

STRUCTURAL POLICY COMMITMENTS

New or strengthened commitments since the April MEFP are shown in italics

Policy Action	Target Date	Status
Fiscal Issues		
Remove VAT exemption arrangements.	April 1, 1998	Done
Increase proportion of market value of land and buildings assessable for tax to 40 percent for plantation and forestry.	March 31, 1998	Done
Introduce single tax payer registration number.	June 30, 1998	Done
Increase non-oil tax revenue by raising annual audit coverage, developing improved VAT audit programs, and increasing recovery of tax arrears.	June 30, 1998	Done
Increase in two stages excise taxes on alcohol and tobacco to reflect exchange rate and price developments.	December 1, 1997 and July 1, 1998	First step done Second step delayed
Raise profit transfers to the budget from state enterprises, including Pertamina.	During 1998/99	Under preparation
Raise prices on rice, sugar, wheat flour, corn, soybeanmeal and fishmeal.	April 1, 1998	Done
Eliminate subsidies on sugar, wheat flour, corn, soybeanmeal and fishmeal.	Revised ¹	Mechanisms for regular adjustment of prices will be prepared by end-March 1999
Accelerate provisions under the Nontax Revenue Law of May 1997, to require all off-budget funds to be incorporated in budget within three years (instead of five years).	Ongoing	Ongoing
Incorporate accounts of Investment Fund and Reforestation Fund within budget.	FY1998/99	Done
Ensure reforestation funds used exclusively for financing reforestation programs.	FY1998/99	Ongoing
Central Government to bear cost of subsidizing credit to small-scale enterprises through State banks.	FY1998/99	Done
Cancel 12 infrastructure projects.	January 1998	Done
Discontinue special tax, customs, or credit privileges granted to the National Car.	January 1998	Done
Phase out local content program for motor vehicles.	2000	
<i>Abolish compulsory 2 percent after-tax contribution to charity foundations.</i>	May 1998	Done

¹Previously prices were to be raised on October 1, 1998.

Policy Action	Target Date	Status
Discontinue budgetary and extrabudgetary support and privileges to IPTN (Nusantara Aircraft Industry) projects.	January 1998	Done
Conduct revenue review with Fund assistance.	Over program period; first step by end-September 1998	IMF technical assistance has been requested
Monetary and banking issues		
Provide autonomy to BI in formulation of monetary and interest rate policy.	February 1998	Presidential decree issued
Publish key monetary data on a weekly basis.	April 24, 1998	Done
<i>Submit to Parliament a draft law to institutionalize Bank Indonesia's autonomy.</i>	September 30, 1998 (previously December 1998)	Being prepared with the cooperation of Bundesbank experts
<i>Submit draft amendment to banking law to Parliament.²</i>	August 31, 1998	Expected by end-July 1998
Provide autonomy to state banks to adjust interest rates on credit and deposit liabilities, within any guidelines applying to all banks.	March 1998	Done
Impose limits on and phase out BI credits to public agencies and public sector enterprises.	Ongoing	Ongoing
Strengthen BI's bank supervision department and strengthen enforcement of regulations.	Ongoing	Ongoing
Upgrade the reporting and monitoring procedures for foreign exchange exposures of banks.	June 30, 1998	Done
Appoint high level foreign advisors to BI to assist in the conduct of monetary policy.	June 30, 1998	Done
Set minimum capital requirements for banks of Rp 250 billion by end-1998, after loan loss provisions.	April 22, 1998	Done
<i>Reduce the minimum capital requirements for existing banks.</i>	June 30, 1998	Expected by June 30
Make loan loss provisions fully tax deductible, after tax verification.	April 22, 1998	Done
Establish program for divestiture of BI's interests in private banks.	Ongoing	Ongoing
Require all banks to prepare audited financial statements.	January 1998	Done

²Previous commitment was to conduct thorough review of banking law in preparation for revising legal framework for banking operations by September 30.

