

Table 1. Indonesia: Performance Criteria and Indicative Targets
Under Extended Arrangement, December 1998-March 1999

	December 1998			1999					
	Target	Adjusted	Actual	Jan.		Feb.		Mar.	
				Orig. Adj. Target	Act.	Orig. Adj. Target	Act.	Orig. Rev.	
Monetary targets									
Net domestic assets of Bank Indonesia 2/	-50.9	-33.1	-67.0	-33.8	-76.9	-35.5	-69.9	-54.3	-57.5
Base money 2/	74.3	74.3	74.6	75.4	73.9	76.5	77.1	77.6	74.5
Liquidity support 2/	174.6	179.3	172.9	179.9	169.3	180.0	177.8	175.1	175.1
Fiscal targets									
Overall central government balance 3/	-51.0	-51.0	-8.0	-64.1	...	-72.7	...	-81.3	-81.3
External targets									
Net international reserves of Bank Indonesia 4/	12.5	10.7	14.2	10.9	15.1	11.2	14.7	13.2	13.2
Contracting or guaranteeing of new external debt 5/	7.5	7.5	--	...	...	...	...	11.0	11.0
Stock of short-term external debt outstanding 2/	2.5	2.5	1.0	...	...	...	...	2.5	2.5
Memorandum items:									
Balance of payments support 6/	7.3	7.3	4.1	8.4	5.6	9.5	6.1	10.6	10.6
Reserve liabilities 6/	6.8	6.8	5.8	7.1	5.8	7.4	5.8	7.7	7.7

1/ Definitions of quantitative performance criteria and indicative targets are contained in Annexes A-D of EBS/98/130 of July 29, 1998. The end-December 1998 and end-March 1999 data for net domestic assets, overall central government balance, net international reserves, the contracting of new external debt (original maturity greater than one year), and the stock of short-term external debt are performance criteria. The other figures are indicative targets for all variables.

2/ Outstanding stocks (program limits).

3/ Cumulative balances from end-March 1998 (floor).

4/ Outstanding stocks (floor).

5/ Cumulative amounts from end-March 1998 (ceilings).

6/ Cumulative flows from end-March 1998.

Table 2. Indonesia: Performance Criteria and Indicative Targets
Under Extended Arrangement, April 1999-March 2000 1/

	1999							2000
	Mar.2/	Apr.	May	June	July	Sept.	Dec.	March
Monetary targets								
Net domestic assets of Bank Indonesia 3/	-32.8	-30.9	-29.0	-27.2	-25.4	-20.3	-25.6	-37.7
Base money 3/	74.5	75.1	75.7	76.3	77.3	79.4	81.7	84.5
Liquidity support 3/	172.6	172.6	172.6	172.6	172.6	172.6	172.6	172.6
Fiscal targets								
Overall central government balance 4/	--	-5.6	-11.1	-16.7	-22.8	-35.2	-51.2	-71.0
External targets								
Net international reserves of Bank Indonesia 5/	14.3	14.1	14.0	13.8	13.7	13.3	14.3	16.3
Contracting or guaranteeing of new external debt 6/	--	1.0	1.0	1.0	1.3	2.0	2.5	3.5
Stock of short-term external debt outstanding 3/	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Memorandum items:								
Balance of payments support 7/	2.4	2.9	3.3	3.8	4.3	5.5	7.6	10.1
Reserve liabilities 7/	1.0	1.0	1.2	1.2	1.2	1.4	1.7	1.9

1/ Definitions of quantitative performance criteria and indicative targets are contained in the attached annexes. The end-May 1999 data for net domestic assets, overall central government balance, net international reserves, the contracting of new external debt (original maturity greater than one year), and the stock of short-term external debt are performance criteria.

The other figures are indicative targets for all variables.

2/ Projections made under the definitions of the 1999/2000 financial program. These numbers are not the performance criteria for end-March 1999 which are stipulated in Table 1 of this memorandum.

3/ Outstanding stocks (program limits).

4/ Cumulative balances from end-March 1999 (floor).

5/ Outstanding stocks (floor).

6/ Cumulative amounts from end-March 1999 (ceilings).

7/ Cumulative flows from end-December 1998.

Table 3. Structural Performance Criteria and Benchmarks, March-September 1999¹

End-March 1999

- Complete divestiture of a total of at least two state enterprises.

End-April 1999

- *Complete review of all A category banks with respect to their business plans, audits of their additional capital injections and the fit and proper test.*

End-May 1999

- Establish centralized credit function and Treasury unit within Bank Mandiri.

