

JBIC Signs ODA Loan Agreement with Indonesia: In Support of Economic and Fiscal Policy Reforms

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed on March 28 an ODA loan agreement totaling 10.794 billion yen with the Republic of Indonesia. This Development Policy Loan is a cofinanced loan with the World Bank's First Development Policy Loan (which provides an equivalent of US\$300 million). The combined lending volume thus totals an equivalent of US\$400 million.
2. This loan was provided following achievements made in the reforms by the Government of Indonesia for further stabilizing its macroeconomy, improving the investment climate and enhancing fiscal management capacity, and also for the fiscal support for implementing reforms in the future.
3. At the end of 2003, Indonesia completed the IMF program instituted in the wake of the Asian Currency Crisis and has since continued its economic and fiscal reform efforts. As a result, the country has achieved higher growth (from 3.4 percent in 2001 to 5.1 percent in 2004), lower inflation (from 13 percent in December 2001 to 6.2 percent in October 2004), reduction in government debt and a rise in investment. The Yudhoyono administration has continued to push forward with these reforms since it assumed office in October 2004.
4. The impact on Indonesia of the tsunami caused by the earthquake that occurred off Sumatra Island in December 2004 was devastating. A joint damage and loss assessment conducted until late January primarily by the Government of Indonesia, JBIC, the World Bank and the Asian Development Bank (ADB) made a preliminary estimate of damages and losses at US\$4.45 billion. Based on this finding, the Government of Indonesia is currently working to put together a detailed reconstruction and rehabilitation plan by the end of March in collaboration with donor countries and agencies, including JBIC. Apart from dispatching medical teams and its Self-Defense Force, the Government of Japan has provided emergency grant aid for the tsunami disaster. The provision of this ODA loan will also enable the disaster-hit country to spend its fiscal resources in a timely manner for the country's reconstruction from the damages and losses of the extremely serious tsunami disaster.
5. JBIC has been supporting Indonesia in its economic development and fiscal stabilization efforts and is willing to continue such support.

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1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period /Grace Period (Year)
Development Policy Loan	10,794	1.3	30/10

2. Outline of the Program

Development Policy Loan

(1) Background and Necessity of the Program

At the end of 2003 Indonesia completed the IMF program instituted in the wake of the Asian Currency Crisis and has since continued its economic and fiscal reform efforts. As a result, (1) the economy grew 3.4 percent in 2001 and 5.1 percent in 2004; (2) the government debt-to-GDP ratio decreased from 80 percent in 2000 to less than 60 percent in 2004; (3) the inflation rate declined from 13 percent in December 2001 to 6.2 percent in October 2004; and (4) investment growth accelerated from 1.9 percent in 2003 to 8.3 percent in the first half of 2004.

However, economic growth is still inadequate for further improvements in the economic conditions, including a decline in the unemployment rate. Indonesia's investment climate also remains weak. Therefore, a major challenge for the country is to implement a range of measures to further stabilize its macroeconomy, and improve the investment climate and fiscal management.

(2) Objectives and Description of the Program

The Program aims to regard highly of the progress in Indonesia's economic and fiscal reforms to date and continue or accelerate reforms, thereby contributing to (1) macroeconomic stability; (2) improvement in the investment climate; and (3) improvement in fiscal management by providing an ODA loan in the form of cofinancing with the World Bank's First Development Policy Loan.

The loan provides fiscal support for implementing reforms to achieve the above three objectives. The proceeds of the loan will be used for the payment of importing general goods and services.

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