performance between 1998-2000. The country is also considered to be more risky for doing business than its neighbors by the International Country Risk Group, and more so since the events of September 11 2001 (Table 2.1). Investors are voting with their purse: Chapter 1 already noted that investment is well below pre-crisis levels, and is falling. Investment approvals, domestic and foreign alike, are down as well (Figure 2.1), as is the realization rate on investment approvals and the average size of investments approved. True, FDI in all developing countries is down from its peak in 2000, but Indonesia's share in this shrinking pie is rapidly declining. The country's share in Japanese outward FDI to Asia, for instance, is down from almost 21 percent in 1996 and 1997 to about 5 percent in the first 9 months of 2002. In key sectors such as mining, exploration investment has declined from a peak of $160 million in 1996 to barely $20 million now.[1] Investment in the critically important power sector have been lagging far behind needs, with installed capacity growing at barely 1 percent per year since 1998, far outstripping growth in demand.

**Table 2.1: Investment risk up**

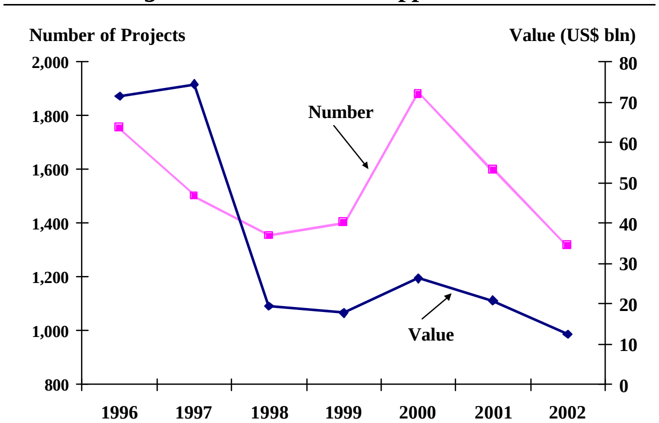
| Country | September 2001 | August 2002 |
|---|---|---|
| Philippines | 10 | 10 |
| Korea | 9 | 9 |
| Thailand | 9.5 | 8.5 |
| Malaysia | 8 | 8.5 |
| Indonesia | 7 | 4.5 |

*The score (max of 12) is a sum of 3 components: (i) contract viability, (ii) profits repatriation and (iii) payment delays. Each criteria is rated between 0-4, 0 indicates Very High Risk.*

*Source: International Country Risk Group (ICRG).*

The Government clearly shares many of the concerns expressed by investors, and has already started to move on some of the key ones. After the Bali attack, the Government announced it would set up a National Investment Team to increase its focus on the investment climate.

***Figure 2.1: Investment approvals down***




*Source: BKPM, staff calculation.*

### *Corruption and Bureaucratic Inefficiency*

Indonesia has a long-standing reputation for corruption. But more recently, the problem is getting worse, at least in the perception of businessmen as captured by Transparency International (Table 2.2). In part, the perceived increase in corruption correlates with the increase in corruption cases that get exposed. It must be noted, however, that businesses, particularly in the regions, are in consensus saying that corruption practices have worsened since regional autonomy. Others argue that under the Soeharto regime, corruption was more organized, and that once payments were made to the right people, a profitable business was assured. Nowadays, corruption is seen to be more random. Corruption is costly for business. Almost half of the businesses surveyed by the Partnership for Governance Reforms spent up to 10 percent or more of their company revenue on unofficial payments.[2] Sadly, corruption still pays: those who paid more in bribes on procurement contracts received more business from the government than companies who did not pay bribes or paid in smaller amounts. Over half of the business respondents were willing to pay more taxes, up to 5 percent of their revenues more in some cases, if it would mean elimination of corruption.

***Table 2.2: Corruption perceptions index***

| Country | 1996 | 2000 | 2002 | 2002 Ranking (102 countries) |
|---|---|---|---|---|
| Malaysia | 5.3 | 4.8 | 4.9 | 33 |
| Thailand | 3.3 | 3.2 | 3.2 | 64 |
| Philippines | 2.7 | 2.8 | 2.6 | 77 |
| Indonesia | 2.7 | 1.7 | 1.9 | 96 |

*Source: Transparency International. CPI score relates to perceptions of the degree of corruption as seen by business people and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).*

Corruption thrives in an environment of bureaucracy and red tape, and both are in abundant supply in Indonesia. To register a simple manufacturing business in Indonesia takes almost three times as long as in Thailand, and more than twice as long as in China (Table 2.3). Costs for official fees and levies can amount double that of the Philippines or China, measured in share of per capita GDP. In such an environment, a bribe to "speed up" procedures or avoid official levies is easily paid. But many businesses do not bother to register at all, and opt out of the formal sector: there are almost 15 million small and medium establishments without legal status,[3] employing around 55.6 million or 62 percent of the labor force.[4] This excludes the enterprise from the banking system, and only some 2 percent of small and medium enterprises have access to bank credit.[5] This also means that they have no access to the banking sector, which means that if they do not have sufficient retained profits or other resources, they will have financial difficulties to expand their businesses.

### *Tax and Customs Administration*

Indonesia's tax system is on paper one of the better ones in the world. A broad-based VAT with relatively few exemptions, moderate corporate income tax, and a relatively comprehensive income tax with few rates, and marginal rates comparable to the corporate income tax rate. However, tax administration is one of the largest bones of contention of businesses, and foreign ones in particular. The tax administration is reputed to be one of the most corrupt organizations, and the Partnership for Governance Reform's survey ranks it among the top-five of most corrupt institutions. Administrative procedures do not help either: every refund on every tax automatically triggers an audit, rather than a selective audit of "bad risks" as in other countries. Furthermore, the administrative capacity falls short of the sophistication needed to administer some of the features of the tax system, for instance for the global personal income tax.
Administrative discretion in the system, apart from inviting bribery, also undermines the predictability and consistency of the tax system.

***Table 2.3: Entry regulations and their costs in selected countries***

| Indicator | Indonesia | Malaysia | Thailand | Philippines | China |
|---|---|---|---|---|---|
| Number of procedures | 11 | 7 | 8 | 14 | 12 |
| Duration (days) | 158 | 56 | 45 | 62 | 72 |
| Cost ($) | 160 | 921 | 134 | 150 | 111 |
| Cost (% of GNP per capita) | 28 | 27 | 7 | 14 | 13 |

Worse, it undermines revenues at a time when fiscal sustainability is critical.

Customs administration shares some of the same characteristics with the tax administration. Tariffs are in general low, but costs at the border because of inefficiency and corruption are high. If all tariffs are collected on the $50 billion in imports, with an average weighted tariff of 7.6 percent, customs revenues should be some $3.8 billion. Last year, customs revenues amounted to some $1 billion. Not all of the difference is made up by smuggling, as there are many exemptions on the normal tariff, and arrears in payments are large as well: according to DG Customs, arrears in 2001 amounted to Rp. 17 trillion, more than what was collected in tariffs.[6] But smuggling is rampant: an estimate from independent studies by Corruption Watch and other NGOs revealed that illegal goods coming to Indonesia alone reached between $5.5 billion to $8 billion[7] compared to legal imports of around $55.4 billion in 2000.[8] Smuggling activity has become more open and bold, branching out from the 'gray area' to 'white area' which means direct competition with legitimate imported goods. In one embarrassing case of a large car smuggling custom officials were found to be involved in the smuggling business themselves: Poor bureaucracy aside, one motivation for importers to smuggle is because of the incomprehensible custom policies. By way of bribery and smuggling, some can save as much as 30-40 percent margins. Apart from the lost revenues, smuggling creates a very uneven level playing field which penalizes those who play by the rule. Because of this competition from smuggled goods, it is domestic as well as foreign enterprises that argue strongly for reforms in customs administration.

In response to the vocal pressure from business, the Government has started reforms in tax and customs. The tax administration is further ahead than the customs administration. Starting with a soft opening on July 1, Indonesia opened its first Large Taxpayers' Office (LTO). The LTO administers the 200 largest taxpayers in the country, together responsible for paying some 40 percent of tax revenues,[9] using new procedures and a new organizational structure designed to deliver better services to the large taxpayer. Initial reactions from the business community are positive, and the office has already collected more taxes—simply by electronically checking on whether taxes due are actually paid. More important for the businesses paying taxes is whether how the audit procedures would reduce harassment of the tax-payer, and how the planned governance improvement program would reduce corruption. If the new organization works, it could be a model for other tax offices around the country so the *all* not just the large tax payers could enjoy more efficient and less corrupt administration.

The customs administration is lagging behind the tax office in reforms. A concrete initiative recently taken is a "priority lane" for companies with a good reputation to clear customs faster. In all, ten companies have been granted the privilege thus far.[10] But after the Bali bombing the Government has announced that this number would be expanded. Starting January 1, 2003, the customs have also revised their import clearance and duty payment processes. The reforms aim to increase the speed of import clearance, and minimize collusion between importer and customs officials by moving to electronic filing, and payment of import duties through banks, rather than at the customs office. The only downside seems to be that importers now need to register twice—once with the Ministry of Trade and Industry, and once with Customs. Currently, the IMF is providing technical assistance to DG Customs to help develop and implement a more comprehensive reform plan.

Indonesia has also been contemplating a return to the pre-shipment inspection (PSI) system which was adopted in 1985, but discarded 10 years later. PSI takes over some responsibility from the custom office by allowing an independent agency to inspect imported goods in their country of origin. The PSI system has received support from local manufacturers, the Ministry of Industry and Trade and House Commission V, although the customs administration has thus far resisted the move with the argument that reforms in their organization (and higher pay for customs officials) could lead to the same results at lower costs. Although the request for higher wages was rejected by the Minister of Finance, in the new customs clearing procedure, DG customs now charges $10 per filing of an import transaction to "improve the welfare of the employees."[11] Customs and tax officials currently already receive more pay and allowances than other civil servants.

### *Labor Tensions*

After having been sidelined and suppressed under the New Order regime for a long time, workers and trade unions are now asserting labor rights more forcefully. At present, the unions are in a process defining their new role as conflict-mediating institutions. Currently, more than 60 unions compete nationally to represent workers. In addition, there are 140 labor unions and some 11,000 enterprise – based unions. The fragmented labor movement makes it difficult to establish coherent labor relations, as unions are frequently divided amongst themselves.

***Table 2.4: Labor conflicts, 1991-2002***

| Year | No. of Industrial Actions | No. of Workers Involved | Lost Working Hours |
|---|---|---|---|
| 1991 | 130 | 64,474 | 534,610 |
| 1993 | 185 | 103,490 | 966,931 |
| 1995 | 276 | 128,855 | 1,300,001 |
| 1997 | 161 | 100,440 | 875,512 |
| 1999 | 125 | 49,232 | 915,105 |
| 2000 | 273 | 126,045 | 1,281,242 |
| 2001 | 174 | 109,845 | 1,165,032 |
| 2002 (Jan- April) | 89 | 46,174 | 259,553 |

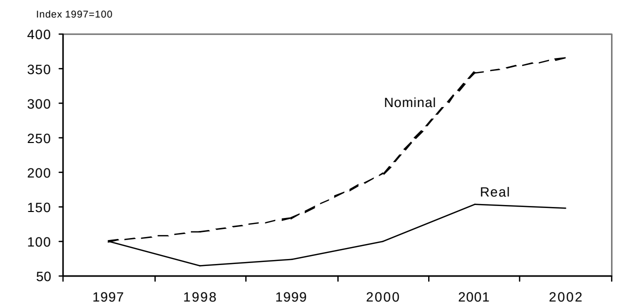
*Source: Department of Manpower.*

The resulting perception is that labor conflicts are on the rise, but this is not confirmed in the statistics. Conflicts—disputes, strikes, and demonstrations—may have been more frequent and vocal in recent years, but overall, there are no more industrial actions or lost working hours than in the mid-1990s. In part, the surprising lack of evidence for increased labor tension may be deteriorating statistics, but labor strife hardly seems rampant.

Undeniable, though, is the rapid increase in minimum wages. For instance, in Jakarta, the minimum wage for industrial workers was increased from Rp.172,500 per month in 1997 to Rp.631,000 at end-2002. This more than tripling of the wage was matched by price increases of 150 percent over the same period, and real minimum wages are now some 50 percent above hose before the crisis (Figure 2.2). In part, decentralization is to blame: the provinces now have the right to set minimum wages, and they have made extensive use of that right in the era of regional autonomy.[12] The current, decentralized system leaves it to the provinces and districts to set the minimum wage levels. Currently, wages research councils adjust minimum wages to price changes in the

***Figure 2.2: Wage increases for real***

(Nominal and real legal minimum wage index, 1997=100)




*Source: Department of Manpower.*

minimum living needs (KHM – Kebutuhan Hidup Minimum).[13] But KHM estimates, submitted both by unions and employers to the regional wage research council, differ widely from changes in the CPI. In 2001, for instance, unions in West and East Java reported increases in KHM in the range of 30-70 percent, while CPI actually increased between 10–15 percent. Those differences make it difficult to find a balanced approach to determine minimum wages, and political factors seem to dominate.

The increase in minimum wage, combined with the recent appreciation of the Rupiah, is becoming a competitive threat. But Indonesia's minimum wage is still well below that of the Philippines and Thailand, and barely higher than that of Vietnam (Table 2.5). Also compared to GNP per capita (a rough indicator of productivity) Indonesia's minimum wage does not seem out of line with some of its competitors, and only Thailand stands out as more competitive. Before the 2001 increase in Indonesia's minimum wage, value added per worker was 6 times the minimum wage, comparable to that of the Philippines, but much less competitive than Thailand's 17 times.[14]

***Table 2.5: Nominal minimum wages in major urban industrial centers in Asia, April 2002***

| Major Industrial Center | Minimum Wages $ Per Year | Minimum Wages $ Per Month | GNP Per Capita $ (in 2001)* |
|---|---|---|---|
| Manila | 1,793 | 149 | 939 |
| Bangkok | 1,128 | 94 | 1,797 |
| Jakarta | 755 | 63 | 669 |
| Hanoi | 692 | 58 | 395* |

**Calculated based on CEIC data. Vietnam figure is GDP per capita for 2000.*

*Source: Chris Manning, PEG Project, Bappenas.*

The rapid increase in minimum wages, the perception of rising labor conflicts and the resulting threat of reduced employment growth is in part the result of the absence of an efficient industrial relations system. Recently, the government has proposed two new bills to the House of Representatives (DPR): one on Labor Protection and one on Labor Dispute Settlement. Both drafts have met with heavy resistance from unions and employers alike. For now, Parliament has decided to hold off on passing the bills for an indefinite period. Meanwhile, the Parliament also decided to annul the existing Manpower Law No.25/1997, still drafted under the New Order government, in order to prevent it from becoming effective by October 1, 2002. Effectively, this means that Indonesia's industrial relations are now governed by the outdated 1957 Law on Labor Dispute Settlement and the 1964 Law on Labor Dismissal by Private Companies, and the Ministerial Decree No. 150/2000 on dispute settlement.

The stalemate between labor and business centers around several issues (Table 2.6). Labor representatives deem the bills as hurting their basic rights. Specifically, they point to the regulation on strikes, which requires workers to notify the management prior to any strike actions. This, according to labor activists, limits the basic right to strike freely—and the right to strike is one of the ILO's core labor rights that Indonesia has signed up for. In addition, they demand that employers pay striking workers, also in cases where the dispute has been delegated to an Industrial Relations Dispute Settlement Court. All this seems a bit too much to ask, according to employers. For example, they point to employers' obligation to pay striking workers, not to replace striking workers and to reduce basic hours for nightshift workers from 40 to 35 hours a week. In addition, employers feel, the bills put too much emphasis on criminal penalties for employers in cases where they do violate regulations, leaving them open to extortion by third parties, including by the Labor Bureaus that are in charge of enforcement of the Law. The fickle enforcement of the law is indeed one of the employers' biggest issue with labor regulations, and inspections by the Labor Bureaus are reputed to be excessively frequent, and regularly used for extorting bribes.

***Decentralization and the Investment Climate***[15]

Business was undoubtedly affected by decentralization that took off in 2001. Overall, decentralization has done remarkably well, [16] but the transition has been messy, and has affected the investment climate. The incomplete regulations at the onset of the Big Bang implementation on Laws 22/1999 and 25/1999 and the tug-of-war between center and the regions on issues such as investment approval, land, mining licenses, and the like reduced the "bankability" of many an investment.[17] Foreign investment approval, though, remained a central function by Presidential Decree, despite the fact that Law 22/99 assigns this to the regions. Inexperience of local governments in attracting business and lack of understanding of what it takes to create good business conditions did not help either. And finally, businesses had to face the corruption that flourishes in the regions as it does in the center.

Business also became the principal target for the plethora of taxes, levies and fees that were issued by the regions under the new law on regional taxes and levies. Law 18 of 1997, the previous law on local

***Table 2.6: Contentious articles in the draft Labor Protection Bill***

| Article | Issues | Position of employers | Position of Unions |
|---|---|---|---|
| 76 | Night working hours | 40 hrs/week | 35 hrs/week |
| 81 | Breastfeeding babies | Against | Agree |
| 86 | Government sets minimum wages | Against | Agree |
| 91 | Payment for sick workers | Against | Agree |
| 134 | Strikes | Must be notified | At any time |
| | No replacement of striking workers | Against | Agree |
| | Striking workers paid | Against | Agree |
| 150 | Service payments for resigning workers | Against | Agree |
| 152 | Conditions for dismissal | Against | Agree |

*Source: Draft Bill on Settlement of Industrial Disputes, Draft Bill on Manpower Development and Protection; Jakarta Post, 31 July 2002.*

***Box 2.1: Your Mine or Mine?***

*Kaltim Prima Coal (KPC) in East Kalimantan is a coalmine owned by two giants in the mining industry, BP and Rio Tinto. Started in 1992, the mine produces over 17 million tons of coal per year, and employs some 10,000 people. Its agreement with the state, dating back to the Soeharto days, requires that the company must offer 51 percent of its shares to Indonesians by 2002. KPC and the central government agreed to value the equity staket at $420 million. The first suitor was PT. Intan Bumi Inti Pradana (IBIP), a company supported by the East Kalimantan provincial government, perhaps because the government was promised 5 percent of the dividends in return. The province seems to expect a lot from this 5 percent of the dividends, because it has sued KPC for $770 million in damages due to the delay the company is supposed to have caused in concluding a deal with IBIP. Pending the suit, a Jakarta court has put a lien on BP's assets in all of Indonesia. This threatened BP's chances to be awarded an LNG supply contract with China, which crucially hinged on BP's capability to develop a natural gas field elsewhere in Indonesia. The district of East Kutai in which the mine is based joined the bidding game. The reason was, as the speaker of the local parliament stated, because 'the provincial deal would not benefit the local people'. Finally, complying to the July 31 deadline set by central government, the East Kalimantan provincial government agreed to drop its legal action against KPC. In a compromise, the central government has announced that it will purchase the 51% share for $419.2 million, which it will then sell in stakes of 15.5% each to the governments of East Kalimantan (province) and East Kutai (district), and retain the remaining 20%.*

*Source: World Bank 2002, Decentralizing Indonesia, and the Economist Intelligence Unit (EIU) September 2002.*

taxes and levies, intended to stop the then-prevailing local government practice of excessive taxes and charges. Many of these had little revenue potential, and high costs to the taxpayer and the economy. Law 18/1997 therefore restricted regional taxes to a closed list, and made any additional taxes conditional upon approval of the Ministry of Finance.

Law 34/00 reverses the burden of proof. The law still stipulates a list of regional taxes but regional governments can now add taxes through regional regulations approved by the regional government council, as long as they abide by the principles mentioned in the law. These principles are sound, but supervision is weak. As of June 2002, some 100 out of the 1,000 regional tax regulations had been found to be against the law, but only one of them was cancelled.[18] More than 800 tax regulations were not yet reviewed, and countless others were probably never submitted to the center to begin with. Mining suffered in particular from decentralization. Its large location-specific investment make it easy targets for local taxes and fees, and the perception that most mining rights were obtained because of close connection with the previous regime gave the mines little popular support. Moreover, the long gestation period of the sector's investment requires an environment in which the future tax regime is predictable and fair—two conditions currently not met in a decentralizing Indonesia. And finally, some local governments are eager to do the mining themselves rather than leaving it to the private sector (Box 2.1).

The harassed businessman (or citizen for that matter) has little protection against regional governments' abuse. Indonesia has an administrative law (Law 8/1986) which should protect the citizen from arbitrary use and abuse of power by Government. The law, based on the example of the Dutch administrative law, is considered to be sound,[19] but the courts in which disputes with local governments are settled, are not.

Despite these difficulties, some businesses embraced the new opportunities of decentralization. Previously, businesses were previously practically forced to be in Jakarta because of the necessary political connections. They now venture out to the regions, spurred on by the fact that the outer islands were not hit as hard by the crisis as Java was.[20] Moreover, business also started to fight back, taking advantage of the diversity and competition among regions. The Regional Autonomy Watch (KPPOD), set up by a Jakarta think tank with support from businesses and the chamber of commerce, started monitoring the business climate. It recently published a ranking table for regions on their attractiveness for business,[21] enabling businesses to "vote with their feet," by moving their money to better business climates. Most recently, the head of the national investment coordinating board BKPM proposed a similar rating.

***Box 2.2: How competitive is Indonesia's infrastructure?***

*Indonesia has built up a relatively strong infrastructure base (Box Table 1), but this has been suffering from the effects of the crisis.*

*A respectable share of Indonesia's road network is paved. Low maintenance spending on roads, which take 93 percent of passenger transport, and 41 percent of goods transport, has put some of Indonesia's roads in dire condition. In 2000, the last year for which data are available, 97 percent of the national roads were still in good or fair condition, but only 37 percent of district roads met the condition. This condition may well have further deteriorated: development spending on transport dropped from an average of 22 percent of the development budget to a low of 7 percent in 1999/00, to recover to 14 percent in budget 2002.*

*Indonesia has a low coverage of fixed telephone lines compared to its population. Although this matters little anymore for voice communication—which can make use of more flexible mobile networks—it can be a major bottleneck for the growth of internet use, which relies on fixed lines. In the years before the crisis, expansion of fixed line coverage was accelerated by sub-contracting this to external partners. The contractual problems that contractors such as Ariawest have faced during the crisis, however, could stall this progress, and leave Indonesia behind in benefiting from the internet.*

***Box Table 1: Selected Infrastructure Indicators, 2001***

| | China | Indonesia | Malaysia | Philippines | Thailand | Vietnam |
|---|---|---|---|---|---|---|
| Cost of call to US ($ per 3 minutes) ** | 6.7 | 4.2 | 4.2 | 4.8 | 2.5 | - |
| Number of main telephone lines per 1,000 people | 112 | 31 | 199 | 40 | 92 | 32 |
| Roads paved ( percent of total roads)*** | 22.4 | 46.3 | 75.8 | 21 | 97.5 | 25.1 |
| Internet users (percentage of population)**** | 1.8 | 2.0 | 16.1 | 2.6 | 3.8 | 0.3 |
| Electric power consumption (kwh per capita)* | 759 | 345 | 2,474 | 454 | 1,352 | 252 |
| Power transmission and distribution losses ( percent of output) * | 7 | 12 | 8 | 15 | 8 | 15 |

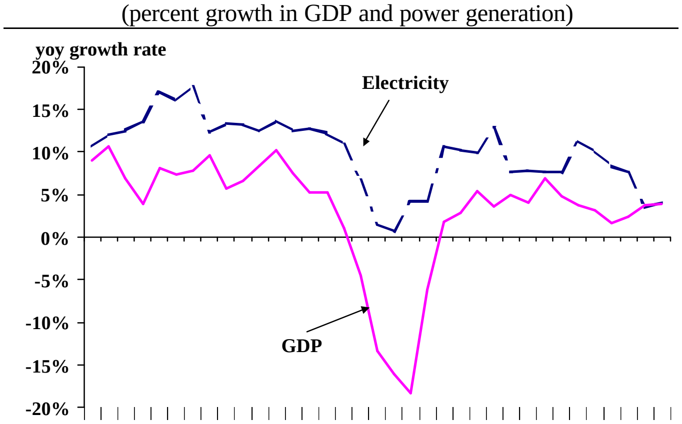
*Notes: * 1999 data; ** 2000 data; ***data available for latest year in 1995-2000; **** 2000 data except Indonesia*
*Source: WDI 2002.*

### *Avoiding a Power Crisis*

If Indonesia's growth were to take off in earnest again, it would quickly run into major bottlenecks in infrastructure, notably power. Already, many regions are facing rotating power cuts, and growth in power demand continues to outpace supply. But lead times for power generating plants are long, and power scarcity can already hardly be avoided. Power scarcity will affect all parts of the economy, but will hit small enterprises more than large ones. Large manufacturers could build their own power plants, even though this is an expensive and inefficient investment. Such an option, however, is not available to many small scale businesses. If experience in other countries is any guide, then small enterprises are also more likely to be closed out from the net, if power becomes scarce.

Power supply growth has far exceeded GDP growth over the last 30 years. PLN's power sales growth averaged around 15 percent per annum (Figure 2.3) – more than double the rate of GDP growth – from the early 1970s through to 1997. The onset of the economic crisis gave a brief pause, but since then, sales and system peak loads have again been growing

***Figure 2.3: Power demand outruns GDP***
(percent growth in GDP and power generation)



**_Box 2.3: PLN's Dire Financial Condition_**

*PLN's finances have deteriorated drastically since 1997, with accumulated losses amounting to Rp.45 trillion (US$4.8 billion). The company's current liabilities add to Rp.19 trillion, mostly from unpaid power purchases to IPPs, and it has no capacity to service its long term debts of Rp.30 trillion ($3.2 billion). Nevertheless, for 2001, PLN's audited financial statements show a small net profit of Rp.180 billion ($19 million). A big factor in the improved result was the large reductions, about Rp.16 trillion, in interest expenses and foreign exchange losses from debt service relief measures arranged with the Government. However, the profit result was only obtained by counting the Rp.6.7 trillion in operating subsidies provided by the Government as part of income. PLN expects to receive about two-thirds of this amount in 2002. More indicative is the fact that PLN's operating loss was Rp.3.3 trillion in 2001, corresponding to a negative rate of return of 6.3 percent. But even this result understates the true severity of PLN's financial position, because the company's assets have not been revalued since before the crisis. PLN's financial projections indicate that more than a fourfold increase in the Rupiah value of gross fixed assets is required to bring asset value (and depreciation provision) in line with the cost of servicing the associated foreign currency-denominated debt. In practice, however, implementation of such a revaluation is hindered by concerns regarding the major capital gains tax liability that would arise as a result.*

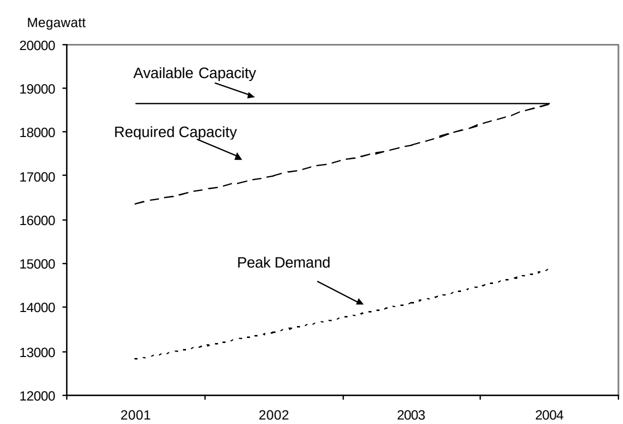
*Solvency remains a critical issue for PLN, with current liabilities exceeding current assets by a factor of more than 2 to 1. Arrears owing IPPs for purchased power could be as much as Rp.19 trillion (about $2 billion), depending on the outcome of the ongoing renegotiation of the IPP contracts. Settlement of these obligations should be the next critical step in restoration of PLN's finances, although some substantial progress has already been achieved. Debt service coverage in 2001 was only 0.1 times, if Government subsidies and foreign exchange losses are excluded. Consequently, further tariff increases and financial restructuring are needed for PLN to reach covenanted debt service levels.*

robustly, albeit at a slightly lower rate of 8-10 percent per year. More than 2 million new customers have been connected during the last three years, and the total would have been larger except for financial constraints of PLN. More recently, growth has leveled off in light of the relative price increase of electricity but it is expected that power demand will continue to outpace GDP growth in the years ahead.

Power shortages are looming. Over 20 outer island systems already have insufficient capacity to reliably meet peak demand, necessitating restricting use when generating units are taken out for maintenance or suffer unscheduled outages. Power shortages are also looming in the Java-Bali grid, which accounts for over 75 percent of PLN's generating capacity. The existing installed generating capacity is still larger than the peak electricity demand load (Figure 2.4). But after adjusting for constraints in the transmission network, regular maintenance and reserves needed to ensure secure system operation, the existing installed capacity is barely adequate. PLN's challenges are compounded by the need for major rehabilitation of some existing base load power plants, most notably the four 400 MW units at the critically important Suralaya plant in West Java, and by the prospect of impending large cost increases associated with having to burn more oil as gas supplies to Java plants under existing contracts decline rapidly.

At present, the only reasonably firm prospect for adding large base load capacity is Tanjung Jati B. This is a partially completed power plant in Central Java whose first unit is unlikely to be ready to start before early 2006. Unless other capacity can be mobilized extremely quickly, constraining demand will be necessary to avoid power failure. Open cycle

**_Figure 2.4: Only enough until 2004_**
(available and required capacity in Java-Bali)




*Source: World Bank (June 2001): Indonesia - Review of Electricity Supply and Demand on Java-Bali: a Framework for Prioritizing System Investments, Washington D.C.*

gas turbines are the only realistic option to add peak capacity in the short, but even their procurement and construction takes some 2 years. Even with those investments in turbines, though, peak power usage growth cannot exceed around 3 percent per year for the next three years.

The magnitude of the investments needed in the power sector are enormous. Even with power usage growing at only 3 percent per year, PLN estimates investments totaling $5.5 billion are needed during 2002-2006. Much higher rates of investment will be needed if the power system is to support the more rapid GDP growth targeted by the Government, and some estimates say that over the next 10 years, some $28.5 billion in investment is needed.[22] The peak load on the Java system now exceeds 13,000 MW, and even a modest 8 percent growth implies a requirement for the equivalent of a new Tanjung Jati B every year, along with associated transmission and distribution capacity. Investments on this scale are beyond the financing capacity of the public sector, and long lead times require that concrete steps be taken immediately in order mobilize private investment to meet needs from 2007 onwards.

One condition for doing so is to put the sector back on a sound financial footing. Since the crisis, the Government has been subsidizing power. The fiscal burden maintaining post-crisis electricity prices at around 3c/kWh—more than 60 percent below costs—has been enormous. The Government has provided Rp.8.7 trillion in direct subsidies to PLN, written off Rp.29 trillion in overdue interest to equity, and converted unpaid principal of Rp.5.3 trillion to new long-term debt. The total cost of this support has been Rp.43 trillion ($5.7 billion), yet the subsidies provided to the sector have largely benefited the better off, since the poorest groups in the population are less likely to have access to electricity at all. Tariffs would have to be gradually increased to the pre-crisis levels of about 7c/kWh, and most of the gains from past average tariff increases—25 percent in 1998, and twice in 2000 by 27 percent and then 20 percent—have been offset by further depreciation of the Rupiah. Even after taking into account the 2003 price increases, Indonesia's tariff remains modest by international standards (Table 2.7), although significantly higher than those in Thailand and Laos.