Policy Action	Target Date	Status
Require banks to publish regularly more data on their operations.	May 1998	Done
Lift restrictions on branching of foreign banks.	February 1, 1998	Done
Submit to Parliament a draft law to eliminate restrictions on foreign investments in listed banks and amend bank secrecy with regard to nonperforming loans.	June 30, 1998	Expected by end-July 1998
Eliminate all restrictions on bank lending except for prudential reasons or to support cooperatives or small scale enterprises.	Over program period	Ongoing
Bank restructuring		
Close 16 nonviable banks.	November 1, 1997	Done
Replace the closed banks' management with liquidation teams.	December 1, 1997	Done
Compensate small depositors in the 16 banks.	January 1, 1998	Done
Place weak regional development banks under intensive supervision by BI.	December 1, 1997	Done
Provide liquidity support to banks, subject to increasingly restrictive conditions.	November 1, 1997	Done
Provide external guarantee to all depositors and creditors of all locally-incorporated banks.	January 27, 1998	Done
Establish Indonesia Bank Restructuring Agency (IBRA).	January 27, 1998	Done
Determine uniform and transparent criteria for transferring weak banks to IBRA.	February 11, 1998	Done
Transfer 54 weak banks to IBRA.	February 27, 1998	Done
Transfer claims resulting from past liquidity support from BI to IBRA.	April 22, 1998	Done
Transfer to IBRA control of seven banks accounting for over 75 percent of past BI liquidity support and seven banks that have borrowed more than 500 percent of their capital.	April 22, 1998	Done
IBRA will continue to take control of or freeze additional banks that fail to meet liquidity or solvency criteria. Where necessary, any such action will be accompanied by measures to protect depositors or creditors in line with the Government guarantee.	Over program period	Ongoing
<i>Issue presidential decree to provide appropriate legal powers to IBRA, including its asset management unit.</i>	June 30, 1998	Delayed to mid-July
<i>Take action to freeze, merge, recapitalize, or liquidate the six banks for which audits have already been completed.</i>	Starting mid-July 1998	Under preparation
Establish independent review committee to enhance transparency and credibility of IBRA operations.	June 30, 1998	Partially done ³

³Two Indonesian members have been nominated and three foreign members are expected to be appointed, one each to be nominated by the IMF, World Bank, and Asian Development Bank.

Policy Action	Target Date	Status
Conduct portfolio, systems and financial reviews of all IBRA banks as well as major non-IBRA banks by internationally recognized audit firms.	August 30, 1998	Partially done. Six banks completed. Approximately 47 more to be done by end-July.
<i>Conduct portfolio, systems, and financial reviews of all other banks by internationally recognized audit firms.</i>	October 31, 1998	Under preparation
Announce plan for restructuring state banks through mergers, transfers of assets and liabilities or recapitalization prior to privatization.	July 31, 1998 ⁴	Under preparation
Ensure that state banks sign performance contracts, prepared by the Ministry of Finance with World Bank assistance.	March 31, 1998	Done
Merge two state-owned banks and conduct portfolio reviews of the two banks.	June 30, 1998	Delayed to July 31
Draft legislation enabling state bank privatization.	June 30, 1998	Expected by end-July 1998
Introduce private sector ownership of at least 20 percent in at least one state bank.	November 1, 1998	Done
Prepare state-owned banks for privatization.	2001	
Develop rules for the Jakarta Clearing House that will transfer settlement risk from BI to participants.	April 1, 1998	Done
Introduce legislation to amend the banking law in order to remove the limit on private ownership of banks.	June 30, 1998	Delayed to end-July 1998
Introduce deposit insurance scheme.	Program period	
<i>Establish Financial Sector Advisory Committee to advise on bank restructuring.</i>	June 30, 1998	Done
<i>Declare insolvency of six private banks intervened in April and write down shareholder equity.</i>	Mid-July 1998	Under preparation
<i>Issue government bonds to Bank Negara Indonesia at market-related terms to finance transfer of deposits of banks frozen in April.</i>	July 31, 1998	Under preparation
<i>Initiate first case of an IBRA bank under the new bankruptcy law.</i>	September 30, 1998	
Foreign trade		
Reduce by 5 percentage points tariffs on items currently subject to tariffs of 15 to 25 percent.	March 31, 1998	Done
Cut tariffs on all food items to a maximum of 5 percent.	February 1, 1998	Done
Abolish local content regulations on dairy products.	February 1, 1998	Done

⁴Previous timetable was for October 31.