End-June 1999

- Complete the specified audits of Pertamina, BULOG, PLN, and Reforestation Fund.²
- Complete recapitalization of all eligible private banks.

End-September 1999

- Complete restructuring of BNI, BRI, and BTN (state banks).

¹Additional or revised measures have been italicized.

²Performance criterion.

Box 1. Financial Sector Reform Agenda

Policy Action	Target Date
I. State Bank Reform	
1. Bank Mandiri: <ul style="list-style-type: none"> • Announce blueprint to incorporate four-state banks into Bank Mandiri • Transfer loss loans to AMU • Announce voluntary severance scheme for staff of component banks • Sell specified nonperforming loans at prescribed provision level to the AMU • Establish centralized credit function and treasury unit • Recapitalize Bank Mandiri in line with progress in restructuring the component banks, including rationalization of staff and branches • Complete implementation of severance plan for staff 	<p>Done March 31, 1999</p> <p>Done March 31, 1999</p> <p>May 31, 1999*</p> <p>May 1999-March 2000 March 31, 2000</p>
2. Other state banks (BNI, BRI and BTN): <ul style="list-style-type: none"> • Establish committee for restructuring and recapitalization. • Prepare restructuring programs. • Transfer loss loans of BNI, BRI, and BTN to AMU • Complete restructuring of BNI, BRI, and BTN 	<p>Done March 31, 1999</p> <p>March 31, 1999</p> <p>September 30, 1999*</p>
3. Asset Recovery <ul style="list-style-type: none"> • Initiate recovery against 20 largest delinquent borrowers of each bank 	<p>Initiated</p>
II. Private Bank Restructuring	
1. Recapitalization of viable private banks <ul style="list-style-type: none"> • Issue decree for recapitalization bonds. • Announce selection of B category banks eligible for recapitalization • Complete recapitalization of all the eligible private banks. 	<p>Done</p> <p>Done</p> <p>June 30, 1999*</p>
2. Comprehensive review of A category banks <ul style="list-style-type: none"> • Complete comprehensive review of their business plans, audits of their additional capital injections, and the fit and proper test. 	<p>April 21, 1999</p>
3. Resolution of unviable private banks <ul style="list-style-type: none"> • Close all banks that fail eligibility for recapitalization. 	<p>Done</p>

Policy Action	Target Date
III. IBRA-Related Restructuring	
1. Asset recovery <ul style="list-style-type: none"> • Transfer nonperforming assets of the ten banks frozen in April and August to the AMU. • IBRA's Asset Management Unit to develop plans for managing assets. • Establish holding companies for assets of former owners of 7 banks for repayment of Bank Indonesia liquidity support/connected lending. 	<p>Done</p> <p>Done</p> <p>Done</p>
2. Restructuring of Banks under IBRA Control <ul style="list-style-type: none"> • Finalize resolution strategy for BCA, Danamon, Tiara and PDFCI • Complete agreed resolution strategy for Tiara and PDFCI 	<p>April 15, 1999</p> <p>April 30, 1999</p>
IV. Legal, Regulatory, and Supervisory Framework	
1. Complete conversion of BI liquidity support to troubled banks into BI claims on government.	<p>Done</p>
2. Issue the implementing regulations for amendments to Banking Law (after consultation with the World Bank and the IMF).	<p>March 25, 1999</p>
3. Expected passage by Parliament of Central Bank Law.	<p>March 31, 1999</p>
4. Introduce amendments to BAPEPAM regulations to remove impediments to non-rights capital issues and declarations of insolvency of listed banks.	<p>Done</p>
5. Finalize assessment of further amendments to regulatory framework	<p>June 30, 1999</p>

* Structural benchmarks.

Box 2. Key Provisions Regarding Private Management Role in the Recapitalized Private Banks

The government's equity stake in the private bank recapitalization program will be in the form of common stock; however, the government will enter into written contracts with each bank, structured to include the following features:

- Voting rights on the common stock held by the government will be exercised only to well-defined strategic issues, including: (i) the appointment or discharge of senior management (or essential changes in senior management), where "senior management" is defined to include the Board of Directors and Commissioners; (ii) decisions on mergers or acquisitions of, or by, the bank; (iii) decisions on voluntary liquidation (other than due to a decision by BI); (iv) the sale of assets not in the ordinary course of business; (v) the issuance of new shares, or other instruments comparable to shares; and (vi) decisions on dividend declarations.
- The government's shares will be fully divested as follows: Private owners will be granted the opportunity to buy back the government's shares within the stipulated three year business plan period, provided there is no unresolved material breach of the business plan, and provided the government is fully compensated for its investment. At the end of three years, the government will grant the private owners the right of first refusal to purchase its shares, after which the government's shares will be sold in the market; remaining shares will be sold in the market over a two year period.
- Recoveries (net of expenses) on any loss loans transferred to IBRA as part of the recapitalization program will accrue to the private owners to provide a write-down of the government's capital share and a commensurate increase in that of the owner.

