

Assistance to Indonesia under Economic Crisis

- Second Sector Program Loan for FY 1998 to help Indonesia improve its balance of payments, implement public works and generate new employment -

The OECF (The Overseas Economic Cooperation Fund, Japan : President, Chairman of the Board, Mr. Kyosuke Shinozawa) today committed to the Republic of Indonesia a Sector Program Loan amounting to 100,000 million yen, following a Sector Program Loan amounting to 50,000 million yen concluded on October 16 this year. The Loan Agreement was signed by Mr. Kyosuke Shinozawa, OECF's President and H.E. Mr. Soemadi Djoko Moerdjono Brotodimigrat, Ambassador Extraordinary and Plenipotentiary of the Republic of Indonesia to Japan on December 24, 1998.

The cumulative total of ODA loan commitments to Indonesia now stands at about 3,265.4 billion yen, for 587 commitments.

The loan committed today is the remaining part of the 150,000 million yen ODA loan which was pledged at the Consultative Group for Indonesia (CGI) meeting held in Paris in July 1998 in order to help Indonesia, which faces severe economic difficulties arising 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 extended in line with the Japanese Government's policy for "Supporting Measures for Asia", announced in April 1998.

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

1. Amount, Terms and Conditions

Project Name	Amount (Mil.yen)	Interest Rate (% p.a.)	Repayment Period (Grace period) (years)	Tying Status
Sector Program Loan	100,000	1.0	30(10)	General-untied

2. Economic Crisis of Indonesia

Indonesia's economy has been the most severely hit among the Asian countries, compounded by the political instability, by the currency crisis which spread from Thailand since July 1997.

The exchange rate, which was around 2,500 Rupiah against the dollar before the crisis, once depreciated to as low as 16,000 Rupiah level but recovered to around 7,500 Rupiah at the beginning of December, 1998.

The real GDP growth rate had dropped from 8.5% in the 1st quarter in FY 1997 to 1.4% at the 4th quarter compared to the same period of the previous year. The foreign exchange reserve in the international balance of payments has decreased by about \$10 billion due to the massive outflow of private capital from Indonesia (in FY1997 net \$13.4 billion). Draft FY 1998 budget (as of August 1998) is forecasted to produce a budget deficit of the size of 8.5% of GDP, due to the increase in the Rupiah terms and of the repayment of foreign debts and the continuation of subsidies to mitigate the effect of the depreciated exchange rate on domestic prices, among others. Until recently, nearly 70% of Indonesia's development expenditure was covered by the Government's revenue and about 30% was covered by foreign aid. However, due to the increase in such current account expenditures mentioned above, for the first time in 30 years, the Government of Indonesia is unable to finance even the routine expenditure by themselves, not to mention the development expenditure.

With respect to the issue of foreign debts of the private sector, agreement was reached on June 4th between the representatives of creditor banks, the Government of Indonesia, and the representatives of private debtors of Indonesia, on rescheduling of repayment.

Under these circumstances, the Government of Indonesia held 4 series of meetings with the IMF on October 1997, and January, April, and June 1998. On June 25th, 1998 the agreement was reached on the revision of the economic and financial policy measures. Thus Indonesia is endeavoring to overcome the economic difficulties affected by the currency crisis.

3. Project Description

As the Loan provides Indonesia with the foreign currency for importation, it will contribute, as an immediate effect, to improving the deteriorating international balance of payments of Indonesia. It will also contribute to the achievement of development targets, for the counterpart fund of the loan is to be used for development projects. The development projects to be financed this time are high priority projects of the Government of Indonesia in the fields of residential and educational environment development, basic social welfare support, and rehabilitation and augmentation of transportation facilities, while the counterpart fund of the earlier Sector Program Loan concluded in October was to be used in the field of agriculture, such as rehabilitation and construction of irrigation facilities and development of infrastructure in rural villages. The implementation of these labour-intensive projects will contribute to improving the basic human environment, to strengthening productive bases and to generating immediate employment in Indonesia which is suffering from the large-scale unemployment caused by the economic crisis.

In order to secure that the projects under the loan, which spread throughout Indonesia, are implemented steadily and to monitor appropriate use of the counterpart fund for these projects, an international organization or other appropriate entity (for example, UNOPS (United Nations Office for Project Services)) will be employed taking account of its impartiality and reliability, by the Government of Indonesia. Local consultants will be mobilized under the supervision of such an organization in each province and its constituent local areas. These local consultants will visit project sites periodically to monitor the implementation of the projects in respect of physical progress and financing.

* 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.

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