

Box 1. Fiscal Reform Agenda

Policy Action	Target Date
<p>Tax Incentives</p> <ul style="list-style-type: none"> Replace the tax holidays introduced in January 1999 with investment tax allowances, consistent with the ASEAN agreement. 	April 1, 2000
<p>Free Trade Zones</p> <ul style="list-style-type: none"> Initiate a comprehensive study on whether the islands of Batam, Rempang and Galang should be a tax free area; defer any plans pending completion of the study. Start collecting VAT from Batam island. Review the desirability of maintaining the income tax facilities and abolishing the indirect tax facilities for the Integrated Economic Development Zones (KAPETs). -Complete review. -Implement measures. 	<p>Immediate</p> <p>April 1, 2000</p> <p>February 1, 2000</p> <p>April 1, 2000</p>
<p>Value Added Tax: Zero-ratings and Exemptions</p> <ul style="list-style-type: none"> Submit to parliament amendments to the VAT law to provide prompt refunds for excess credits of exporters and enterprises purchasing large amounts of capital goods (expected to be approved by May 1, 2000). Eliminate the zero-rating of domestically supplied goods to export business. Eliminate VAT exemptions on capital goods. 	<p>March 1, 2000</p> <p>Upon implementation of the new VAT Law</p> <p>Upon implementation of the new VAT Law</p>
<p>Tax Administration</p> <ul style="list-style-type: none"> Classify corporate and personal taxpayers into four groups according to size to improve tax auditing and targeting of large tax payers. Submit to parliament amendments to the Tax Procedure Law to streamline refund audit process (expected to be approved by May 1, 2000). 	<p>Done</p> <p>March 1, 2000</p>
<p>Excise Tax</p> <ul style="list-style-type: none"> Further rationalize and simplify the structure of the excise tax on cigarettes to reduce discrimination among producers with a 25 percent increase in excise <ul style="list-style-type: none"> Unify minimum prices among producers. Flatten the rate structure. 	April 1, 2000
<p>Import Tariffs and Customs Administration</p> <ul style="list-style-type: none"> Reduce exemptions to import tariffs on capital goods, rationalize and make transparent the remaining exemptions. Issue implementation regulations to provide for penalties and interest on unpaid duties and implementing short, issue-oriented audits. Implement the plan to combat valuation fraud by (i) establishing special valuation units in the regions; (ii) undertaking special valuation audits; and (iii) developing a valuation database to help detect false invoicing. 	<p>April 1, 2000</p> <p>Done</p> <p>Done</p>
<p>Foundations</p> <ul style="list-style-type: none"> Form committee to make recommendations and draft legislation for submission to Parliament by April 2000, to bring activities of foundations under government review and audit. 	Jan.-April 2000

Box 2. Decentralization: Timetable for Required Actions

Policy Action	Target Date
I. PROCESS	
<ul style="list-style-type: none"> • Launch an assessment of the financial implications of decentralization. 	Feb. 2000
<ul style="list-style-type: none"> • Appoint the Consultative Regional Autonomy Council as envisaged under Law 22 and set up the two secretariats: Fiscal Balance Secretariat and Regional Autonomy Secretariat. 	Feb. 2000
<ul style="list-style-type: none"> • Hold consultations with regional governments, civil society and the international financial institutions. 	Feb. 2000
<ul style="list-style-type: none"> • Issue regulations for: <ul style="list-style-type: none"> -Functional division between central and local government of areas with overlapping responsibility; -Restructuring of central government; -Restructuring of local government; -Transfer of civil servants from central to local governments; -Financial management and Fiscal Balance Fund; and approve proposals from the High Level Working Group. 	Sept. 2000
II. EXPENDITURE MEASURES	
<ul style="list-style-type: none"> • Identify impediments to transferring civil servants from the central to local governments and devolving expenditure assignments. 	June 2000
<ul style="list-style-type: none"> • Initiate the transfer of the payroll from the central government to local governments for civil servants already working in their jurisdiction. 	Oct. 2000
III. REVENUE MEASURES	
<ul style="list-style-type: none"> • Complete ongoing review of the tax laws to identify measures to strengthen the local tax base, including assignment of the property tax. 	April 2000
<ul style="list-style-type: none"> • Implement measures to strengthen local tax base with concurrent reduction in discretionary transfers to regions. 	Jan. 2001