Policy Action	Target Date	Status
Reduce tariffs on nonfood agricultural products by 5 percentage points	February 1, 1998	Done
Gradually reduce tariffs on non-food agricultural products to a maximum of 10 percentage points.	2003	Under preparation
Reduce by 5 percentage points tariffs on chemical products.	January 1, 1998	Done
Reduce tariffs on steel/metal products by 5 percentage points.	January 1, 1998	Done
Reduce tariffs on chemical, steel/metal and fishery products to 5–10 percent.	2003	
Abolish import restrictions on all new and used ships.	February 1, 1998	Done
Phase out remaining quantitative import restrictions and other nontariff barriers.	End-program	
Abolish export taxes on leather, cork, ores and waste aluminum products.	February 1, 1998	Done
Reduce export taxes on logs, sawn timber, rattan and minerals to a maximum of 30 percent by April 15, 1998; 20 percent by end-December 1998, and 15 percent by end-December 1999 and 10 percent by end-December 2000.	First step by April 22, 1998	Done
Phase in resource rent taxes on logs, sawn timber, and minerals.	First step by April 22, 1998	Done
Replace remaining export taxes and levies by resource rent taxes as appropriate.	Over program period	
Eliminate all other export restrictions.	Over program period	Under preparation
Remove ban on palm oil exports and replace by export tax of 40 percent. The level of the export tax will be reviewed regularly for possible reduction, based on market prices and the exchange rate and reduced to 10 percent by end-December 1999.	April 22, 1998	Done
Investment and Deregulation		
Remove the 49 percent limit on foreign investment in listed companies.	September 1997	Done (except for banks)
Issue a revised and shortened negative list of activities closed to foreign investors.	June 30, 1998	Under preparation
Remove restrictions on foreign investment in palm oil plantations.	February 1, 1998	Done
Lift restrictions on foreign investment in retail trade.	March 31, 1998	Done
Lift restrictions on foreign investment in wholesale trade.	April 22, 1998	Done
Dissolve restrictive marketing arrangements for cement, paper and plywood.	February 1, 1998	Done
Eliminate price controls on cement.	November 3, 1997	Done
Allow cement producers to export with only a general exporters license.	February 1, 1998	Done
Free traders to buy sell and transfer all commodities across district and provincial boundaries, including cloves, cashew nuts and vanilla.	February 1, 1998	Done

Policy Action	Target Date	Status
Eliminate BPPC (Clove Marketing Board).	June 30, 1998	Done
Abolish quotas limiting the sale of livestock.	September 30, 1998	Under preparation
Prohibit provincial governments from restricting trade within and between provinces.	February 1, 1998	Done
Enforce prohibition of provincial and local export taxes.	January 1998	Done
Take effective action to allow free competition in: (i) importation of wheat, wheat flour, soybeans and garlic; (ii) sale or distribution of flour; and (iii) importation and marketing of sugar.	February 1998	Partially done
Release farmers from requirements for forced planting of sugar cane.	February 1998	Done
Privatization and Public Enterprises		
Conduct a public expenditure and investment review in collaboration with World Bank.	June 30, 1998	Delayed
Establish procedures for government procurement and contracting for private sector involvement in the provision of infrastructure.	June 30, 1998	Done
Establish clear framework for reform of all state enterprises, including privatization and restructuring. Also establish transparent sales process.	September 30, 1998	Under preparation
Announce 7 enterprises to be privatized in 1998/99.	April 24, 1998	Done
Identify an additional 5 enterprises to be listed in 1998/99.	June 30, 1998	Done
Divest the 7 enterprises.	March 31, 1999	Under preparation
Establish transparent procedures for divestiture and privatization.	June 30, 1998	Done
Prepare action plans for all 164 public enterprises.	September 30, 1998	Under preparation
Offer for sale additional tranches of government-controlled shares in public enterprises already listed.	During 1998/99	Under preparation
Establish clear profit and performance targets for remaining government enterprises.	December 31, 1998 ⁵	Under preparation
Audit nonviable public enterprises.	December 31, 1998	
Develop a plan for closing nonviable public enterprises.	September 30, 1998	Under preparation

