Indonesia: lower oil income hits economy

by Ramtanu Maitra

The one-third drop in oil revenues Indonesia has suffered in the 1982-83 fiscal year—a $6 billion drop—is forcing the government to make a hard choice between the current living standard of its population and the nation's industrial development.

In the 1982-83 budget, President Suharto made the politically risky decision to cut back government consumer subsidies by 40 percent, from $2.5 billion to $1.5 billion, to sustain a 34 percent increase in the development budget. A further cut in oil income is jeopardizing even the limited 8 percent increase in development funds Suharto had hoped to achieve in the 1983-84 budget.

Unlike the case of Mexico or of Nigeria, the oil crisis does not threaten an immediate crisis of debt payments or political stability. However, the modernization of the country, the maintenance of its population's living standards, and hence the long-run foundation of political stability are being undermined.

During the current fiscal year, income from Indonesia's crude and other oil product exports fell to $12.2 billion from the previous year's $19.1 billion. Liquefied natural gas sales have declined in the current year to an anticipated $3.7 billion.

Indonesia's oil accounts for about 70 percent of its exports presently and about 53.3 percent of total government revenues in the proposed 1983-84 budget. Since April 1982 Indonesia has reduced the price of its oil by $0.20-$1.90 a barrel, depending on the quality of crude. High-equality Minas crude, for example, which accounts for almost 50 percent of Indonesia's crude exports and was priced at $34.53 a barrel as of November, has a select and relatively fixed market. Although there are reports that Minas crude is selling at $33.00 a barrel on the spot market, demand for it remains high.

The Japanese, who buy about 60 percent of all Indonesian crude exports, are pressing for a price reduction. However, the Japanese have emphasized they will honor Jakarta's compliance with an OPEC price cut by maintaining their current purchase commitments. It is generally expected that, given the importance of maintaining good working relations with Indonesia, the Japanese buyers will do their best to maintain the current level of purchases when the annual trade talks between the two nations are held in March.

Cuts in subsidies

Faced with a deteriorating balance of payments, the Indonesian government already introduced an austere budget in fiscal year 1982-83. Subsidies for fuel oil and food were cut from $2.4 billion to $1.5 billion, affecting the entire population. Yet, with long-term planning in mind, President Suharto called for expanding development expenditures by 34.5 percent, whereas routine expenditures were allowed to drop by 6.7 percent.

During 1982, Indonesia's export earnings fell substantially as the world recession pulled down the commodity prices on which Indonesia's non-oil sectors depend. In the second half of the year, complying with OPEC's decision, Indonesia lowered its oil production from 1.6 million barrels per day to 1.3 million bpd, and in November Indonesia cut its oil price.

Presenting the fiscal year 1983-84 budget on Jan. 6, President Suharto, who is compelled by law to prepare a balanced budget, called for removing subsidies from fuel oil altogether and for a further cut in food subsidies. The government, he pointed out, hopes to offset the drop in oil revenue through a 49.9 percent increase in project aid from international sources to $3.6 billion. (The government optimistically estimates oil revenues to be only 2.8 percent less than last year's.) Again, emphasizing the necessity for building up Indonesia as an industrial nation, Suharto called for expanding development expenditure by 7.9 percent.

Foreign exchange reserves add up

During the days of oil boom Indonesia had built up substantial foreign exchange reserves. The country has an official disbursed foreign debt of about $17.0 billion. Private debts add another $5 billion to $6 billion, according to government figures. Official foreign exchange reserves, which declined by $2 billion during 1982, stood at $4 billion in Oct. 1982. State bank foreign exchange holdings held abroad also account for about $4 billion, according to the American embassy's Jakarta report.

Although the estimated oil earnings for fiscal year 1983-84 may seem too optimistic, and the Indonesian currency, the rupiah, is under severe pressure for devaluation, there are several factors which make Indonesia's situation less drastic than that of many other oil producing nations. First, the structure of Indonesia's oil market is dominated by demand for light crudes: Minas light has become almost a necessity in Japan, as Japan's industry has kept modernizing to the disadvantage of heavier crudes. Second, Indonesia's debt is still manageable, with a large portion of it consisting of long-term loans from international agencies or investments with relatively low interest rates.

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