Preferential treatment will be granted to the government in the event of liquidation of the bank, and in the receipt of any dividends (though it is not anticipated that the banks will pay dividends during the period of government ownership, as earnings will need to be retained in order to reach 8 percent CAR).

Box 3. Corporate Restructuring and Bankruptcy Reform Agenda

Measure/Policy Action	Target Date
I. Corporate Restructuring	
<ul style="list-style-type: none"> Finalize one-stop facilitation process for corporate restructuring filings. 	March 25, 1999
<ul style="list-style-type: none"> Issue decree to remove restrictions on debt/equity conversions. 	Done
<ul style="list-style-type: none"> Promulgate Ministry of Finance decree to implement the existing law on restructuring; and provide more favorable treatment of cancellation of indebtedness income in restructurings. 	Done
<ul style="list-style-type: none"> Finalize measures to eliminate stamp duty on restructurings and a shareholder continuity requirement. 	March 31, 1999
<ul style="list-style-type: none"> Issue guidance to consolidate tax-related aspects of corporate restructurings. 	March 31, 1999
<ul style="list-style-type: none"> Finalize recommendations, in consultation with the private sector, regarding securities regulation, stock exchange listing requirements, and the company and accounting laws. 	March 31, 1999
<ul style="list-style-type: none"> Finalize measures to provide for registration of security interests. 	March 31, 1999
<ul style="list-style-type: none"> Submit to Parliament a new arbitration law consistent with international standards. 	April 30, 1999
II. Bankruptcy Reform	
<ul style="list-style-type: none"> Establish transparent court fee system for the Commercial Court. 	Done
<ul style="list-style-type: none"> Appoint ad hoc judges to the Commercial Court. 	March 25, 1999
<ul style="list-style-type: none"> Submit to Parliament legislation providing for the establishment of an independent body empowered to investigate and recommend actions against the judiciary. 	Done
<ul style="list-style-type: none"> Submit to Parliament legislation to strengthen existing anti-corruption law. 	Done
<ul style="list-style-type: none"> Review and adjust salary structure of the judiciary 	April 30, 1999

Monetary Targets

1. Indicative Targets on Net Domestic Assets

Outstanding stock as of:	Program Limit (In trillions of rupiah)
End-December 1998 (actual) 1/	-30.3
End-March 1999 (projection) 2/	-32.8
End-April 1999 (indicative)	-30.9
End-May 1999 (performance criteria)	-29.0
End-June 1999 (indicative)	-27.2
End-July 1999 (indicative)	-25.4
End-September 1999 (indicative)	-20.3
End-December 1999 (indicative)	-25.6
End-March 2000 (indicative)	-37.7

1/ Data as of end of the month, does not correspond to the 10-day average.

2/ See footnote 2 of Table 2 in this memorandum.

Net domestic assets (NDA) of BI are defined as the difference between base money and net international reserves of BI (NIR) as defined in Annex III, converted into rupiah at an exchange rate of Rp 7,500 per U.S. dollar. Base money is defined as currency in circulation, bank deposits at BI in rupiah, private sector demand deposits at BI, and the aggregate reserve deficiency. The aggregate reserve deficiency is defined as the amount by which aggregate statutory reserves against rupiah third party liabilities exceed bank deposits at BI. Net domestic assets, base money and NIR at the test date will be measured as the average of its value on the last business day of the month, the four preceding business days, and the five following business days.

The NDA targets will be subject to the following adjustors:

- (i) The limits will be adjusted for changes in the composition of external financing from that assumed under the program. In the event of a shift in the composition of external financing from loans not counted as a reserve liability of BI to loans counted as a reserve liability, NDA will be adjusted upward by the rupiah equivalent of the amount of this shift in

the financing mix relative to the program baseline.¹ In the event of shortfalls of total balance of payments financing, NDA will be adjusted upward by the rupiah equivalent of the shortfall, up to a maximum of US\$1.0 billion. NDA will be adjusted downward by the rupiah equivalent of any excess of balance of payments support over that set out in the program.