### *Policy Directions for Improving the Investment Climate*

The challenges for investors in Indonesia, domestic and foreign alike, are daunting. It is not just new investors that are avoiding Indonesia, but existing investors that are losing hope of improvements soon. The Government's attention to the issue is therefore encouraging. The National Investment Team, if well conceived, could become a cabinet level focal point to solve some of the issues that keeps investors away. Many of the issues are cross-ministerial, and even supersede the authorities of a single coordinating minister. At the same time, it is important that the team stays small enough to be effective, and is empowered with sufficient authority to make decisions.

As a first step, the National Investment Team could consider setting up a "Blue Ribbon" commission to systematically review the weaknesses in the investment climate. Such a commission should report back to the National Team within a limited period of time—say 3 months—with concrete policy options to be decided by the Government. Meanwhile, the Government can remedy several issues already.

***Table 2.7: Indonesia's power tariffs compared***

| | Residential | Commercial | Industrial |
|---|---|---|---|
| Brunei Darussalam | 5.89 - 14.71 | 3.54 - 11.77 | 3.54 - 11.77 |
| Cambodia | 10.86 - 10.86 | 15.34 - 17.13 | 15.34 - 17.5 |
| Indonesia | 3.72- 9.97 | 5.31 - 8.71 | 4.50 - 8.64 |
| Lao P.D.R | 0.13 - 1.29 | 1.05 - 1.29 | 0.79 |
| Malaysia | 5.64 - 7.19 | 4.34 - 7.45 | 3.83 - 4.99 |
| Myanmar | 7.73 | 7.73 | 7.73 |
| Philippines | 5.93 - 6.45 | 5.8 - 5.93 | 5.48 |
| Singapore | 11.7 | 6.88 - 8.75 | 6.66 - 8.18 |
| Thailand | 1.62 - 5.48 | 2.31 - 2.48 | 2.31 - 2.45 |
| Vietnam | 3.18 - 5.96 | 6.19 | 1.39 - 3.48 |

*Note: Indonesia tariff includes base charge based on average use in the user categories.*

*Source: ASEAN Energy Center, PLN, Staff estimates.*

The Government is working on a new investment law, which is to replace the existing laws on foreign (Law 1/1967) and domestic investment (Law 6/1968). The new law would go some way in clarifying responsibilities of levels of government, but the Government should ensure that the law is consistent with Law 22/1999. The draft law has many laudable features, including a clause that puts foreign investment on the same legal footing as domestic investment—with exemptions to be specified. Currently, Presidential Decree 96/2000 restricts foreign investments in a number of areas—and a complete ban on foreign investment in only a few areas, and this should stay that way.

The draft Investment Law includes the option of tax incentives. Some investors have strongly expressed the need for tax incentives to promote investment, notably foreign investment.[23] The idea is supported by the Chairman of the Investment Approval Board and Parliament. The preferred incentive seems to be a tax holiday for investors.

Tax incentives rarely work to attract investment. First, depending on the tax treaty with the country of origin, the tax reduction given by Indonesia may simply become a tax liability in the country of origin. Thus, Indonesia would sponsor a foreign treasury. Second, even if not taxed away in the country origin, a tax holiday is unlikely to attract the marginal investors: that investor is unlikely to be profitable at the time of investment, and therefore will not benefit from a holiday. But perhaps most importantly, tax incentives cost the treasury money, money that can best be used for solving the real issues that keep investors away.

The Government should resolve the current impasse between labor and business on the pending labor laws because it has resulted in a lack of clear rules for handling industrial relations and increased legal uncertainty for business. In formulating and re-submitting acceptable drafts of the bills, the Government must consider what type of labor conditions it wants to regulate by law, and what issues can best be left to the negotiating table between employers and employees, realizing that labor market flexibility has been one of Indonesia's strengths in the past.

The discussions on the labor bills would be a good opportunity to review the arrangements for setting the minimum wage. A more professional and de-politicized system of collecting data and estimating changes in the KHM would be a good first step to establish an efficient wage–setting mechanism. This would probably still require central government involvement because of the limited capacity in the regions. Government could even consider giving formal guidance to the regions on appropriate wage increases. It would also be worthwhile considering including into the law a process by which the center, or central tripartite organizations could intervene in case of excessive regional wage rises that may damage the investment climate for the country as a whole. Finally, the Government should considerer how it can strengthen the mechanisms for supervising the labor laws and regulations, so as to minimize bureaucratic discretion and abuse.

On decentralization, the Government faces the challenge to keeping the benefits of the process, while avoiding damaging impact on the investment climate. The first thing to do is simply to re-invigorate the decentralization process, and align all sectoral laws and regulations with Law 22/99. This would resolve much of the regulatory confusion that is currently holding back investment. Second, Law 34/2000 on regional taxes should be revised. The "open list" system simply does not work, and the Government cannot effectively supervise all the regulations on regional taxes. Reverting to a closed list, with inclusion in that list of more productive taxes for the regions, including rate authority over the real estate tax, would minimize the uncertainty in tax obligations businesses will face. Revising the law may take some time, however, and in the mean time, the Government should reinforce its supervision of regional taxes, and cancel those that contradict the law.

To address the short term challenges in power, the Government and PLN will need to work in tandem to manage peak load growth. Measures would include appropriate peak pricing and new connections policies. The Government should also mobilize investments in fast track generation capacity, maximize availability and utilization of existing capacity and to secure development of new gas supplies. Top priority needs to be given to ensuring Tanjung Jati B and associated transmission links are constructed as quickly as possible, completing the southern 500kV transmission line, and rehabilitating the older Suralaya units.

Meeting the longer term power needs will require restoration of large scale private investment. This presents an enormous challenge as the global economic slowdown has dampened investor appetite for new exposure to the region, while Indonesia's high country risk rating and poor investment climate make large infrastructure investments unattractive. Significant progress has already been made on renegotiating existing power purchase agreements and energy sales contracts, but this process needs to be concluded rapidly to help rebuild investor and lender confidence.

The recent passage of a new Electricity Law promises a much improved regulatory and institutional framework, but needs to be complemented quickly by sound Government Regulations and supported by a competent and credible regulatory agency and other institutions and by the unbundling of PLN.

Further tariff increases and restructuring of PLN are required to restore the power sector's financial health and to lessen its negative fiscal impact. The Government has agreed, in principle, for tariffs to be gradually increased to the pre-crisis levels of about 7c/kWh, and quarterly tariff increases of 6 percent have been approved during 2002. But the Government has also phased out fuel subsidies, putting further upward pressure on PLN's costs. Hence, in order to avoid power shortages, restore financial viability to the sector, and continue expanding access to electricity, the Government has no alternative but to: (i) commit to a program that raises tariffs to commercial levels; (ii) press on with PLN's financial (and corporate) restructuring; (iii) resolve outstanding issues relating to the existing IPP program, while putting in place new guidelines for future private sector participation; and (iv) establish—under the new Electricity Law—the proposed Social Electricity Development Fund (DPKS), for targeting sector subsidies to underprivileged subscription groups, underdeveloped or isolated regions, and rural electrification.

***Endnotes***

[1] Source: Price Waterhouse Coopers, as quoted in: World Bank, 2003, *Indonesia Mining Licenses and Fiscal Review*, Forthcoming.

[2] The national survey was done in 2001, and had 2,300 respondents, of which 400 came from business enterprises.

[3] BPS 'Profil Usaha Kecil dan Menengah Tidak Berbadan Hukum' tahun 2000.

[4] BPS quarterly survey as quoted in the Jakarta Post, October 2, 2002 'Informal sector plays role in providing jobs'.

[5] See World Bank (2002) SME Debt Restructuring in Indonesia, Jakarta, August.

[6] Jakarta Post, January 3. 2003.

[7] Asia Times, 'Indonesia's Corruption in Excess Department' September 21, 2002.

[8] WDI 2002, World Bank.

[9] Source: DG Tax. The total number of registered corporate taxpayers is 660,000 . There are 419,000 taxpayers liable to pay VAT.

[10] The Jakarta Post, October 2, 2002 'Firms gain customs clearance privilege'.

[11] Jakarta Post, 11 October 2002, *Government rejects proposal to raise salaries of customs personnel,* and 8 November 2002, *New Customs Rulings Please Businessmen.*

[12] Provinces set the floor to wages and then districts decide on the level of the minimum wages within their jurisdictions. Currently, minimum wages differ between provinces and between districts. In several provinces, districts have set their wages above the existing floor, and minimum wages do also vary within industries in one district. For example, only one minimum wage was set for Jakarta in 2001 and 2002, whereas minimum wages were set for every district in West Java. In West Java the floor provincial level is Rp.280,000/month in 2002. Industrialized districts like Bogor and Bekasi have set the minimum wage at Rp.576,000, twice the floor. Jakarta has the highest minimum wage with Rp.591,000, followed by Papua with Rp.530,000 and East Kalimantan with Rp.500,000. Economic factors such as proximity to regions with higher wages explain some of the differences.

[13] The following is based on a paper by Chris Manning (2002), " Minimum Wage Policy: Is Indonesia going the Latin American Route?" BAPPENAS – PEG Working Paper, unpublished.

[14] *World Bank, WDI 2002 and staff estimates.*

[15] See for more detail World Bank 2002, *Decentralizing Indonesia*, draft, Jakarta, August.

[16] See World Bank, Decentralizing Indonesia, forthcoming.

[17] Regional Autonomy, More questions than Answers, Van Zorge Report, Vol II, No. 15, September 11, 2000, and Re-centralization, Guided Decentralization, or Chaos, Van Zorge Report.

[18] Source: Ministry of Home Affairs.

[19] See Bernard Quinn, 1999, The Law on Administrative Justice of 1986 in Socio-Political Context, in Lindsey, Timothy (ed.) Indonesia Law and Society, The Federation Press, Sydney.

[20] Indonesia Provinces Profit from Capital's Chaos.

[21] See KPPOD, 2002, Pemeringkatan Daya Tarik Investasi Kabupaten/Kota, Studi Kasus di 90 Kabupaten/Kota di Indonesia. (Rating District's Investment Attractiveness, A Case Study of 90 Cities and Regencies in Indonesia).

[22] Eddie Widiono, President of LN, as quoted in The Jakarta Post, September 26, 2002.

[23] Jakarta Post August 25, 2002.

# CHAPTER 3: REFORMING THE JUSTICE SECTOR

This chapter examines the ongoing efforts to reform selected institutions and establish new institutions in the sector. It notes that much has been undertaken to move the reform agenda forward, with some especially welcome initiatives being undertaken by the Supreme Court. In evaluating these efforts, however, two key considerations need to be taken into account: First, the core problem facing the Indonesian justice sector institutions is that they neither enjoy the trust nor the respect of the society they are intended to serve. The success of reform efforts should therefore ultimately be measured by the degree to which the trust and respect of society are obtained. Second, this lack of respect and trust arises from the widely held public view that these institutions abuse their power and are deeply corrupt. Tackling such abuse of power and corruption within the law enforcement institutions is an extremely difficult undertaking, and will require strong leadership on the part of policy-makers and institutional heads.

The justice sector in Indonesia has been under close scrutiny in the nearly five years since President Suharto stepped down from the presidency. Much of this attention has stemmed from the inadequacies of the legal system to provide an effective mechanism for coping with the massive financial crisis of the late 1990s. But the greatly increased attention in the Indonesian justice sector also results from:

- the widely held view reform of the justice sector was crucial if the loss of confidence in Indonesia in 1997 resulting from widespread abuse of power, manifested especially in the form of corruption was to be reversed;
- the sense that the Indonesian justice sector is neither accessible by nor responsive to the needs of the poor;
- the likelihood that a strong democracy requires a well-rooted rule of law which in turn is dependent on effective justice sector institutions; and
- the great expansion of press freedom in Indonesia starting in May 1998.

The recent Bali tragedy has magnified the spotlight on the justice sector institutions – and especially on their ability to deal effectively with basic security threats without resorting to the authoritarian abuses of the past.

An examination of recent developments in the light of these considerations suggests not only that the reform path is indeed going to be a long one, but that in one basic respect it has yet to begin: serious steps to tackle corruption, abuse of power and political interference within the law enforcement institutions have yet to be taken. Until and unless this happens, the various initiatives to improve the professionalism of these institutions, and the signs of meaningful leadership shown in parts of the justice sector – especially by the Chief Justice – are unlikely to result in overcoming the basic challenge facing them: obtaining the trust and respect of Indonesian society.

### *Justice Sector Reform Since the End of the Suharto Presidency*

The history of reform in the sector in the post-Suharto period has been one of promising initiatives followed by disappointing follow-through. It was during the Habibie presidency that some essential building blocks to a justice sector appropriate to a rule-of-law based society were put in place. For example, a new anti-corruption law was passed which included a provision mandating the eventual establishment of an anti-corruption commission; and legislation was passed mandating the establishment of a commission for the audit of the wealth of state officials (KPKPN). These legislative actions were taken at a time when the strength and clarity of public demands for reform were such that they were impossible for politicians to ignore. They were based on the basic assumption that lack of integrity in public life, with corruption as a major element, was a core weakness and legacy of the Suharto era – and one which, crucially, permeated the justice sector institutions, the very institutions that must be relied on to stamp out corruption.

In addition during the Habibie presidency a law was passed which included a provision for the gradual transfer of administrative responsibility for judicial affairs from the Ministry of Justice to the Supreme Court. This had been a long-standing demand of the judiciary, supported by much of the Indonesian legal profession. Moreover, a new commercial court was established as part of a revised bankruptcy and debt restructuring regime on August 20, 1998. Together with a modern Bankruptcy Law adopted in 1998, the court was intended to provide an orderly mechanism for handling the massive insolvency crisis that struck corporate Indonesia in the wake of the financial debacle of 1997. Also, it was actively supported by many in the Indonesian legal community as a reform model for restoring credibility to the rest of the judiciary.

Initial developments during the presidency of Abdurrahman Wahid suggested these initiatives were going to be built upon:

- the new Attorney General commissioned a governance audit of the Attorney General's Office;
- an institution long considered as very corrupt and an instrument of oppression; an inter-agency task force, the Joint Investigating Team, was established to investigate allegations of corruption in the judiciary;
- the National Police were legally segregated from the armed forces;
- a process was initiated of subjecting candidates for the vacancies to the positions of Chief Justice and other Justices of the Supreme Court to public scrutiny;
- the Commission for the Audit of State Wealth (KPKPN) came into being;
- a National Ombudsman Commission was appointed;
- a National Law Commission was established with the mandate of advising the President on priority legal issues and of developing a national law reform agenda;
- and the legal spadework needed to establish a judicial mechanism for investigating alleged human rights abuses in East Timor (ad hoc tribunals) was initiated.

During the presidency of Megawati Sukarnoputri, the pace of reform in the justice sector has slowed. There has of course been progress. For example, KPKPN began its work in earnest and appears to be successfully planting the idea that public officials from the President downwards should be transparent about the sources of their wealth. With respect to the judiciary, there have been a number of initiatives taken which are both necessary for meaningful reform and which, if followed up by concerted action, should result in a significant upgrading of the judiciary in the course of the next few years. These initiatives include the preparation of a "blue-print" to establish a judicial commission and the carrying out of a governance audit of the Supreme Court. And for the first time, facilitated by the Partnership for Governance Reforms, a regular dialogue has begun between officials of the four key justice sector agencies under the oversight of the Coordinating Minister for Political and Security Affairs and the Ministry of Justice with a view to developing a strategy and action plan for the justice sector based on plans developed by working groups established in each key legal institution, with inputs from the National Law Commission and NGOs active in legal reform issues. Key verdicts against the youngest son of President Suharto and the Speaker of the DPR, Akbar Tandjung, also showed that the courts can deliver under the glaring glaze of public attention.

Nevertheless, over the past two years there has been growing pessimism about the nature and pace of this reform effort. This is best captured in the recent assessment of the UN Special Rapporteur, Datuk Param Cumaraswamy sent to Indonesia by the Secretary General of the United Nations to assess the state of the Indonesian justice sector. "I didn't realize", he was reported to have said, "that the situation could be as bad as what I have seen". This pessimism reflects three principal factors: first, the reform process appears has so far had only a limited impact on the outcomes/outputs of the justice sector; second, failures of omission and commission by the Government suggest a lack of political will to undertake reform; and third, there has appeared to have been no meaningful effort to tackle corruption within the law enforcement institutions since the demise of the Joint Investigating Team.

The poor outcomes/outputs of the system can be evidenced from a number of controversial decisions, particularly by the commercial courts in the high profile cases, which have caused the market to lose faith in that newly created court. The curious bankruptcy decision on Manulife was a particularly devastating blow to the reputation of the courts. While this decision was reversed and the judges concerned are being investigated for corruption – both widely and rightly welcomed at home and abroad – the nature of the reversal, reflecting acute external political pressure on the courts, raised more questions than it answered. The high profile nature of the case may well have washed away any benefit to perceptions from the slightly above average record of court decisions on the more routine cases since the commercial court was constituted. The poor outcomes can also be seen in the low success rate of prosecutions in corruption cases and banking scandals. Equally damaging to the credibility of the justice sector institutions were the first decisions of the ad hoc human rights tribunal in cases against certain officials including military personnel, concerning the events in East Timor in 1999. These decisions, and the process by which they were reached, were widely condemned domestically and internationally as a failure of justice.

Lack of political will has been reflected in the absence of urgency and inadequate funding of the new agencies established to bolster legal reform (see further discussion below). The Attorney General's Office has failed to act on the results of a governance audit on its operations. The National Law Commission and the National Ombudsman Commission have had to seek external donor support, given the failure of the government to make adequate budgetary provisions for them, while KPKPN limped off to a slow start. Lack of political support for the work of these bodies was reflected in the National Law Commission beginning an ambitious work program on justice sector reforms, involving extensive national consultations, and yet receiving very little direct involvement or attention by the Government. The Ombudsman's effectiveness was compromised by the lack of cooperation from government departments. KPKPN's work on auditing the wealth of public servants has been stymied both by the failure of officials to cooperate with its work (reflecting the lack of sanctions for doing so) and by weaknesses in the organization. Progress establishing an Anti-Corruption Commission (ACC) has been painfully slow and way behind the deadlines laid down under the 1999 Anti Corruption Law. It was only in November, 2002 that Parliament finally passed legislation on the Establishment of ACC. Above all, the fact that there is little evidence of an overall game plan that brings together the many very credible and creditable initiatives and lays out a clear road map for further action has meant that the reform efforts to date risk being derailed prematurely.

The failure to address the most serious weakness of the justice sector – perceptions that corruption pervades the law enforcement institutions – is illustrated by the virtual absence of prosecutions for corruption of any personnel of any of these institutions. As noted above, the one serious official attempt to pursue allegations of corruption within the judiciary – the establishment of the Joint Investigating Team – was destroyed by the judiciary itself: the Supreme Court ruling declaring the legal basis of the Joint Investigating Team invalid when it appeared that this team was likely to take formal action against judges for corruption, causing that team to be disbanded, was a reminder that the law enforcement institutions are likely to move aggressively to protect their own. The reported efforts of prosecutors to investigate the so-called "whistle-blower" behind allegations that the current Attorney General may have been engaged in corrupt practices is another reminder of this resistance, as is the fact that allegations relating to police involvement in smuggling and protection rackets have been rarely investigated.

That so many observers are so critical of the justice system in Indonesia should be of major concern to Indonesian policy-makers. The perceptions of such observers (Indonesians and foreigners) have a material and adverse impact on Indonesia's ability to attract and/or retain the investment Indonesia needs to attain the sort of growth rates that will provide jobs for a growing labor force and enhanced living standards for its citizens. For example, where court decisions are viewed as capable of purchase, it is understandable when representatives of major investor groups list contractual uncertainties as a major negative factor in decisions about whether to invest or stay in Indonesia (Representatives of Korean and Japanese business groups recently listed both law and order and contract uncertainties in Indonesia as key concerns for their constituents).

As importantly, bad law enforcement also unquestionably contributes powerfully to the existence of other major problems that Indonesia confronts across a broad range of issues. Where law enforcement officials apparently can be so easily bought off, it is hardly surprising that Indonesia suffers from almost catastrophic rates of deforestation and from widespread smuggling. Where law enforcement officials reportedly see concerns about law and order as an opportunity to make money, it is hardly surprising that protection rackets proliferate and investors fear their assets and their employees will not be protected by the police. Where ordinary people do not see the police as their protectors and the courts as a source of justice, it is easier to understand the phenomenon of mob "justice" and to understand the manner in which communal frictions so rapidly degenerate into intense violence.

A large part of the pessimism noted above reflects impatience with the pace of progress on justice sector reforms. Clearly, the pessimists will need to learn to be patient. Reforms of the kind that will address the concerns of so many would inevitably take a long time to accomplish even if there was a broad consensus among the ruling elite of the need for reform. Neglect and abuse of and by key institutions over several decades cannot be reversed over-night. New institutions do not just spring to life and start performing well. However, for the reforms to succeed in the long run, a consensus does need to be established on the case for reforms -- and a will to carry them out needs to be exerted. That consensus is likely to be blocked by powerful vested interests who will do everything in their power to protect the status quo of a captured state. Freeing a captured state does require political will, commitment and, above all, leadership. This is where the pessimists have a point. Absent such a determination to reform, one is likely to continue to see a one-step-forward-one-step-backward reform process.

***Reforming Key Institutions and Establishing New Institutions***

Justice sector reform must begin by fixing the institutions that are broke. This section reviews ongoing efforts to reform selected Indonesian justice sector institutions. It then reviews the status of new justice sector institutions.

***The Supreme Court.*** A number of initiatives concerning the judiciary have recently been taken or are currently underway which hold significant promise. Perhaps the most promising of these initiatives is the current "institutional audit" of the Supreme Court being carried out by Indonesian consultants (Box 3.1). This audit is reviewing the Court's positions and functions, its organizational and institutional culture, human resources, physical resources, case management, supervision and discipline, accountability and transparency and then making recommendations on how to improve this.

The striking aspect of this initiative is not so much that the team carrying out the audit is leaving few stones unturned, both in terms of data and in terms of coming up with new ideas. Rather, it is the degree to which the Supreme Court has opened itself up so fully to an independent party and is prepared to contemplate taking on a comprehensive package of recommendations. Obvious challenges lie ahead: the reform agenda, the defining of which will be completed by the end of 2002, will take a long time to put in place, and many proposed reforms are likely to meet with resistance from within the Court itself.

As importantly, certain recommendations will require action on the part of the executive branch, for example on matters such as funding and recruitment. Nevertheless, a large majority of the reforms can be handled internally. The fate of the governance audit for the Attorney General's Office is a reminder of how quickly reform initiatives can be discarded by a combination of institutional resistance and a lack of political will not to countenance institutional inaction. However, a factor that distinguishes the current audit

***Box 3.1: The Supreme Court Audit***

*The Asia Foundation and the Partnership for Governance Reform have supported the Indonesian Institute for Independent Judiciary (LeIP) to conduct an institutional reform and development study---or 'institutional audit'---of the Supreme Court of Indonesia, in collaboration with the Supreme Court. The audit is intended to identify the primary institutional reform and development challenges confronting the Supreme Court, as informed by inputs from a variety of stakeholders, including Supreme Court justices, Court registrars, and administrative personnel. This collaborative initiative is being strongly supported by Chief Justice Baqir Manan. A circulation draft of the study report was completed in late August 2002 and submitted to the Chief Justice for review. The report covers eight main areas of focus: (1) status and functions; (2) organization; (3) resources; (4) accountability and transparency; (5) information management systems; (6) human resources; (7) case management; and (8) supervision and discipline. The report reflects the inputs of a combination of stakeholders, which were gathered through in-depth interviews and consultative workshops. The audit is an important first step in defining priority institutional and procedural reforms within the Supreme Court. Although independent assessments by outside researchers have been conducted in the past, the study is the first of its kind to be conducted through a collaborative working relationship between the Supreme Court and a local non-governmental organization with a special focus on judicial reform. The study report and the process through which it was developed serve as a model for future partnerships of this kind between civil society organizations and justice sector institutions in addressing institutional reform issues.*

from that of the Attorney General's Office is that the institutional audit of the Supreme Court enjoys the strong support from the Chief Justice and is clearly driven by an Indonesian constituency. The Supreme Court therefore deserves the highest marks for this policy-institutional reform initiative.

Law No. 35/1999 mandates that by 2004, all current responsibilities for the judiciary that rest with the Ministry of Justice are to be fully transferred to the Supreme Court, the so-called "**one–roof system**". It is unclear what progress has been made in ensuring not only that the time-table will be adhered to, but also that the Supreme Court is appropriately equipped to handle the responsibilities that it is to assume (especially its managerial capacity).

However, of the various challenges posed by the one-roof process, perhaps the most crucial is the one facing not just the Supreme Court but the executive and legislative branches as well: how to address the difficult and very important issue of accountability. In a situation where an institution suffers from a severe credibility problem, especially as concerns its integrity, recognizing that accountability matters – and, more pertinently, developing policy options for meaningful accountability – is vital. The "one-roof system" does not of itself provide assurance that this issue will be appropriately addressed.

One aspect of accountability that will need to be carefully thought through concerns the management of the judiciary's budgetary funding. To the extent that the one roof process gives the Court access to and authority over large budgetary funding, there is clearly potential for abuse of the power that comes with control over such funds. In some countries, such budgetary authority rests with a **Judicial Commission**. The Third Constitutional Amendment stipulates the establishment of such a commission. The Commission's jurisdiction covers recruitment, dismissal and transfers. However, the same issues of transparency and accountability arise. Policy-makers also will need to address another challenge that the establishment of the Judicial Commission does not necessarily overcome: how to ensure that "internal" judicial independence is achieved – preventing inappropriate interference in the judicial responsibilities of lower court judges by their superiors.

Serious planning is currently being undertaken by the Supreme Court with respect to the Judicial Commission. The Supreme Court has obtained donor funding (from the IMF-administered Dutch trust fund) to prepare, with the assistance of Indonesian consultants (as well as foreign comparative input), a draft regulation and a realization plan for the Judicial Commission. As part of this program an exhaustive review is also being undertaken of personnel management, financial management and permanent education of the judiciary as a whole. The aim of the plan and associated reviews is to identify principal objectives and core issues, as well as steps by which these are to be achieved.

***The Commercial Court***. As noted above, a new commercial court was established following the financial crisis as part of a revised bankruptcy and debt restructuring regime. The new commercial court in a number of ways did function as a model for institutional reform for the judiciary more broadly, notably by allowing for ad hoc judges, publication of all decisions, allowing for individual published dissenting opinions, keeping to clear and fixed time lines, holding its hearings in public, and publishing court orders in the media. Also, its overall decision-making showed greater consistency than is generally understood. These changes establish important long term precedents which should be of significant benefit to the broader Indonesian judiciary over the long term. Yet the court failed in a major way to ensure consistency and clarity in its decision-making in cases involving major interests (both economic and political). Whilst these high profile decisions (Box 3.2) may not be representative of commercial court performance as a whole, they significantly influenced public opinion and market sentiment, and damaged the authority and effectiveness of the court enormously.

The resultant loss of confidence in the commercial court by the market (and by significant sections of society), weakened an important institutional element in the strategy of economic recovery and debt restructuring. The broader importance of a credible law enforcement and, in particular, a court system became apparent in 2001-2 by the low success rate of IBRA against uncooperative obligors, and the general failure to bring the major obligors to court. It also, to some extent, damaged its model role for judicial reform.

**Box 3.2: Manulife**

*Manulife Indonesia was established in 1985 as the first joint venture life insurance company in Indonesia. Manulife Financial of Canada is the controlling shareholder. IFC also has a small stake. At inception, its local partner was PT. Dharmala Sakti Sejahtera (DSS), a company in the Gondokusomo Group, which was subsequently declared bankrupt in August 2000. Manulife has faced problems in the courts since it acquired its local partner's shares.*

*In October 2000, Manulife Financial acquired its local partners' shareholding in a court appointed auction following regular bankruptcy procedures. However, a company registered in the British Virgin Islands, Roman Gold Assets Limited, challenged the sale, claiming that it owned the shares. Although Roman Gold could not produce valid legal evidence for its ownership of the shares and its claim violated aspects of Indonesian law, the Indonesian police accused Manulife of fraud.*

*The Attorney General's Office in Indonesia, after investigating the matter, concluded that no fraud had been committed and formally cleared Manulife of any wrong doing in buying the shares. But this was small comfort. Since purchasing the shares in October 2000, Manulife has faced nine court cases. Five of them were attempts in commercial courts to bankrupt the Company. Manulife is an attractive target for bankruptcy because it is a cash rich company, although most of its assets belong to its policy holders. Manulife settled the first claim out of court, but fought the others in court successfully.*

*In June 2002, the Jakarta Commercial Court declared Manulife bankrupt in response to a petition filed by the receiver of its former partner DSS on the basis that Manulife did not pay a dividend for FY 1999. Manulife's shareholders had not declared a dividend for that year.The court ruled that this constituted an unpaid debt obligation. Manulife appealed the case to the Supreme Court, which overturned the decision on July 8, 2002.*

*On July 15 2002, KPKPN commenced investigation of the three judges in the Manulife case to verify bribery allegations. Two of the judges were unable to clarify the sources of their wealth. In August 2002, the President issued a decree suspending the three judges from performing their daily duties. The Jakarta High Court also set up a Council of Honor to examine the three judges on the bribery allegations. In September, 2002 the Council of Honor completed its examination and dropped the allegations based on lack of evidence. In December, 2002 the three judges filed petition with the administrative court against the president, calling for reinstatement functions and names.*

While the commercial court has clearly not lived up to the policy expectations hoped for when it was established in 1998, it has nevertheless achieved some role model successes: appointing ad hoc judges to be a part of the court, permitting dissents, requiring the publishing of court decisions, and establishing firm time-lines – the commercial court has established very important precedents which should be of significant benefit to the broader Indonesian judiciary over the long term.

Nevertheless, reflecting the loss of market confidence, the number of cases filed before the commercial court has dropped to about 40 annually from an average of about 100 in each of 1999 and 2000. This stands in stark contrast to bankruptcy figures data in other countries in the region, and is in complete disaccord with prevailing market realities in the country. Lawyers have reported that they have more than 1,000 cases ready for filing, but are holding back on grounds of court credibility.

Bolstering and to a considerably extent restoring market credibility of the commercial court is clearly going to be a lengthy and difficult process. Passage of the draft bankruptcy amendment law is likely to foster more predictable decisions from the court and its early passage would be helpful. Clearly, however, a concerted effort is required of the judiciary itself to address the issues of competence and integrity. The Steering Committee for the commercial court (comprised of government officials and members of the judiciary) is overseeing the carrying out of an ambitious blue-print for reviewing all major aspects of the court's operations and mandate (ranging from its jurisdictional reach to issues of staffing needs). The Inter-departmental Steering Committee for the commercial court has overseen the implementation of this blueprint that constitutes a comprehensive development plan for the court. The steps identified in the current blueprint are close to completion, and the blueprint needs to be renewed and adapted to restore waning market confidence. This requires high levels of participation and commitment notably on the part of the judges who are member of that Committee.

***The Attorney General's Office***. The Attorney General's Office has been the target of much of the criticism directed at the Indonesian justice sector over the past year. As with the police, it is a key arm of the justice system, but is widely perceived as lacking integrity, being inefficient and ill equipped to do its job. The recent allegations by the KPKPN relating to the Attorney General himself illustrate the "top-to bottom" nature of this problem. Although the Attorney General's Office has overseen the prosecution of a number of high profile cases in recent months (See Table 3.1), its overall record, perhaps best exemplified by its record on the handling of the cases relating to the banking scandals following the financial crisis, has been poor. The average success rate in both corruption and banking cases is low. While this is likely due in significant part to the Attorney General's Office's inadequacies it is difficult to disentangle this from the pressures, both monetary and political, brought on this office by the powerful interests who have a stake in the outcome of the cases that the Attorney General's Office prosecutes.