Box 3. Loan Recovery Strategy for IBRA's AMC

Policy Action	Target Date
I. INSTITUTIONAL FRAMEWORK	
<ul style="list-style-type: none"> • Monthly meetings of FSPC to coordinate implementation of bank and corporate restructuring strategy, approve IBRA loan recovery targets, and monitor monthly progress reports to be issued by IBRA banks. • FSPC to review within two weeks all large restructuring cases referred by IBRA • Establish procedure for extending legal assistance to IBRA staff in the event of lawsuits. • Adopt new governance structure for IBRA. • IBRA to publish end-December 1999 audited balance sheet. 	<p>Initiated</p> <p>Agreed January 2000</p> <p>March 2000 April 2000</p>
II. KEY ELEMENTS OF STRATEGY FOR LARGEST NONPERFORMING BORROWERS	
<p>1. Letters of Commitment</p> <ul style="list-style-type: none"> • All large debtors asked to sign letters of commitment with specified tests of cooperation. (Top 800 debtors with loans over Rp 50 billion account for 70% of loan value). • Those debtors who do not sign commitment letters to be publicized. 	<p>620 out of 800 large AMC debtors signed (November 15, 1999)</p> <p>Done on website</p>
<p>2. Registry</p> <ul style="list-style-type: none"> • Complete database of borrowers with loans over Rp 1 billion. • Classify borrowers into 4 categories (A-D) based on cooperation/viability. 	<p>Done for 3900 debtors (November 15, 1999)</p> <p>Done for 739 debtors (November 15, 1999)</p>
<p>3. 620 Cooperating debtors (Categories A and B)</p> <ul style="list-style-type: none"> • Reassess compliance with cooperation, and reclassify if necessary. • Agree on standstill, make full disclosure, appoint advisors, complete due diligence. • Finalize restructuring MOUs for at least 50 percent of loan value of A debtors. • Complete asset valuation of at least 50 percent of loan value of B debtors. 	<p>Ongoing</p> <p>January 2000 March 2000 March 2000</p>
<p>4. 119 Noncooperating debtors (Categories C-D)</p> <ul style="list-style-type: none"> • Commence first round of legal actions against noncooperating debtors. 	<p>Done in December 1999</p>
III. IBRA'S RECOVERY TARGETS	
<ul style="list-style-type: none"> • Transfer to IBRA remaining state banks' category 5 loans as of September 1999. • Target to recover (net) Rp. 17 trillion cash from AMI/AMC by March 2000. • Target to recover (net) Rp. 16.3 trillion cash from AMI/AMC during FY 2000. • Begin outsourcing of smaller loans through servicing contract. 	<p>January 2000</p> <p>Ongoing</p> <p>Target</p> <p>March 2000</p>

Box 4. Bank Restructuring and Prudential Reform

Policy Action	Target Date
<p>1. Bank Mandiri</p> <ul style="list-style-type: none"> • Implement voluntary staff severance scheme • Recapitalize to achieve 4 percent CAR following due diligence and approval of business plan • Establish special team to monitor the Bank's daily cashflow • Complete reconciliation of interbranch float • Complete recapitalization on basis of audited end-1999 figures 	<p>60 percent completed. Fully complete by December 2001 Done in December 1999</p> <p>Done in December 1999 February 2000 March 2000</p>
<p>2. Other State Banks (BNI and BRI)</p> <ul style="list-style-type: none"> • Change BNI's top management • BNI's new management to sign performance contract • BNI to sign twinning/management contract with international bank • Approve BRI's business plan • Change BRI top management • BRI's new management to sign performance contract • Recapitalize BNI and BRI in line with achievement of performance contract targets 	<p>January 2000 February 2000 March 2000 February 2000 February 2000 February 2000 June 2000</p>
<p>3. 12 BTO Banks and Bank Bali</p> <ul style="list-style-type: none"> • Finalize business plan and management contract for BCA • Launch public share offer for BCA • Operationally merge PDFCI into Danamon • Finalize business plan and management contract for Danamon • Prepare privatization timetable for Danamon • Operationally merge BTO banks into Danamon • Sell Bank Bali and Bank Niaga by open tender 	<p>Done in December 1999 March 2000 Done in December 1999 January 2000 September 2000 September 2000 First half of 2000</p>
<p>4. IBRA's AMI</p> <ul style="list-style-type: none"> • Complete shareholder negotiations (13 1998 BTO/BBO banks) • Complete transfer of assets to holding companies for seven owners of the 1998 banks • Complete transfer of assets to holding companies for remaining two cooperating 1998 bank owners • Initiate legal actions against all noncooperating shareholders of 1998 BTO/BBO banks • Complete shareholder negotiations (46 1999 BTO/BBO banks) • Set up holding companies for the assets of the 1999 banks 	<p>Ongoing Done in December 1999</p> <p>April 2000</p> <p>March 2000</p> <p>May 2000 October 2000</p>
<p>5. Legal, Regulatory, and Supervisory Framework</p> <ul style="list-style-type: none"> • Adopt and start implementing master plan for strengthening BI supervision of banks • Design masterplans for strengthening supervision of NBFIs and securities markets by Ministry of Finance and BAPEPAM 	<p>Done</p> <p>March 2000</p>