⁵Previous target date was September 30, 1998.

Policy Action	Target Date	Status
Move oversight of public enterprises to the Ministry of Finance and establish a Privatization Board.	January 1998	Minister for State Enterprises appointed
<i>Complete international standard audits of Pertamina, PLN, BULOG, and the Reforestation Fund.</i>	December 31, 1998	
Social Safety Net		
<i>Introduce community-based work programs to sustain purchasing power of poor in both rural and urban areas.</i>	FY1998/99	Under preparation with assistance of the World Bank and Asian Development Bank
<i>Increase subsidies for food and essential items.</i>	FY1998/99	Done
<i>Introduce micro credit scheme to assist small businesses.</i>	FY1998/99	Under preparation
Environment		
Draft and establish implementation rules for the new environmental law.	December 31, 1998	Under preparation
Accelerate programs for converting to cleaner fuels.	December 31, 1999	Under preparation
Review and raise stumpage fees.	June 30, 1998	Done
Auction forest concessions, and lengthen concession periods.	June 30, 1998	Delayed
Allow transferability of forestry concessions, and delink their ownership from processing for new concessions.	June 30, 1998	Expected to be done
Implement performance bonds and reduce land conversion targets to environmentally sustainable levels.	December 31, 1998	
Other		
Establish monitoring system for structural reforms.	April 22, 1998	Done
Appoint auditors as necessary to ensure effective progress in implementing structural reforms and make auditors reports available to the Fund, World Bank and Asian Development Bank.	As necessary	
Make credible progress towards an agreement on corporate debt restructuring.	April 22, 1998	Done

Policy Action	Target Date	Status
Prepare regulations establishing procedures for mergers, acquisitions and exit which facilitate corporate restructuring while safeguarding against anti-competitive behavior.	September 30, 1998	Under preparation
Submit to Parliament draft law on competition policy.	December 31, 1998	
Enact Government regulation in lieu of law to amend the bankruptcy law and establish a special commercial court.	April 22, 1998	Done
Submit to Parliament law on bankruptcy for ratification.	June 30, 1998	Done

SOCIAL SAFETY NET

- As a result of the economic downturn, open unemployment is rising rapidly, there is increasing and widespread underemployment and upward pressure on the prices of imported foodstuffs and medicines is mounting. The incidence of poverty may rise substantially. The recent drought has aggravated food shortages in some regions. Students are dropping out of school as a result of the crisis.
- The government will ensure that sufficient quantities of essential foodstuffs are made available through the State Logistics Agency (BULOG) to the market, and for the time being will seek, through subsidies, to stabilize the domestic prices of rice, soybeans, sugar, wheat flour, corn, soybean meal, and fishmeal, which account for a large part of the expenditure of poor households. In addition, the government will temporarily freeze the prices of kerosene, gasoline, diesel, electricity, and essential medicines.
- The government will substantially expand its programs designed to provide immediate employment for the poor. These programs, some of which are financed by the World Bank and the Asian Development Bank, will be complemented by a food-for-work program, financed by the UN World Food Program. Food distribution and job creation programs, financed by bilateral grants and concessional loans, will also be introduced.
- The government will increase budgetary allocations for the existing social programs targeted to the children of poor households. To minimize the decline in school enrollment, the government will initiate, with World Bank and Asian Development Bank financial assistance, a block grant program for primary and junior high schools to replace existing school fees. A scholarship program designed to offset private costs of attending school for junior high school students has also been introduced. In addition, the government will expand the school lunch program. These programs are aimed at reaching the households in the poorest regions.
- To strengthen the implementation of social safety nets, the government will form a panel of experts from government and civil societies to assist the government in monitoring social safety net programs and provide advice on implementation. The government will create an administrative unit to work in conjunction with the panel and will allocate sufficient resources to ensure the adequate functioning of the unit.