On the initiative of the then-Attorney General, Marzuki Darusman, the Asian Development Bank financed a governance audit of the Public Prosecution Service (PPS). The report, prepared by Price Waterhouse Coopers and the British Institute of International and Comparative Law and submitted in July 2001, calls for a profound change in the role of the PPS, from one that is merely implementing the orders of the government in power to one that is independent of Government and seeing itself as upholding the rule of law and acting in the public interest. This implies the phasing out of the current highly military culture of the service and calls for the Government and the DPR agreeing to a new vision and mission for the PPS, with the values that are necessary for any public service: integrity, accountability, professionalism and efficiency.

The report notes certain key current weaknesses in the system: Grossly inadequate budget provisions for the PPS which contribute to an extensive reliance on unofficial payments. Poor pay levels and allowances. Staff being required to pay from their own pockets for all manner of things that should have been paid for from the official budget including office supplies. Reliance on illegal levies as a means of recouping these expenditures. Weak systems of budgeting, information technology, knowledge management and human resource management.

The recent ADB Governance Assessment[1] argues that transparency and accountability in the Attorney General's Office would be improved through a number of actions, including the reinstatement of case reviews, transparency in procedures and the basis of decisions, transparency in case management with information readily available on the progress of cases and planned actions, a complaints service, etc.

There has been little effort by the Attorney General's Office to act on these sensible recommendations, and little political pressure on it from within Government or from the DPR to do so. The current challenges facing the Attorney General once again provide an opportunity for the Government to move forward decisively to reform what is a vital arm of the justice sector.

***KPKPN (the Commission to Audit the Wealth of State Officials).*** The recent legislation establishing the Anti-Corruption Commission (Box 3.3) also provides for the absorption by that new body of KPKPN. This institution provides both an opportunity and a risk. The potential value of such an institution may be gauged by the role played by its equivalent in Thailand. (where the KPKPN equivalent is in fact part of that country's anti-corruption commission). The opportunity stems from an assessment that the current record of KPKPN has to be rated as mixed – and that the merger offers the prospect of addressing the weaknesses that have emerged in the current KPKPN structure.

The work of KPKPN has attracted a lot of attention, and it has shown an ability to go tenaciously after some senior officials, with considerable support and backing from the media. This sends an important signal to public officials on their need to be accountable to the public. At the same time progress in meeting its work targets has been very slow (Table 3.2). The law required reports to be returned by all affected state officials by May 2000. In fact the first reports were sent out only in March 7, 2001. As of August 2002, overall compliance (submission of completed forms) stood at just under 35 percent. These figures clearly amounted to significant teething problems for the institution. There have been others: auditing capabilities are very limited and the manner in which audits are conducted is problematic; and there have been problems concerning jurisdictional arrangements with the police and the Attorney General's Office concerning follow-ups to audit findings.

These problems stem in part from a lack of legal clarity (e.g. over jurisdictional arrangements with law enforcement authorities). They also reflect a lack of

*Table 3.1: List of Cases Against Prominent Individuals and State Officials*

| Defendants/Suspects | Charge | District Courts | Legal Status |
|---|---|---|---|
| Akbar Tandjung, the speaker of the House of Representatives and Golkar Party Chief. | Embezzlement of Rp.40 billion Bulog funds that were allocated for a program to feed the poor in 1999 when he was a minister/state secretary under former president B.J. Habibie. | Central Jakarta | Charged with violating corruption laws carrying maximum punishment of 20 years in jail. On September 4, 2002 the court found him guilty and sentenced him to three years imprisonment. Case is on appeal. Not detained. |
| Rahardi Ramelan, former Minister of Industry and Trade and former Bulog Chairman. | Misuse of Rp.54.6 billion Bulog funds. | South Jakarta | Case tried at the district court. Two years sentence, case in appeal. |
| Sjahril Sabirin, Governor of Bank Indonesia. | Involvement in Bank Bali scandal. | Central Jakarta | Convicted to 3 years and fined Rp.15 million by the district court, February 13, 2002.<br>Acquitted from all charges, August 12, 2002. |
| Tommy Soeharto, son of former president Soeharto. | Manipulation of Rp.95.4 billion Bulog funds in Bulog land scam deal The murder of a Supreme Court Justice; illegal possession of ammunition and firearms;<br>Escape from justice. | South Jakarta<br><br>Central Jakarta | Sentenced to 18 months in jail by Supreme Court in appeal procedure that overturned the lower court acquittal verdict. Escaped from justice in 2000. Arrested in 2001.<br>Sentenced to 15 years in jail July, 2002. |
| Fauzatulo Zendrato, former head of appeals division of the Supreme Court. | Authority abuse by receiving Rp.550 million bribery money from a defendant (PT Surabaya Industrial Estate Rungkut/PT SIER, a state-owned private company) to rule in its favor. | Central Jakarta | Sentenced to one year in jail and returned Rp.200 million to PT. SIER, April 24, 2002. |
| Mr. Yahya Harahap, former Supreme Court justice. | Receiving Rp.96 million bribery money to influence Supreme Court decision between October – December 1998. | West Jakarta | Case was suspended by the court due to legal technicality. AGO filed an appeal to the Jakarta High Court. Case was closed by the high court. |
| Marnis Kahar, former Supreme Court justice. | Receiving Rp.50 million bribery money to influence Supreme Court decision between October – December 1998. | -As above- | -As above- |
| Supartini Sutarno, former Supreme Court justice. | -As above- | -As above- | -As above- |
| Bob Hasan, former director of PT. Mapindo Parama and close crony to former president Soeharto. | Manipulation of $244 million forestry fund. | Central Jakarta | Sentenced by district court to 2 years in jail for $25 million corruption (2001). High Court increased the term to six years on appeal. Case currently under review by the Supreme Court. |

*Source : News Update on Indonesian Law and Legal Institutions, Vol. III –September 2002, IMF-Dutch Technical Assistance Sub Account.*

explicit and credible sanctions for non-compliance with reporting requirements. There have also been questions of staffing capabilities, especially with respect to its auditing functions.

*Table 3.2: Results from the KPKPN*

| Institutions | Estimated Forms Required | Distributed Forms (actual) | | Returned Forms | |
|---|---|---|---|---|---|
| | | Number | % | Number | % |
| EXECUTIVE | 15,273 | 11,201 | 73.3% | 4,902 | 43.76 |
| LEGISLATURES | 14,000 | 12,368 | 88.3% | 1,811 | 14.64 |
| JUDICIARY | 12,193 | 8,775 | 72.0% | 3,172 | 36.15 |
| STATE-OWNED ENTERPRISES | 10,000 | 9,056 | 90.6% | 3,788 | 41.83 |
| TOTAL | 51,466 | 41,400 | 80.4% | 13,673 | 33.03 |

*Source: KPKPN (as of August 2, 2002).*

The new anti-corruption commission legislation offers a real opportunity to address these deficiencies. First, the fact that the anti-corruption commission (the ACC) will have jurisdiction to investigate and prosecute corruption cases should clearly result in the resolution of the jurisdiction problem mentioned above. Second, the proposal for the ACC to have professional investigators (Box 3.3) should overcome the problem of unqualified auditors that constitutes a real weakness of KPKPN. Third, the issue of a lack of credible sanctions is one that can be taken up by the inter-agency team tasked under the ACC legislation with the preparatory steps for launching the ACC.

The risk is that these opportunities will be squandered. For example, it remains an open question as to whether the ACC will be able to attract (or have transferred to it) personnel with adequate auditing skills. The fact that such staff are likely to come from the national police and the Attorney General's Office is not without risk in this regard. As important, however, is the continuing issue of the credibility of both the Government and the DPR with respect to the issue of compliance with the wealth declaration requirements of both the current law under which the KPKPN exists and the new ACC law. The very poor compliance rate to date is as much a commentary on the commitment of the officials and members of these institutions to transparency in public life and public service and to probity as it is about legislative or agency deficiencies. Similarly, the lack of preparedness of the political leadership to take decisive action in instances where individuals within that leadership are formally alleged to have misstated their wealth to KPKPN not only has severely undermined the credibility of that institution; it raises major concerns as to the leadership's resolve to tackle corruption. In similar vein, the serious auditing and law enforcement follow-up challenges are not only matters of professional competence and legal ambiguity; these also concern the preparedness of public officials and legislative representatives to permit professional and non-politicized governance institutions to develop in Indonesia. At the same time the success of the successor entity to KPKPN within the new ACC will also depend on its ability to resist pressures to abuse the knowledge that it acquires and to use such knowledge for political ends. The new ACC will need to be seen by public officials as fair and impartial so that it reduces the fear of filing returns by those who have nothing to hide.

***The National Ombudsman Commission*** was established by a Presidential Decree No. 44/2000 dated March 10, 2000. It is an independent institution with authority to seek clarification, to monitor and to examine complaints received concerning services provided by public institutions, including legal institutions. After examination, the Commission would issue recommendations to be sent to the relevant government agency detailing steps to be taken to resolve and settle the complaints. Comprised of 6 commissioners, it is supported by 13 staff members. Antonius Sujata, the head of the commission, previously served as Deputy Attorney General of special crimes, and was relieved of his post in early 1999 while investigating the alleged corruption case against Suharto. The other members have reputations as pro-reform activists or prominent Indonesian intellectuals.

Decree No. 44/2000 stipulated that financial resources for the Commission are to come through the State Secretariat's budget. However, the amounts actually allocated from this budget (Rp.600 million for 2002), are not sufficient to cover the Commission's operating expenses. Assistance from various organizations including the Asia Foundation, the Partnership for Governance Reform and AusAid, have proved essential for the Commission to maintain its operations.

***Box 3.3: The Law on the Anti-Corruption Commission***

1. *Major tasks of the ACC are described in the legislation as follows (Art. 6):*
    a) *coordination with and supervision upon agencies tasked with eradication of corruption;*
    b) *examination, investigation and prosecution against alleged perpetrators of corruption;*
    c) *preventive measures;*
    d) *monitoring function over the Public Administration.*
2. *The ACC is authorized to conduct examinations, investigation and prosecutions for corruption cases with the following criteria (Art. 11):*
    a) *involving law enforcements officials, judiciary, state officials, and any third party related to allegation of corrupt activity done by state officials, or law enforcement officials;*
    b) *such case has provoked public "anxiety";*
    c) *involving a minimum state loss of Rp.1 billion.*
3. *KPKPN is to be merged into the ACC and would assume its duty as ACC's prevention department. However, KPKPN shall carry on its duties until the ACC has been established and is operational.*
4. *The Commission is accountable to the public and must make available its reports in a transparent and timely manner to the public, the president, parliament, and BPK. The accountability report shall be done in the following manner (Art. 20):*
    a) *obligatory audit on Commission's work and financial report;*
    b) *published annual report;*
    c) *wide access to information for public.*
5. *The ACC is to comprise the following (Art. 21):*
    a) *a management team of 5 members with one member elected as the head of the management team;*
    b) *an advisory team consisting of 4 members;*
    c) *professional staff as task executors.*
6. *All members of the management team of the ACC are State Officials and work collectively (Art. 21.3). They are to hold office for 4 years and at the end of such period can be re-elected for a maximum of another 4 years (2 consecutive terms maximum) (Art. 34). In carrying out its duties the management team is to be assisted by a Secretary General whose tasks and functions shall be stipulated later by management team (Art. 27).*
7. *Any investigators and prosecutors will be temporarily released from their originating agencies (National Police and Prosecutor's Office) for the duration of their service as staff of the ACC (Art. 39).*
8. *All members of ACC are prohibited from the following acts (Art. 36 & 37):*
    a) *initiating direct or indirect contact with alleged perpetrators of corruption whose cases are under Commission's investigation;*
    b) *handling corruption case whose perpetrators has direct and/or until third degree family relation with such CC officials; and*
    c) *being commissioners or directors of any private companies, foundations, co-operatives, or any professional affiliations.*
9. *Violation of the above provision carries a maximum sanction of 5 years imprisonment (Art. 65) and if any of ACC members is proven to commit corrupt activities, such member shall serve one-third additional time from the punishment stipulated in the Law.*
10. *The budget for the ACC is to be provided by the State via the Annual State Budget (Art. 64).*
11. *The Commission shall commence operational within 1 year from the enactment of the law (i.e. by end November 2003) (Art. 70).*
12. *An Anti Corruption Court is to be established, judges for this court will comprise of career judges as well as ad hoc judges. A panel of judges for each corruption case should at least consist of 5 judges – 3 ad hoc judges and 2 career judges.*
13. *Total trial days for corruption case are 90 days for trials at the local court, 60 days for appellate trial at High Court and 90 days for cassation (Art 58, 59, 60).*

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In 2000, its first year of operation, the Commission received 1723 complaints; in 2001 511 complaints and in 2002, through July, it received 185 complaints of which recommendations have been issued in respect of 115 cases. However only 37 of the 115 recommendations received a response from the relevant institutions. The declining number of complaints and the small number of responses received by the Commission from the government organizations involved illustrates the situation facing it. Like other Ombudsman Commissions around the world, this one has no enforcement mechanism but must rely on the cooperation of government departments and law enforcement agencies. The Commission finds itself largely ignored. Since it was established by a Presidential decree, the Commission now needs to be "protected" by an act of Parliament, and its work now needs meaningful political support if it is not to wither into total irrelevance.

***The National Law Commission*** was established to advise the President on priority areas in legal reform and to assist in building up a sound and strong justice sector. The Commission's program of work aimed at developing a blue print for justice sector reforms and recommending the best ways of tackling the problems facing the sector. The Commission has been pursuing nine core programs: (i) Improved Administration of Justice; (ii) Good Governance and Administrative Law Reform; (iii) Improved Legislative capabilities; (iv) Advanced Legal Training, Testing, and Discipline; (v) Law and Economic Recovery; (vi) Improved and Integrated Criminal Justice System; (vii) Discriminatory legislation and the gender issue; (viii) Civil Society and the Election System; and (ix) Regional Autonomy Problems. To ensure that each core program was addressed effectively, nine sub-commissions were created, with responsibility for identifying problems and providing recommendations for their respective core groups at the end of their term.

To ensure adequate coverage on each aspect of the core program, sub commissions re-examined the core program and divided their broader theme into sub themes which are the focus of working groups. Thus for example, Sub-Commission A, which is responsible for Improved Administration of Justice, was divided into four working groups namely the Establishment of an Anti Corruption Court, Career and Recruitment in Judiciary, the Supreme Court and Court Administration: Creation of An Institution to Supervise the Integration of the Justice System. These specific sub-themes were then contracted out to working groups, 21 in total, whose membership came mostly from civil society organizations and universities. These groups were chosen via a tender process. Their assessments and recommendations have been completed and were submitted to the sub-commissions in October 2002. Reports from each of the working groups have been compiled and will be presented by each sub commission to the Commission. The Commission will then incorporate these recommendations in policy papers to be presented to the President for further action. This is expected to take place by the end of 2002.

The Commission's work constitutes much of the homework that is needed to develop a sensible strategy for justice sector reform. Unlike other institutions, the Commission has taken a broad view of the problem including reforms to the legal education system, to lawyers, etc, all of which are part of the problem of justice sector reform. The Government should therefore seize this opportunity and conduct a process for a thorough review of the work of the Commission with a view to assisting it in developing a strategy for justice sector reform.

***The Anti Corruption Commission.*** The recent passage of legislation establishing the ACC is a very welcome development. The fact that this has received only a cautious welcome by commentators in Indonesia is nevertheless not surprising: the failure to establish such a commission until 15 months after the latest date mandated by law represented a serious failure of political leadership and a serious set-back to the prospects of destroying the pervasive place corruption plays in Indonesian public life. The delays in having such legislation passed, and the disappointing degree of effectiveness of the other law reform institutions established since the fall of President Suharto (see above), provides ample justification for such caution. The challenge and opportunity, of course, is for the authorities to move speedily to prove the many skeptics wrong. The basic features of the ACC, as provided for in the legislation, give grounds for guarded optimism. Box 3.3 set out key elements of this law.

The ACC cannot be expected, of course, to make an immediate impact on corruption in Indonesia. But the degree to which it is free from political influence, is professionally staffed and adequately funded to carry out its mandate, will be key determinants of its success. In this regard, lessons should be drawn from the experience of KPKPN to date. In particular, the criteria for selecting the management of the ACC should not include political party affiliation: a reputation for integrity and leadership and managerial competence should be the applicable criteria.

### *Towards an Agenda for Reform*

There are no easy, and certainly no quick, solutions to the problems of a justice sector in which public confidence is so clearly lacking. A survey financed by USAID and prepared by Asia Foundation and AC Nielsen suggested that 57% of the respondents believe the legal system is corrupt and does not protect them.[2] A diagnostic Study of Corruption in Indonesia undertaken by Partnership for Governance Reform also showed that 46% of the public believed legal institutions received unofficial payments.[3] Recognition that the public (including the investor community) has no confidence would be a start. Recognizing that such a lack of confidence matters enormously, both for social stability and for economic health, is necessary. And recognizing that in fact both the basic diagnosis of the problem – the corruption of power and the power to corrupt – and the basic elements of a solution, have long been identified by Indonesians, should make the reform path to be followed clear to all.

First, a national framework and action plan for overall legal reform needs to be adopted. In 1996 an Indonesian Government-led review of the Indonesian legal system (the "Diagnostic Assessment of Legal Development in Indonesia") concluded that a major overhaul of all aspects of the legal system was required (from legal education, to the regulation of the legal profession, to the administration of justice, to the processes by which laws (legislation, decrees and regulations) are prepared and adopted. Its number one recommendation was that the Government adopt a national framework for overall legal reform. This recommendation continues to be valid today. The current "National Law Summit" process mentioned above is clearly a step in this direction. The challenge for Government is how to ensure the outcome of such a program reflects the greatest possible consensus among Indonesians and is as responsive as possible to the interests of relevant stakeholders. If the basic diagnosis of the "problem" confronting the Indonesian legal system is correct – the absence of public confidence – then every effort should be taken to have the strategy be the outcome of a meaningful participatory process. In this regard, the process followed by the National Law Commission in drawing up its recommendations for national law reform is a model that would serve the organizers of the National Law Summit well. Policy makers need to shed their current public reluctance to consult and involve the National Law Commission in developing a program of reform and use the valuable work of the Commission to good effect.

Second, the national law reform agenda requires the concerted attention of the national leadership. Elements of the Indonesian leadership have clearly recognized that better coordination between Indonesia's justice sector agencies is required in order for law enforcement in Indonesia to be improved. The leadership of the Coordinating Minister for Political and Security Affairs in the National Law Summit process is very important in this regard. It is equally clear, however, that the challenge of justice sector reform goes beyond the needs of cooperation between agencies. For example, addressing the extremely disappointing rate of compliance with the reporting requirements of KPKPN in part requires effective coordination processes between that agency (and the ACC, once that KPKPN is subsumed into that entity) and the other law enforcement agencies. But it also requires a common policy agenda and objectives between such institutions on the issue of wealth reporting by public officials. Even more importantly, it requires a common strategy for ensuring the objectives of the legislation creating the ACC are realized. Developing mechanisms for effective leadership on a whole range of such issues is a challenge that continues to be on the table for the Indonesian authorities.

Third, the key law enforcement institutions – the police, the Attorney General's Office and the judiciary – should prepare comprehensive governance reform action programs for themselves, based on the outcome of professional audits and a process of obtaining the broadest possible consensus of Indonesian citizens. Again, the value of this recommendation has been recognized by some senior Indonesian officials in the past few years. As noted above, during the Abdurrahman Wahid regime, the Attorney General did commission a governance audit of his institution and the current Chief Justice has commissioned a similar audit for the Supreme Court. The initiative of the Chief Justice should be applauded and supported, not just by the donor community but more importantly by the Government (including through the provision of adequate budgetary resources). Such support is vital if the fate of the governance audit for the Attorney General's Office is not to be repeated. The Attorney General's Office should be required to prepare a reform program that takes account of the findings of the governance audit of that institution. To ensure that such processes have the confidence of the public, broad based public consultations should be built into the process both of determining challenges and drawing up reform programs.

Fourth, measures should be taken as a matter of priority to establish/strengthen the institutions mandated by national legislation in the aftermath of the stepping down of President Suharto – the Anti-Corruption Commission (including the successor unit to the KPKPN) and the National Ombudsman Commission – and the National Law Commission, in a manner, and with resources, sufficient for them to be fully effective in meeting their mandated national policy objectives. The failure for over two years to establish the anti-corruption commission as mandated by legislation, severely undermined the credibility of government claims of seriousness of intent in combating corruption. This undoubtedly contributes to the likelihood that the Indonesian public will not be placing great confidence in such institution proving to be an effective anti-corruption instrument. Nevertheless, experience elsewhere suggests such an entity can in fact be a major weapon in the fight against corruption. Such skepticism as may exist among the Indonesian public on this issue should be viewed as a reminder of the challenge of obtaining the public's trust, rather than a reason for a lack of effort on the part of the national leadership. Meanwhile, the problems identified above concerning the ability of KPKPN to secure compliance with its reporting requirements should be rectified by reviewing the arrangements and sanctions for non-compliance and ensuring the lessons drawn from such review are reflected in the mechanisms established for its successor within the ACC. The National Counter Corruption Commission (NCCC) in Thailand has effectively shown that securing compliance is achievable within a short time-frame has also proved to be a powerful tool in fighting corruption. The policy rationales for the establishment of the National Ombudsman Commission and the National Law Commission clearly remain valid. An immediate review of the arrangements for the management, resourcing and operations of these institutions (and of the KPKPN) should be undertaken with a view to strengthening their ability to achieve their objectives. Such reviews should inform decision-makers on the detailed arrangements for the ACC.

Finally, the Government should conduct a needs assessment of each of the justice sector institutions to determine the resource needs, including pay, for each such institution to perform its duties effectively and without resort to irregular and illegal practices. The budgetary constraints facing countries such as Indonesia in adequately resourcing, including compensating, some of its public officials are clearly not to be underestimated. Not facing up to the problems caused by inadequate pay and, even worse, inadequate provision for operations and maintenance, is not a solution. While resolving the problem of inadequate formal compensation will not of itself result in corruption-free agencies – a credible sanctions regime for bribery and extortion is essential – it is definitely an indispensable part of the solution.

### *Endnotes*

[1] Country Governance Assessment Report, June 2002, Asian Development Bank.

[2].”Survey report on Citizens' Perception of The Indonesian Justice Sector,*” The Asia Foundation*, *August 2001.*

[3] A Diagnostic Study of Corruption in Indonesia, *Partnership for Governance Reform, February 2002*.

# CHAPTER 4: POVERTY REDUCTION: RECENT DEVELOPMENTS

### *Introduction*

Poverty has declined markedly since the crisis. Increased real wages, growth in sectors which provides jobs for the poor and a drop in the relative price of food have been the driving forces behind the overall decline in poverty since 1999. Nevertheless, many Indonesians remain vulnerable to falling below the poverty line. The price of rice remains a very important determining factor for poverty. Indeed, between 2001 and 2002, an increase in the poverty rate was mostly due to an increase in the price of rice. Moreover, the recent terrorist attack in Bali could negatively effect livelihoods, not only in Bali, but throughout the country by means of its effect on GDP growth and on food prices.

It is also important to examine the non-income dimensions of poverty. Indonesia falls short on key non-income indicators of poverty, both relative to the benchmark Millenium Development Goals (MDGs) as well as relative to performance of its ASEAN neighbors. Increased efforts to address these gaps will be a part of Indonesia's challenge as it develops a national poverty reduction strategy. The ongoing efforts to define a national poverty reduction strategy will require defining priority areas for policy and public action for equitable growth and poverty reduction; identifying national poverty reduction objectives, indicators, and targets; and ensuring that the poverty reduction strategy is mainstreamed in regular Government policy instruments.

### *Poverty Has Declined Since the Crisis*

Poverty has fallen substantially from peak crisis levels. The poverty head count ratio dropped to 16 percent in February 2002 from 27 percent in February 1999[1] (Table 4.1). The poverty gap, which is defined as the average shortfall below the poverty line relative to the poverty line, also fell, from 5.27 to 2.75 percent. The 2002 poverty gap implies that it will cost about Rp.7 trillion to bring all the poor up to the poverty line on a yearly basis. That amounts to only 0.4 percent of GDP. Poverty fell more rapidly in Java/Bali. As a result the head count ratio in Java/Bali is now similar to other regions in Indonesia.

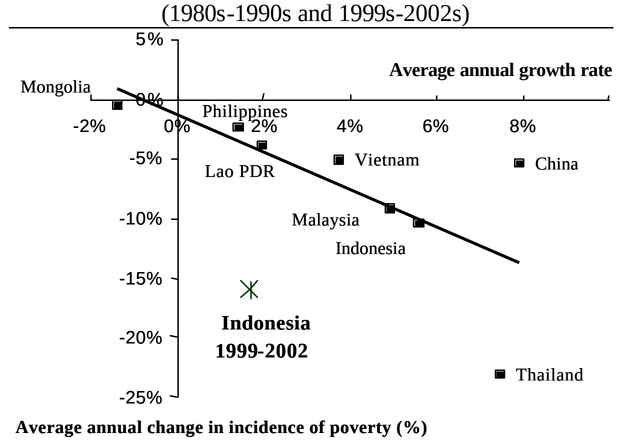
***Table 4.1: Poverty trends from 1999 to 2002***
(percentages)

| | 1999 | 2002 |
|---|---|---|
| ***National poverty lines/a*** | | |
| Poverty head count ratio | 26.9 | 16.0 |
| Poverty gap | 5.27 | 2.75 |
| ***International poverty lines*** | | |
| 1 dollar a day head count ratio | 12.0 | 7.4 |
| 2 dollar a day head count ratio | 65.1 | 53.4 |
| ***Head count ratio by urban / rural*** | | |
| urban | 16.5 | 7.5 |
| rural | 33.7 | 23.1 |
| ***Head count ratio by region*** | | |
| Java-Bali | 27.9 | 15.1 |
| Sumatra (excl. Aceh) | 20.1 | 14.7 |
| Kalimantan | 22.9 | 14.0 |
| Sulawesi | 25.1 | 18.1 |
| Eastern Indonesia (excl. Maluku, Papua) | 51.4 | 36.8 |

*Note: For both years Papua, Maluku and Aceh are excluded. These provinces were not included in the 2002 Susenas.*
*/a Based on World Bank poverty lines (See endnote 1).*
*Source: Staff estimates based on consumption measure derived from the 1999 and 2002 Susenas consumption module. Figures for 2002 are preliminary because BPS has not as yet finalized the sampling weights.*

The reduction in poverty in Indonesia since the crisis is particularly remarkable considering the moderate GDP growth over this period. Figure 4.1 presents the relationship between growth and poverty reduction in Asian countries over the period 1985-1995. The star

***Figure 4.1: High poverty reduction despite low growth***
(1980s-1990s and 1999s-2002s)

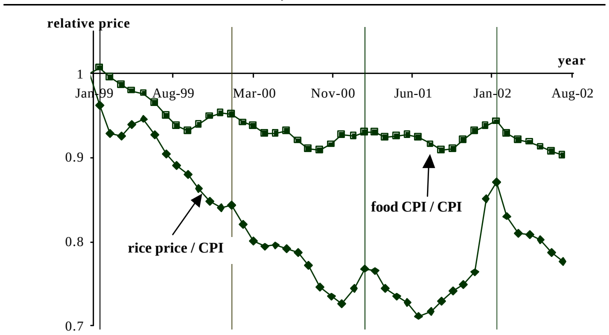



*Source: World Development Report 2000 and staff estimates.*

indicates the Indonesian experience over the 1999-2002 period. The recovery among the poor, as indicated by the reduced poverty rate, has been higher than one would expect on the basis of the historical growth-poverty reduction relationship.

Poverty reduction since the crisis has largely been driven by a change in relative prices in favor of the poor. Food prices have decreased in relative terms since 1999. Even though rice prices increased in late 2001, the relative price of rice remained well below the level recorded in January 1999. Figure 4.2 shows the rice price and the food CPI relative to the CPI, indexed at one in January 1999.

***Figure 4.2: Food and rice prices dropped relatively to the CPI, 1999-2002***




*Source*: *BPS.*

The poor spend a relatively large share of their income on food and thus are especially vulnerable to changes in food prices. Analysis has shown that 41 percent of the total change in poverty can be attributed to changes in the price of rice. Rice occupies a share of up to some 60 percent of expenditures of households at the poverty line (depending on the region). Moreover, most households around the poverty line are net consumers of rice.

The poor also appear to have benefited from growth in sectors which provide jobs for the poor. Small enterprises are doing better than larger ones and many of the poor work in small or informal enterprises. Some economic activity, notably that of the informal sector, may be underreported as well.

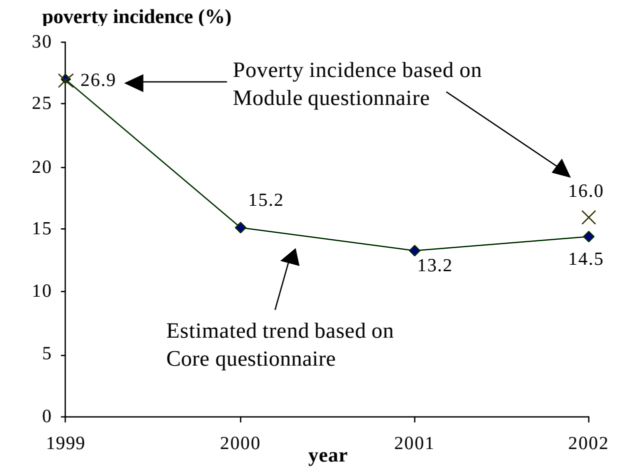
The increase in minimum wages might have had positive benefits to the incomes of some of the poor but may have negatively affected employment among others. Minimum wages have increased substantially especially in the industrialized zones in Java.[2] Those who earn a salary around the minimum wage would have benefited. However, only a small share of the poor derive their incomes from wages subject to the minimum wage. In 2002, only 20 percent of the families from the poorest quintile had a member of the family working as a wage earner outside the agricultural sector.

