

Indonesia's debt
"Indeh"

Mr. A. G. Kheradjou

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O. Dajary

Indonesia's Debt to the Netherlands

In the present dispute between Indonesia and the Netherlands, the financial and political aspects are so closely related that it is difficult to consider either aspect separately. The following, therefore, is a brief review of the political aspect which led to the present deadlock over the question of Indonesia's debt to the Netherlands.

Political

The relations between the two countries have been deteriorating since 1950, culminating finally in the seizure of Dutch enterprises in December 1957 and severance of diplomatic relations in August 1960.

The cause of the hostility is the western half of New Guinea known as Dutch New Guinea and referred to by Indonesia as "West Irian". The eastern part of the island is administered by Australia, partly as its own territory and partly under U.N. trust.

Dutch New Guinea (West Irian) was part of the original Dutch East Indies which was granted independence in December 1949 following the Round Table Conference and became the Republic of Indonesia. The fate of West Irian was not settled at the Conference. It was left subject to settlement within a year. This settlement has not been reached. Indonesia has steadfastly insisted that West Irian is legally part of its territory while Holland has refused to hand over the area. On September 26, 1961 the Dutch proposed a solution to the problem which would place the disputed territory in U.N. hands pending self-determination. They also declared that financial contributions to the area at the level of approximately \$30 million annually would be continued in the interim period. Indonesia has rejected the proposal, reiterating its contention that West Irian is already an integral part of Indonesia.

Financial

1. (a) Under the terms of the Financial and Economic Agreement between Indonesia and the Netherlands effective December 30, 1949, which was part of the agreement reached during the Round Table Conference, Indonesia agreed to assume several consolidated loans owing to the Netherlands amounting to Rp 870.7 million (equivalent of U.S.\$229 million at the then prevailing exchange rate of Rp 3.8 per U.S.\$1), and also the

following other debts, namely, (i) a commercial account ^{1/} of Rp 40 million (about \$10.5 million) and (ii) the debit balance on a reconstruction account ^{2/} of Rp 80 million (about \$21 million). The outstanding amounts of these various loans were calculated as of December 31, 1949. ^{3/} Details of the various consolidated loans are given in Table I.

1. (b) Under the Financial and Economic Agreement (Article 27, Section D), "the remaining debts of Indonesia to the Netherlands at date of transfer of sovereignty" were deemed to have been "cancelled after the debts of the Netherlands to Indonesia at the same date have been offset". This involved "a reduction of the debt (owed by Indonesia) to the Netherlands by the sum calculated as at December 31, 1949 of 2 billion Netherlands guilders (that is, Rp 2 billion, or about U.S. \$526 million)".

2. In August 1956 Indonesia repudiated (or abrogated) various prewar loans in the outstanding total amount of Rp 1,962 million (equivalent of U.S. \$172 million at the then prevailing exchange rate of Rp 11.4 per U.S. \$1) on the grounds that "from Indonesia's standpoint these debts were debts made on behalf of the Netherlands' warfare". (For details about these loans see Table II. However, Indonesia continued to recognize various other loans due to the Netherlands which had been incurred in the postwar period and which amounted to Rp 630 million (about \$56 million) at the time of the repudiation of the prewar loans. The repudiation of the prewar loans followed the termination (unilaterally by Indonesia) in March 1956 of the Round Table Conference Agreements of 1949. Between the end of 1949 and the date of their repudiation in August 1956, Indonesia had made a repayment of Rp 220 million (U.S. \$58 million) in respect of these loans.

3. In December 1957, Indonesia took various actions against the Netherlands, including the severance of the commercial relations between the two countries and the suspension of the servicing of the postwar loans to the Netherlands amounting to Rp 630 million (U.S. \$56 million). The Indonesian Government has stated that the suspension of debt servicing will continue pending the solution of the New Guinea (West Irian) issue. Between the end of 1949 and the date of this suspension, the total repayment by Indonesia in respect of these loans amounted to Rp 252 million (U.S. \$22.1 million) at the rate of Rp 11.4 to U.S. \$1.

4. Indonesia also took over various Netherlands' enterprises along with the above-mentioned actions against the Netherlands' interests in December 1957. Many of these enterprises have been nationalized. Indonesia has stated that it will pay due compensation in respect of these nationalized properties, but only after the solution of the West Irian issue. Details regarding the method of payment and the amounts of compensation have not yet been announced.

^{1/} Swing to the C account
^{2/} HO/NI account
^{3/} Article 25, Section D, of the Agreement

TABLE I

Consolidated Debts to the Netherlands
assumed by Indonesia under the Financial
and Economic Agreement, effective December 30, 1949

Loan issues (remaining duration as of December 31, 1949 shown in parenthesis)	Outstanding amounts at the end of 1949	
	Rpmn	US\$mn (conversion at the then prevailing exchange rate of Rp 38 per \$1)
I. 3½ percent Netherland-Indies Loan 1935 (21 years)	36.65	9.64
II. 3 percent Netherland-Indies Conversion-loan, 1937 (18 years)	90.00	23.68
III. 3 percent Netherland-Indies Loan 1937A (25 years)	616.25	162.16
IV. 3 percent Netherland-National Consolidated Debt 1896 (Indonesia's share) (3 years)	3.33	0.88
V. 3 percent Indonesian Loan 1962-1964 (to be redeemed in full on June 1, 1964)	79.91	21.03
VI. Loans contracted with "De Nederlandsche Bank" and "De Javasche Bank", 1932 (13½ years)	44.63	11.74
Total	870.77	229.13

Source: (Report on) Round Table Conference, Results of the Second Plenary Meeting held on November 2, 1949.

TABLE II

Debts to the Netherlands Repudiated by Indonesia in August 1956

	Rp mn	U.S.\$ mn (converted from rupiah figures at the exchange rate of Rp 3.6 per \$1)
1. 3½% Netherland-Indies Loan 1935	28.66	7.54
2. 3% Netherland-Indies Loan 1937	55.00	14.48
3. 3% Netherland-Indies Loan 1937 A	468.35	123.25
4. 3% Indonesian Loan 1962-1964	79.91	21.03
5. Loan contracted with the "De Nederlandsche Bank" 1932	18.45	4.86
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Total	650.37	171.16

Source: Staff Report on the 1958 Consultations with Indonesia (SM/59/18)
Part II, p.52