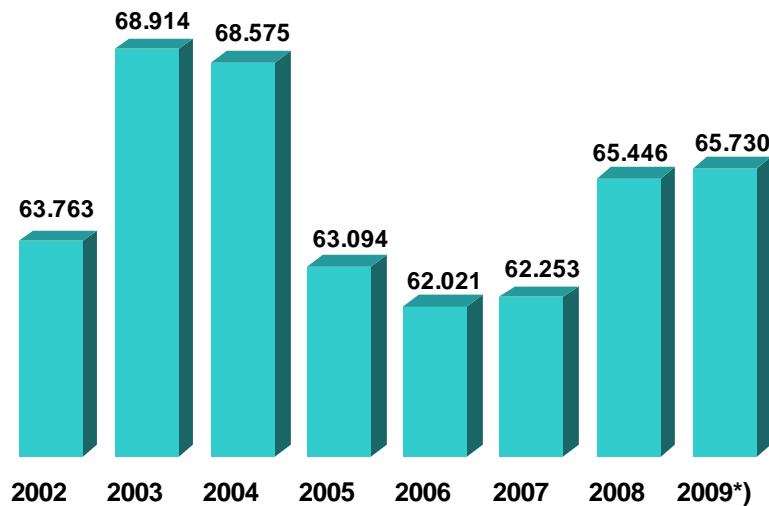


DEBT BURDEN ON INDONESIAN ECONOMY

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From the New Order to the current ruling regimes, one of never changing policies has been the use of debt as source of development financing as stated in the state budget. This obligation has been mounting from year to year even after IGGI (Inter Governmental Group on Indonesia) and CGI (Consultative Group for Indonesia) were dismissed and when the new elected democratically President Susilo Bambang Yudoyono and his Vice President Yusuf Kalla take rule the Indonesian amount of liabilities never decrease, as seen in the subsequent diagram.

**Amount of Foreign Debts
(billion US\$)**



**)preliminary data (up to 31 January 2009)*

Source: Directorate General of Debt Management, Ministry of Finance of Indonesia

In 2002, the government debt was US\$ 63.76 billion and then significantly increased to US\$ 65.45 billion in 2008, which is most likely will end up at US\$ 65.73 billion by end of 2009. As a consequence of this mounting obligation, the debt repayment (principal and interest) also gets much higher, which becomes the burden of the state budget.

For repaying the dues, the government must inevitably make a new debt, but this amount of new debt is never enough to pay off the due debts in its annual budget. In 2001, the amount of new debt was US\$ 5.51 billion, while the debt and interest payment was US\$ 7.157 billion, so that there was a negative spread of US\$ 1.65 billion. During 2001-2008, the negative spread had been increasing and in 2008 it was US\$ 4.95, as seen in the table below. It seems Indonesia has been entering the debt trap that forces the government to make new debts to clear the due obligations every year.

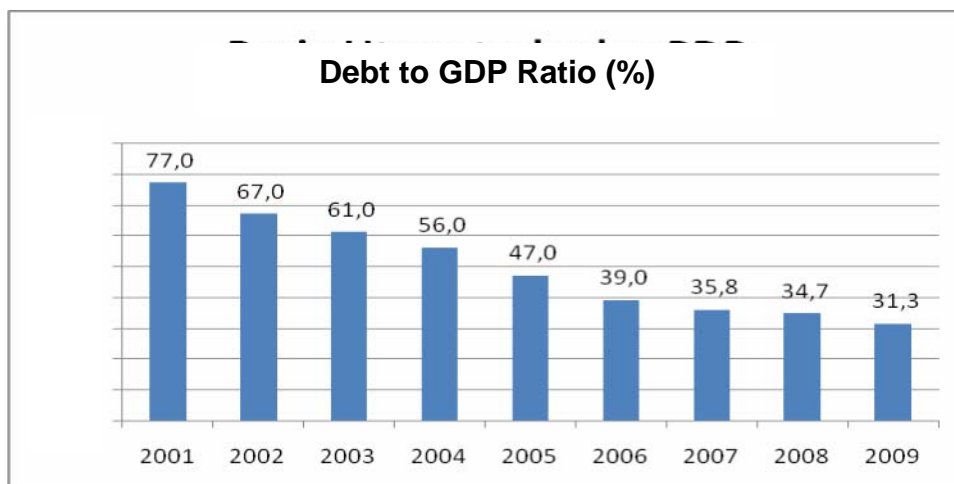
**Spread Between New Debt and Payment for Due Debt and Interest
(in billion US\$)**