A concomitant decline in employment, however, is likely to have had a countervailing effect on wage income among the poor. Empirical evidence from Indonesia and elsewhere shows that indeed an increase in the minimum wage affects employment negatively, especially in firms that pay salaries close to the minimum wage. The evidence indicates that the effect is larger for women, since they more often work for low wages near the minimum wage level. A case study of minimum wage increases around Jakarta indicates a negative employment impact for small, domestic firms but no employment impact for large, foreign or domestic firms.[3] A cross country analysis suggests that a 10 percent increase in the minimum wage reduces formal sector employment by 0.6 percent.[4]

The decline in poverty was not driven by reductions in inequality. In fact, inequality increased from 1999 to 2002. The Gini coefficient increased from 31.7 in 1999 to 34.4 in 2002. If inequality had remained constant, and average per capita consumption had increased as it has between 1999 and 2002, poverty would have been reduced by 15 percentage points instead of the 11 percentage points as observed.[5]

While poverty has clearly declined since the crisis, between February 2001 and February 2002 there was an apparent slight increase in the poverty rate. Figure 4.3 presents the poverty head count ratios between 1999 and 2002, using a "core consumption" measure which is based on a questionnaire fielded each year. This questionnaire is shorter than that included in the full Susenas survey from which a more accurate "module consumption" measure can be derived every three years (most recently in 1999 and 2002). The core measure, although shown to yield an underestimate of consumption with more measurement error, is the only annual measure that is comparable over time.[6] Using this measure, the poverty head count ratio increased by 1.3 percentage points, year-on-year, from 2001 to 2002 to 14.5 percent (Figure 4.3). The increase is explained primarily by the spike in rice prices during the survey

*Figure 4.3: Poverty fell rapidly after the crisis*




*Source: Staff estimates based on BPS Susenas survey.*

period of February 2002, levels from which prices later decreased over the course of the year.[7]

The impressive decline in poverty rates since 1999 will be difficult to sustain purely through continued decreases in the relative prices of food and rice. Indeed, moving forward, the policy imperatives for poverty reduction should include a focus on generating further income and employment for the poor and those near the poverty line, through growth. This will reduce the vulnerability of the Indonesian population to income and food poverty. In the meantime, it will be important to focus on protecting against increases in prices for the poor, particularly of food commodities such as rice. In this regard, the agricultural policy regime to support farmer welfare would be more appropriately aimed at instruments which do not increase consumer prices, such as farm productivity enhancement measures, rather than measures that would increase the prices of food among the poor, such as a rice tariff. Indeed, a newly proposed policy to increase the tariff on rice will have the effect of further raising rice prices and poverty. Raising the rice tariff from Rp.430/kg to Rp.510/kg. could raise the poverty rate by up to 0.5 percentage points – in other words throw up to an additional one million people into poverty – relative to the 2002 base.[8]

### *Possible Poverty Effects of the Bali Bombing*

The Bali bombing will have localized and economy-wide effects. The localized impacts of the terrorist attack on Bali will most directly affect those involved in the tourist sector, including the hotel and restaurant business, transport sector, and construction, as well as those that service these sectors. Indeed it is people above the poverty line in Bali that are most likely to suffer the biggest losses in livelihood following the terrorist attack. Prior to the attack, Bali had one of the lowest regional poverty rates.[9] Moreover, unlike the non-poor, the poor in Bali earned their livelihood primarily from agriculture (71 percent in agriculture relative to 33 percent in agriculture island wide). In this regard, many of the poor are likely to be somewhat buffered by the economic effects of the decline in tourism, even though the agriculture sector too has links to the tourism industry.

Beyond the localized effect, the Bali bombing will have a more widespread, national impact on poverty. These effects are transmitted primarily through the slow-down in the GDP growth rate for 2003 (from 4 percent to 3.3 percent). As a consequence, it is estimated that the poverty rate would reach about 15.5 percent in 2003, rather than declining to 15.0 percent in 2003 as might have been projected in the absence of the terrorist attack (Table 4.2). It is notable that had the anticipated 3 percent depreciation in the exchange rate as a result of the bomb been sustained, it would have further increased the poverty rate to 16.7 percent in 2003. The Government is to be commended for its quick actions to stabilize the exchange rate, including short term intervention in the foreign exchange markets, and also for its quick action in the areas of security and continued reform that calmed market jitters after the terrorist act.

*Table 4.2: Possible poverty effects of Bali attack[10]*

| | 2002 | 2003 pre-Bali attack projection | 2003 post-Bali attack projection |
|---|---|---|---|
| Natl. poverty line | 16 | 15 | 15.5 |
| $1 PPP | 7.2 | 6.6 | 6.8 |
| $2 PPP | 53.5 | 51.6 | 52.1 |

*Source: World Bank staff estimates.*

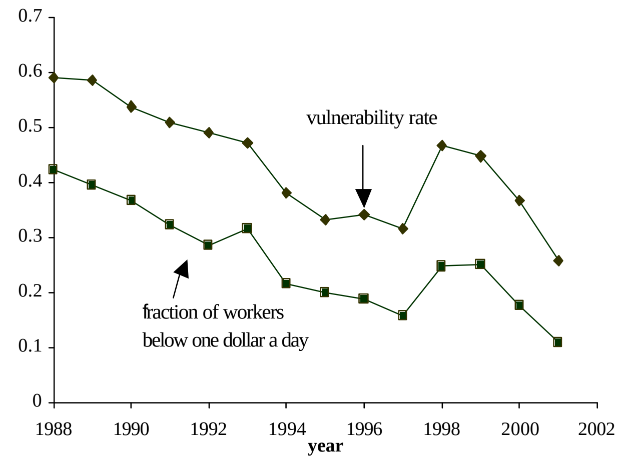
### *Many Indonesians Remain Vulnerable to Poverty*

Price changes of food commodities, illness or job losses of a family member can easily push a family below the poverty line. Prior to the crisis it was estimated that 30 to 50 percent of the population was vulnerable to poverty.[11]

Recent evidence on vulnerability just among wage earners and agricultural workers (i.e. not the poor per se) reiterates that vulnerability to shock is a serious dimension of welfare among poorer households in Indonesia. Vulnerability among this sub-population of workers has recently been approximated by using a series of cross section labor force surveys in the absence of panel household survey data. [12] For 2001, the most recent year that data are available, 25.7 percent of the workers are estimated to be vulnerable to poverty while only 10.9 percent of the workers earn a salary that brings them below the poverty line. Females, even though they have similar education levels, on average earn less and are therefore also more vulnerable to poverty.[13] The study also revealed that workers in agriculture sectors have the highest vulnerability rate, while those in the manufacturing sectors are less vulnerable to labor shocks. These estimates are likely to be lower than vulnerability to poverty among the large share of households clustered close to the poverty line. Further work to estimate vulnerability to poverty based on the Susenas 2002 household survey data is planned for this year.

The most effective way to reduce vulnerability is to reduce poverty, as vulnerability is closely linked to poverty. Wage poverty and vulnerability have been moving in parallel over the past decade (Figure 4.4). Policies specifically targeted at reducing vulnerability need to focus on the specific sources of the vulnerability, such as health and price shocks as well as volatility in wage earnings. For instance, in the health sector the healthcard has helped the poor to access health care when faced with an adverse shock. It is regrettable that the program ceases next year without a clear exit strategy. Similarly policies which affect the price of basic food commodities should be aimed at keeping them within an affordable range for the poor. Higher import tariffs do not support this goal.

***Figure 4.4: Labor market vulnerability traces poverty over time***




*Source: World Development Report 2000 and staff estimates.*

### *Addressing Non-Income Dimensions of Poverty Will Require More Serious Efforts*

With a need to focus on the outcomes of service delivery, rather than solely on inputs, the Millenium Development Goals (MDGs) provide a useful starting point (Table 4.3). Indonesia's progress on key social sector outcomes has stalled since the crisis and greater effort is now needed. Part of the challenge will be addressing the stark differences in health and education outcomes and service usage by income group, and across regions.

### *Improving Health and Education Outcomes*

Indonesia will need to address a number of challenges in addressing key outcome gaps. With regard to health, for example, Indonesia's high maternal mortality ratio (about 370 deaths per 100,000 live births) is nine times that of Malaysia and its under-five child mortality rate is five times that of Malaysia. HIV/AIDS is now a concentrated epidemic, although prevalence is still low nationally, and there has been a resurgence in malaria. Access to water supply and sanitation is lower than in Thailand and the Philippines and water and sanitation related illness are the second or third cause of under-five deaths.

The key gaps with regard to education outcomes, are primary school attendance, primary and junior secondary school completion and educational quality or effectiveness. In basic education only 64 percent of the 87/88 entry cohort completed grade 6 and only 31 percent completed grade 9. Completion rates mask high repetition rates. There is considerable variation in educational attainment across income groups according to most recent household survey data (Figure 4.5). At the senior secondary and tertiary levels, participation is also low compared with ASEAN neighbor countries. With respect to educational effectiveness, Indonesian students perform well below standard math and science

*Table 4.3: Progress towards the Millennium Development Goals in health and education*

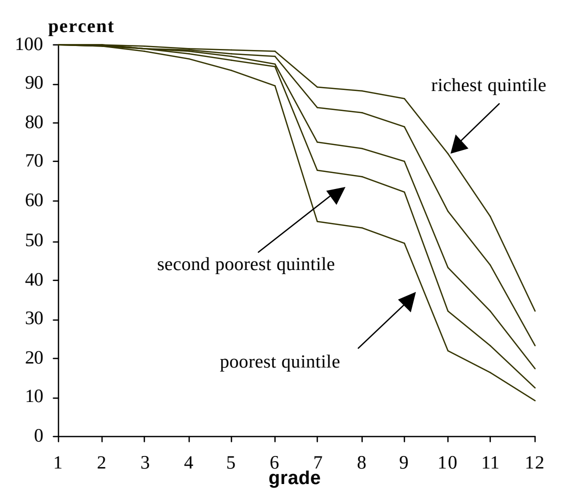
| | Recent level | Target by 2015 | East Asia and Pacific /d |
|---|---|---|---|
| *Ensure that, by 2015, children everywhere, boys and girls, will be able to complete a full course of primary schooling* | | | |
| Fraction of 15-18 year olds that completed primary education /a | 93.1 | 100 | |
| *Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015* | | | |
| Ratio of girls to boys in primary (%) /a | 92 | 100 | 89.2 (primary and secondary combined) |
| Ratio of girls to boys in secondary (junior and senior) (%) /a | 93 | 100 | |
| Ratio of girls to boys in Tertiary (%) /a | 93 | 100 | - |
| *Halve, between 1990 and 2015, the proportion of people who suffer from hunger* | | | |
| Proportion t children under 5 with low weight for age /b | 26.4 | 19 | 12.2 |
| *Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate* | | | |
| Infant mortality rate /b | 46 | 24 | 36 |
| *Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio* | | | |
| % births attended by skilled health personnel (in 1990 was 38.5) /c | 64.2 | - | - |
| *Halve, by 2015, the proportion of people without sustainable access to safe drinking water* | | | |
| % of population with sustainable access to an improved water source /c | 75.8 | 83 | 74.4 |

*Source: /a Susenas 2002, /b Susenas 1999, /c Susenas 2001 /d Source: World Development Indicators database, April 2002.*

assessments (e.g. Third International Mathematics and Science Study).

Improving health and education service delivery and access will be one key element to attaining health and education goals. Overall utilization of primary health and education services has generally remained stable since decentralization in 2001 (Table 4.4). The

***Figure 4.5 : Percent of 16-18 year olds that have attained each grade, by quintile***




*Source*: *Susenas 2002.*

***Table 4.4: Utilization of basic health and education services***

| **Indonesia** | **1999** | **2000** | **2001** | **2002** |
|---|---|---|---|---|
| *Health* /a | | | | |
| modern provider/b | 10.6 | 9 | 9.6 | 9.8 |
| public | 5.3 | 4.2 | 3.8 | 4.5 |
| private | 5.9 | 5.4 | 5.8 | 5.8 |
| *Education* /c | | | | |
| primary | 108 | 107.7 | 107.2 | 106.6 |
| junior secondary | 76.1 | 77.8 | 78.1 | 80.7 |
| senior secondary | 48.4 | 50.1 | 46.5 | 49.7 |
| **Poorest decile** | | | | |
| *Health* /a | | | | |
| modern provider/b | 8.1 | 6.7 | 7.0 | 7.2 |
| public | 5.6 | 4.1 | 4.4 | 4.3 |
| private | 2.8 | 2.8 | 2.8 | 3.1 |
| *Education* /c | | | | |
| primary | 102.3 | 105.9 | 105.1 | 105.7 |
| junior secondary | 47.2 | 52.6 | 51.2 | 55.2 |
| senior secondary | 15.3 | 19.7 | 18.2 | 20.5 |

*/a Percent of population that made at least one outpatient visit in the previous month; /b public and private providers do not add up to "modern" since people can visit more than 1 provider in a month; /c Gross enrollment.*

*Source: Susenas data tapes.*

scholarship and grants program was successful in preventing a drop in school enrollment over the crisis period. The evident recent decrease in primary school enrollment and increase in junior secondary enrollment is a positive development. It resulted not from a fall in enrollment of children in the primary school age group, but from less repetition and children moving on to junior secondary at a faster pace.[14] While health service utilization remained stable in the aggregate, based on household survey data from 2002, there appears to have been an increase in utilization of private relative to public services, particularly by the poor. The causes for this development require further investigation.

The stability of health and education utilization is partly due to the fact that, despite initial concerns, public spending on social service delivery did not decrease with decentralization.[15] District development expenditures increased (both in real terms and as a share) whereas central development expenditures did not decline and routine expenditures allocated to the social sectors increased.[16] Total, central and local development expenditures (budget), including education and health, increased from 3.72 percent of GDP in 1998/1999 to 5.26 percent of GDP in 2001. Local government overall increased the share of the development budget allocated to these sectors from 12 to 17 percent of total spending. While all indications point to an increase in education sector spending for 2001, the available evidence is less clear on health expenditures in 2001.

In addition to increases in public sector spending on the social sectors, out-of-pocket health and education expenditures have risen considerably. While the cause of this increase is likely to have been increased cost recovery by local government, further investigation of the causes and implications of these cost increases is necessary. Per capita monthly private out-of-pocket health expenditure increased by some 55 percent. Likewise, per capita monthly private out-of-pocket education expenditures increased by some 30 percent.

Other welfare indicators, not captured in the MDGs should not be forgotten. Malnutrition remains high. The Indonesian Family Life[17] survey and the Nutrition Surveillance survey[18] indicate that 30 percent of children under five are stunted (below expected height for age), and 50 percent of the children in the second year of life are anemic. In addition, the MDGs do not cover non-communicable disease or injury, which are the most rapidly growing portions of the burden of disease and of health spending in Indonesia.

### *Enhancing Security and Reducing Violence*

Enhancing security is another dimension of poverty requiring focused efforts, particularly through the reduction of violent conflict and the improvement of the justice system. Violent conflict is pervasive across Indonesia since the late 1990s, and conflict is not restricted to 'high conflict' areas alone.[19] The effects are often not captured in official statistics. For instance, the poverty analysis in Table 4.1 excluded Aceh, Maluku and Papua, because BPS considered it too dangerous to collect data in these locations. Significant levels of conflict exist in provinces throughout Indonesia (See Box 4.1).

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***Box 4.1: Conflict and justice in Lampung***

*Lampung is not a province normally associated with violent conflict. Yet closer examination reveals that high levels of conflict exists and that this is having a major impact on the province's development. There are high levels of violent robbery and – in the absence of effective legal and policing institutions – communities respond with vigilante action. Hundreds of thieves are lynched and killed each year. Sometimes this vigilantism escalates fuelling large-scale communal violence. In the village of Jepara, 63 houses owned by local people were burnt to the ground by a neighboring transmigrant community. Threats of similar action had less to mass evacuations in many other villages throughout the province. Such violence is having a number of significant effects. Economic poverty is reinforced, people are security poor, living in fear of further violent conflict. The example also shows how violence can get out of control in the absence of a properly functioning justice system.*

*The resolution of a case of corruption of poverty funds in Lampung shows how legal assistance and public pressure can protect poor people but illustrates also the need for systemic judicial reform. In Lampung, a government official was accused of stealing development funds intended to benefit several poor communities. At the request of community leaders, a local legal aid foundation, anti-corruption NGOs and the local media worked together to pressure the local police and prosecutor to pay sustained attention to the case and supported a reform-minded judge to ensure that court proceedings were made transparent. After a lengthy trial regularly attended by community members and publicized widely in the press, the defendant was convicted of corruption and sentenced to a prison term and repayment of the stolen money. However, despite repeated requests for attention from the public, this sentence was never executed. At present the whereabouts of the convicted official are unknown. The case illustrates the ways in which the rights of poor communities can be protected through legal aid and civil society representation, but highlights the need for national reform of law enforcement agencies to ensure that court decisions are adhered to and that the justified demands of the public are honored.*

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The nature of conflict has often been attributed to religion, ethnicity, or separatism. Yet these categories often hide more than they illuminate. The types of conflict throughout the country include violent robbery; vigilantism or lynching, community versus companies; community versus state; political party violence; and inter-community and communal violence. Often conflict evolves as a process which includes a diversity of violence, such as in the ongoing conflict in Maluku.

The roots of conflict are deep, and conflict prevention and reconciliation will require increased focus on strengthening inclusive local level institutions that allow communities to manage conflict. For example, decentralized or participatory approaches to public service delivery can help communities find collective solutions to their problems that do not involve violence. These approaches can improve relations between different groups through enhancing the collective ownership of decision-making. Increasing access to justice and enforcement of justice will also be important to containing conflict.

***Next Steps toward the Development of Poverty Reduction Strategy***

The Government of Indonesia is to be commended on the headway they have made on a roadmap toward developing a national poverty reduction strategy (PRS) by 2004, as captured in its interim poverty reduction strategy (IPRSP). The roadmap lays out a process to formulate the strategic thrusts of the PRS, specific policies and programs for poverty reduction, and mechanisms for monitoring progress. It indicates that the Government is moving in the direction of viewing the PRS as a process for making pro-poor Indonesia's strategy for growth and development. This process will include a review of existing policies and programs as well as further analytical work, consultation, and consensus building in developing strategic objectives and targets, pillars, and priority actions. As Indonesia moves forward in developing its PRS there is much to be gained by looking to the experience of other countries who have developed such strategies (See Box 4.2).

*1. Defining priority areas of policy and public action for equitable growth and poverty reduction*

A key step in developing poverty reduction strategies is that of defining those areas of policy and public action that are expected to have the greatest impact on poverty reduction. The draft IPRSP identifies four important pillars for such a strategy – namely, opportunity creation, empowerment, human capital development, and social protection. Organizing the policy analysis and formulation processes in a participatory fashion around the four pillars identified in the IPRSP will be a useful way to move forward.

Under these pillars, there are several important areas of action in which Indonesia could analyze, and define policy as integral components in a strategy for poverty reduction.

- *Developing an investment climate for poverty reducing growth.* Higher growth reduces and prevents poverty as exemplified in the experience of Indonesia and other countries, both in the short and longer term. Key factors in improving the growth rate are policies that will improve the flagging investment in this country. Policies that maintain a stable economic environment with low inflation are essential to these efforts (See Chapters 1 and 2).

- *Ensuring good governance and improving the justice system***.** Good governance and justice are important to ensuring the security of all Indonesians, including the poor. They are also essential to improving the investment climate and hence to long-term equitable growth and poverty reduction. Not only foreign investors but Indonesian entrepreneurs, farmers, and street vendors are all more likely to invest more for the future if they are confident that property rights and other rules and regulations are transparent, safeguard their interests, and are appropriately enforced. For poor people, a crucial aspect of the rule of law is the ability to live without fear of lawlessness and harassment (Chapter 3). An approach which combines national judicial reform with local governance reform will be essential. At the national level, actions need to be taken to promote public access to the justice system; improve the judicial response to corruption; and improve poor people's representation and dispute-resolution mechanisms. Local governance reforms need to continue to focus on widening the channels of representation of the poor (e.g. raising public awareness of the rights and responsibilities of newly-established village representative bodies). As discussed above, reducing conflict through improved governance and rule of law is also critical for reducing poverty and vulnerability and improving security.

- *Developing policies to improve rural livelihoods.* With a large fraction of Indonesia's population and *poor* garnering a livelihood from agriculture, and with a large share of the expenditure of the poor being that on food, a pro-poor growth strategy will necessarily require addressing the pressing issues in agriculture. Among these, the development of a comprehensive, pro-poor policy on rice – from actions to improve yields and production to those of domestic procurement and international trade with an attention to the consumer and producer prices of rice – will be critical to Indonesia's growth and to the poor. Likewise, further developing land policy and titling could turn land into a more important asset to the poor. This will have knock-on effects in improving access to credit among the poor. Strategies aimed at improving the security of land title through the continuing agenda of land titling and registration will be a priority for poverty reduction, along with a deliberate, cautious, and pro-poor approach to the ongoing conversion of forested land to other uses. Strengthening systems for land administration are critical in this regard.

- *Developing policies to improve service delivery to the poor, particularly in health and education as well as water and sanitation***.** Improving the human capital of the population, including the poor, has been shown internationally and in Indonesia to be one of the most effective means to prevent poverty and increase the assets of the poor and of the nation, with resulting effects in stimulating growth and incomes among the poor and improving living standards. The challenge here is not solely improving access of the poor to health care, educational services, and water and sanitation, but also ensuring that the quality of these services is adequate, efficient, and responsive to local needs. Measures to accomplish these objectives include: mechanism to link central budget transfers to national goals and priorities, including the MDGs; ensuring adequate recurrent funding for key interventions with high externalities (such as scholarships for poor children, affordable maternity care, free TB control and family planning programs); ensuring access of poor families to essential services; and building capacity in the districts to prepare pro-poor, and results-oriented health and education strategies.

***Box 4.2: Designing national poverty reduction strategies: Good practice from international experience***

Poverty reduction strategies can be highly effective when they are country-authored, results-oriented, comprehensive road maps, and based on domestic and external partnerships. By March 2002, 10 countries had completed full poverty reduction strategy papers (PRSPs) and 34 out of 60 other countries expected to complete such strategies had completed interim poverty reduction strategy papers (IPRSPs). A recent review of experience under the PRSP approach, drawing on contributions from countries, development partners, and civil society point to several elements of "good practice" from such efforts.

- ***Priority public actions.*** Good PRSPs have set out a country's macro-economic and fiscal priorities and ongoing and proposed policies to improve governance and sectoral programs. It has been useful to go into the appropriate level of detail about public actions, such as which institution is expected to accomplish what specific outcome in an identified timeframe. Prioritizing proposed actions in light of time and budget constraints, while maintaining an inclusive process has been difficult, but is essential. PRSPs ought to make clear the link between strategic objectives, proposed actions and outcome targets. Formulating a medium-term macroeconomic framework and an associated budget to help establish public expenditure policies is also important.
- ***Public expenditure management.*** Adequate public expenditure management (PEM) systems are essential for improving the overall effectiveness of policies and programs to reduce poverty, for increased accountability and for improving governance in general. Good PRSPs have outlined an assessment of the current state of PEM systems and realistic plans for improvements over time, and where medium-term expenditure frameworks have not existed, they have indicated plans for how such a framework can be developed and implemented.
- ***Poverty analysis, targets and monitoring.*** Developing PRSPs has helped countries clarify national targets and indicators for poverty reduction, although many countries have had difficulty setting realistic targets. Good PRSPs analyze the poverty and social impacts of main policy options. They also identify action required to improve poverty data and analysis. Setting appropriate intermediate (short term) indicators enables timely monitoring of performance and feedback to decision makers. Annual implementation progress reports, ideally done in conjunction with the budget process, can play a key role in ensuring implementation. It is useful to adopt a cycle to update the poverty reduction strategy in parallel with the national planning process.
- ***Donor alignment and harmonization.*** National poverty reduction strategies can help address long-standing problems of poor donor coordination, weak country ownership of externally-financed programs, and more effective aid delivery and management. Nearly all donors have agreed in principle to align their programs with PRSPs. In this regard, it is important for countries to actively lead the coordination and alignment of donors. This has often been effectively accomplished through donor representation on government led working groups.

*Source: Poverty Reduction Strategy Papers: Good Practices (World Bank, 2002).*

- *Empowering local communities and improving service delivery by refining policies for administrative and fiscal decentralization***.** In Indonesia the challenge of service delivery is compounded by the move toward a decentralized system of government and the attempts to institute, very recently, new systems of administrative and fiscal decentralization. These efforts, if successful, will empower communities and improve the delivery of social services by bringing the locus of decision making closer to intended beneficiaries. A key challenge to developing Indonesia's strategy for poverty reduction will be that of defining how service delivery to the poor can be improved and ensured in this new institutional context. In this regard, the ongoing efforts to further develop and implement the administrative and fiscal decentralization system – including designing a more equalizing DAU and a DAK system that reinforces national poverty reduction priorities, as well as building capacity and accountability at the level of local government to develop and execute pro-poor budgets (regardless of source of financing) – will be fundamental to sustainable regional growth and prosperity. Doing so in a way that is geographically pro-poor will require consideration in deliberating a national poverty reduction strategy, as will measures to improve the transparency and accountability of budget allocation and ultimate budgetary execution, both at the local and central levels. Work underway to define obligatory functions and minimum standards for service delivery should also relate to the prioritized areas for poverty reduction as part of such a strategy. Steps to enhance local voice in local budget choices will be important to the success of these efforts. Identified as part of the ongoing strategy building process, these efforts ought to be supported. Building capacity at the local level will be central to this challenge.

- *Improving the pro-poor allocation of fiscal resources***.** In an overall context for fiscal consolidation to ensure fiscal sustainability, it becomes ever more important that budgetary resources are allocated wisely and effectively with regard to meeting poverty reduction objectives. This does not necessarily mean increased expenditures on ear-marked "poverty programs" or subsidies – especially because with the exception of RASKIN and OPK, these programs are not particularly effective in targeting the poor. It may well be that pro-poor sectoral program – such as in health, education or infrastructure – may achieve equitable growth and poverty reduction more effectively than existing poverty programs. A focus should also be placed on improving efficiency and equity of existing programs and services and ensuring that the poor are able to access them and participate in decisions about them. The program review proposed by the draft IPRSP should thus vet and improve expenditure allocations so that they are increasingly pro-poor. Changing resource allocations in the context of a decentralized decision-making system is a challenging one, requiring action at the central and regional levels, through enhanced participation, as discussed above. Such a review should lead to a re-profiling of expenditure allocation that would be reflected in the annual budget as well as in the enhancement of medium term fiscal programming, currently captured in the PROPENAS and REPETA. Also important will be a review of the revenue generation system, both at the local and central levels, as it applies to the poor.

*2. Identifying national poverty reduction objectives, indicators, and target.*

A national poverty reduction strategy will need to set for itself objectives, indicators and targets at the level of impacts, outcomes, outputs, and inputs. The Millenium Development Goals (MDGs) serve as a useful framework of reference for developing an overall architecture of objectives. Importantly, the MDGs recognize that poverty is multidimensional, and poverty objectives need to be cast on the reduction of income poverty as well as non-income poverty measures, such as human development indicators. While the MDGs can serve as a framework, efforts to localize national targets to national realities and consensuses are to be commended. The process underway to develop a system of relevant poverty and social indicators for monitoring and evaluation as part of the formulation of the poverty reduction strategy is an important one in this regard. A challenge moving forward is to identify where the gaps are and how to improve the quality and systematic collection of data, particularly at the local level. In addition to impact and outcome indicators deemed critical for success at the national level, Indonesia may want to consider more localized indicators for monitoring success, aligned with the ongoing process of decentralization. Defining relevant intermediary (input and output) indicators should relate to our understanding of the key factors and transmission channels by which public actions are expected to ultimately affect poverty. Indicators must be selective so that they maintain focus on the efforts at hand and can indeed be monitored on a timely basis given the institutional capacity of monitoring systems at the local and national level. Explicit consideration needs to be given in this regard to the re-establishment of a functional statistical system in the context of decentralization and the role of BPS in this regard.

*3. Mainstreaming the poverty reduction strategy*

The process of developing a poverty reduction strategy as part of a national strategy for pro-poor growth and development will be most effective if it reorients Government policies and programs and actions of the larger partnership of civil society to enhance their focus in stimulating equitable growth and poverty reduction. The draft IPRSP recognizes this important fact. In practical terms, it will be important that poverty reduction be mainstreamed as part of the Government's regular planning and execution process. In this regard, it will be important to reflect the medium term poverty reduction strategy in the annual program (as reflected in the REPETA) and budget as well as the Government's longer-term policy document (i.e. the PROPENAS). From the institutional standpoint, therefore, it will be critically important that the national planning agency (Bappenas) and the budget formulation agency (Ministry of Finance), together with strategic units in sector ministries, are intimately engaged in the development of the poverty reduction strategy. Likewise, efforts will need to be made that the important steps of monitoring of objectives and targets are mainstreamed through government processes. Assigning agencies with the responsibility for the collection of specific data, and identifying institutional processes by which such information will be reported and used to foster accountability to relevant institutions will be an important part of this effort.

***Endnotes***

[1] These estimates are based on the World Bank estimated poverty line. BPS and the World Bank have been using different poverty lines since 1993. The World Bank method is based on the basket of goods consumed by households at the poverty line. The BPS method uses two food baskets, one for urban households and one for rural households. This leads to the poverty being less pronounced. The World Bank method is based on the view that using the same set of commodities to set the urban and rural poverty lines allows for more accurate comparisons across geographical regions.

[2] In the area around Jakarta for instance, the minimum wage increased from Rp.417,000 per month in 2001 to Rp.576,000 per month in 2002, an increase of 26 percent in real terms.

[3] Alatas, Vivi and Lisa Cameron (2002), "The Impact of Minimum Wages on Employment in a Low Income Country: An Evaluation using the Difference-In-Differences Approach", Mimeo, University of Melbourne, Australia.

[4] SMERU (2001), "Wage and Employment Effects of Minimum Wage Policy in the Indonesian Urban Labor Market", SMERU research report, Jakarta, Indonesia.

[5] While Indonesia's inequality is low by international standards, there are questions as to whether the Susenas household survey accurately captures the true degree of inequality. The 99th percentile of per capita household expenditure recorded in the 2002 Susenas is a mere 10 million Rupiahs per person per month (about $1,100). Yet, McKinsey Hongkong in 2001 estimates that super rich households, defined as those with assets of at least $1 million, constitute 0.03 percent of the population (around 64,000 individuals). The national Bureau of Statistics (BPS) indicated that often their interviewers are not received at the houses of the very wealthy resulting in a selective non-response.

[6] In 1999, one third of the households received the Module consumption questionnaire, the other two thirds were administered the Core consumption questionnaire. By comparing the consumption distribution across the two groups we know that the Core underestimates consumption relative to the Module. We adjusted the 1999 poverty lines so that, when applied to the Core, the same head count ratio are obtained as when the original lines are applied to the Module consumption measure. The adjusted lines are then updated for subsequent years to adjust for inflation using BPS price data. The 2002 core estimate is also based on this estimation procedure, and is therefore different from the poverty incidence derived from the Module.

[7] Decomposition of the changes in the head count ratio revealed that 60 percent of the increase in the cost of living to the poor which contributed to the increase in poverty came from rice prices.

[8] This simulation assumes a complete pass-through of the ad valorem tariff increase both to the consumer price and to the producer price. The simulation is intended to illustrate that even if all producers fully benefit from the enhanced protection through complete pass-through of prices to the producer level -- an assumption made by some proponents of the tariff – there would be an increase in poverty nationally.

[9] Bali's poverty rate as of early 2002 was 4 percent relative to the national rate of 16 percent (based on 2002 Susenas data).

[10] These projections are based on the POVSTAT program. They assumed a pre-attack GDP growth rate of 4 percent and a post-attack GDP growth rate of 3.3 percent.

[11] Pritchett, Lant, Asep Suryahadi and Sudarno Sumarto (2000), "Quantifying Vulnerability to Poverty: A Proposed Measure with Application to Indonesia", SMERU working paper, May 2000, Jakarta.

[12] Alatas, Vivi and Francois Bourguignon (2002), "Labor Market Vulnerability in Indonesia: A synthetic cohort Panel Simulation Exercise", World Bank Indonesia office working paper. In this study vulnerability is defined as the probability of receiving a wage that brings a family below the poverty line at least once in three years. The poverty line is set at 1 dollar a day at purchasing power parity, and the equivalent wage is adjusted upwards to take account of the fact that usually several family members depend on one wage earner.

[13] For instance, 75 percent of female agriculture workers with primary education are vulnerable to poverty, while the

vulnerability rate of comparable men is around 44 percent. The phenomenon that female workers have more difficulty in securing good jobs appears in all sector and all level of education.

[14] The increase in senior secondary enrollment in 2002 was due to the demand effects resulting from an increase in the real median hourly wage for young senior high school graduates (by 27 percent from 2000 to 2001 and by 6 percent from 2001 to 2002).

[15] Central Government development expenditures increased, except for the INPRES funding which was halted. Districts increased their development expenditures in line with the newly allocated resources.

[16] Specific areas of concern that require further analysis are the reasons for the decline in primary education utilization (including among the poor) and the noticeable switch among the poor to utilizing private sector provision of health care. The latter is corroborated by an increase in private out-of-pocket health spending observed from household survey data.