Box 5. Bank Indonesia: Follow-up Actions to the Findings of the Audit

Policy Action		Target Date
Transparency and Accountability Measures		
A.	<p>BI's end 1999 financial statements:</p> <ol style="list-style-type: none"> 1. Prepare draft financial statements including: <ol style="list-style-type: none"> (a) adoption of measures to enhance transparency through disclosure of notes to the financial statement; (b) reclassification of balance sheet items; and (c) initiation of the process of verification and valuation of all BI financial and tangible fixed assets and off balance sheet positions 2. Consult with BPK auditors and Fund staff on draft financial statements 3. Publish audited financial statements 	<p>End-January 2000</p> <p>End-February 2000</p> <p>End-April 2000</p>
B.	Conduct investigative audit by BPK, using international audit firm, of selected issues raised in the BI opening balance audit, including BLBI (liquidity credits).	End-May 2000
C.	Reconcile foreign currency assets and liabilities with net foreign exchange reserves. Publish international reserves data in line with SDDS	<p>End-February 2000</p> <p>End-April 2000</p>
D.	Resolve, in consultation with MoF and BPK, criteria for and classification of all on-and off-balance sheet assets and liabilities relating to agency functions performed for the Government.	End-March 2000
E.	On the basis of end 1999 financial accounts and verifications, assess adequacy of BI capital, revaluation reserves, and net income with a view to recapitalization if necessary.	End-April 2000
F.	<p>Financial subsidiaries:</p> <ol style="list-style-type: none"> 1. Conduct due diligence and prepare plan for divestiture or other resolution. 2. Sever all BI links with all its financial subsidiaries 	<p>End-March 2000</p> <p>End-December 2000</p>
G.	Produce and discuss with BPK a mid-year balance sheet and income statement as of end-June 2000, incorporating resolution of any outstanding issues from end-1999 financial audit, in agreement with Fund staff.	End-July 2000
H.	Review draft format of end 2000 financial statements, for discussion with BPK, and clearance by BI Board	End-November 2000
Governance Measures		
A.	Establish Financial Controller function by decree specifying duties and responsibilities.	End-February 2000
B.	Review internal audit operations and initiate actions with objective of strengthening risk based internal audit procedures.	End-June 2000
C.	Review and update critical financial and operational controls relating to transaction processing, and balance reconciliation, including operation of electronic data processing systems.	End-June 2000
D.	Progressively introduce new information and control systems to support financial controller functions, full adoption of accrual based accounting, and regular revaluation of financial assets and liabilities.	Commencing no later than end March for completion by end-2001
E.	Review BI accounting principles and regulations to ensure consistency with Indonesian accounting standards, modified to reflect good international practices for core central banking operations, and to strengthen accountability.	End-September 2000
F.	Incorporate relevant audit findings on bank supervision into existing master plan for bank supervision in agreement with Fund staff	End-February 2000