(ii) The limits will be adjusted downward by the rupiah equivalent of the amount by which BI deposits in foreign branches of Indonesian banks exceed US\$2.5 billion.¹

(iii) The limits will be adjusted downward by the rupiah equivalent of the amount by which BI holdings of export drafts exceeds US\$2.9 billion.¹

(iv) The limits will be adjusted upward by the rupiah equivalent of the amount of any reduction in the external arrears of domestic banks by up to a maximum of US\$0.35 billion.¹

(v) Changes in reserve requirements will modify the NDA ceiling according to the formula:

$$\Delta NDA = (\Delta r B_0 + r_0 \Delta B + \Delta r \Delta B)$$

where ΔNDA denotes the change in the ceiling on NDA of BI; r_0 denotes the reserve requirement prior to any change; B_0 denotes the rupiah reservable base in the period prior to any change; Δr is the change in the reserve requirement ratio; and ΔB denotes the immediate change in the rupiah reservable base as a result of changes in its definition.

¹Converted at the exchange rate of Rp 7,500 per U.S. dollar.

2. Indicative Targets on Base Money and Liquidity Support
(In trillions of rupiah)

Outstanding stocks as of	Base Money	Liquidity Support
End-December 1998 (actual) 1/	75.1	167.9
End-March 1999 (projection) 2/	74.5	172.6
End-April 1999	75.1	172.6
End-May 1999	75.7	172.6
End-June 1999	76.3	172.6
End-July 1999	77.3	172.6
End-September 1999	79.4	172.6
End-December 1999	81.7	172.6
End-March 2000	84.5	172.6

1/ Data as of end of the month, does not correspond to the 10-day average.

2/ See footnote 2 of Table 2 in this memorandum.

Base money is as defined above. Liquidity support is defined as the sum of the nominal value of lending to banks under various instruments including all SBPUs, subordinated loans and emergency liquidity credit, borrowing through various discount windows and aggregate debit (negative) balances of banks with BI. Also included in liquidity support are net claims on IBRA, BI holdings of government bonds related to bank restructuring, and claims on liquidated banks including negative balances and bridging loans; and foreign-currency denominated credits extended by BI to domestic banks in connection with the clearance of these banks' external arrears.² As in the case of base money and NDA, liquidity support will also be measured on a 10-day average basis.

The target on base money will also be adjusted by changes in reserve requirements according to the same adjustor applied to NDA in the previous section. The ceiling on liquidity support will be adjusted for reductions in external arrears of domestic banks according to the same adjustor applied to NDA in the previous section.

BI will publish weekly, with a three-day lag, key monetary data, (which may be subject to revision) including base money, gross international reserves of BI, NDA of BI and NIR of BI (the information could be made available through special press releases and/or by updating BI's web-site).

² Converted at the exchange rate of Rp 7,500 per U.S. dollar.

Fiscal Targets

1. Indicative Targets on the Overall Central Government Balance

Cumulative balance from End-March 1999	Floor (In trillions of rupiah)
End-April 1999 (indicative)	-5.6
End-May 1999 (performance criteria)	-11.1
End-June 1999 (indicative)	-16.7
End-July 1999 (indicative)	-22.8
End-September 1999 (indicative)	-35.2
End-December 1999 (indicative)	-51.2
End-March 2000 (indicative)	-71.0

For the purposes of the program, the interest costs associated with bonds and other debt issued by the government to cover the costs of bank restructuring will be placed above the line. The fiscal balance is therefore defined as the negative of the sum of: (i) net foreign borrowing; (ii) the change in net credit from the banking system, excluding the amount of bonds and other government obligations, if any, incurred for the purpose of recapitalizing banks, but including the interest on these loans and obligations as well as the operating costs of IBRA; and (iii) net financing from all other sources to the government, but excluding receipts from privatization and divestiture.

Net foreign financing is defined as government foreign borrowing less amortization (including debt prepayments) of foreign debt, with transactions translated into rupiah each month at the average exchange rates for that month. Net credit from the banking system is defined as the change in net credit to government (including SBI holdings and commercial loans and the extrabudgetary funds), as reported in the consolidated government accounts in the monetary survey. Net financing from all other sources includes receipts from the sale of government assets, but excluding privatization as described above.

Government deposits in foreign exchange as of March 31, 1999 will be evaluated at constant exchange rates as of end-March 1999. Monthly changes in government foreign currency balances will be converted into rupiah at the average exchange rate prevailing for that month.