[17] Strauss, J, K. Beegle, A. Dwiyanto, D. Pattinasarany, B. Sikoki, Sukamdi, F. Witoelar (2002), "Indonesian Living Standards Three Years After the Crisis: Evidence from the Indonesian Family Life Survey", June 2002.

[18] Hellen Keller (2002) "Nutrition and Health Surveillance in rural Central Java – key results for the period: Nov 1998- August 2001.

[19] "Conflict in Non-Conflict Regions: A case study of Lampung", Patrick Barron & David Madden, May 2002, World Bank Office Jakarta (unpublished paper); "Conflict and Conflict Resolution at the Local Level in Indonesia", Claire Q. Smith, June 2002, Working Paper on Conflict, World Bank Office Jakarta, p.3.

# STATISTICAL ANNEX [a]

## List of Tables

### Social Indicators



### National Income Accounts



### International Trade & Balance of Payments



### External And Domestic Debt



### Public Finance



[a] With the exception of the tables on External Debt, the Statistical Annex is a compilation of official data from Government sources. In some instances, these data may differ from data in the main text due to different Bank definitions and methodologies in constructing the statistical series.

**Monetary and Financial Statistics**



**Agricultural Statistics**



**Industrial Statistics**



**Prices**



**Investment Statistics**

## Tabel 1. Selected Social Indicators, 1990-2001 /a

| | 1990 | 1993 | 1996 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| **Demography** | | | | | | |
| Population (million) | 179.5 | 189.1 | 198.3 | 206.5 | 209.5 | 213.5 /a |
| Population ages 0 - 14 yr old (%) | 36.5 | 34.9 | 32.0 | 31.7 | 32.6 | 32.2 |
| Population ages 15 - 64 yr old (%) | 59.6 | 61.3 | 63.8 | 64.0 | 63.0 | 63.6 |
| Population ages 65+ yr old (%) | 3.9 | 3.8 | 4.2 | 4.3 | 4.4 | 4.1 |
| Population growth rate (%) | 2.0 | 1.7 | 1.6 | 1.6 | 1.5 | 1.4 |
| Population density (per Km2) | 94 | 99 | 103 | 107 | 112 | 110.8 |
| Urban population, *% urban to total* | 30.9 | 34.0 | 37.1 | 39.4 | 42.1 | 44.0 |
| Gender ratio, *male to 100 females* | 99.5 | 99.5 | 99.1 | 99.1 | 99.8 | 99.1 |
| Dependency ratio (%) | 67.8 | 63.4 | 57.0 | 56.1 | 58.8 | 57.2 |
| **Education** | | | | | | |
| Elementary school net enrollment ratio, *% of relevant aged group* | 83.2 | 91.5 | 94.8 | 92.7 | 94.9 | 92.9 |
| Junior high school net enrollment ratio, *% of relevant aged group* | 40.5 | .. | 48.6 | 59.2 | 60.8 | 60.5 |
| Senior high school net enrollment ratio, *% of relevant aged group* | .. | .. | .. | 38.5 | 39.8 | 37.1 |
| Population > 10 yr old not completed primary school (%) | 37.5 | 41.8 | 40.1 | 35.4 | 34.0 | 34.4 |
| Population > 10 yr old finished primary and Junior high school (%) | 48.8 | 46.3 | 45.0 | 47.0 | 47.7 | 32.8 |
| Population > 10 yr old finished high school and college (%) | 13.7 | 11.9 | 14.9 | 17.6 | 18.3 | 18.0 |
| Adult literacy rate | 81.5 | 83.3 | 85.3 | 88.4 | 89.9 | 89.3 |
| **Health** | | | | | | |
| Life expectancy rate | 62.5 | 62.7 | 63.2 | 65.5 | 68.0 | .. |
| Fertility rate, *births per woman* | 3.1 | 2.9 | 2.8 | 2.6 | 2.5 | .. |
| Infant mortality rate, *per 1000 live births* | 63.5 | 58.1 | 56.0 | 46.0 | 44.0 | .. |
| Mortality rate of children < 5 yr old, *per 1000* | 86.4 | 78.1 | 70.4 | 59.6 | 44.7 | .. |
| Children < 5 yr old that have good nutrition (%) | 54.2 | 55.5 | 63.9 | 69.7 | 71.1 | .. |
| Children < 5 yr old that had been immunized (%) | 69.3 | 76.3 | 88.2 | 89.9 | 90.1 | .. |
| Number of medical doctor per 100,000 population | .. | 10.4 | 10.7 | 10.8 | 13.2 | .. |
| **Housing and Sanitation** | | | | | | |
| Household with access to piped water (%) | 12.9 | 14.7 | 16.7 | 18.6 | 18.6 | 18.3 |
| Household with access to own septic tank (%) | 17.9 | 22.0 | 26.1 | 30.4 | 28.5 | 38.5 |
| Household with electricity (%) | 46.8 | 55.3 | 72.2 | 83.7 | 86.3 | 86.3 |
| **Labor force** | | | | | | |
| Employed (%) | 55.9 | 55.1 | 55.5 | 62.9 | 63.6 | 63.0 |
| Looking for work (%) | 1.4 | 1.6 | 2.9 | 4.3 | 4.1 | 3.7 |
| Labor force participation (%) | 57.3 | 58.0 | 58.3 | 67.2 | 67.8 | 68.6 |
| Open unemployment rate (%) | 3.2 | 4.3 | 4.9 | 6.4 | 6.1 | 8.0 |
| Working children in 10-14 year old group (%) | 9.5 | 10.8 | 7.9 | 6.9 | 4.7 | .. |
| **Poverty and inequality** | | | | | | |
| Number of people under poverty line (million) | 27.2 | 25.9 | 34.5 | 48.4 | 37.3 | 37.1 /b |
| Population under poverty line (%) | 15.1 | 13.7 | 17.7 | 23.5 | 19.0 | 18.4 /b |
| Expenditure share of the lowest 40%, (%) | 21.3 | 14.6 | 20.2 | 21.3 | 22.2 | 22.0 |
| Expenditure share of the middle 40%, (%) | 36.8 | 41.6 | 35.0 | 37.0 | 37.9 | 37.5 |
| Expenditure share of the highest 20%, (%) | 41.9 | 43.9 | 44.7 | 41.6 | 39.9 | 40.6 |
| Gini Coefficient | 0.32 | 0.34 | 0.36 | 0.32 | 0.33 | 0.32 |

**.. :** Data are not available.
/a Based on population projections 1999-2000
/b Since 1996 using Susenas 1998 definition of the poverty line (the "new" definition).

Source: Central Bureau of Statistics.

**Table 2. Key Social Indicators**

| Indicator | Latest Period | Previous Period |
|---|---|---|
| **Poverty Rate (%)** | **Feb-01** | **Feb-00** |
| - National | 18.4 | 19.0 |
| - Urban | 9.8 | 14.6 |
| - Rural | 25.0 | 22.1 |
| **Inequality (Gini Coefficient)** | **Feb-01** | **Feb-00** |
| - National | 0.33 | 0.32 |
| - Urban | 0.34 | 0.33 |
| - Rural | 0.25 | 0.25 |
| **Mortality Rate** | **2001** | **2000** |
| - Infant Mortality Rate | 40.9 | 44.0 |
| - Mortality rate of children < 5 yr old | .. | 44.7 |
| **Nutritional Status of Children under Five** | **2001** | **2000** |
| - Good (%) | 69.1 | 71.1 |
| - Medium (%) | 21.5 | 18.4 |
| - Bad (%) | 9.4 | 10.5 |
| **School Enrollment Gross(%)** | **2001** | **2000** |
| - 7-12 years old: | | |
| * National | 95.6 | 95.5 |
| * Urban | 97.3 | 97.3 |
| * Rural | 94.5 | 94.4 |
| - 13-15 years old: | | |
| * National | 79.4 | 79.6 |
| * Urban | 73.3 | 88.3 |
| * Rural | 88.2 | 73.8 |
| - 16-18 years old: | | |
| * National | 49.2 | 51.2 |
| * Urban | 63.9 | 66.7 |
| * Rural | 36.4 | 38.4 |

| Indicator | Latest Period | Previous Period |
|---|---|---|
| **Literacy Rate (%)** | **2001** | **2000** |
| - National | 89.3 | 88.6 |
| - Urban | 94.0 | 94.0 |
| - Rural | 85.6 | 84.4 |
| **School Dropout (%)** | **2001** | **2000** |
| - Primary school | 1.2 | 1.4 |
| - Junior high school | 2.2 | 2.2 |
| - Senior high school | 2.6 | 2.8 |
| **Health Facilities** | **2000** | **1999** |
| - Community Health Centers: | | |
| * Total number | 42,133 | 42,247 |
| * Per 100,000 population | 18.8 | 20.4 |
| **- Hospitals:** | | |
| * Total number | 1,145 | 1,111 |
| * Number of beds | 125,507 | 123,598 |
| * Beds per 100,000 population | 61.7 | 59.4 |
| - Medical doctor per 100,000 population | 13.2 | 10.8 |
| Labor Force Participation (%) | **2001** | **2000** |
| - National | 68.6 | 67.8 |
| - Urban | 63.0 | 61.2 |
| - Rural | 73.1 | 72.8 |
| Hourly Real Wages (1999 Rp) | **2001** | **2000** |
| - Agriculture | 2,131 | 1,542 |
| - Manufacturing | 2,637 | 2,108 |
| - Construction | 2,585 | 2,168 |
| - Trade | 2,385 | 1,936 |
| - Transportation | 3,301 | 2,586 |
| - Finance | 5,613 | 4,127 |
| - Services | 4,115 | 3,129 |
| - Others | 5,323 | 3,396 |

**.. :** Data are not available.

Source: Central Bureau of Statistics.

## Table 3. BPS Poverty Line and Number of People Below the Poverty Line

Year 1976-1996

| Year | Poverty Line (Rp/capita/month) | | Number of People Below the Poverty Line (million ) | | | Percentage of Population Below the Poverty Line (%) | | |
|---|---|---|---|---|---|---|---|---|
| | Urban | Rural | Urban | Rural | Urban+Rural | Urban | Rural | Urban+Rural |
| 1976 | 4,522 | 2,849 | 10.0 | 44.2 | 54.2 | 38.8 | 40.4 | 40.1 |
| 1978 | 4,969 | 2,981 | 8.3 | 38.9 | 47.2 | 30.8 | 33.4 | 33.3 |
| 1980 | 6,831 | 4,449 | 9.5 | 32.8 | 42.3 | 29.0 | 28.4 | 28.6 |
| 1981 | 9,777 | 5,877 | 9.3 | 31.3 | 40.6 | 28.1 | 26.5 | 26.9 |
| 1984 | 13,731 | 7,746 | 9.3 | 25.7 | 35.0 | 23.1 | 21.2 | 21.6 |
| 1987 | 17,381 | 10,294 | 9.7 | 20.3 | 30.0 | 20.1 | 16.1 | 17.4 |
| 1990 | 20,614 | 13,295 | 9.4 | 17.8 | 27.2 | 16.8 | 14.3 | 15.1 |
| 1993 | 27,905 | 18,244 | 8.7 | 17.2 | 25.9 | 13.5 | 13.8 | 13.7 |
| 1996 | 38,246 | 27,413 | 7.2 | 15.3 | 22.5 | 9.7 | 12.3 | 11.3 |

Year 1996-2001 /a

| Year | Poverty Line (Rp/capita/month) | | Number of People Below the Poverty Line (in million ) | | | Percentage of Population Below the Poverty Line (%) | | |
|---|---|---|---|---|---|---|---|---|
| | Urban | Rural | Urban | Rural | Urban+Rural | Urban | Rural | Urban+Rural |
| 1996 | 42,032 | 31,366 | 9.6 | 24.9 | 34.5 | 13.6 | 19.9 | 17.7 |
| 1998 /b | 96,959 | 72,780 | 17.6 | 31.9 | 49.5 | 21.9 | 25.7 | 24.2 |
| 1999 /c | 92,409 | 74,272 | 15.7 | 32.7 | 48.4 | 19.5 | 26.1 | 23.5 |
| 2000/c | 91,632 | 73,648 | 12.1 | 25.2 | 37.3 | 14.6 | 22.1 | 19.0 |
| 2001/c | 100,011 | 80,382 | 8.5 | 28.6 | 37.1 | 9.8 | 25.0 | 18.4 |

/a Using BPS 1998 definition of the poverty line (the "new" definition).
/b Based on Susenas of December 1998.
/c Based on Susenas of February (regular) 1999.

Source: Central Bureau of Statistics.

**Table 4. Population and Population Growth Rates by Province, 1971-2000**

| Region | Population (thousand person) /a | | | | | Average growth rate (percent per year) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1971 /b | 1980 | 1990 | 1995 | 2000 | 1961-71 | 1971-1980 | 1980-1990 | 1990-2000 |
| Java | 76,086 | 91,270 | 107,581 | 114,980 | 120,978 | 1.9 | 2.0 | 1.7 | 1.2 |
| DKI Jakarta | 4,579 | 6,503 | 8,259 | 9,144 | 8,347 | 4.4 | 4.0 | 2.4 | 0.1 |
| West Java | 21,624 | 27,454 | 35,384 | 39,340 | 35,723 | 2.1 | 2.7 | 2.6 | 0.1 |
| Banten | | | | | 8,097 | | | | |
| Central Java | 21,877 | 25,373 | 28,521 | 29,691 | 30,924 | 1.7 | 1.7 | 1.2 | 0.8 |
| DI Yogjakarta | 2,489 | 2,751 | 2,913 | 2,917 | 3,120 | 1.1 | 1.1 | 0.6 | 0.7 |
| East Java | 25,517 | 29,189 | 32,504 | 33,889 | 34,766 | 1.6 | 1.5 | 1.1 | 0.7 |
| Sumatra | 20,809 | 28,017 | 36,507 | 40,984 | 40,613 | 2.8 | 3.4 | 2.7 | 1.1 |
| Bangka Belitung Islands | | | | | 899 | | | | |
| Lampung | 2,777 | 4,625 | 6,018 | 6,680 | 6,649 | 5.2 | 5.8 | 2.7 | 1.0 |
| Bengkulu | 519 | 768 | 1,179 | 1,418 | 1,562 | 2.5 | 4.5 | 4.4 | 2.9 |
| South Sumatra | 3,441 | 4,630 | 6,313 | 7,239 | 6,857 | 2.2 | 3.4 | 3.1 | 0.8 |
| Riau | 1,642 | 2,169 | 3,304 | 3,923 | 4,755 | 2.9 | 3.1 | 4.3 | 3.7 |
| Jambi | 1,006 | 1,446 | 2,021 | 2,383 | 2,407 | 3.1 | 4.1 | 3.4 | 1.8 |
| West Sumatra | 2,793 | 3,407 | 4,000 | 4,334 | 4,242 | 1.9 | 2.2 | 1.6 | 0.6 |
| North Sumatra | 6,622 | 8,361 | 10,256 | 11,144 | 11,507 | 2.9 | 2.6 | 2.1 | 1.2 |
| Aceh | 2,009 | 2,611 | 3,416 | 3,863 | 1,735 | 2.1 | 3.0 | 2.7 | -6.6 |
| Kalimantan | 5,155 | 6,723 | 9,100 | 10,520 | 10,953 | 2.3 | 3.0 | 3.1 | 1.9 |
| West Kalimantan | 2,020 | 2,486 | 3,229 | 3,650 | 3,733 | 2.5 | 2.3 | 2.6 | 1.5 |
| Central Kalimantan | 702 | 954 | 1,396 | 1,636 | 1,801 | 3.5 | 3.5 | 3.9 | 2.6 |
| South Kalimantan | 1,699 | 2,065 | 2,598 | 2,904 | 2,976 | 1.4 | 2.2 | 2.3 | 1.4 |
| East Kalimantan | 734 | 1,218 | 1,877 | 2,330 | 2,443 | 2.9 | 5.8 | 4.4 | 2.7 |
| Sulawesi | 8,528 | 10,409 | 12,521 | 13,775 | 14,394 | 1.9 | 2.2 | 1.9 | 1.4 |
| Central Sulawesi | 914 | 1,290 | 1,711 | 1,946 | 2,012 | 2.8 | 3.9 | 2.9 | 1.6 |
| North Sulawesi | 1,719 | 2,115 | 2,478 | 2,655 | 1,973 | 2.8 | 2.3 | 1.6 | -2.3 |
| South Sulawesi | 5,181 | 6,062 | 6,982 | 7,578 | 7,802 | 1.4 | 1.8 | 1.4 | 1.1 |
| Southeast Sulawesi | 714 | 942 | 1,350 | 1,596 | 1,776 | 2.5 | 3.1 | 3.7 | 2.8 |
| Gorontalo | | | | | 830 | | | | |
| Other Islands | 8,630 | 11,072 | 13,672 | 15,035 | 14,304 | 2.0 | 2.8 | 2.1 | 0.5 |
| Bali | 2,120 | 2,470 | 2,778 | 2,900 | 3,147 | 1.7 | 1.7 | 1.2 | 1.3 |
| West Nusa Tenggara | 2,203 | 2,725 | 3,370 | 3,655 | 3,831 | 2.0 | 2.4 | 2.1 | 1.3 |
| East Nusa Tenggara | 2,295 | 2,737 | 3,269 | 3,588 | 3,808 | 1.6 | 2.0 | 1.8 | 1.5 |
| Maluku | 1,089 | 1,411 | 1,858 | 2,095 | 1,150 | 3.3 | 2.9 | 2.8 | -4.7 |
| North Maluku | | | | | 670 | | | | |
| Irian Jaya | 923 | 1,174 | 1,649 | 1,954 | 1,698 | 2.0 | 2.7 | 3.5 | 0.3 |
| Indonesia | 119,208 | 146,935 | 178,631 | 195,294 | 201,242 | 2.07 | 2.35 | 1.97 | 1.20 |

/a Based on Population Census 1971, 1980, 1990, 1995 and 2000.

/b Includes adjustment for the exclusion of rural Irian Jaya.

Source: Central Bureau of Statistics.

**Table 5. Labor Force Participation by Province (%), 1995-2001**

| Region | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| Java | 56.1 | 57.7 | 58.0 | 65.5 | 66.7 | 67.0 | 67.8 |
| DKI Jakarta | 48.6 | 51.2 | 53.1 | 58.2 | 60.2 | .. | .. |
| West Java | 51.8 | 52.5 | 51.7 | 60.4 | 61.9 | .. | .. |
| Central Java | 60.2 | 62.5 | 61.4 | 71.2 | 72.2 | .. | .. |
| DI Yogjakarta | 60.6 | 61.3 | 63.0 | 67.7 | 69.6 | .. | .. |
| East Java | 59.4 | 60.9 | 60.8 | 69.8 | 69.8 | .. | .. |
| Sumatra | 55.9 | 58.2 | 57.8 | 68.4 | 66.9 | 68.5 | 69.0 |
| Lampung | 57.8 | 60.6 | 57.5 | 71.6 | 68.5 | .. | .. |
| Bengkulu | 60.8 | 65.3 | 63.4 | 74.9 | 74.1 | .. | .. |
| South Sumatra | 55.1 | 57.3 | 57.5 | 68.4 | 69.8 | .. | .. |
| Riau | 52.6 | 54.5 | 55.1 | 63.7 | 61.5 | .. | .. |
| Jambi | 52.5 | 56.9 | 55.0 | 66.8 | 65.9 | .. | .. |
| West Sumatra | 54.5 | 55.7 | 56.7 | 66.4 | 64.8 | .. | .. |
| North Sumatra | 57.2 | 58.3 | 58.5 | 68.4 | 69.0 | .. | .. |
| Aceh | 56.9 | 57.0 | 58.5 | 66.7 | 61.7 | .. | .. |
| Kalimantan | 59.7 | 62.1 | 61.3 | 69.5 | 69.4 | 70.9 | 69.9 |
| West Kalimantan | 61.2 | 61.7 | 61.4 | 69.0 | 69.6 | .. | .. |
| Central Kalimantan | 60.5 | 65.1 | 64.1 | 69.4 | 70.2 | .. | .. |
| South Kalimantan | 61.0 | 64.5 | 65.5 | 72.9 | 73.0 | .. | .. |
| East Kalimantan | 55.9 | 57.0 | 54.4 | 66.8 | 64.9 | .. | .. |
| Sulawesi | 55.6 | 57.6 | 57.7 | 65.2 | 65.1 | 62.8 | 65.8 |
| Central Sulawesi | 55.0 | 55.8 | 55.5 | 60.1 | 61.0 | .. | .. |
| North Sulawesi | 59.8 | 61.8 | 62.3 | 70.4 | 70.4 | .. | .. |
| South Sulawesi | 50.0 | 54.1 | 52.5 | 61.5 | 60.2 | .. | .. |
| Southeast Sulawesi | 57.4 | 58.7 | 60.7 | 68.9 | 68.9 | .. | .. |
| Other Islands | | | | | | | |
| Bali | 69.0 | 70.1 | 70.8 | 76.8 | 76.4 | .. | .. |
| West Nusa Tenggara | 61.8 | 63.5 | 65.5 | 70.8 | 72.1 | .. | .. |
| East Nusa Tenggara | 64.1 | 65.4 | 65.3 | 74.1 | 73.4 | .. | .. |
| Maluku | 50.1 | 55.0 | 53.8 | 64.8 | 67.3 | .. | .. |
| Irian Jaya | 65.3 | 63.8 | 66.6 | 75.5 | 76.8 | .. | .. |
| Indonesia | 56.6 | 58.3 | 58.0 | 66.9 | 67.2 | 67.8 | 68.6 |

**.. :** Data are not available.

Source: Central Bureau of Statistics.

**Table 6. Employment by Main Industry , 1995-2001 /a**

| Main Industry | 1995 million | 1995 % | 1996 million | 1996 % | 1997 million | 1997 % | 1998 million | 1998 % | 1999 million | 1999 % | 2000 million | 2000 % | 2001 million | 2001 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture, forestry, hunting & fishery | 35.2 | 44.0 | 37.7 | 44.0 | 35.8 | 41.2 | 39.4 | 45.0 | 38.4 | 43.2 | 40.5 | 45.1 | 39.7 | 43.8 |
| Mining and quarrying | 0.6 | 0.8 | 0.8 | 0.9 | 0.9 | 1.0 | 0.7 | 0.8 | 0.7 | 0.8 | 0.5 | 0.5 | n/a | n/a |
| Manufacturing | 10.1 | 12.6 | 10.8 | 12.6 | 11.2 | 12.9 | 9.9 | 11.3 | 11.5 | 13.0 | 11.7 | 13.0 | 12.1 | 13.3 |
| Electricity, gas & water | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.1 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | n/a | n/a |
| Construction | 3.8 | 4.7 | 3.8 | 4.4 | 4.2 | 4.8 | 3.5 | 4.0 | 3.4 | 3.8 | 3.5 | 3.9 | 3.8 | 4.2 |
| Wholesale and retail trade & restaurants | 13.9 | 17.3 | 16.1 | 18.8 | 17.2 | 19.8 | 16.8 | 19.2 | 17.5 | 19.7 | 18.5 | 20.6 | 17.5 | 19.2 |
| Transportation, storage & communications | 3.5 | 4.3 | 3.9 | 4.6 | 4.1 | 4.8 | 4.2 | 4.7 | 4.2 | 4.7 | 4.6 | 5.1 | 4.4 | 4.9 |
| Finance, insurance, real estate & business serv. | 0.7 | 0.8 | 0.7 | 0.8 | 0.7 | 0.8 | 0.6 | 0.7 | 0.6 | 0.7 | 0.9 | 1.0 | 1.1 | 1.2 |
| Public services | 12.1 | 15.1 | 11.7 | 13.7 | 12.6 | 14.5 | 12.4 | 14.1 | 12.2 | 13.8 | 9.6 | 10.7 | 11.0 | 12.1 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 | 1.2 |
| Total | 80.1 | 100.0 | 85.7 | 100.0 | 87.0 | 100.0 | 87.7 | 100.0 | 88.8 | 100.0 | 89.8 | 100.0 | 90.8 | 100.0 |

/a 1990-1998 data refer to population of 10 years of age and above who worked during the week prior to the census. Starting 1999 data refer to population 15 years of age and above.

Source: Central Bureau of Statistics.

**Table 7. Regional Minimum Wage by province 1995-2002**
**(Rupiah thousand/Month)**

| Region | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Java | | | | | | | | |
| DKI Jakarta | 138.0 | 156.0 | 172.5 | 198.5 | 231.0 | 344.3 | 426.3 | 591.3 |
| West Java | 138.0 | 156.0 | 172.5 | 198.5 | 230.0 | 230.0 | 245.0 | 280.8 |
| Central Java | 90.0 | 102.0 | 113.0 | 130.0 | 153.0 | 185.0 | 245.0 | 314.5 |
| DI Yogjakarta | 85.5 | 96.0 | 106.5 | 122.5 | 130.0 | 194.0 | 237.5 | 321.8 |
| East Java | 111.0 | 120.0 | 132.5 | 152.5 | 182.0 | 202.0 | 220.0 | 245.0 |
| Sumatra | | | | | | | | |
| Lampung | 105.0 | 114.0 | 126.0 | 145.0 | 160.0 | n/a | 240.0 | 310.0 |
| Bengkulu | 105.0 | 115.5 | 127.5 | 146.5 | 150.0 | 173.3 | 240.0 | 295.0 |
| South Sumatra | 105.0 | 115.5 | 127.5 | 146.5 | 170.0 | 196.0 | 255.0 | 331.5 |
| Riau | 124.5 | 138.0 | 151.5 | 174.0 | 218.0 | 425.0 | 329.0 | 394.0 |
| Jambi | 99.0 | 108.0 | 119.5 | 137.5 | 150.0 | 173.0 | 284.9 | 304.0 |
| West Sumatra | 97.5 | 108.0 | 119.0 | 137.0 | 160.0 | 200.0 | 250.0 | 385.0 |
| North Sumatra | 126.0 | 138.0 | 151.0 | 174.0 | 210.0 | 250.0 | 340.5 | 464.0 |
| Aceh | 105.0 | 115.5 | 128.0 | 147.0 | 171.0 | 265.0 | 300.0 | 330.0 |
| Kalimantan | | | | | | | | |
| West Kalimantan | 105.0 | 114.0 | 126.5 | 145.5 | 175.0 | 228.0 | 304.5 | 380.0 |
| Central Kalimantan | 111.0 | 124.5 | 138.0 | 158.5 | 195.0 | n/a | 362.0 | 362.0 |
| South Kalimantan | 105.0 | 114.0 | 125.0 | 144.0 | 166.0 | 200.0 | 295.0 | 377.5 |
| East Kalimantan | 12.6 | 138.0 | 153.0 | 176.0 | 194.0 | 233.0 | 300.0 | 500.0 |
| Sulawesi | | | | | | | | |
| Central Sulawesi | 84.0 | 96.0 | 106.5 | 122.5 | 150.0 | 203.0 | 245.0 | 350.0 |
| North Sulawesi | 97.5 | 108.0 | 118.0 | 135.5 | 155.0 | 186.0 | 372.0 | 438.0 |
| South Sulawesi | 93.0 | 102.0 | 112.5 | 129.5 | 148.0 | 200.0 | 300.0 | 375.0 |
| Southeast Sulawesi | 100.5 | 109.5 | 121.0 | 139.0 | 160.0 | 210.0 | 275.0 | 325.0 |
| Other Islands | | | | | | | | |
| Bali | 117.0 | 127.5 | 141.5 | 162.5 | 187.0 | 190.0 | 309.8 | 341.0 |
| West Nusa Tenggara | 88.5 | 97.5 | 108.0 | 124.0 | 145.0 | 180.0 | 240.0 | 320.0 |
| East Nusa Tenggara | 87.0 | 96.0 | 106.5 | 122.5 | 143.0 | 184.0 | 275.0 | 330.0 |
| Maluku | 114.0 | 123.0 | 136.0 | 155.5 | 180.0 | 180.0 | 230.0 | 498.8 |
| Irian Jaya | 142.5 | 154.5 | 170.0 | 195.5 | 225.0 | 315.0 | 400.0 | 530.0 |

Source: Minustry of Manpower (from various decree).