Box 6. Corporate Governance Framework

Policy Action	Target Date
<p>Institutional Framework</p> <ul style="list-style-type: none"> • NCCG to recommend main elements of national strategy for corporate governance reform by November 1999, aimed at improved accountability, disclosure, company registration, and enforcement. • Adopt strategy for corporate governance reform. 	<p>Done.</p> <p>Mar. 15, 2000.</p>
<p>Company Registry</p> <ul style="list-style-type: none"> • Codify amendment to the new Company Registration Law (CRL) to avoid duplications in authority and responsibility; and draft and promulgate implementation regulations for new CRL. • Conduct workshops and training programs for amended CRL. 	<p>Feb. 15, 2000.</p> <p>Mar. 31, 2000.</p>
<p>Accountability and Disclosure</p> <ul style="list-style-type: none"> • Recommend public companies to have Audit Committees similar to banks. • For public companies, draft special regulations on accountability of an independent supervisory board members and methods of voting shares. • Issue comprehensive rules and responsibilities for Boards of Directors and independent auditors with regard to financial reporting and penalties for non-compliance. • Listed companies, banks and other companies raising money from the public, and private companies with minimum assets as per government regulation to issue quarterly, semi-annual, and annual financial statements in accordance with generally accepted accounting principles. • Require disclosure on related party transactions. • Issue regulations to amend Articles of Association to clarify the authorities of Direksi, Komisararis and shareholders, and define clearly conflict of interest. • Issue regulations on limitation of directors term office and member of directors, of which at least 20 percent are independent. 	<p>Feb. 15, 2000.</p> <p>Mar. 31, 2000.</p> <p>Mar. 31, 2000.</p> <p>Mar. 31, 2000.</p> <p>Feb. 15, 2000.</p> <p>Mar. 31, 2000.</p> <p>Jun. 30, 2000.</p>
<p>Enforcement and Oversight</p> <ul style="list-style-type: none"> • NCCG to recommend measures to improve compliance with the requirements of the Company Law. • Based on NCCG recommendations, implement steps to strengthen BAPEPAMS's capacity to monitor and enforce rules on public disclosure, including through an electronic system of corporate reporting. 	<p>Mar. 15, 2000.</p> <p>Feb. 15, 2000.</p>

Box 7. Energy Policy Agenda

Policy Action	Target Date
<p>1. Electric Power</p> <p>A. Policy and Regulatory Framework</p> <ul style="list-style-type: none"> • Submit draft of new Electricity Law to Parliament and prepare associated implementing regulations and subordinate decrees. <p>B. Restructuring of PLN</p> <ul style="list-style-type: none"> • Establish new Minister-level team to guide and supervise PLN's corporate and financial restructuring and the renegotiation of power purchase contracts. • Adopt program of corrective actions to address all problems flagged by the PLN special audit. • Appoint management consultants to assist PLN with corporate and financial restructuring 	<p>February 2000</p> <p>Done in December 1999</p> <p>February 2000</p> <p>March 2000</p>
<p>2. Oil and Gas</p> <ul style="list-style-type: none"> • Review and refine new Oil and Gas Law and resubmit to Parliament • Prepare draft implementing regulations • Adopt program of corrective actions to address all problems flagged by the Pertamina special audit. • Prepare initial clean fuels action plan. • Announce action plan for Pertamina corporate restructuring. 	<p>June 2000</p> <p>June 2000</p> <p>January 2000</p> <p>February 2000</p> <p>March 2000</p>
<p>3. Energy Policy Development</p> <ul style="list-style-type: none"> • Establish National Energy Policy Unit within Ministry of Mines and Energy. 	<p>September 2000</p>

