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Indonesia: Devaluation and other monetary measures announced on 24 August will be largely ineffective in coping with the problem of mounting inflation in Indonesia unless complemented by more far-reaching reforms. Although follow-up measures such as increased taxes and enforced savings reportedly are planned for the near future, the government's ability to implement them is dubious. While the Communist party has thus far given qualified approval of devaluation, it has admonished the government to take more extensive steps and will probably intensify its efforts to discredit the army-influenced cabinet. New reports of army corruption are also likely targets for Communist exploitation.

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Indonesia's Monetary Measures

Djakarta's remedial monetary measures, which included partial devaluation and the freezing of 90 percent of all bank deposits, will be largely ineffective in coping with Indonesia's problems of mounting inflation and scarcity of goods unless complemented by more far-reaching reforms. The measures, announced on 24 August, devalued by 90 percent the two highest denomination banknotes of 500 and 1,000 rupiahs, reset the official rate of exchange from 11.4 rupiahs to the dollar to 45 to the dollar, and froze 90 percent of all bank deposits over 25,000 rupiahs, for which debentures are to be issued. Complicated export regulations were abandoned, and import duties were revised to encourage essential imports and continue discouragement of luxury items.

President Sukarno strongly implied in a 26 August radio address that three follow-up measures would shortly be undertaken. He enumerated them as stabilization of the budget by cutting or postponing less urgent expenditures; an increase in taxes; and compulsory savings. It is doubtful, however, that the government has the capability to implement these measures. The resignation, without explanation, of Lukman Hakim, governor of the Bank of Indonesia, on 1 September is probably indicative of the uncertain attitude of knowledgeable Indonesian officials over the reforms.

The freeze on bank deposits has not been lifted, although machinery is being set up to entertain applications for exemption. The result is a near paralysis of business and foreign exchange transactions owing to the lack of fluid capital. Devaluation will have little effect on the upward pressure of prices.

The Indonesian Communist party has given qualified approval to the government's measures although it has emphasized the financial losses inflicted on peasants, laborers, and small businesses and has admonished the government that additional reforms are necessary. Should government efforts to solve fiscal problems falter noticeably, the Communists are likely to intensify their criticism in an attempt to discredit the army-influenced cabinet. New reports of army corruption are also obvious targets for Communist exploitation. [redacted]

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