## Table 8. Gross Domestic Product by Industrial Origin at Current Market Prices, 1995-2002

**(Rp. Billion)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000* | 2001* | 2002** Q1-Q3 |
|---|---|---|---|---|---|---|---|---|
| **1. Agriculture, Forestry & Fishery** | **77,896** | **88,792** | **101,009** | **172,828** | **215,687** | **218,301** | **244,381** | **217,695** |
| a. Farm Food Crops | 42,200 | 47,622 | 52,189 | 91,346 | 116,222 | 111,887 | 124,288 | 115,795 |
| b. Non-Food Crops | 12,667 | 14,435 | 16,447 | 33,290 | 35,966 | 33,994 | 38,435 | 33,463 |
| c. Livestock & Its Products | 8,079 | 9,524 | 11,688 | 15,744 | 23,761 | 28,088 | 31,575 | 27,731 |
| d. Forestry | 7,390 | 8,170 | 9,807 | 11,700 | 13,804 | 14,862 | 15,406 | 11,735 |
| e. Fishery | 7,561 | 9,041 | 10,878 | 20,748 | 25,933 | 29,472 | 34,677 | 28,971 |
| **2. Mining and Quarrying** | **40,195** | **46,088** | **55,562** | **120,329** | **109,925** | **176,640** | **202,680** | **160,136** |
| a. Oil and Gas Mining | 25,410 | 28,118 | 34,037 | 74,884 | 72,425 | 131,079 | 143,063 | 111,530 |
| b. Non-Oil-Gas Mining | 7,717 | 9,098 | 11,192 | 35,460 | 27,696 | 34,032 | 45,558 | 36,562 |
| c. Quarrying | 7,068 | 8,872 | 10,333 | 9,985 | 9,804 | 11,529 | 14,059 | 12,044 |
| **3. Manufacturing** | **109,689** | **136,426** | **168,178** | **238,897** | **285,874** | **335,339** | **389,321** | **322,315** |
| a. Oil and Gas Industry | 11,399 | 14,194 | 15,622 | 33,172 | 35,128 | 53,168 | 61,878 | 55,951 |
| (1) Oil and Gas Refinery | 6,599 | 8,340 | 8,116 | 15,092 | 16,321 | 22,500 | 28,605 | 29,761 |
| (2) Liquefied Natural Gas (LNG) | 4,799 | 5,854 | 7,506 | 18,080 | 18,807 | 30,667 | 33,273 | 26,190 |
| b. Non Oil and Gas Industry | 98,290 | 122,232 | 152,556 | 205,725 | 250,746 | 282,172 | 327,443 | 266,364 |
| (1) Food, Beverages & Tabacco | 46,299 | 56,979 | 69,560 | 117,821 | 152,907 | 155,231 | 172,742 | 143,832 |
| (2) Textile, Leather Products & Footwear | 9,049 | 11,598 | 16,866 | 16,951 | 17,410 | 20,860 | 24,488 | 19,173 |
| (3) Wood Products & Other Wood Products | 6,632 | 8,113 | 8,744 | 10,543 | 9,394 | 10,102 | 10,553 | 8,098 |
| (4) Paper & Printing | 3,901 | 4,501 | 6,000 | 8,539 | 9,265 | 10,337 | 10,516 | 8,260 |
| (5) Fertilizers, Chemicals & Rubber Products | 13,238 | 15,656 | 17,544 | 24,129 | 32,247 | 41,799 | 51,753 | 41,569 |
| (6) Cement & Non Metallic Mineral Products | 3,277 | 4,203 | 5,082 | 5,306 | 5,896 | 7,387 | 9,200 | 8,280 |
| (7) Iron & Basic Steels | 3,166 | 4,609 | 5,773 | 6,614 | 8,092 | 11,327 | 12,691 | 9,905 |
| (8) Transport Equipment, Machinery & Apparatus | 12,179 | 15,899 | 22,038 | 15,133 | 14,859 | 24,406 | 34,503 | 26,485 |
| (9) Other Manufacturing Products | 549 | 673 | 949 | 690 | 677 | 724 | 997 | 763 |
| **4. Electricity, gas, and water** | **5,655** | **6,893** | **7,832** | **11,283** | **13,429** | **15,072** | **17,286** | **15,641** |
| a. Electricity | 4,711 | 5,660 | 6,453 | 9,325 | 11,201 | 12,637 | 14,684 | 13,420 |
| b. Gas | 183 | 231 | 291 | 312 | 353 | 429 | 467 | 469 |
| c. Water Supply | 761 | 1,001 | 1,089 | 1,645 | 1,874 | 2,007 | 2,134 | 1,752 |
| **5. Construction** | **34,452** | **42,025** | **46,679** | **61,762** | **67,616** | **76,091** | **84,045** | **67,724** |
| **6. Trade, hotel, and restaurant** | **75,640** | **87,137** | **99,582** | **146,740** | **175,835** | **194,910** | **239,959** | **205,842** |
| a. Wholesale & Retail Trade | 60,379 | 69,375 | 77,543 | 116,689 | 140,589 | 155,184 | 193,693 | 166,576 |
| b. Hotel | 2,797 | 3,258 | 3,887 | 5,366 | 5,923 | 6,762 | 7,687 | 6,355 |
| c. Restaurant | 12,464 | 14,504 | 18,151 | 24,686 | 29,324 | 32,964 | 38,580 | 32,912 |
| **7. Transportation & Communication** | **30,795** | **34,926** | **38,531** | **51,937** | **55,190** | **64,550** | **79,825** | **74,811** |
| a. Transport | 25,477 | 29,246 | 31,498 | 41,837 | 42,736 | 49,337 | 62,274 | 56,083 |
| (1) Rail Road Transport | 255 | 287 | 308 | 504 | 622 | 744 | 903 | 879 |
| (2) Road Transport | 14,423 | 16,632 | 18,240 | 22,461 | 20,595 | 22,539 | 29,928 | 27,095 |
| (3) Sea Transport | 2,855 | 3,109 | 3,030 | 4,284 | 5,321 | 6,630 | 8,062 | 7,496 |
| (4) River, Lake Transport and Ferry | 1,746 | 1,922 | 1,974 | 2,597 | 2,752 | 3,430 | 4,036 | 3,483 |
| (5) Air Transport | 1,812 | 2,277 | 2,543 | 3,664 | 3,673 | 4,106 | 5,167 | 4,152 |
| (6) Transport Services | 4,387 | 5,019 | 5,402 | 8,326 | 9,773 | 11,888 | 14,180 | 12,979 |
| b. Communication | 5,318 | 5,680 | 7,033 | 10,100 | 12,454 | 15,213 | 17,550 | 18,728 |
| **8. Financial, Rentals and Business Services** | **39,510** | **43,982** | **54,360** | **69,892** | **71,220** | **79,477** | **92,459** | **78,381** |
| a. Bank | 17,326 | 17,709 | 20,297 | 25,823 | 24,426 | 28,057 | 33,947 | 30,368 |
| b. Non Bank Financial Institutions | 3,247 | 3,818 | 4,534 | 5,405 | 6,138 | 6,769 | 7,631 | 6,056 |
| c. Financial Supporting Services | 279 | 326 | 374 | 482 | 524 | 578 | 656 | 520 |
| d. Building Rent | 11,899 | 13,649 | 17,715 | 23,140 | 24,397 | 26,873 | 30,507 | 24,922 |
| e. Business Services | 6,759 | 8,480 | 11,440 | 15,041 | 15,735 | 17,199 | 19,719 | 16,515 |
| **9. Services** | **40,682** | **46,299** | **55,962** | **82,087** | **104,955** | **121,637** | **141,018** | **110,976** |
| a. General Government | 26,555 | 29,753 | 32,128 | 40,641 | 56,745 | 69,460 | 81,851 | 61,625 |
| (1) Government Administration and Defense | 20,240 | 22,685 | 23,004 | 28,449 | 38,493 | 44,499 | 51,818 | 38,977 |
| (2) Other Government Services | 6,316 | 7,068 | 9,124 | 12,192 | 18,252 | 24,961 | 30,033 | 22,648 |
| b. Private | 14,127 | 16,547 | 23,834 | 41,446 | 48,210 | 52,177 | 59,167 | 49,350 |
| (1) Social Community Services | 2,635 | 3,385 | 4,164 | 5,951 | 7,161 | 8,253 | 9,975 | 8,581 |
| (2) Recreational and Entertainment Services | 863 | 1,088 | 1,373 | 2,084 | 2,167 | 2,415 | 2,679 | 2,189 |
| (3) Personal and Household Services | 10,628 | 12,074 | 18,297 | 33,412 | 38,883 | 41,509 | 46,514 | 38,580 |
| **GDP** | **454,514** | **532,568** | **627,695** | **955,753** | **1,099,732** | **1,282,018** | **1,490,974** | **1,253,521** |
| **GDP non-oil** | **417,706** | **490,255** | **578,037** | **847,697** | **992,179** | **1,097,771** | **1,286,033** | **1,086,040** |

* : Preliminary figures, ** : Very preliminary figures.

Source: Central Bureau of Statistics.

**Table 9. Gross Domestic Product by Industrial Origin at Constant Market Prices, 1995-2002**

**(Rp. Billion)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000* | 2001* | 2002** Q1-Q3 |
|---|---|---|---|---|---|---|---|---|
| **1. Agriculture, Forestry & Fishery** | **61,885** | **63,828** | **64,468** | **63,609** | **64,985** | **66,088** | **66,504** | **53,550** |
| a. Farm Food Crops | 32,952 | 33,647 | 32,688 | 33,350 | 34,012 | 34,312 | 33,932 | 28,233 |
| b. Non-Food Crops | 9,912 | 10,355 | 10,497 | 10,502 | 10,702 | 10,871 | 11,096 | 8,696 |
| c. Livestock & Its Products | 6,790 | 7,133 | 7,483 | 6,440 | 6,837 | 7,052 | 7,322 | 5,975 |
| d. Forestry | 6,304 | 6,444 | 7,190 | 6,581 | 6,288 | 6,364 | 6,432 | 4,636 |
| e. Fishery | 5,928 | 6,249 | 6,610 | 6,737 | 7,146 | 7,489 | 7,722 | 6,010 |
| **2. Mining and Quarrying** | **35,502** | **37,739** | **38,538** | **37,474** | **36,866** | **38,730** | **38,483** | **28,850** |
| a. Oil and Gas Mining | 23,720 | 24,063 | 23,920 | 23,340 | 22,137 | 22,658 | 21,707 | 16,291 |
| b. Non-Oil-Gas Mining | 6,098 | 7,268 | 7,646 | 9,678 | 10,358 | 11,459 | 11,966 | 8,850 |
| c. Quarrying | 5,685 | 6,409 | 6,973 | 4,456 | 4,371 | 4,613 | 4,810 | 3,709 |
| **3. Manufacturing** | **91,637** | **102,260** | **107,630** | **95,321** | **99,058** | **105,102** | **109,641** | **84,197** |
| a. Oil and Gas Industry | 9,782 | 10,864 | 10,650 | 11,042 | 11,797 | 11,600 | 11,271 | 8,338 |
| (1) Oil and Gas Refinery | 5,392 | 6,291 | 5,926 | 6,310 | 6,607 | 6,843 | 6,964 | 5,189 |
| (2) Liquefied Natural Gas (LNG) | 4,390 | 4,572 | 4,725 | 4,732 | 5,191 | 4,757 | 4,307 | 3,150 |
| b. Non Oil and Gas Industry | 81,855 | 91,396 | 96,979 | 84,278 | 87,261 | 93,503 | 98,370 | 75,859 |
| (1) Food, Beverages & Tabacco | 37,191 | 43,573 | 48,949 | 48,837 | 51,106 | 52,338 | 52,784 | 40,434 |
| (2) Textile, Leather Products & Footwear | 8,046 | 8,747 | 8,411 | 7,161 | 7,770 | 8,611 | 9,255 | 7,153 |
| (3) Wood Products & Other Wood Products | 5,699 | 5,882 | 5,710 | 4,254 | 3,678 | 3,925 | 3,837 | 2,803 |
| (4) Paper & Printing | 3,415 | 3,649 | 3,955 | 3,795 | 3,882 | 4,110 | 3,903 | 2,967 |
| (5) Fertilizers, Chemicals & Rubber Products | 10,555 | 11,511 | 11,908 | 10,002 | 11,029 | 12,181 | 14,293 | 11,377 |
| (6) Cement & Non Metallic Mineral Products | 2,849 | 3,162 | 3,273 | 2,299 | 2,419 | 2,573 | 3,009 | 2,685 |
| (7) Iron & Basic Steels | 2,929 | 3,165 | 3,148 | 2,301 | 2,296 | 2,597 | 2,585 | 1,987 |
| (8) Transport Equipment, Machinery & Apparatus | 10,699 | 11,191 | 11,073 | 5,277 | 4,735 | 6,766 | 8,207 | 6,082 |
| (9) Other Manufacturing Products | 470 | 516 | 552 | 353 | 347 | 402 | 497 | 370 |
| **4. Electricity, gas, and water** | **4,292** | **4,877** | **5,480** | **5,646** | **6,113** | **6,649** | **7,210** | **5,654** |
| a. Electricity | 3,520 | 3,983 | 4,463 | 4,608 | 5,013 | 5,459 | 5,968 | 4,639 |
| b. Gas | 181 | 220 | 270 | 225 | 227 | 271 | 282 | 262 |
| c. Water Supply | 591 | 674 | 747 | 813 | 873 | 920 | 961 | 753 |
| **5. Construction** | **29,198** | **32,924** | **35,346** | **22,465** | **22,036** | **23,247** | **24,168** | **18,644** |
| **6. Trade, hotel, and restaurant** | **64,231** | **69,475** | **73,524** | **60,131** | **60,094** | **63,449** | **66,692** | **51,769** |
| a. Wholesale & Retail Trade | 51,397 | 55,513 | 58,842 | 47,846 | 47,575 | 50,284 | 52,859 | 40,962 |
| b. Hotel | 2,498 | 2,650 | 2,729 | 2,486 | 2,593 | 2,669 | 2,760 | 2,094 |
| c. Restaurant | 10,336 | 11,312 | 11,952 | 9,799 | 9,926 | 10,495 | 11,073 | 8,713 |
| **7. Transportation & Communication** | **27,329** | **29,701** | **31,782** | **26,975** | **26,772** | **29,284** | **31,483** | **24,907** |
| a. Transport | 22,932 | 24,445 | 25,609 | 20,504 | 19,738 | 21,431 | 22,747 | 17,847 |
| (1) Rail Road Transport | 263 | 288 | 304 | 327 | 364 | 389 | 419 | 323 |
| (2) Road Transport | 13,001 | 13,757 | 14,730 | 10,988 | 10,001 | 10,922 | 11,406 | 8,902 |
| (3) Sea Transport | 2,534 | 2,694 | 2,624 | 2,541 | 2,776 | 3,033 | 3,328 | 2,656 |
| (4) River, Lake Transport and Ferry | 1,554 | 1,643 | 1,665 | 1,521 | 1,510 | 1,613 | 1,699 | 1,274 |
| (5) Air Transport | 1,692 | 1,894 | 1,919 | 1,209 | 1,063 | 1,160 | 1,288 | 1,023 |
| (6) Transport Services | 3,888 | 4,169 | 4,366 | 3,918 | 4,023 | 4,313 | 4,606 | 3,669 |
| b. Communication | 4,397 | 5,257 | 6,173 | 6,471 | 7,035 | 7,854 | 8,736 | 7,060 |
| **8. Financial, Rentals and Business Services** | **34,313** | **36,384** | **38,543** | **28,279** | **26,245** | **27,383** | **28,201** | **21,755** |
| a. Bank | 14,967 | 15,415 | 16,195 | 10,058 | 8,686 | 9,151 | 9,509 | 7,333 |
| b. Non Bank Financial Institutions | 2,922 | 3,225 | 3,499 | 2,897 | 2,949 | 3,043 | 3,145 | 2,433 |
| c. Financial Supporting Services | 220 | 247 | 262 | 218 | 226 | 236 | 244 | 191 |
| d. Building Rent | 10,643 | 11,266 | 11,826 | 9,476 | 8,906 | 9,188 | 9,373 | 7,223 |
| e. Business Services | 5,562 | 6,232 | 6,761 | 5,630 | 5,477 | 5,765 | 5,929 | 4,575 |
| **9. Services** | **35,406** | **36,610** | **37,935** | **36,475** | **37,184** | **38,001** | **38,750** | **29,455** |
| a. General Government | 23,046 | 23,338 | 23,617 | 21,888 | 22,251 | 22,555 | 22,795 | 17,152 |
| (1) Government Administration and Defense | 17,502 | 17,674 | 17,833 | 16,320 | 16,465 | 16,682 | 16,819 | 12,658 |
| (2) Other Government Services | 5,544 | 5,665 | 5,784 | 5,567 | 5,785 | 5,873 | 5,976 | 4,493 |
| b. Private | 12,360 | 13,272 | 14,318 | 14,588 | 14,933 | 15,446 | 15,955 | 12,304 |
| (1) Social Community Services | 2,246 | 2,561 | 2,767 | 2,512 | 2,638 | 2,751 | 2,864 | 2,233 |
| (2) Recreational and Entertainment Services | 739 | 798 | 788 | 693 | 647 | 684 | 706 | 552 |
| (3) Personal and Household Services | 9,375 | 9,913 | 10,764 | 11,383 | 11,648 | 12,012 | 12,384 | 9,518 |
| **GDP** | **383,792** | **413,798** | **433,246** | **376,375** | **379,352** | **397,934** | **411,132** | **318,781** |
| **GDP non-oil** | **350,290** | **378,871** | **398,676** | **341,993** | **345,418** | **363,676** | **378,154** | **294,151** |

* : Preliminary figures, ** : Very preliminary figures.

Source: Central Bureau of Statistics.

**Table 10. Gross Domestic Product by Expenditure Category at Current Market Prices, 1995-2002**
**(Rp. billion)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000* | 2001* | 2002** Q1-Q3 |
|---|---|---|---|---|---|---|---|---|
| 1. Private consumption | 279,876 | 332,094 | 387,171 | 647,824 | 813,183 | 867,997 | 999,266 | 867,563 |
| 2. Government consumption | 35,584 | 40,299 | 42,952 | 54,416 | 72,631 | 90,780 | 110,837 | 93,408 |
| 3. Gross fixed investment | 129,218 | 157,653 | 177,686 | 243,043 | 240,322 | 313,915 | 310,909 | 231,759 |
| 4. Changes in stock /a | 15,900 | 5,800 | 21,615 | -82,716 | -105,063 | -83,319 | -56,820 | -52,315 |
| 5. Exports of goods and nonfactor services | 119,593 | 137,533 | 174,871 | 506,245 | 390,560 | 497,519 | 612,482 | 431,427 |
| 6. Less: Imports of goods and nonfactor services | 125,657 | 140,812 | 176,600 | 413,058 | 301,654 | 396,208 | 485,700 | 318,320 |
| **Gross Domestic Product** | **454,514** | **532,568** | **627,695** | **955,754** | **1,109,980** | **1,290,684** | **1,490,974** | **1,253,521** |

**Table 11 . Gross Domestic Product by Expenditure Category at Constant Market Prices, 1995-2002**
**(Rp. billion)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000* | 2001* | 2002** Q1-Q3 |
|---|---|---|---|---|---|---|---|---|
| 1. Private consumption | 215,798 | 257,016 | 277,116 | 260,023 | 272,070 | 281,957 | 298704 | 233,221 |
| 2. Government consumption | 31,476 | 31,681 | 31,701 | 26,828 | 27,014 | 28,768 | 31138 | 25,288 |
| 3. Gross fixed investment | 114,022 | 128,699 | 139,726 | 93,605 | 75,468 | 93360.2 | 97058 | 68,349 |
| 4. Changes in stock /a | 23,435 | 5,873 | 3,342 | -6,387 | -8,572 | -27,233 | -31372 | -27,614 |
| 5. Exports of goods and nonfactor services | 102,975 | 112,391 | 121,158 | 134,707 | 92,124 | 116193.6 | 118377 | 87,658 |
| 6. Less: Imports of goods and nonfactor services | 103,938 | 121,863 | 139,796 | 132,401 | 78,546 | 95112.1 | 102773 | 68,122 |
| **Gross Domestic Product** | **383,768** | **413,798** | **433,246** | **376,375** | **379,558** | **397,934** | **411,132** | **318,781** |

* : Preliminary figures. ** : Very preliminary figures.
/a. Including residuals.

Source: Central Bureau of Statistics.

## Table 12. Terms of Trade, 1995-2002

**(Rp. Billion)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000* | 2001* | 2002** Q1-Q3 |
|---|---|---|---|---|---|---|---|---|
| 1. Market Prices | | | | | | | | |
| Exports on Goods & Services | 119,593 | 137,533 | 174,871 | 506,245 | 390,560 | 542,992 | 612,482 | 431,427 |
| Imports on Goods & Services | 125,657 | 140,812 | 176,600 | 413,058 | 301,654 | 407,036 | 485,700 | 318,320 |
| 2. Constant Prices | | | | | | | | |
| Exports on Goods & Services | 104,492 | 112,391 | 121,158 | 134,707 | 91,864 | 116,194 | 118,377 | 87,658 |
| Imports on Goods & Services | 114,035 | 121,863 | 139,796 | 132,401 | 78,546 | 95,112 | 102,773 | 68,122 |
| 3. Deflator | | | | | | | | |
| Exports on Goods & Services | 114.5 | 122.4 | 144.3 | 375.8 | 425.2 | 467.3 | 517.4 | 492.2 |
| Imports on Goods & Services | 110.2 | 115.5 | 126.3 | 312.0 | 384.0 | 428.0 | 472.6 | 467.3 |
| 4. Terms of Trade (1993=100) | 103.9 | 105.9 | 114.3 | 120.5 | 110.7 | 109.2 | 109.5 | 105.3 |
| 5. Real Import Capacity of Imports | 108,531 | 119,025 | 138,428 | 162,271 | 101,696 | 126,881 | 129,600 | 92,327 |
| 6. Terms of Trade Effect | 4,039 | 6,634 | 17,270 | 27,563 | 9,833 | 10,687 | 11,223 | 4,668 |
| 7. GDP at constant prices | 384,418 | 413,798 | 433,246 | 376,375 | 379,353 | 397,934 | 411,132 | 318,781 |
| 8. Gross Domestic Income | 388,457 | 420,432 | 450,516 | 403,938 | 389,185 | 408,622 | 422,355 | 323,451 |

*: Preliminary Figures, **: Very Preliminary Figures.

Source: Central Bureau of Statistics and staff calculation.

**Table 13. Balance of Payments, 1995-2002**

**(US$ million)**

| Items | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 Q1 | 2002 Q2 | 2002 Q3 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 Non oil/gas, merch. (net) | -96 | -1,849 | 3,129 | 13,864 | 14,355 | 15,963 | 15,844 | 3,944 | 4,675 | 4,179 |
| a. Export, fob | 36,969 | 38,021 | 44,576 | 42,951 | 40,987 | 50,341 | 44,805 | 10,034 | 11,977 | 12,606 |
| b. Import,fob | -37,065 | -39,870 | -41,447 | -29,087 | -26,632 | -34,378 | -28,961 | -6,090 | -7,302 | -8,427 |
| 2 Oil, merch. (net) | 2,851 | 3,122 | 2,266 | 1,518 | 1,975 | 2,197 | 1,534 | 72 | 276 | 126 |
| a. Export, fob | 6,439 | 7,222 | 6,771 | 4,141 | 5,680 | 7,954 | 6,921 | 1,417 | 1,666 | 1,653 |
| b. Import,fob | -3,588 | -4,100 | -4,505 | -2,623 | -3,705 | -5,757 | -5,387 | -1,345 | -1,390 | -1,527 |
| 3 Gas, merch. (net) | 6,644 | 5,896 | 4,679 | 3,047 | 4,314 | 6,881 | 5,318 | 1,084 | 1,329 | 1,377 |
| a. Export, fob | 4,046 | 4,945 | 4,950 | 3,279 | 4,576 | 7,113 | 5,638 | 1,154 | 1,410 | 1,444 |
| b. Import,fob | -268 | -270 | -271 | -232 | -262 | -232 | -320 | -70 | -81 | -67 |
| 4 Current account | -6,760 | -7,801 | -5,001 | 4,097 | 5,783 | 7,998 | 6,900 | 1,839 | 2,801 | 1,722 |
| a. Exports, fob | 47,454 | 50,188 | 56,297 | 50,371 | 51,243 | 65,408 | 57,364 | 12,605 | 15,053 | 15,703 |
| b. Imports, fob | -40,921 | -44,240 | -46,223 | -31,942 | -30,599 | -40,367 | -34,669 | -7,505 | -8,773 | -10,021 |
| c. Services, net | -13,293 | -13,749 | -15,075 | -14,332 | -14,861 | -17,043 | -15,795 | -3,261 | -3,479 | -3,960 |
| 5 Official Capital | 336 | -522 | 2,880 | 9,971 | 5,353 | 3,217 | -740 | -271 | 22 | 31 |
| a. Inflows | 5,785 | 5,693 | 7,594 | 7,414 | 6,560 | 3,862 | 2,482 | 522 | 419 | 886 |
| IGGI | 5,635 | 5,093 | 7,594 | 5,897 | 6,560 | 3,862 | 2,482 | 522 | 419 | 886 |
| Special assistance | 226 | 165 | 92 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Program aid | 0 | 0 | 3,036 | 1,821 | 3,870 | 1,360 | 507 | 97 | 46 | 350 |
| Food aid | 0 | 0 | 0 | 160 | 273 | 76 | 0 | 0 | 0 | 0 |
| Project aid | 5,409 | 4,928 | 4,466 | 3,916 | 2,417 | 2,426 | 1,975 | 425 | 373 | 536 |
| ODA | 3,591 | 3,274 | 2,601 | 1,718 | 1,686 | 2,193 | 1,533 | 313 | 291 | 456 |
| Non-ODA | 1,818 | 1,654 | 1,865 | 2,198 | 731 | 233 | 442 | 112 | 82 | 80 |
| Commercial loan | 150 | 600 | 0 | 1,517 | 0 | 0 | 0 | 0 | 0 | 0 |
| b. Amortization | -5,449 | -6,215 | -4,714 | -3,765 | -4,070 | -4,272 | -4,705 | -1,118 | -1,369 | -1,205 |
| c. Exceptional financing | 0 | 0 | 3,036 | 6,322 | 2,863 | 3,627 | 1,483 | 325 | 972 | 350 |
| - IMF Purchases /a | 0 | 0 | 3,036 | 5,761 | 1,373 | 1,124 | 397 | 342 | 708 | 0 |
| - IMF Repurchases | 0 | 0 | 0 | 561 | 0 | 0 | -1,772 | -587 | -655 | -474 |
| - Rescheduling | 0 | 0 | 0 | 0 | 1,490 | 2,503 | 2,858 | 570 | 919 | 824 |
| 6 Private Capital | 10,252 | 11,511 | -338 | -13,846 | -9,923 | -9,992 | -8,252 | -995 | -636 | -1,180 |
| a. Foreign direct invesment | 4,345 | 6,194 | 4,677 | -356 | -2,745 | -4,549 | -5,877 | -1,939 | -1,746 | 102 |
| Inflow | 5,975 | 8,154 | 10,005 | 6,986 | 3,702 | 2,974 | 2,294 | 4,091 | 4,625 | 3,078 |
| Outflow | -1,630 | -1,960 | -5,328 | -7,342 | -6,447 | -7,523 | -8,171 | -6,030 | -6,371 | -2,976 |
| b. Others | 5,907 | 5,317 | -5,015 | -13,490 | -7,178 | -5,443 | -2,375 | -2,261 | -1,250 | -2,329 |
| 7 Capital account (5+6) | 10,588 | 10,989 | 2,542 | -3,875 | -4,570 | -6,775 | -8,992 | -1,266 | -614 | -1,149 |
| 8 T O T A L (4 + 8) | 3,828 | 3,188 | -2,459 | 222 | 1,213 | 1,223 | -2,092 | 573 | 2,187 | 573 |
| 9 Errors & omissions, net -(8+10) | -2,312 | 1,263 | -1,986 | 2,122 | 2,079 | 3,820 | 714 | -585 | -911 | 189 |
| 10 Monetary movements /b | -1,516 | -4,451 | 4,445 | -7,254 | -3,292 | -5,043 | 1,378 | 13 | -1,276 | -762 |

/a Including Japanese new financing.

/b Since 1998 Monetary Movement is based on Gross Foreign Assets (GFA) replacing Official Reserves.
Since 2000, based on change reserve assets replacing GFA. Negative represents surplus and Positive represents deficit.

Source: Bank Indonesia.

**Table 14. Selected Non-oil Exports, 1995-2002**
**(US$ million)**

| | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 Jan-Oct |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Plywood | 3,444 | 3,543 | 3,477 | 2,327 | 2,254 | 1,995 | 1,655 | 1,165 |
| 2 | Rubber | 1,981 | 1,893 | 1,505 | 1,010 | 855 | 881 | 814 | 724 |
| 3 | Garments | 3,305 | 3,182 | 4,181 | 3,817 | 3,777 | 4,581 | 4,134 | 2,855 |
| 4 | Sawn Timber | 159 | 136 | 112 | 78 | 80 | 75 | 88 | 87 |
| 5 | Textiles | 2,897 | 2,680 | 3,390 | 3,461 | 3,086 | 3,540 | 3,040 | 2,309 |
| 6 | Coffee | 613 | 598 | 583 | 607 | 474 | 334 | 186 | 175 |
| 7 | Lobster, Shrimps and Prawn | 1,026 | 993 | 1,046 | 1,087 | 968 | 1,068 | 975 | 679 |
| 8 | Handicraft | 653 | 525 | 1,027 | 2,089 | 612 | 617 | 585 | 411 |
| 9 | Iron Steel | 521 | 608 | 660 | 990 | 772 | 805 | 744 | 572 |
| 10 | Palm Oil and Kernel | 969 | 1,017 | 1,662 | 816 | 1,170 | 1,195 | 1,222 | 1,397 |
| 11 | Aluminium | 354 | 320 | 280 | 200 | 135 | 248 | 188 | 187 |
| 12 | Copper | 1,551 | 1,397 | 1,548 | 1,749 | 1,077 | 1,725 | 1,881 | 1,310 |
| 13 | Tin | 229 | 310 | 277 | 260 | 242 | 234 | 237 | 200 |
| 14 | Pulp and Paper | 1,501 | 1,369 | 1,953 | 2,469 | 2,646 | 3,042 | 2,555 | 1,909 |
| 15 | Pepper | 157 | 99 | 165 | 196 | 189 | 232 | 107 | 57 |
| 16 | Foodstuffs | 667 | 746 | 881 | 923 | 904 | 718 | 763 | 632 |
| 17 | Tea | 94 | 106 | 150 | 169 | 102 | 115 | 97 | 83 |
| 18 | Fertilizer | 268 | 255 | 347 | 160 | 171 | 192 | 114 | 100 |
| 19 | Glass and Glasswear | 211 | 211 | 272 | 269 | 279 | 349 | 292 | 232 |
| 20 | Electrical Appliances | 2,715 | 3,592 | 3,261 | 2,813 | 3,401 | 6,369 | 5,846 | 4,553 |
| 21 | Tuna | 65 | 64 | 52 | 681 | 639 | 604 | 594 | 515 |
| 22 | Cement | 9 | 18 | 37 | 87 | 143 | 140 | 162 | 84 |
| 23 | Tobacco | 76 | 82 | 124 | 139 | 108 | 80 | 95 | 57 |
| 24 | Copra Cakes | 68 | 106 | 86 | 50 | 46 | 51 | 44 | 48 |
| 25 | Nickle | 410 | 374 | 233 | 165 | 219 | 360 | 299 | 35 |
| | Others | 12,129 | 12,791 | 15,825 | 15,246 | 15,160 | 18,805 | 16,517 | 13,292 |
| | Total Non-oil Exports /a | 36,072 | 37,014 | 43,133 | 41,859 | 39,510 | 48,354 | 43,237 | 33,669 |

/a Exclude exports from Batam.

Source: Bank Indonesia.

## Table 15. Value of Exports by Principal Country of Destination, 1995-2002

**(US$ million)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 Jan-Oct |
|---|---|---|---|---|---|---|---|---|
| Asean | 7,120 | 7,397 | 8,019 | 7,596 | 7,402 | 9,625 | 8,446 | 6,513 |
| o/w Malaysia | 987 | 1,110 | 1,357 | 1,358 | 1,336 | 1,972 | 1,779 | 1,367 |
| Thailand | 703 | 823 | 848 | 943 | 813 | 1,026 | 1,064 | 803 |
| Philippines | 590 | 688 | 794 | 707 | 695 | 843 | 815 | 531 |
| Singapore | 3,767 | 4,565 | 5,468 | 5,718 | 4,901 | 6,523 | 5,364 | 3,553 |
| Brunei | 24 | 27 | 40 | 36 | 28 | 26 | 22 | 21 |
| Vietnam | 264 | 337 | 390 | 351 | 332 | 361 | 322 | 255 |
| Cambodia | 80 | 80 | 70 | 65 | 69 | 52 | 72 | 51 |
| Laos | 1 | 1 | 1 | 2 | 2 | 1 | 1 | 1 |
| Myanmar | 60 | 78 | 150 | 167 | 74 | 65 | 69 | 40 |
| Hong Kong | 1,657 | 1,625 | 1,785 | 1,865 | 1,330 | 1,555 | 1,290 | 812 |
| Japan | 12,288 | 12,885 | 12,485 | 9,116 | 10,397 | 14,415 | 13,010 | 7,398 |
| Other Asia | -627 | -920 | 2,259 | 5,598 | 3,595 | 1,830 | 1,590 | 4,376 |
| Africa | 670 | 619 | 777 | 904 | 995 | 1,114 | 1,081 | 814 |
| USA | 6,322 | 6,795 | 7,148 | 7,031 | 6,897 | 8,475 | 7,749 | 5,242 |
| Canada | 359 | 369 | 400 | 412 | 353 | 404 | 390 | 249 |
| Other America | 439 | 233 | 472 | 154 | 152 | 745 | 308 | 1,022 |
| Australia and Oceania | 620 | 589 | 783 | 910 | 1,020 | 1,040 | 993 | 1,025 |
| Europe | 7,355 | 7,482 | 9,112 | 8,273 | 7,369 | 9,165 | 8,379 | 6,217 |
| European Union | 6,727 | 6,795 | 8,408 | 7,474 | 6,744 | 8,451 | 7,449 | 5,414 |
| o/w United Kingdom | 1,129 | 1,193 | 1,238 | 1,143 | 1,176 | 1,508 | 1,383 | 859 |
| Netherlands | 1,452 | 1,667 | 1,842 | 1,512 | 1,543 | 1,837 | 1,498 | 1,054 |
| Germany | 1,427 | 1,415 | 1,502 | 1,458 | 1,217 | 1,367 | 1,232 | 465 |
| Belgium & Luxemburg | 539 | 780 | 796 | 876 | 697 | 857 | 782 | 548 |
| France | 520 | 589 | 499 | 547 | 503 | 718 | 663 | 439 |
| Denmark | 111 | 141 | 146 | 143 | 142 | 135 | 109 | 72 |
| Ireland | 37 | 38 | 55 | 48 | 42 | 68 | 67 | 38 |
| Italy | 783 | 744 | 826 | 859 | 656 | 718 | 622 | 459 |
| Greece | 79 | 86 | 89 | 108 | 78 | 99 | 94 | 64 |
| Portugal | 49 | 46 | 42 | 37 | 40 | 50 | 76 | 34 |
| Spain | 535 | 813 | 888 | 869 | 742 | 932 | 904 | 610 |
| USSR | 134 | 134 | 86 | 39 | 1 | 2 | 0 | 0 |
| Total | 45,418 | 49,814 | 53,543 | 48,847 | 48,665 | 62,124 | 56,321 | 47,800 |

Source: Central Bureau of Statistics.

