

## Assistance to Indonesia under the Currency Crisis

### - Sector Program Loan to help Indonesia improve its balance of payments and support socially vulnerable people -

The Overseas Economic Cooperation Fund, Japan(OECF: President and Chairman of the Board, Mr. Akira Nishigaki) today committed to the Republic of Indonesia a Sector Program Loan amounting to 20,000 million Japanese Yen. The Loan Agreement was signed by Mr. Akira Nishigaki and H.E. Wisber Loeis, Ambassador Extraordinary and Plenipotentiary of the Republic of Indonesia to Japan.

The cumulative total of ODA loan commitments to Indonesia now stands at about 3,115.4 billion Japanese Yen, for 585 commitments.

The Loan committed today was pledged by Mr. Masahiko Koumura, State Secretary for Foreign Affairs, who was sent to Indonesia by Prime Minister Ryutaro Hashimoto as his Special Envoy, to President Soeharto on January 22, 1998, in order to help Indonesia, suffering from the currency crisis, improve its balance of payments and assist the country with the efforts for economic structural reforms under way with the support from the International Monetary Fund (IMF) and other donors. This Loan is an addition to the FY 1997 package of OECF project-type loans for Indonesia amounting to 195,248 million Japanese Yen for 19 projects whose Loan Agreements were signed on January 28, 1998.

The amount and conditions of the Loan, as well as the background and the description of the Loan are as follows.

#### 1. Loan Amount and Conditions

Project	Amount (Mil. Yen)(p.a.)	Interest Rate (%)	Repayment Period /Grace Period (years)	Tying Status
Sector Program Loan	20,000	2.2	30(10)	General-Untied

#### 2. Currency Crisis of Indonesia

Indonesia's Economy has been severely hit by the enormous depreciation of the Rupiah against the US dollar, inflicted by the currency crisis which has spread from Thailand to other Southeast Asian countries since last July.

The Government of Indonesia adopted the floating exchange rate system on August 14, 1997 and implemented tight fiscal and monetary policy measures including the raising of the interest rate of the Bank Indonesia Certificate (SBI) and the reduction of the size of development investment, by such means as postponing the implementation of large-scale infrastructure projects. However, the currency further depreciated from around 2,500 Rupiah against the dollar at the beginning of July 1997 to some 3,600 Rupiah between the end of September and the end of October 1997. After all, the Government of Indonesia called upon the IMF to assist Indonesia in October 1997. As a result of the consultation, the Government of Indonesia agreed with the IMF on the framework of reforms for the assistance from the IMF at the end of October, and based thereon, a package of the assistance from the World Bank, the Asian Development Bank and other donors has been formed. In the wake of these developments, the Rupiah regained to 3,200 level against the dollar at the beginning of November. However, the pressure for depreciation of the exchange rate has not been weakened, and the Rupiah encountered even greater depreciation toward the end of year 1997 due to the demand for the dollars for repayment of foreign debts. The introduction of the draft Indonesian budget for FY 1998 was followed by what was called "free fall" of the Rupiah to the level of over 10,000 Rupiah to the dollar in January 1998.

Under these circumstances, the Government of Indonesia agreed with the IMF on the strengthening of economic and financial policies on January 15, 1998, and subsequently an accordingly revised draft FY 1998 budget was presented. With respect to the issue of private foreign debts, a proposal was made for a new arrangement between the groups of creditors and debtors, and temporary postponement of repayments pending agreement on the arrangement. Thus Indonesia is endeavoring to overcome the economic difficulties affected by the currency crisis.

#### 3. Background of the commitment of the Loan

In the light of above mentioned situation, the Government of Indonesia requested the Government of Japan to provide a Sector Program Loan to Indonesia in early December of 1997. On the occasion of the summit meetings with ASEAN leaders in mid December, Prime Minister Hashimoto expressed to Foreign Minister Ali Alatas, who represented President Soeharto, that the Government of Japan intended to extend an additional ODA Loan in a manner coordinated with the assistance of the World Bank and the Asian Development Bank in order to support the structural adjustment efforts of Indonesia. As a result of the subsequent consideration by the Government of Japan and the OECF, as well as consultations with the officials concerned of the Government of Indonesia, State Secretary Koumura officially pledged this ODA Loan to President Soeharto on January 22, 1998.

#### 4. Description of the Loan

As the Loan provides Indonesia with the foreign currency for importation, it will contribute, as an immediate effect, to improving the deteriorating balance of payments of Indonesia. It will also contribute to the achievement of development targets including poverty alleviation and regional disparity reduction, on a mid-to-long term basis, for the counterpart fund<sup>[1]</sup> of the Loan is to be used for development programs and projects for the socially vulnerable people affected by the economic structural adjustment. Such development programs and projects are to be implemented in the fields of education, health and social welfare, by such means as building of vocational schools, supply of equipment for community health services, and construction of rehabilitation facilities for the disabled.

[1] The amount of the Yen provided under a Sector Program Loan will be sold by the Government of Indonesia to the central bank of Indonesia, and the Government in return receives from the bank the equivalent amount of the Rupiah. The Rupiah (local currency) thus obtained is called a counterpart fund.