Table 1. Indonesia: Medium-Term Macroeconomic Framework, 1998/99-2002 1/

	1998/99	Estimate	Projections		
		1999/2000	2000	2001	2002
(In percent change)					
Output and prices					
Real GDP	-14.2	1.8	3 to 4	4 to 5	5 to 6
CPI inflation (average)	64.7	8.5	3 to 4	4 to 5	4 to 5
CPI inflation (end-of-period)	45.4	0.0	5 to 6	4 to 5	4 to 5
(In percent of GDP)					
Savings and investment					
Gross domestic investment	12.1	13.4	16.3	18.1	19.2
Gross national savings	16.6	16.6	18.1	18.7	19.1
Central government operations					
Revenue and grants	15.3	14.5	15.1	15.5	16.0
Expenditure and net lending	17.4	18.3	20.1	19.2	18.6
Of which: interest payments on bank restructuring bonds	0.6	2.2	4.7	4.1	3.6
Overall balance	-2.2	-3.8	-5.0	-3.7	-2.6
Overall balance including arrears	-2.2	-5.0	-5.0	-3.7	-2.6
Domestic financing, of which:	-2.3	3.5	2.4	2.6	2.6
Privatization receipts	0.2	0.8	0.7	0.7	0.8
Recovery of bank assets (cash basis)	0.0	1.5	1.8	1.8	1.7
Foreign financing 2/	4.5	1.5	2.5	1.2	0.1
(End-of-period, in annual percent change)					
Money and credit					
Credit to the private sector 3/	-2.6	1.9	10.4
Broad money	33.8	16.0	11.8
Base money	27.4	9.5	8.3
(In billions of U.S. dollars)					
Balance of payments					
Current account balance	4.6	4.8	3.3	1.0	-0.2
(In percent of GDP)	4.4	3.1	1.9	0.5	-0.1
Capital account	-2.0	-4.4	-7.5	-2.1	3.0
Overall balance	2.6	0.4	-4.2	-1.1	2.8
Financing gap	0.0	0.0	4.3	3.4	0.8
(End-of-period, in billions of U.S. dollars)					
Debt and reserves					
Gross official foreign assets	25.7	27.8	29.2	31.1	33.6
(in months of imports)	6.7	6.5	6.3	6.1	6.0
Liquid reserves	20.3	25.0	26.5	28.4	31.7
(end-of-period, in months of imports)	5.3	5.8	5.7	5.5	5.6
(as percent of short-term debt)	47.1	73.4	89.1	91.5	103.7
Debt service ratio (in percent) 4/	39.1	34.8	29.9	27.3	35.0
Public debt (in percent of GDP)	103.4	96.0	93.4	87.3	79.5
Of which: external	51.0	38.6	38.5	36.8	34.3

Sources: Data provided by the Indonesian authorities; and staff estimates and projections.

1/ Fiscal years for 1998/99 and 1999/00 (fiscal year starts on April 1) and calendar years for 2000 to 2002, with the exception of the fiscal projections for 2000 which are based on the 9-month fiscal year from April to December.

2/ From 2000 onwards, it includes financing gap.

3/ Adjusted for transfers to IBRA.

4/ In percent of exports of goods and nonfactor services.

Table 2. Indonesia: Quantitative Performance Criteria and Indicative Targets
Under Extended Arrangement, January-December 2000 1/

	2000						
	Jan.	Feb.	Mar.	Apr.	Jun.	Sep.	Dec.
Monetary targets							
Net domestic assets of Bank Indonesia 2/	-28.2	-27.8	-27.4	-27.2	-25.5	-23.6	-21.5
Base money 2/	85.4	85.8	86.2	86.4	88.1	90.0	92.1
Fiscal targets							
Overall central government balance 3/	-24.8	-40.9	-56.9	-6.0	-18.1	-28.2	-45.4
External targets							
Net international reserves of Bank Indonesia 4/	16.2	16.2	16.2	16.2	16.2	16.2	16.2
Contracting or guaranteeing of new nonconcessional external debt 5/	2.8	3.1	3.5	0.5	0.5	1.1	1.5
Stock of short-term external debt outstanding 2/	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Public external arrears 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1/ Definitions are contained in Annexes I-IV of MEFP, January 20, 2000. The data for net domestic assets, overall central government balance, net international reserves, the contracting or guaranteeing of new nonconcessional external debt (original maturity greater than one year), and the stock of short-term external debt for February and April are performance criteria. The non-accumulation of external arrears is a continuous performance criterion throughout the program. The figures for base money are indicative targets. Base money, NIR and NDA are measured as the average of their value on the last day of the month, the four preceding days, and the five following days. The monetary targets are calculated at constant exchange rate.

2/ Outstanding stocks (program limits).

3/ Cumulative balances from beginning of fiscal year (floor) (i.e., end-March 1999 for June 1999-March 2000 and end-March 2000 for other months).

4/ Outstanding stocks (floor).

5/ Cumulative amounts from beginning of fiscal year (ceilings).

**Table 3. Structural Performance Criteria and Benchmarks,
March-June 2000**

End-March 2000

- Launch the share offer for BCA bank.
- Adopt a new governance framework for IBRA.

End-April 2000

- Submit legislation to Parliament to bring under government audit the activities and accounts of private foundations.
- Publish audited IBRA accounts for December 1999.¹

End-June 2000

- Complete and publicize the special audits on the national airline, the toll road operator, and the domestic telecommunications company.¹

¹Performance criterion.