**Table 16. Value of Imports by Principal Country of Origin, 1995-2002**
**(US$ million)**

| | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 Jan-Oct |
|---|---|---|---|---|---|---|---|---|---|
| Asean | | 2,632 | 2,814 | 3,743 | 2,646 | 2,977 | 3,563 | 3,196 | 2,661 |
| | Malaysia | 767 | 816 | 865 | 627 | 589 | 1,129 | 1,005 | 613 |
| | Thailand | 737 | 1,081 | 867 | 842 | 933 | 1,109 | 867 | 717 |
| | Philippines | 81 | 90 | 127 | 65 | 55 | 115 | 94 | 72 |
| | Singapore | 2,367 | 2,856 | 3,411 | 2,543 | 2,448 | 3,789 | 3,147 | 2,504 |
| | Brunei | 1 | 238 | 7 | 0 | 38 | 16 | 37 | 14 |
| | Vietnam | 156 | 204 | 117 | 421 | 590 | 303 | 171 | 169 |
| | Cambodia /a | 4 | 650 | 0 | 2 | 1 | 1 | 0 | 0 |
| | Laos /a | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 0 |
| | Myanmar /a | 105 | 34 | 19 | 9 | 19 | 22 | 21 | 23 |
| Hong Kong | | 275 | 266 | 325 | 264 | 227 | 342 | 257 | 145 |
| Japan | | 9,217 | 8,555 | 8,252 | 4,293 | 2,912 | 5,397 | 4,689 | 2,803 |
| Other Asia | | 6,363 | 5,148 | 6,357 | 4,837 | 4,310 | 5,434 | 3,929 | 4,501 |
| Africa | | 369 | 406 | 468 | 399 | 339 | 348 | 369 | 220 |
| USA | | 4,756 | 5,130 | 5,441 | 3,517 | 2,837 | 3,390 | 3,208 | 1,614 |
| Canada | | 811 | 804 | 682 | 504 | 417 | 638 | 357 | 249 |
| Australia and Oceania | | 2,016 | 2,539 | 2,427 | 1,750 | 2,219 | 2,359 | 1,785 | 1,526 |
| Europe | | 7,488 | 7,237 | 9,744 | 6,520 | 4,061 | 4,878 | 3,967 | 3,140 |
| o/w | United Kingdom | 902 | 1,140 | 1,084 | 920 | 511 | 557 | 641 | 333 |
| | Netherlands | 842 | 505 | 566 | 338 | 347 | 434 | 344 | 217 |
| | Germany | 2,819 | 3,010 | 2,629 | 2,366 | 1,398 | 1,245 | 1,301 | 802 |
| | Belgium & Luxemburg | 401 | 398 | 340 | 275 | 178 | 278 | 215 | 124 |
| | France | 1,064 | 1,037 | 1,017 | 568 | 371 | 400 | 397 | 245 |
| | Denmark | 105 | 187 | 159 | 50 | 38 | 44 | 58 | 31 |
| | Ireland | 41 | 40 | 35 | 25 | 31 | 66 | 42 | 28 |
| | Italy | 791 | 1,169 | 918 | 480 | 276 | 345 | 407 | 286 |
| | Greece | 61 | 83 | 52 | 19 | 25 | 15 | 18 | 11 |
| | Portugal | 8 | 217 | 22 | 2 | 2 | 2 | 2 | 2 |
| | Spain | 219 | 342 | 370 | 160 | 206 | 185 | 178 | 85 |
| USSR | | 438 | 406 | 287 | 77 | 0 | 0 | 10 | 0 |
| Total | | 40,654 | 42,918 | 41,846 | 27,335 | 24,003 | 33,515 | 30,962 | 25,466 |

Source: Central Bureau of Statistics.

**Table 17. External Debt Outstanding December 1997-2002**

**( US$ million)**

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | | |
|---|---|---|---|---|---|---|---|---|
| | December | December | December | December | December | March | June | September |
| **External Debt** | **136,088** | **150,885** | **148,130** | **141,695** | **133,073** | **131,554** | **132,043** | **131,331** |
| Government /a | 53,865 | 67,315 | 75,752 | 74,892 | 69,403 | 69,554 | 73,673 | 72,994 |
| Bilateral | 19,517 | 22,373 | 26,190 | 24,645 | 22,719 | 22,921 | 25,158 | 25,143 |
| Multilateral | 18,646 | 26,048 | 30,294 | 31,507 | 29,030 | 28,786 | 29,636 | 28,854 |
| Export Credit Facility | 13,892 | 15,645 | 16,106 | 15,741 | 14,888 | 15,106 | 16,138 | 16,273 |
| Leasing | 920 | 874 | 775 | 602 | 439 | 422 | 403 | 393 |
| Commercial | 890 | 2,375 | 2,387 | 2,397 | 2,327 | 2,319 | 2,338 | 2,330 |
| Private | 71,952 | 78,282 | 69,080 | 64,606 | 60,058 | 58,298 | 56,483 | 56,431 |
| Financial Institutions | 17,779 | 12,835 | 11,872 | 8,868 | 7,713 | 8,734 | 8,372 | 8,021 |
| Banks | 14,364 | 10,768 | 10,837 | 7,718 | 6,649 | 6,308 | 5,848 | 5,153 |
| State owned banks | 5,910 | 4,744 | 4,705 | 4,150 | 3,695 | 3,481 | 3,216 | 2,917 |
| Domestic private banks | 4,124 | 1,852 | 3,547 | 2,326 | 2,268 | 2,211 | 1,998 | 1,625 |
| Joint venture banks | 3,801 | 3,640 | 2,018 | 944 | 656 | 586 | 603 | 581 |
| Foreign banks | 529 | 532 | 567 | 298 | 30 | 30 | 31 | 30 |
| Non-bank | 3,415 | 2,067 | 1,035 | 1,150 | 1,064 | 2,426 | 2,524 | 2,868 |
| Non-Financial Institutions | 54,173 | 65,447 | 57,208 | 55,738 | 52,345 | 49,564 | 48,111 | 48,410 |
| Domestic Securities Owned by non-residents | 10,271 | 5,288 | 3,298 | 2,197 | 3,612 | 3,702 | 1,887 | 1,906 |
| Government | 0 | 13 | 142 | 26 | 1,974 | 2,122 | 401 | 470 |
| Banks | 0 | 42 | 12 | 2 | 0 | 0 | 0 | 0 |
| Non-bank Financial Institutions | 10,271 | 5,233 | 3,144 | 2,169 | 1,638 | 1,580 | 1,486 | 1,436 |

/a Includes debt owed to IMF.

Source: Bank Indonesia.

## Table 18. Domestic Debt Outstanding 1999-2002
**(Rupiah Trillion)**

| | 1999 | 2000 | 2001 | 2002 | | | |
|---|---|---|---|---|---|---|---|
| | December | December | December | March | June | September | December |
| 1 Guarantee Program | | | | | | | |
| Nominal Amount | 218.3 | 218.3 | 218.3 | 218.3 | 218.3 | 218.3 | 218.3 |
| Indexed Amount | .. | 219.1 | 237.3 | 267.1 | 267.1 | 267.1 | 267.1 |
| 2 Recapitalization Program | | | | | | | |
| Nominal Amount | 268.3 | 425.5 | 430.7 | 431.7 | 432.1 | 427.5 | 422.4 |
| Indexed Amount | | 431.8 | 434.6 | 433.4 | 429.0 | 425.4 | 419.4 |
| Variable Rate | 197.0 | 219.5 | 219.5 | 244.3 | 245.2 | 244.4 | 239.6 |
| Fixed Rate | 51.3 | 179.4 | 175.5 | 153.4 | 154.2 | 153.7 | 154.7 |
| Hedge Bond | | | | | | | |
| Nominal Amount | 20.0 | 26.6 | 35.8 | 34.0 | 32.7 | 29.4 | 28.1 |
| Indexed Amount | 26.6 | 32.9 | 39.6 | 35.8 | 29.6 | 27.3 | 25.0 |
| 3 Credit Program | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| 4 Total Outstanding | | | | | | | |
| Nominal Amount | 496.6 | 653.9 | 659.0 | 660.0 | 660.4 | 655.7 | 650.7 |
| Indexed Amount | .. | 660.9 | 681.9 | 710.5 | 706.1 | 702.5 | 696.5 |

**.. :** Data are not available.

Source: Ministry of Finance.

## Table 19. Central Government Budget Summary, 1995/96-2003 /a

**(Rp. billion)**

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 | 2000 9 months | <------ Prov. Actual ------> 2001 | 2002 | <--------- Budget ----------> 2003 | 2003 Revision |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Domestic revenues /b | 70,852 | 87,630 | 107,965 | 146,872 | 204,422 | 205,335 | 299,842 | 303,926 | 327,833 | 336,155 |
| 2. Current expenditures | 35,201 | 44,972 | 75,232 | 115,272 | 173,444 | 178,587 | 232,796 | 200,138 | 186,381 | 188,584 |
| 3. Government saving (1-2) | 35,651 | 42,658 | 32,733 | 31,600 | 30,978 | 26,747 | 67,046 | 103,788 | 141,451 | 147,571 |
| 4. Development expenditures | 27,201 | 32,928 | 36,311 | 52,824 | 57,638 | 38,611 | 39,382 | 46,690 | 54,500 | 65,130 |
| 5. Balanced funds | 0 | 0 | 0 | 0 | 0 | 0 | 82,400 | 97,809 | 113,216 | 116,878 /c |
| 6. Primary Balance | 15,325 | 19,632 | 13,157 | 11,349 | 15,628 | 38,204 | 40,800 | 46,365 | 46,366 | 47,539 |
| 7. Overal Balance (3-4-5) | 8,450 | 9,730 | -3,578 | -21,224 | -26,660 | -11,864 | -54,737 | -40,711 | -26,265 | -34,436 |
| 8. Financing (9 + 10) | 548 | 3,440 | 1,636 | 22,403 | 45,633 | 29,096 | 54,728 | 40,257 | 26,263 | 34,436 |
| 9. Domestic | -8,461 | -8,461 | 0 | 1,634 | 16,867 | 18,900 | 44,190 | 23,993 | 16,852 | 22,450 |
| 10. Foreign, net | 9,009 | 11,900 | 1,636 | 20,769 | 28,766 | 10,196 | 10,538 | 16,264 | 9,412 | 11,986 |
| Program loan | 0 | 0 | 0 | 24,926 | 25,201 | 849 | 10,624 | 34,067 | 33,945 | 37,365 /d |
| Project loan | 0 | 0 | 14,386 | 26,181 | 24,383 | 16,970 | 19,660 | 19,964 | 18,270 | 18,900 |
| Amortization | 9,009 | 11,900 | -12,750 | -30,337 | -20,818 | -7,623 | -19,746 | -37,767 | -42,803 | -44,279 /e |

/a Government new format since 1999/2000 and applied to 1995/96 - 1998/99.
/b Including grants.
/c Including Fund for Special Authonomy.
/d Since 2002 includes rescheduling.
/e Since 2002 before Paris Club reschedulling.

Source: Ministry of Finance.

## Table 20. Central Government Revenues, 1995/96-2003 /a

**(Rp. billion)**

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 | 2000 9 months | <---- Prov. Actual ------> 2001 | 2002 | <--------- Budget ----------> 2003 | 2003 Revision |
|---|---|---|---|---|---|---|---|---|---|---|
| **State Revenues and Grants** | **70,852** | **87,630** | **107,965** | **146,872** | **204,422** | **205,335** | **299,842** | **304,182** | **327,833** | **336,155** |
| I. Domestic Revenues | 70,852 | 87,630 | 107,965 | 146,872 | 204,422 | 205,335 | 299,842 | 303,926 | 327,833 | 336,155 |
| 1. Tax Revenues | 54,258 | 64,422 | 81,752 | 118,795 | 135,533 | 115,913 | 184,737 | 214,074 | 260,785 | 254,140 |
| a. Domestic Taxes | 51,042 | 61,762 | 78,625 | 111,860 | 130,497 | 108,884 | 174,189 | 202,069 | 246,528 | 241,742 |
| i. Income Taxes | 26,583 | 34,144 | 45,206 | 72,345 | 82,311 | 57,073 | 92,767 | 103,314 | 124,704 | 120,925 |
| - Non-Oil & Gas | 21,012 | 27,062 | 34,388 | 55,944 | 59,683 | 38,422 | 69,696 | 87,200 | 112,153 | 106,149 |
| - Oil & Gas | 5,571 | 7,082 | 10,818 | 16,401 | 22,628 | 18,652 | 23,071 | 16,114 | 12,551 | 14,776 |
| ii. Sales tax (VAT) | 18,519 | 20,351 | 25,199 | 27,803 | 33,087 | 35,232 | 55,841 | 67,300 | 82,133 | 80,790 |
| iii. Property taxes | 1,894 | 2,413 | 2,641 | 3,565 | 4,107 | 4,456 | 6,289 | 7,531 | 9,873 | 9,926 |
| iv. Excises | 3,593 | 4,263 | 5,101 | 7,733 | 10,381 | 11,287 | 17,622 | 22,469 | 27,646 | 27,946 |
| v. Other taxes | 453 | 591 | 478 | 413 | 611 | 837 | 1,670 | 1,455 | 2,172 | 2,157 |
| b. International Trade Taxes | 3,216 | 2,660 | 3,127 | 6,936 | 5,036 | 7,028 | 10,548 | 12,005 | 14,257 | 12,398 |
| i. Import duties | 3,029 | 2,579 | 2,999 | 2,306 | 4,177 | 6,697 | 9,828 | 11,699 | 13,823 | 11,960 |
| ii.Export taxes | 186 | 81 | 129 | 4,630 | 859 | 331 | 720 | 305 | 434 | 138 |
| 2. Non Tax Receipts | 16,595 | 23,209 | 26,213 | 28,076 | 68,889 | 89,422 | 115,105 | 89,853 | 67,047 | 82,015 |
| a. Natural Resources Revenues | 10,483 | 13,055 | 15,431 | 15,431 | 35,854 | 76,290 | 86,658 | 67,963 | 49,563 | 59,295 |
| i. Oil | 9,093 | 11,235 | 10,701 | 10,701 | 28,898 | 50,953 | 60,038 | 47,679 | 33,109 | 39,811 |
| ii. Gas | 1,391 | 1,821 | 4,730 | 4,730 | 6,956 | 15,708 | 21,847 | 16,347 | 13,494 | 16,285 |
| iii. Public Mining | 0 | 0 | 0 | 0 | 0 | 857 | 1,627 | 1,429 | 1,483 | 1,483 |
| iv. Forestry | 0 | 0 | 0 | 0 | 0 | 8,719 | 3,001 | 2,359 | 1,186 | 1,268 |
| v. Fishery | 0 | 0 | 0 | 0 | 0 | 53 | 146 | 150 | 292 | 450 |
| b. Profits of Public Enterprises | 1,604 | 2,650 | 2,341 | 3,428 | 5,430 | 4,018 | 10,440 | 10,617 | 8,512 | 10,514 |
| c. Other Non-tax revenues (PNBP) | 4,508 | 7,503 | 8,442 | 9,217 | 27,605 | 9,114 | 18,007 | 11,273 | 8,972 | 12,206 |
| II. Grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 256 | 0 | 0 |

Government new format since 1999/2000 and applied to 1995/96 - 1998/99.

Source: Ministry of Finance.

**Table 21. Central Government Expenditures, 1995/96-2003 /a**

**(Rp. billion)**

| | | | | | | | <---- Prov. Actual ------> | | <--------- Budget ----------> | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/2000 | 2000 9 months | 2001 | 2002 | 2003 | 2003 Revision |
| **Total Expenditures** | **62,402** | **77,900** | **111,543** | **168,096** | **231,082** | **217,199** | **354,578** | **344,637** | **354,098** | **370,592** |
| I. Current Expenditures | 35,201 | 44,972 | 75,232 | 115,272 | 173,444 | 178,587 | 232,796 | 200,138 | 186,381 | 188,584 |
| Personnel expenditures | 13,001 | 14,455 | 17,269 | 23,216 | 32,719 | 29,613 | 39,544 | 42,196 | 51,925 | 50,241 |
| Material expenditures | 5,175 | 8,109 | 8,999 | 9,862 | 10,765 | 9,605 | 9,604 | 13,899 | 15,387 | 15,427 |
| Transfers to regions | 8,227 | 9,358 | 11,061 | 13,074 | 17,485 | 16,010 | 0 | 0 | 0 | 0 |
| Interest Payments | 6,875 | 9,902 | 16,735 | 32,574 | 42,288 | 50,068 | 95,527 | 91,583 | 80,887 | 81,975 |
| Domestic | 0 | 0 | 0 | 8,385 | 22,230 | 31,238 | 66,251 | 63,258 | 55,094 | 55,180 |
| External | 6,875 | 9,902 | 16,735 | 24,189 | 20,058 | 18,830 | 29,277 | 28,325 | 25,793 | 26,795 |
| Subsidies | 0 | 1,416 | 20,413 | 33,872 | 65,916 | 62,745 | 81,575 | 42,636 | 25,339 | 25,465 |
| Petroleum subsidies | 0 | 1,416 | 9,814 | 28,607 | 40,923 | 53,810 | 68,381 | 31,162 | 13,559 | 13,210 |
| Non-petroleum subsidies | 0 | 0 | 10,599 | 5,265 | 24,993 | 8,936 | 13,194 | 11,474 | 11,781 | 12,255 |
| Other Current Expenditures | 1,923 | 1,733 | 756 | 2,674 | 4,271 | 10,546 | 6,546 | 9,825 | 12,842 | 15,476 |
| Development Expenditures | 27,201 | 32,928 | 36,311 | 52,824 | 57,638 | 38,611 | 39,382 | 46,690 | 54,500 | 65,130 |
| 1. Rupiah Financing | 18,192 | 21,028 | 21,926 | 26,643 | 33,255 | 21,642 | 19,712 | 26,470 | 36,230 | 46,230 |
| a. Capital transfer to region | 5,488 | 6,472 | 7,512 | 13,575 | 12,451 | 12,796 | 0 | 0 | 0 | 0 |
| b. Central government budget | 12,704 | 14,556 | 14,414 | 13,068 | 20,804 | 8,845 | 19,712 | 26,470 | 36,230 | 46,230 |
| 2. Project financing with foreign loan | 9,009 | 11,900 | 14,386 | 26,181 | 24,383 | 16,970 | 19,670 | 20,220 | 18,270 | 18,900 |
| III. Balanced Funds | 0 | 0 | 0 | 0 | 0 | 0 | 82,400 | 94,038 | 103,591 | 107,490 |
| 1. Revenue sharing funds | 0 | 0 | 0 | 0 | 0 | 0 | 21,183 | 24,266 | 25,853 | 27,896 |
| 2. General allocation funds | 0 | 0 | 0 | 0 | 0 | 0 | 60,517 | 69,114 | 75,414 | 76,978 |
| 3. Special allocation funds | 0 | 0 | 0 | 0 | 0 | 0 | 701 | 658 | 2,324 | 2,617 |
| Fund for Special Authonomy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,770 | 9,625 | 9,387 |

Government new format since 1999/2000 and applied to 1995/96 - 1998/99.

Source: Ministry of Finance.

## Table 22. Financial Vulnerability Indicators 1996-2002

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|
| **A. Market Indicators** | | | | | | | |
| Annual percent change in average exchange rate (-=appreciation) | 4.2 | 24.2 | 244.2 | -21.6 | 7.2 | 21.8 | -9.8 |
| Annual change in stock market index (%) | 24.1 | 1.9 | -30.2 | 29.7 | -9.0 | -17.9 | 12.4 |
| **B. Risk Ratings** | | | | | | | |
| ICRG composite (1-100, bad to good) | 70.0 | 60.3 | 41.0 | 51.8 | 54.8 | 56.3 | 58.3 |
| Euromoney (1-100, bad to good) | .. | .. | .. | .. | .. | 33.4 | .. |
| Institutional Investor (1-100, bad to good) | .. | .. | .. | .. | .. | .. | 21.6 |
| **C. Financial** | | | | | | | |
| Annual growth in real domestic credit (%) /c | 12.0 | 32.6 | 20.2 | 15.1 | 14.7 | -6.4 | -6.0 |
| Foreign currency to total deposits (%) | 24.9 | 44.9 | 33.3 | 26.9 | 29.6 | 25.5 | 21.8 |
| Non-perfm. loans of commercial banks (% of total) | 9.5 | 8.1 | 23.0 | 32.8 | 18.8 | 12.1 | 10.8 |
| **D. Reserve Cover Indicators** | | | | | | | |
| Reserve cover of imports (months of imports) | .. | .. | 6.5 | 6.9 | 6.4 | 6.7 | .. |
| Reserves/M2 | 0.2 | 0.1 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| **E. Prices** | | | | | | | |
| Annual change in terms of trade (%) | 2.0 | 7.9 | 5.4 | -8.1 | -1.4 | 0.3 | -3.6 |
| Annual appreciation REER (%) | 5.1 | -5.6 | -51.7 | 45.2 | -1.9 | -4.7 | 26.1 |
| **F. External** | | | | | | | |
| Current account balance (% of GDP) | -3.4 | -2.3 | 4.3 | 4.1 | 5.3 | 4.7 | 4.0 |
| External Debt (% of GDP) | 56.7 | 63.1 | 158.1 | 105.8 | 93.1 | 91.6 | 75.6 |
| **G. Fiscal sustainability indicators 1/** | | | | | | | |
| Total net public debt (% of GDP) /b | 20.3 | 23.7 | 77.1 | 102.5 | 94.0 | 91.9 | 79.0 |
| Overall public sector balance (% of GDP) /a | 1.8 | 0.1 | -2.0 | -2.3 | -1.2 | -3.7 | -2.5 |
| Primary balance (Overall bal.-interest; % of GDP) | 3.6 | 2.5 | 1.1 | 1.4 | 3.9 | 2.8 | 2.7 |

/a Indonesia Fiscal Year.
/b Include IMF.
/c Not corrected for foreign exchange variation.
**.. :** Data are not available.

Sources: World Development Indicator and Indonesia Central Bureau of Statatistics.

## Table 23. Changes in Money Supply and Sources of Change, 1995-2002

**(Rp. billion)**

| End of period | Net foreign assets | Public sector: Net claims on Central Government | Public sector: Claims on official entities & public enterprises | Claims on businesses & individuals | Net other items | Money Supply: M2 /b | Money Supply: M1: Total | Money Supply: M1: Currency | Money Supply: M1: Demand Deposits | Quasy Money |
|---|---|---|---|---|---|---|---|---|---|---|
| 1995 | 7,354 | -7,472 | 1,305 | 47,504 | -565 | 48,126 | 7,303 | 2,173 | 5,130 | 40,823 |
| 1996 | 18,015 | -2,757 | 4,626 | 51,768 | -5,658 | 65,994 | 11,412 | 1,680 | 9,732 | 54,582 |
| 1997 | 17,344 | -16,486 | 5,031 | 132,031 | -70,909 | 67,011 | 14,254 | 5,937 | 8,317 | 52,757 |
| 1998 | 73,692 | 17,513 | 6,389 | 93,032 | 31,112 | 221,738 | 22,854 | 12,970 | 9,884 | 198,884 |
| 1999 | -12,581 | 425,287 /a | -8,139 | -291,550 | -44,193 | 68,824 | 23,436 | 16,959 | 6,477 | 45,388 |
| 2000 | 81,637 | 123,060 | -4,505 | 46,852 | -146,221 | 100,823 | 37,553 | 14,018 | 23,535 | 63,270 |
| 2001 | 23,242 | 9,389 | 3,980 | 30,250 | 30,164 | 97,025 | 15,545 | 3,971 | 11,574 | 81,480 |
| 2002 /c | 21,792 | 8,156 | 6,200 | 22,342 | -5,823 | 54,496 | 11,704 | 5,796 | 5,908 | 42,792 |

/a Includes effects of bank recapitalization.
/b M2 equal to M1 plus Quasy Money.
/c The change of October 2002 compare to October 2001.

Source: Bank Indonesia.

**Table 24. Banking Credits Outstanding in Rupiah and Foreign Exchange by Economic Sector, 1995 - 2002 /a**

**(Rp. billion)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 /e |
|---|---|---|---|---|---|---|---|---|
| Agriculture | 15,525 | 17,630 | 26,002 | 39,308 | 23,777 | 19,503 | 20,863 | 22,594 |
| In rupiah | 13,661 | 15,158 | 20,340 | 29,430 | 21,139 | 15,028 | 16,851 | 18,545 |
| In foreign exchange | 1,864 | 2,472 | 5,662 | 9,878 | 2,638 | 4,475 | 4,012 | 4,049 |
| Mining /b | 913 | 1,693 | 5,316 | 5,909 | 3,697 | 6,680 | 7,440 | 4,788 |
| In rupiah | 434 | 716 | 2,769 | 2,729 | 879 | 2,879 | 3,676 | 1,760 |
| In foreign exchange | 479 | 977 | 2,547 | 3,180 | 2,818 | 3,801 | 3,764 | 3,028 |
| Manufacturing industry /c | 72,088 | 78,850 | 111,679 | 171,668 | 84,259 | 106,782 | 116,525 | 114,634 |
| In rupiah | 48,476 | 51,984 | 56,123 | 85,594 | 35,561 | 35,697 | 50,434 | 58,962 |
| In foreign exchange | 23,612 | 26,866 | 55,556 | 86,074 | 48,698 | 71,085 | 66,091 | 55,672 |
| Trade | 54,224 | 70,586 | 82,264 | 96,364 | 43,288 | 44,099 | 48,450 | 63,806 |
| In rupiah | 43,608 | 55,763 | 57,471 | 59,830 | 29,687 | 30,601 | 38,491 | 54,992 |
| In foreign exchange | 10,616 | 14,823 | 24,793 | 36,534 | 13,601 | 13,498 | 9,959 | 8,814 |
| Service rendering industry /d | 66,584 | 91,655 | 113,569 | 139,124 | 43,161 | 44,316 | 49,061 | 60,013 |
| In rupiah | 57,432 | 78,392 | 85,598 | 101,129 | 26,332 | 23,784 | 30,696 | 41,704 |
| In foreign exchange | 9,152 | 13,263 | 27,971 | 37,995 | 16,829 | 20,532 | 18,365 | 18,309 |
| Others | 25,277 | 32,507 | 39,304 | 35,053 | 26,951 | 47,620 | 65,255 | 81,953 |
| In rupiah | 25,265 | 32,478 | 39,233 | 34,406 | 26,929 | 44,493 | 62,470 | 80,046 |
| In foreign exchange | 12 | 29 | 71 | 647 | 22 | 3,127 | 2,785 | 1,907 |
| Total | 234,611 | 292,921 | 378,134 | 487,426 | 225,133 | 269,000 | 307,594 | 347,788 |
| In rupiah | 188,876 | 234,491 | 261,534 | 313,118 | 140,527 | 152,482 | 202,618 | 255,009 |
| In foreign exchange | 45,735 | 58,430 | 116,600 | 174,308 | 84,606 | 116,518 | 104,976 | 92,779 |

/a Credits outstanding at end of period. Includes investment credits, KIK and KMKP. Excludes interbank credits, credits to central government and to nonresidents, bridging finance credit, foreign exchange component of project aid, local cost of investment fund accounts, and credit extended to bank branches abroad.

/b Includes credits to PERTAMINA for repayment of foreign borrowing.

/c Processing of agricultural products is classified under manufacturing industry according to ISIC 1968

/d Credits for electricity, gas and water supply are included in service rendering industry sector.

/e As of October 2002

Source: Bank Indonesia.

## Table 25. Banking Credits Outstanding in Rupiah and Foreign Exchange by Group of Banks, 1995-2002

**(Rp. billion)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 /d |
|---|---|---|---|---|---|---|---|---|
| Bank Indonesia direct credits /b | 71 | 26 | 50 | 40 | 38 | 36 | 34 | 34 |
| In rupiah | 71 | 26 | 50 | 40 | 38 | 36 | 34 | 34 |
| In foreign exchange | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| State banks | 93,480 | 108,925 | 153,266 | 220,747 | 112,288 | 102,061 | 117,104 | 135,221 |
| In rupiah | 79,394 | 93,051 | 113,436 | 160,113 | 84,038 | 68,489 | 83,122 | 102,956 |
| In foreign exchange | 14,086 | 15,874 | 39,830 | 60,634 | 28,250 | 33,572 | 33,982 | 32,265 |
| Private national banks /c | 116,886 | 156,412 | 176,262 | 199,931 | 62,805 | 92,531 | 117,291 | 150,434 |
| In rupiah | 99,466 | 130,194 | 135,475 | 139,155 | 46,047 | 66,281 | 96,937 | 130,753 |
| In foreign exchange | 17,420 | 26,218 | 40,787 | 60,776 | 16,758 | 26,250 | 20,354 | 19,681 |
| Foreign banks | 24,245 | 27,584 | 48,606 | 66,748 | 50,040 | 74,408 | 73,199 | 62,133 |
| In rupiah | 10,016 | 11,245 | 12,623 | 13,850 | 10,442 | 17,712 | 22,559 | 21,300 |
| In foreign exchange | 14,229 | 16,339 | 35,983 | 52,898 | 39,598 | 56,696 | 50,640 | 40,833 |
| Total | 234,682 | 292,947 | 378,184 | 487,466 | 225,171 | 269,036 | 307,628 | 347,822 |
| In rupiah | 188,947 | 234,516 | 261,584 | 313,158 | 140,565 | 152,518 | 202,652 | 255,043 |
| In foreign exchange | 45,735 | 58,431 | 116,600 | 174,308 | 84,606 | 116,518 | 104,976 | 92,779 |

/a Credits outstanding at end of period. Includes investment credits. Excludes interbank credits, credits to Central Government and to non-residents, bridging finance credit, foreign exchange components of project aid, local cost of investment fund accounts and credits extend to bank branches abroad.
/b Excludes liquidity credits, includes credits to Pertamina for repayment for foreign borrowing.
/c Includes regional gevernment banks.
/d As of October 2002.

Source: Bank Indonesia

**Table 26. Commercial Banks' Outstanding Investment Credits in Rupiah and Foreign Exchange by Economic Sector, 1995-2002**
**(Rp. billion)**

| End of period | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 /b |
|---|---|---|---|---|---|---|---|---|
| Credits outstanding /a | 59,274 | 70,443 | 100,735 | 141,464 | 57,691 | 65,256 | 73,466 | 79,634 |
| Agriculture | 10,564 | 11,737 | 14,629 | 17,250 | 11,615 | 10,810 | 12,115 | 12,965 |
| Mining | 256 | 405 | 1,321 | 2,029 | 1,329 | 2,884 | 6,242 | 2,314 |
| Manufacturing industry | 23,159 | 24,248 | 35,094 | 49,801 | 22,981 | 26,210 | 28,317 | 30,686 |
| Trade | 8,468 | 11,891 | 17,928 | 24,299 | 7,107 | 7,781 | 8,090 | 9,285 |
| Service rendering industry | 16,827 | 22,162 | 31,763 | 48,085 | 14,659 | 17,571 | 18,702 | 24,384 |
| Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

/a Excludes Small Scale Investment Credits, investment credits to the Central Government and to non resident, bridging finance credit, foreign exchange components of project aid, and local cost of investment fund accounts and credit extended bank branches abroad.
/b As of October 2002.

