

Continued Assistance to Indonesia, Now under the New Miyazawa Initiative - help Indonesia improve its balance of payments and assist the Health and Nutrition Sector-

The OECF (The Overseas Economic Cooperation Fund, Japan : President, Chairman of the Board: Mr. Kyosuke Shinozawa) today committed loans to the Republic of Indonesia amounting to 80,480 million yen. The Loan Agreements were signed by Mr. Kyosuke Shinozawa, OECF's President and H.E. Mr. Soemadi Djoko Moerdjono Brotodiningrat, Ambassador Extraordinary and Plenipotentiary of the Republic of Indonesia to Japan, on March 12, 1999.

The cumulative total of ODA loan commitments to Indonesia now stands at about 3,345.9 billion yen, covering 589 projects.

The loans "Social Safety Net Loan" and "Health and Nutrition Sector Development Program Loan" (the latter will be provided as co-financing with the Asian Development Bank (ADB)) were committed in order to help Indonesia, which faces severe economic difficulties arising from the currency crisis, improve its international 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. The loans are provided based on the Japanese Government's policy for "A New Initiative to Overcome the Asian Currency Crisis - New Miyazawa Initiative -", announced in October 1998, and constitute a part of the package indicated by the Japanese Government to the Indonesian Government on February 5, 1999, totaling about 2.4 billion yen. The amounts, terms and conditions, and project description for each project are shown below.

1. Amount Terms and Conditions

Project Name	Amount (Mil. Yen)	Interest Rate (% p.a.)	Repayment Period /Grace Period (years)	Tying Status
Social Safety Net Loan	45,200	1.0	30(10)	General-Untied
Health and Nutrition Sector Development Program Loan	35,280	1.0	30(10)	General-Untied
Total	80,480			

2. Indonesia under the Economic Crisis

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 8,700 Rupiah at the end of February 1999.

The real GDP growth rate had dropped from 7.7% in the 1st quarter of CY 1997 to -17.4% at the 3rd quarter of CY 1998 compared to the same period of the previous year. The foreign exchange reserve in the international balance of payments has decreased by -16.9 billion dollars in 1998 (January to December) due to the massive outflow of private capital from Indonesia.

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 25, 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. Japan, for its part, has already committed and disbursed 150 billion yen Sector Program Loans in this fiscal year.

For the purpose of helping Indonesia overcome the economic difficulties affected by the currency crisis and stabilize the international financial market, it is still important for the international community to continue assistance to Indonesia.

Against the background mentioned above, these loans are provided as a part of the New Miyazawa Initiative.

3. Project Description

(1) Social Safety Net Loan

As the loan provides Indonesia with the foreign currency for importation, it will contribute, as an immediate effect, to improving its deteriorating international balance of payments. It will also contribute to the achievement of development targets, for the counterpart fund of the loan is to be used for the Social Safety Net programs, which help alleviate the effects of the economic crisis on the socially vulnerable groups and thus help ease the present economic and social difficulties.

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The amount of the Yen provided under the 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.(back)

(2) Health and Nutrition Sector Development Program Loan

The loan helps Indonesia improve its international balance of payments resulting from the economic crisis spread through Asia. At the same time, the loan aims to mitigate the effects of the economic crisis on the poor and the socially vulnerable groups on health and nutrition aspects through assisting the implementation of the Health and Nutrition Sector Development Program which the Indonesian government has developed with the help of ADB and other donors.

The loan provides Indonesia with the foreign currency for importation, which will contribute, as an immediate effect, to improving its deteriorating international balance of payments. Disbursements will be made against the evaluation of the state of the implementation and progress of the targets of the Program, and by so doing the progress is encouraged.

The loan will be provided as co-financing loan with ADB.

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Health and Nutrition Sector Development Program

The negative effects of the economic crisis were acute in the social welfare fields, and, which is making it especially difficult for the poor and the vulnerable groups to have access to essential health and nutrition services. The Indonesian government has developed this program for the purpose of alleviating the effects of the economic crisis on the poor and the vulnerable groups in the health and nutrition fields by ensuring their access to essential health and nutrition services, maintaining the quality of those services, and initiating sustainable policy reforms related to the above services.(back)