BANKING SYSTEM RESTRUCTURING

- The strategy for achieving a comprehensive solution to the banking sector problems is being strengthened, in collaboration with the Asian Development Bank, World Bank and IMF. The weak banks will be addressed through a combination of mergers, recapitalizations and freezings. If banks are frozen, deposits are to be immediately transferred to a designated recipient bank. The bad loans of the banks will be transferred to an Asset Management Unit (AMU) to be established within IBRA. In all cases, depositors and creditors will be fully protected in line with the guarantee. Measures are also envisaged that will strengthen relatively sound banks.
- Presidential decrees will be issued that will provide appropriate legal powers to IBRA and its AMU by mid-July. Supervisory functions will be returned to BI to leave IBRA free to concentrate on bank restructuring. These provisions are to be included in banking law amendments to be submitted to Parliament shortly. In addition, to ensure priority attention to bank restructuring, a Financial Sector Advisory Committee is being established, comprising the Coordinating Minister for Economy, Finance, and Industry, the Finance Minister, the Development Planning Minister, the Minister for Industry and Trade, the Governor of Bank Indonesia, and the head of IBRA. The Committee will coordinate actions to eliminate impediments to sound banking system developments. An Independent Review Committee for IBRA is being established comprising two eminent Indonesians (already nominated) and three foreign members (to be nominated soon).
- Decisions regarding individual banks will be based on uniform and transparent criteria, drawing on portfolio reviews by international accounting firms, and on uniform and transparent criteria. Such reviews have been completed for the 6 private banks that were effectively taken over by IBRA in April; portfolio reviews for an additional 32 IBRA banks, and 15 non-IBRA banks are scheduled to be completed by end-July. Portfolio reviews for all other banks will be completed by end-October 1998. In addition, IBRA will announce soon the modalities of the merger of two state banks, Bank Bumi Daya and BAPINDO.
- To strengthen relatively sound banks, schemes will be announced by end-July in which (i) banks that achieve a specified increase in capital will be able to sell their bad loans to the AMU at fair prices, thus improving their risk weighted capital adequacy; and (ii) the government will provide tier two capital, generally in the form of subordinated loans, to banks whose capital has been increased by their owners. Such schemes will be developed drawing on portfolio, systems, and financial reviews to be undertaken by internationally recognized audit firms.
- Discussions are also under way with foreign banks regarding investment in the banking sector; all restrictions on foreign ownership of banks will be lifted as part of the prospective amendments to the banking law. As an interim measure, teams of foreign bankers will also be used to strengthen the management of banks under IBRA's control.

- All banks are to achieve minimum capital adequacy ratios of 4 percent of risk-weighted assets by end-1998, rising to 8 percent by end-1999 and 10 percent by end-2000. Banks that do not meet these targets will be subject to sanctions imposed by Bank Indonesia. The minimum capital requirement of Rp 250 billion is being reduced for existing banks to allow them to focus on achieving specified capital adequacy ratios in their restructuring.
- The cost of bank restructuring is expected to be higher than estimated in April reflecting the further deterioration in the banking system. Financing of the cost will be through the issuance of government bonds, many of which are to be index-linked, provided to Bank Indonesia to clear the liquidity support outstanding to IBRA banks. The remainder, most of which would pay market interest rates on a monthly basis, will be used to compensate banks for the transfer of deposits, recapitalize insolvent banks that are to remain open, and provide additional capital to those banks where the owners are themselves adding equity. The estimated budgetary cost in 1998/99, primarily interest on these bonds and IBRA's operational costs, is estimated at Rp 15 trillion (1.6 percent of GDP).