Source: Bank Indonesia.

**Table 27. Commercial Banks' Outstanding Funds in Rupiah and Foreign Exchange by Group of Banks, 1995-2002 /a**
**(Rp. billion)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 /b |
|---|---|---|---|---|---|---|---|---|
| **Deposits** | | | | | | | | |
| State Banks | 75,920 | 90,434 | 133,042 | 271,554 | 286,427 | 328,457 | 369,328 | 369,681 |
| Private Banks | 117,451 | 164,979 | 177,193 | 235,605 | 252,880 | 279,037 | 305,451 | 329,919 |
| Regional Development Banks | 7,812 | 8,522 | 8,796 | 10,932 | 14,017 | 19,896 | 37,088 | 47,330 |
| Foreign Banks | 13,581 | 17,783 | 38,582 | 55,433 | 72,294 | 92,989 | 97,259 | 84,188 |
| Total | 214,764 | 281,718 | 357,613 | 573,524 | 625,618 | 720,379 | 809,126 | 831,118 |
| **Share in Total Deposits** | | | | | | | | |
| State Banks | 35.4 | 32.1 | 37.2 | 47.3 | 45.8 | 45.6 | 45.6 | 44.5 |
| Private Banks | 54.7 | 58.6 | 49.5 | 41.1 | 40.4 | 38.7 | 37.8 | 39.7 |
| Regional Development Banks | 3.6 | 3.0 | 2.5 | 1.9 | 2.2 | 2.8 | 4.6 | 5.7 |
| Foreign Banks | 6.3 | 6.3 | 10.8 | 9.7 | 11.6 | 12.9 | 12.0 | 10.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| **Annual Growth Rate in Deposits** | | | | | | | | |
| State Banks | 18.1 | 19.1 | 47.1 | 104.1 | 5.5 | 14.7 | 1.2 | 1.1 |
| Private Banks | 32.1 | 40.5 | 7.4 | 33.0 | 7.3 | 10.3 | 1.2 | 1.1 |
| Regional Development Banks | 26.3 | 9.1 | 3.2 | 24.3 | 28.2 | 41.9 | 2.1 | 1.3 |
| Foreign Banks | 23.3 | 30.9 | 117.0 | 43.7 | 30.4 | 28.6 | 1.2 | 0.9 |
| Total | 26.0 | 31.2 | 26.9 | 60.4 | 9.1 | 15.1 | 1.2 | 1.1 |

/a Demand, time and savings deposits including non resident and central government accounts.
/b As of October 2002.

Source : Bank Indonesia.

**Table 28. Interest Rates, 1995-2002**
**(Percent per year)**

| Year | Interbank call money /a | SBI /b | Time Deposits | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | State bank | | | | | Private national bank | | | | |
| | | | 1 mo | 3 mos | 6 mos | 12 mos | 24 mos | 1 mo | 3 mos | 6 mos | 12 mos | 24 mos |
| 1995 | 13.6 | 14.1 | 14.3 | 13.8 | 14.7 | 13.7 | 13.8 | 17.3 | 17.5 | 17.0 | 15.9 | 15.7 |
| 1996 | 14.0 | 13.8 | 15.2 | 14.9 | 16.3 | 16.0 | 15.4 | 17.4 | 17.8 | 17.6 | 17.3 | 16.7 |
| 1997 | 27.8 | 14.5 | 17.7 | 17.9 | 15.3 | 15.5 | 15.4 | 22.0 | 21.0 | 17.4 | 17.2 | 16.9 |
| 1998 | 62.8 | 49.3 | 47.4 | 38.5 | 25.6 | 22.3 | 15.9 | 49.7 | 40.3 | 26.9 | 21.4 | 19.0 |
| 1999 | 23.6 | 23.1 | 23.3 | 25.8 | 25.2 | 27.8 | 17.2 | | 25.9 | 24.6 | 25.4 | 21.8 |
| 2000 | 10.3 | 12.5 | 11.4 | 12.7 | 12.9 | 15.5 | 13.8 | 11.1 | 12.2 | 12.5 | 12.7 | 14.3 |
| 2001 | 15.0 | 16.6 | 14.9 | 15.6 | 15.3 | 14.3 | 16.9 | 14.5 | 15.3 | 14.8 | 12.9 | 16.4 |
| 2002 /c | 13.5 | 14.9 | 14.7 | 15.8 | 15.8 | 16.4 | 18.1 | 15.0 | 16.1 | 15.5 | 15.6 | 17.9 |

/a Average rate of overnight interest rate on Interbank Call Money transactions recorded at the Jakarta Clearing House.
/b Thirty days Bank Indonesia Certificate transactions.
/c Average rate January-October 2002.

Source: Bank Indonesia.

## Table 29. Principal Agricultural Products by Subsectors, 1995-2002

**(thousand tons)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| Food crops | | | | | | | |
| Paddy /a | 49,744 | 51,101 | 49,377 | 49,200 | 50,855 | 51,899 | 49,591 |
| Corn | 8,246 | 9,307 | 8,771 | 10,169 | 9,204 | 9,677 | 9,165 |
| Cassava | 15,441 | 17,002 | 15,134 | 14,696 | 16,459 | 16,089 | 16,596 |
| Sweet potato | 2,171 | 2,018 | 1,847 | 1,935 | 1,666 | 1,828 | 1,707 |
| Soya beans (shelled) | 1,680 | 1,517 | 1,357 | 1,306 | 1,383 | 1,018 | 724 |
| Peanuts (shelled) | 760 | 738 | 688 | 692 | 660 | 737 | 827 |
| Fishery | | | | | | | |
| Saltwater fish | 3,293 | 3,384 | 3,613 | 3,490 | 3,930 | 4,076 | .. |
| Freshwater fish | 971 | 1,069 | 967 | 976 | 1,098 | 1,041 | .. |
| Cash crops | | | | | | | |
| Dry Rubber | 341 | 335 | 310 | 331 | 304 | 336 | 339 |
| Coffee | 21 | 27 | 23 | 24 | 27 | 30 | 27 |
| Tea | 111 | 80 | 100 | 157 | 132 | 128 | 131 |
| Cane Sugar | 2,105 | 2,160 | 2,167 | 2,065 | 1,908 | 1,896 | 1,870 |
| Tobacco | 10 | 7 | 8 | 18 | 28 | 15 | 5 |
| Palm oil | 2,476 | 2,570 | 2,981 | 3,855 | 4,025 | 4,094 | 4,093 |
| Palm kernel | 605 | 627 | 708 | 778 | 915 | 931 | 938 |
| Forestry /b | | | | | | | |
| Log | 24,850 | 26,069 | 29,520 | 19027 | 20,620 | 13,798 | 10,051 |
| Sawn Timber | 2,014 | 3,565 | 2,613 | 2707 | 2,060 | 2,790 | 675 |
| Plywood | 9,122 | 10,270 | 6,710 | 7155 | 4,612 | 4,443 | 2,101 |

/a Dry husk paddy grain ready for milling.
/b In thousand cubic meters, and in GOI FY -April to March until the year 1999, and April to December in FY 2000.
**.. :** Data are not available

Source: Central Bureau of Statistics, Ministry of Agriculture, and Ministry of Forestry.

**Table 30. Production of Major Crops by Type of Estate, 1995-2001**
**(thousand tons)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| Smallholder Estate | | | | | | | |
| Rubber | 1,191 | 1,193 | 1,174 | 1,381 | 1,206 | 1,212 | 1,219 |
| Coconut/copra | 2,662 | 2,687 | 2,620 | 2,690 | 2,904 | 2,932 | 2,940 |
| Coffee | 430 | 436 | 396 | 470 | 494 | 478 | 498 |
| Cacao | 232 | 304 | 264 | 370 | 305 | 310 | 316 |
| Tea | 33 | 34 | 33 | 34 | 35 | 34 | 34 |
| Tobacco | 137 | 148 | 206 | 102 | 132 | 132 | 131 |
| Pepper | 59 | 52 | 47 | 64 | 61 | 62 | 63 |
| Palm oil | 1,001 | 1,134 | 1,293 | 1,348 | 1,544 | 1,598 | 1,730 |
| Casiavera | 37 | 39 | 37 | 42 | 38 | 40 | 40 |
| Large Estates | | | | | | | |
| Rubber | 341 | 335 | 331 | 333 | 294 | 336 | 328 |
| Coconut/copra | 43 | 74 | 73 | 88 | 91 | 92 | 93 |
| Coffee | 21 | 27 | 31 | 29 | 28 | 28 | 29 |
| Tea | 111 | 132 | 121 | 133 | 126 | 128 | 129 |
| Sugar \a | 2,105 | 2,160 | 2,187 | 1,929 | 1,801 | 1,896 | 2,025 |
| Tobacco | 10 | 7 | 7.8 | 7.7 | 5.8 | 6.3 | 5 |
| Palm oil | 2,476 | 2,570 | 4,081 | 4,013 | 4,455 | 4,531 | 4,596 |

\a Including sugarcane produced by smallholders.

**Table 31. Rice-Area Harvested, Production and Yield, 1995-2002**

| Year | Area harvested (thd. ha) | Average yield (tons/ha) | Paddy output (thd. tons) | Rice output /a (thd. tons) | Growth (%) |
|---|---|---|---|---|---|
| 1995 | 11,439 | 4.3 | 49,744 | 32,334 | 6.65 |
| 1996 | 11,570 | 4.4 | 51,102 | 33,216 | 2.73 |
| 1997 | 11,141 | 4.4 | 49,377 | 32,095 | -3.37 |
| 1998 | 11,716 | 4.2 | 49,237 | 32,004 | -0.28 |
| 1999 | 11,963 | 4.3 | 50,866 | 33,063 | 3.31 |
| 2000 | 11,793 | 4.4 | 51,899 | 33,734 | 2.03 |
| 2001 | 11,499 | 4.4 | 50,460 | 32,799 | -2.77 |
| 2002 /b | 11,641 | 4.4 | 51,604 | 33,543 | 2.27 |

/a Estimated on the basis of a conversion factor of 0.68 from paddy into rice for the years prior to 1989, and 0.65 for the years 1989 and after.
/b Projection.

Source: Central Bureau of Statistics.

***Revised***

**Table 32 . Selected Indicators of Real Sector Development, 1995-2002**
**(Percent per year)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | |
|---|---|---|---|---|---|---|---|---|---|
| Electricity Consumption (Million KWH) | 45,339 | 51,797 | 58,566 | 59,614 | 65,045 | 72,546 | 77,428 | 65,317 | Jan-Oct 2002 |
| Social | 1,059 | 1,164 | 1,276 | 1,323 | 1,360 | 1,520 | 1,662 | 1,384 | |
| Household | 15,477 | 17,731 | 20,636 | 22,751 | 24,535 | 27,857 | 30,288 | 25,260 | |
| Business | 5,555 | 6,743 | 7,858 | 7,938 | 8,514 | 9,345 | 9,976 | 8,645 | |
| Industry | 21,600 | 24,336 | 26,793 | 25,472 | 28,522 | 31,388 | 33,073 | 27,939 | |
| Public | 1,648 | 1,823 | 2,003 | 2,131 | 1,224 | 1,905 | 2,193 | 1,880 | |
| Cement Sales (Thousand ton) | 24,176 | 25,420 | 27,402 | 19,307 | 19,294 | 11,017 | 11,215 | 8,900 | Jan-Nov 2002 |
| Cement Consumption (Thousand ton) | 24,062 | 25,998 | 27,765 | 19,243 | 18,770 | 22,384 | 25,388 | 20,265 | Jan-Nov 2002 |
| Car Sales (Units) | 378,704 | 325,789 | 386,709 | 58,011 | 94,003 | 298,391 | 299,629 | 271,649 | Jan-Oct 2002 |
| Commercial | 340,868 | 287,899 | 313,459 | 46,398 | 82,691 | 251,591 | 264,441 | 248,408 | |
| Passenger car | 37,836 | 37,890 | 73,250 | 11,613 | 11,312 | 46,800 | 35,188 | 23,241 | |
| Motorcycle Sales (Units) | 1,043,538 | 1,425,379 | 1,861,111 | 511,812 | 487,356 | 864,146 | 1,575,788 | 2,167,575 | Jan-Nov 2002 |
| Tourist Arrival (Persons) | 3,610,164 | 4,230,817 | 4,227,616 | 3,509,298 | 3,672,741 | 3,898,458 | 3,908,882 | 3,569,587 | Jan-Oct 2002 |
| Cargo Loaded and Unloaded (Million ton) | | | | | | | | | Jan-Jul 2002 |
| Loaded International | 13.6 | 14.0 | 18.6 | 21.9 | 12.5 | 8.2 | 11.7 | 6.1 | |
| Loaded Domestic | 11.9 | 11.4 | 13.5 | 9.0 | 9.0 | 7.3 | 12.0 | 8.4 | |
| Unloaded International | 28.2 | 27.6 | 32.9 | 20.8 | 17.7 | 15.9 | 18.5 | 12.8 | |
| Unloaded Domestic | 30.2 | 30.4 | 33.2 | 27.7 | 27.8 | 29.1 | 36.2 | 24.7 | |

Source: State Electricity Corporation, Cement Associations, and Central Bureau of Statistics.

**<u>Table 33. Fuel Production by Company, 1995-2002</u>**

**(thousand bbls)**

| | Crude Oil | | Condensate | | Natural gas (000 MSCF) | |
|---|---|---|---|---|---|---|
| | Pertamina | Production sharing Contract | Pertamina | Production sharing Contract | Pertamina | Production sharing Contract |
| 1995 | 20,656 | 465,812 | 273 | 60,155 | 329,675 | 2,675,683 |
| 1996 | 27,251 | 463,570 | 60 | 63,042 | 345,193 | 2,821,427 |
| 1997 | 31,423 | 454,159 | 95 | 59,034 | 340,451 | 2,825,291 |
| 1998 | 43,090 | 438,565 | 518 | 55,327 | 338,012 | 2,641,448 |
| 1999 | 41,161 | 400,184 | 209 | 53,972 | 327,584 | 2,740,238 |
| 2000 | 45,683 | 419,700 | 720 | 51,401 | 347,662 | 2,559,665 |
| 2001 | 46,119 | 395,766 | 317 | 47,944 | 342,594 | 2,460,639 |
| 2002 /a | 10,796 | 94,904 | 22 | 12,576 | 81,640 | 693,083 |

/a Data January-March 2002.

Source: Ministry of Mines and Energy.

**Table 34. Domestic Sales of Petroleum Products, 1995-2001**
**(thousand bbls.)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| Aviation gas | 50 | 50 | 47 | 35 | 36 | 34 | 22 |
| Aviation turbo | 6,274 | 6,497 | 7,371 | 5,011 | 4,107 | 4,681 | 4,319 |
| Regular gasoline | 57,806 | 63,410 | 68,124 | 69,006 | 72,430 | 78,131 | 81,832 |
| Kerosene | 58,196 | 61,526 | 62,693 | 63,804 | 75,017 | 78,328 | 77,269 |
| Motor diesel | 106,685 | 118,287 | 137,364 | 123,738 | 126,731 | 136,492 | 147,251 |
| Industrial diesel | 10,010 | 8,625 | 8,877 | 7,999 | 9,550 | 9,126 | 9,050 |
| Fuel oil | 22,914 | 24,802 | 31,805 | 32,885 | 34,148 | 37,474 | 39,914 |
| Total | 261,935 | 283,198 | 316,281 | 302,479 | 322,019 | 344,266 | 359,657 |

Source: Ministry of Mines and Energy.

**Table 35. Consumer Price Index, 1996-2002 /a**

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|
| Percentage change of CPI (%) | | 6.1 | 58.5 | 20.5 | 3.7 | 11.5 | 11.9 |
| Index | | | | | | | |
| General CPI | 100.0 | 106.1 | 168.2 | 202.8 | 210.3 | 234.5 | 262.3 |
| Foodstuff | 100.0 | 108.7 | 209.2 | 261.5 | 249.0 | 270.0 | 299.3 |
| Prepared food and beverages | 100.0 | 105.2 | 173.9 | 215.9 | 229.5 | 261.5 | 292.9 |
| Housing | 100.0 | 105.5 | 141.7 | 164.8 | 175.2 | 196.2 | 224.8 |
| Clothing | 100.0 | 104.2 | 191.7 | 230.7 | 245.3 | 267.8 | 280.3 |
| Health | 100.0 | 108.5 | 179.5 | 218.1 | 229.9 | 255.5 | 272.4 |
| Education | 100.0 | 109.1 | 147.0 | 165.3 | 183.9 | 211.4 | 235.6 |
| Transport. & Communications | 100.0 | 103.7 | 145.1 | 169.4 | 182.8 | 208.1 | 245.2 |
| Food | 100.0 | 107.2 | 193.9 | 241.7 | 240.5 | 266.3 | 296.5 |
| o/w Rice | 100.0 | 112.2 | 233.4 | 292.8 | 260.2 | 273.3 | 330.9 |
| Non-Food | 100.0 | 105.7 | 152.0 | 177.7 | 190.5 | 213.8 | 240.7 |

/a Consumer price index average of the year.

Source: Central Bureau of Statistics.

## <u>Table 36. Wholesale Price Index, 1995-2002 /a</u>

**(1983 = 100) /b**

| Sectors '/c | 1995 | 1996 | 1997 | 1998 | 1998 | 1999 | 2000 | 2001 | 2000/d |
|---|---|---|---|---|---|---|---|---|---|
| Agriculture (40) | 355.0 | 400.0 | 445.0 | 750.0 | 298.5 | 410.1 | 459.3 | 567.3 | 613.1 |
| Mining & quarrying (8) | 266.0 | 296.0 | 318.0 | 396.0 | 173.3 | 213.7 | 236.3 | 274.7 | 306.4 |
| Manufacturing (1183) | 256.0 | 265.3 | 275.0 | 455.0 | 216.8 | 268.1 | 277.9 | 308.5 | 338.0 |
| Imports (50) | 230.0 | 242.5 | 261.0 | 598.0 | 285.5 | 289.0 | 316.3 | 355.7 | 344.8 |
| Exports (46) | 178.0 | 202.9 | 238.0 | 592.0 | 417.1 | 365.7 | 461.4 | 520.8 | 495.2 |
| Excluding petroleum & gas (43) | 298.0 | 306.0 | 353.0 | 994.0 | 444.0 | 369.8 | 393.2 | 462.3 | 449.8 |
| Petroleum (3) | 142.0 | 172.5 | 204.0 | 474.0 | 348.0 | 355.3 | 633.6 | 668.7 | 604.7 |
| General index (327) | 240.0 | 258.5 | 282.0 | 568.0 | 288.3 | 313.6 | 352.8 | 402.7 | 412.8 |
| General index excluding exports (281) | 261.0 | 280.0 | 298.0 | 560.0 | 250.0 | 297.8 | 320.3 | 367.3 | 387.8 |
| General index excluding exports of petroleum (324 | 285.0 | 303.0 | 326.0 | 588.0 | 284.0 | 310.8 | 333.2 | 384.0 | 398.8 |

/a Figures show the average for the year.
/b Starting1998 onward - present based on 1993=100.
/c Figures within brackets ( ) under sector column indicate number of items represented in that sectors.
/d Index of October 2002.

Source: Central Bureau of Statistics.

**Table 37. Domestic Prices Sales of Petroleum Products, 1998-2003**
**(Rp./liter)**

| | | May-5, 1998- May-16, 1998 | May-16, 1998- Sep-2000 | Oct-2000 - June 15, 2001 | June 16, 2001 Jan 15, 2002 | January 16 2002 | Feb-02 | Mar-02 | Apr-02 | May-02 | Jun-02 | Jul-02 | Aug-02 | Sep-02 | Oct-02 | Nov-02 | Dec-02 | Jan-03 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Regular gasoline | /a | 1,200 | 1,000 | 1,150 | 1,450 | 1550.0 | 1,550 | 1,550 | 1,600 | 1,750 | 1,750 | 1,750 | 1,735 | 1,690 | 1,750 | 1,750 | 1,750 | 1,820 |
| Kerosene | | | | | | | | | | | | | | | | | | |
| Market Price | /b | .. | .. | .. | 1,640 | 1,640 | 1,640 | 1,270 | 1,310 | 1,410 | 1,410 | 1,320 | 1,290 | 1,390 | 1,520 | 1,650 | 1,530 | 1,970 |
| Industrial consumption/d | /c | 350 | 280 | 350 | 820 | 1,230 | 1,230 | 1,270 | 1,310 | 1,410 | 1,410 | 1,320 | 1,290 | 1,390 | 1,520 | 1,650 | 1,530 | 1,970 |
| Household consumption | /d | 350 | 280 | 350 | 400 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 700 |
| Motor Diesel (HSD) | | | | | | | | | | | | | | | | | | |
| Market Price | | 600 | 550 | 600 | 1,510 | 1,510 | 1,510 | 1,580 | 1,700 | 1,900 | 1,900 | 1,790 | 1,760 | 1,810 | 1,920 | 2,120 | 2,060 | 1,890 |
| Transportation consumptions | /e | 600 | 550 | 600 | 900 | 1,150 | 1,150 | 1,150 | 1,250 | 1,400 | 1,400 | 1,350 | 1,325 | 1,360 | 1,440 | 1,550 | 1,550 | 1,890 |
| Industrial diesel (MDF) | | | | | | | | | | | | | | | | | | |
| Market Price | | 350 | 350 | 400 | 600 | 1,480 | 1,480 | 1,500 | 1,670 | 1,860 | 1,870 | 1,760 | 1,730 | 1,780 | 1,890 | 2,080 | 2,000 | 1,860 |
| Small scale industries | | 350 | 350 | 400 | 600 | 740 | 1,110 | 1,120 | 1,240 | 1,390 | 1,390 | 1,320 | 1,300 | 1,340 | 1,420 | 1,520 | 1,510 | 1,860 |
| Fuel oil (MFO) | | | | | | | | | | | | | | | | | | |
| Market Price | | 350 | 350 | 350 | 400 | 1,230 | 1,230 | 1,280 | 1,390 | 1,500 | 1,550 | 1,480 | 1,450 | 1,540 | 1,630 | 1,650 | 1,490 | 1,560 |
| Small scale industries | | 350 | 350 | 350 | 400 | 925 | 950 | 1,030 | 1,120 | 1,150 | 1,110 | 1,090 | 1,150 | 1,150 | 1,150 | 1,150 | 1,120 | 1,560 |

/a Since 2002, Gasoline price is based on Mid Oil Platts Singapore (MOPS) + 5%
/b Market price is based on 100% International price
/c Industrial price based on 75% international price
/d Household and small industries consumptions in 2002 is based on Presidential decree no. 9 2002.
/e Consumption for local transportation, small scale industry received 75% of market price

Source: Ministry of Mines and Energy.

## Table 38. Approved Foreign Direct Investment by Sector, 1995-2002 /a

**(US$ million)**

| Sector | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Agriculture | 1,153 | 1,306 | 437 | 965 | 413 | 390 | 367 | 390 |
| Forestry | 0 | 136 | 0 | 0 | 9 | 5 | 20 | 9 |
| Fishery | 231 | 80 | 27 | 33 | 70 | 50 | 6 | 3 |
| Mining & quarrying | 0 | 1,697 | 2 | 0 | 14 | 1 | 118 | 37 |
| Manufacturing | 30,441 | 19,884 | 23,017 | 8,388 | 6,335 | 9,597 | 5,145 | 2,880 |
| Food | 1,332 | 691 | 573 | 342 | 681 | 701 | 289 | 219 |
| Textiles & leather | 471 | 515 | 373 | 217 | 240 | 401 | 330 | 62 |
| Wood & wood products | 263 | 101 | 70 | 71 | 113 | 157 | 21 | 24 |
| Paper & paper products | 2,540 | 2,907 | 5,353 | 41 | 1,412 | 88 | 742 | 10 |
| Chemicals & Pharmaceutical | 19,368 | 7,362 | 12,376 | 6,179 | 3,267 | 7,375 | 2,310 | 1,785 |
| Nonmetallic minerals | 289 | 793 | 1,457 | 237 | 110 | 10 | 108 | 21 |
| Basic metals | 292 | 651 | 357 | 394 | 501 | 831 | 1,007 | 460 |
| Others | 3,628 | 3,925 | 127 | 17 | 10 | 35 | 337 | 298 |
| Construction | 206 | 297 | 307 | 198 | 153 | 161 | 37 | 60 |
| Hotels and Restaurant | 1,798 | 1,716 | 463 | 451 | 229 | 257 | 6,892 | 236 |
| Transport & communications | 5,539 | 695 | 5,900 | 79 | 103 | 1,217 | 374 | 1,550 |
| Real estate | 1,062 | 2,635 | 1,394 | 1,271 | 171 | 302 | 178 | 6 |
| Others | 198 | 1,331 | 1,581 | 2,171 | 3,396 | 3,305 | 1,908 | 1,327 |
| Total | 40,629 | 29,776 | 33,127 | 13,557 | 10,892 | 15,284 | 15,043 | 6,499 |

/a Intended Capital Investment. Amount represents original approvals plus expansions minus cancellations.
/b Preliminary data January to August 2001.

Source: Investment Coordinating Board.

**Table 39. Approved Domestic Investment by Sector, 1995-2002 /a**
**(Rp billion)**

| Sector | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 /b |
|---|---|---|---|---|---|---|---|---|
| Agriculture, fishery and livestock | 8,618 | 15,906 | 14,641 | 4,821 | 1,586 | 1,543 | 991 | 753 |
| Forestry | 1,476 | 46 | 166 | 543 | 749 | 52 | 446 | 0 |
| Mining | 460 | 460 | 126 | 116 | 30 | 36 | 1,140 | 787 |
| Manufacturing | 43,962 | 20,144 | 79,334 | 44,908 | 43,818 | 47,272 | 43,966 | 12,116 |
| Food Industry | 7,177 | 5,147 | 13,748 | 13,038 | 6,712 | 12,676 | 11,109 | 4,726 |
| Textile Industry | 8,740 | 7,177 | 3,366 | 6,798 | 1,138 | 2,524 | 2,223 | 439 |
| Wood Industry | 620 | 2,042 | 1,363 | 762 | 1,967 | 818 | 553 | 377 |
| Paper Industry | 27,425 | 5,778 | 13,561 | 11,842 | 12,754 | 22,838 | 4,771 | 150 |
| Chemical Industry | | 8,740 | 12,304 | 22,464 | 15,459 | 2,431 | 22,337 | 1,941 |
| Non Metalic Mineral | | 9,089 | 7,964 | 11,639 | 3,535 | 61 | 596 | 56 |
| Other Industry | | 2,479 | 4,477 | 8,030 | 2,254 | 5,923 | 2,378 | 4,428 |
| Construction | 848 | 1,550 | 877 | 1,998 | 395 | 843 | 2,007 | 1,500 |
| Hotels | 3,792 | 4,947 | 2,529 | 1,109 | 1,713 | 154 | 2,459 | 682 |
| Real estate | 4,659 | 8,682 | 3,959 | 900 | 996 | 293 | 4,501 | 255 |
| Transportation and Communication | 3,966 | 3,116 | 4,600 | 3,260 | 146 | 1,588 | 1,489 | 3,117 |
| Others | 2,089 | 45,643 | 13,523 | 3,093 | 51,728 | 36,361 | 1,675 | 1,696 |
| Total | 69,870 | 100,494 | 119,755 | 60,748 | 101,160 | 88,143 | 58,673 | 20,905 |

/a Figures refer to intended capital investments, and represent original approvals plus approved expansion minus cancellations.
/b January-October 2002.

Source: Investment Coordinating Board.

## Table 40. Investment Climate, 1995-2002

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| **Private Investment Environment** | | | | | | | | |
| Private Investment/Gross Domestic Fixed Investment (%) | 73.0 | 77.3 | 79.4 | 71.0 | 61.0 | 40.6 | 35.5 | 32.7 |
| Domestic Credit to Private Sector (stock, % GDP) | 57.1 | 59.3 | 72.1 | 57.8 | 23.0 | 23.0 | 22.1 | 20.2 /b |
| Real lending Rate | 9.4 | 12.2 | 15.6 | -25.9 | 6.9 | 14.7 | 7.0 | 6.3 /b |
| Highest Marginal Corporate Tax Rate (%) | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 |
| ICRG Composite Risk Rating | 69.5 | 70.0 | 60.3 | 41.0 | 51.8 | 54.8 | 56.3 | 58.5 |
| **Governance*** | | | | | | | | |
| ICRG Corruption Rating (1-6, bad to good) | 3.0 | 3.0 | 2.0 | 1.0 | 2.0 | 1.0 | 1.0 | .. |
| ICRG Bureaucratic Quality Rating (1 - 6) | 2.0 | 2.0 | 2.0 | 2.0 | 3.0 | 3.0 | 2.0 | .. |
| ICRG Law and Order (1 - 6) | 5.0 | 4.0 | 4.0 | 2.0 | 2.0 | 2.0 | 2.0 | .. |
| **Openness** | | | | | | | | |
| Trade (imports+exports)/GDP (%) | 54.0 | 52.3 | 56.0 | 96.2 | 62.9 | 74.1 | 73.7 | 59.5 /b |
| FDI inflows (net, % GDP) | 2.2 | 2.7 | 2.2 | -0.4 | -1.9 | -3.0 | .. | .. |
| WTO Member? | yes | yes | yes | yes | yes | yes | yes | yes |
| Unweighted Mean Tariff (%) | .. | 13.2 | .. | 9.5 | 10.9 | .. | .. | .. |
| Heritage Trade Policy Index (1-5, bad to good) | 5.0 | 2.0 | 2.0 | 2.0 | 2.0 | 4.0 | 3.0 | 3.0 |
| **Infrastructure** | | | | | | | | |
| Paved Roads, % of total | 52.4 | 53.7 | 56.4 | 47.3 | 57.1 | 57.1 | .. | .. |
| Motor vehicles (per 1000 persons) | 68.1 | 75.5 | 82.5 | 86.6 | 88.0 | 90.2 | 99.5 | |
| Cost of Calls to US (US$ per 3 min) | .. | .. | 4.4 | 3.3 | 4.2 | .. | .. | 1.4 |
| Internet Users (per 10,000 people) | 2.6 | 5.6 | 19.2 | 25.0 | 43.5 | 95.0 | 197.2 | .. |
| Electricity consumption (kwh per capita) | 256.5 | 288.8 | 320.9 | 320.4 | 344.6 | 376.2 | 394.5 | .. |
| **Wages and Productivity** | | | | | | | | |
| Minimum Wage (US$ per year) | 552 | 608 | 541 | 181 | 267 | 317 | 338 | 497 |
| Labor Cost Per Worker in Manufacturing (US$ per year) | 1,452 | 1,596 | 1,537 | 694 | 915 | 992 | 999 | .. |
| Value Added Per Worker in Manufacturing (US$ per year) | 7,146 | 8,633 | 7,461 | 3,590 | 5,410 | 6,128 | 5,769 | .. |
| Labor Force with Secondary Education (% of total) | .. | 16.3 | | 18.4 | 23.7 | 24.1 | .. | .. |
| R&D Expenditure (% of GNI) | .. | .. | .. | .. | .. | .. | .. | .. |

/a Governance indicators produced by Transparency International, Heritage Foundation, and also from Kaufmann et al (2001).
/b As per June 2002

Source: World Development Indicators