Description	2001	2002	2003	2004	2005	2006	2007	2008
New Additional Debt	5.511	5.646	5.224	2.602	5.538	3.661	4.009	3.892
Principal	4.245	4.567	4.955	5.222	5.626	5.787	6.322	6.569
Interest	2.912	2.782	2.656	2.495	1.339	2.280	2.298	2.272
Total	7.157	7.349	7.611	7.717	6.965	8.067	8.620	8.841
Spread	(1.646)	(1.703)	(2.387)	(5.115)	(1.427)	(4.406)	(4.611)	(4.949)

Source: Directorate General of Debt Management, Ministry of Finance of Indonesia

Impact of Debt Trap

Indonesia's capacity to pay debt as indicated by ratio of debt to gross domestic product (GDP) really tends to decline every year. In 2001, the ratio was still 77.0 percent and tumbled to 34.7 percent in 2008, while in 2009 it seems likely to slump to 31.3 percent as indicated in the graph below.



Source: Directorate General of Debt Management, Ministry of Finance of Indonesia

The escalation of the government debts that is leading to a debt trap will surely have a negative impact on some aspects as following. *First*, tax payers, must sacrifice some of its money to pay the government debts, other than for financing public program such as welfare enhancement project which can be much more useful for the ordinary people.

Second, the existence of debt may trigger moral hazardous acts among the civil service employees. Some studies indicate the bigger the debt a country has the bigger the potential of corruption and misuse of the debt will be. The World Bank and the International Monetary Fund (IMF) must have known that the debts they gave have been distorted and they must take action to prevent for further leaking of these debts, however, they have not taken care of this problem. Many criticisms have been directed to both institutions for their lack of concern on this matter, which further arouses suspicion that the two institutions would just want to reap benefit from interest rate without paying much attention on corruption matters.

Third, the insignificant added value of debt as source of development. Many creditors demand terms and condition that often burden Indonesian people. For example, Indonesia must buy some goods and hire consultants from the donor countries which set relatively high prices and fees. As a result, there is a repatriation of funds to the creditor countries, while minimizing the value added of Indonesian development program.

Fourth, the most serious effect is the erosion of sovereignty in Indonesian economic management. The creditor countries through the World Bank and IMF usually insist the government take economic policies that are in common with the donors'

interests. The economic policies that are directed by other countries' concern may corrode the economic self reliance which in turn would deprive people's welfare. The implication of free market economy, subsidy elimination and state-owned enterprises privatization, are among those causing the deterioration of economic autonomy.

The submission of Cepu Block (an oil well estimated to contain million barrels of oil) to Exxon Mobil is considered to have relation with the government low bargaining power against creditors' pressures. It is not surprising that almost all mineral mining managements have been under foreign investors. In addition, the privatization of State-Owned Enterprises (SOEs) seems to be interfered by the creditor countries as to make 50 percent of profitable SOEs undergo listing in the capital market so that their shares have been owned by foreign investors.

Efforts to Escape from the Trap

Whoever be the President of the Republic of Indonesia succeeds in 2009 election, he will inherit such huge amount of debts. Therefore, the elected President must be dare to make a radical change related to the debt policy and management. Some efforts that are suggested in order to avoid from the trap are as following.

First is that the new President must change the current paradigm on debts that perceives them as potential source of fund. The debts must then be viewed as the burden of the development that has to be taken out from the state budget structure.

Second is that in early of his/her administration agenda, President must set an agenda of debt restructuring program to cut off the chains of the trap (get new loan to pay due date loan). The restructuring program must settle the payments of debts to become zero rupiah in the state budget, whether through moratorium or reschedulling and write-offs, without making new debts. If Indonesia does not demand the new additional loans to the creditors, then its bargaining position strengthens and could deal its debt settlements which is more lucrative for Indonesia.

The *third* effort is reviewing all policies suspected to have been obliged by the creditors, especially those like subsidy elimination, natural resource management, and SOEs privatization. In the re-statement of Indonesian economic policies, the government must be aware of the mandate of the Constitution 1945, in special Article 3 of Section 33, stating that *land, water and treasures therein are under government management and utilized optimally for the sake of public welfare*. Other than that, the

SOEs revenues, not the sales of SOEs shares from privatization, should be used as one of state budget sources of funds.

End Notes

Indonesia must not be dependent upon debts, whether domestic or foreign ones, as the source of its state budget, because debt escalation leading toward the debt trap will disturb and burden its economic development in longer term. Hence, using non-debt domestic sources must be a priority in order to make the fiscal budget healthier.

The bigger the debts the bigger the difficulties in financing its economic development will be in the future so that this has to be solved by seeking more domestic sources other than debt, such as tax and state-owned enterprises profits. By optimizing these sources, it is expected that Indonesia will escape promptly from the debt trap that gets severe from year to year and has proved to have been burdening its economy.