The limits will be adjusted upwards by the amount by which cumulative interest payments on the bonds issued for bank restructuring fall short of the programmed amounts.

External Sector Targets

1. Indicative Targets on Net International Reserves of Bank Indonesia

Outstanding stock as of:	Floor (In billions of U.S. dollars)
End-December 1998 (actual) 1/	14.1
End-March 1999 (projection)	14.3
End-April 1999 (indicative)	14.1
End-May 1999 (performance criteria)	14.0
End-June 1999 (indicative)	13.8
End-July 1999 (indicative)	13.7
End-September 1999 (indicative)	13.3
End-December 1999 (indicative)	14.3
End-March 2000 (indicative)	16.3

1/ Data as of end of the month, does not correspond to the 10-day average.

2/ See footnote 2 of Table 2 in this memorandum.

For monitoring purposes, net international reserves of BI (NIR) are defined as the sum of: (i) the U.S. dollar value of gross foreign assets in foreign currencies minus gross liabilities in foreign currencies; (ii) the net forward position of BI; and (iii) reserves against foreign currency deposits. NIR will be measured on a 10-day average basis (see Annex I).

Gross foreign assets will include all foreign currency-denominated claims of BI, including monetary gold, holdings of SDRs, and the reserve position in the IMF. Excluded from gross foreign assets will be participation in international financial institutions, as well as holdings of nonconvertible currencies, and claims on residents. Gross foreign liabilities are all foreign currency denominated liabilities of contracted maturity up to and including one year plus the use of Fund credit. All assets and liabilities will be valued using the exchange rates and gold price as of end-March 1999.

The net forward position is defined as the difference between the face value of foreign currency-denominated BI off-balance sheet claims on nonresidents (forwards, swaps, options, and any futures market contracts) and foreign currency obligations to both residents and nonresidents.

The NIR floors will be subject to the following adjustors:

(i) The floor will be adjusted for changes in the composition of external financing from that assumed in the program. In the event of a shift in the composition of external financing from loans not counted as a reserve liability of BI to loans counted as a reserve liability, NIR will be adjusted downward by the amount of this shift in the financing mix relative to the program baseline. In the event of shortfalls of total balance of payments financing, NIR will be adjusted downward by the amount of the shortfall, up to a maximum of US\$1.0 billion. NIR will be adjusted upward by the amount of any excess of balance of payments support over that set out in the program.

(ii) The floors will be adjusted upward by the amount by which BI deposits in foreign branches of Indonesian banks exceed US\$2.5 billion.

(iii) The floors will be adjusted upward by the amount by which BI holdings of export drafts exceed US\$2.9 billion.

(iv) The limits will be adjusted downward by the amount of any reduction in the external arrears of domestic banks by up to a maximum of US\$0.35 billion.

The adjustors and definition of NIR will be subject to review to take advantage of new sources of financing not anticipated under the program.

2. Indicative Target on Contracting or Guaranteeing of New External Debt

Cumulative change in stock from end-March 1999	Limit (In billions of U.S. dollars)
End-April 1999 (indicative)	1.0
End-May 1999 (performance criteria)	1.0
End-June 1999 (indicative)	1.0
End-July 1999 (indicative)	1.3
End-September 1999 (indicative)	2.0
End-December 1999 (indicative)	2.5
End-March 2000 (indicative)	3.5

The limit applies to the contracting or guaranteeing by the non-financial public sector of new nonconcessional external debt with an original maturity of more than one year, which is defined as loans containing a grant element of less than 35 percent on the basis of currency-

specific discount rates based on the OECD commercial interest reference rates. Excluded from the limits are credits extended by the IMF and balance of payments support loans, and guarantees related to financial sector and debt restructuring in the context of the Frankfurt agreements. Debt falling within the limit shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract is entered into, or guarantee is issued.

3. Indicative Target on the Stock of Short-term Debt Outstanding

Outstanding stock as of	Limit (In billions of U.S. dollars)
End-April 1999 (indicative)	2.5
End-May 1999 (performance criteria)	2.5
End-June 1999 (indicative)	2.5
End-July 1999 (indicative)	2.5
End-September 1999 (indicative)	2.5
End-December 1999 (indicative)	2.5
End-March 2000 (indicative)	2.5

The limits apply to the stock of debt of maturity of one year or less, contracted or guaranteed by the non-financial public sector. Excluded are balance of payments support loans, normal import-related credits, reserve liabilities of Bank Indonesia, forward contracts, swaps, and other futures market contracts, and guarantees related to debt restructuring in the context of the Frankfurt agreements.