DEPARTMENT OF THE TREASURY
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TO: Deputy Secretary Summers
Under Secretary Lipton

FROM: Timothy Geithner

SUBJECT: Options for US Financial Support for Indonesia

Attached is a draft outlining several different options for US participation in a financing package for Indonesia as discussed at the meeting this afternoon.

International Financial Support for Indonesia: Options for U.S. Participation

As discussions between the IMF and Indonesia concerning a financing package progress over the next several days, we will likely face the issue as to whether the United States should participate in some fashion beyond its shareholdings in the international financial institutions (IFIs). Our preference would be to see a viable financing package emerge that is 100% funded by the IFIs and does not incorporate bilateral assistance. It is likely, however, that some form of Japanese participation will either be offered or requested. It is therefore necessary to consider how the United States should respond to an Indonesian request for assistance or an unsolicited offer by the Japanese.

There are four basic options that can be considered for U.S. participation in a financial support package: a multilateral bridge loan, short-term swap arrangement, an Ex-Im Bank facility, or a medium-term loan.

Multilateral Bridge Loan: A bridge loan to World Bank or Asian Development Bank loans, as was done in the recent case of Thailand and in 1995 with Argentina.

- This is the least problematic option from a legal and legislative perspective, as there is an assured source of repayment and our participation in the Thai bridge did not raise significant Congressional objections.
- The multilateral bridge, however, provides little real financial assistance and in the case of Thailand has proven ineffective in underscoring U.S. support for the restoration of financial stability in Southeast Asia.

Short-term Swap Arrangement: The United States could provide Indonesia with a $500 million to $1 billion short-term swap line, which could be drawn on for periods to 60 to 90 days to provide liquidity support. Conditions could be placed on drawings on the swap line to limit the risks that such an arrangement would undercut IMF conditionality or that the funds would be used to finance imprudent levels of intervention.

- Any drawing could require U.S.and IMF approval, and could require certification from the IMF that Indonesia is in compliance with the Fund program.
- A requirement could be set for the level of gross and net international reserves could be set to insure that the swap line will not be utilized to finance excessive intervention and that there are sufficient reserves to repay the borrowings.

Ex-Im Bank Facility: A credit guarantee facility (CGF) of $1 billion or larger could be established to finance Indonesian imports of U.S. goods.

- This would in essence represent "tied" aid and would provide no newly available financing, as Ex-Im Bank funding is already fully available for exports to Indonesia. The "bogus" nature of this facility would be widely recognized by both the private sector and governments in the OECD and in the region.

- In contrast, financing from the Japan Ex-Im Bank is untied and can be used directly for balance of payments support.

- The primary advantage of a CGF would be the symbolic value of announcing some form of direct U.S. financial support for Indonesia.

- While a CGF for only Indonesia might raise some questions as to why the U.S. did not support Thailand with a similar facility, a broader CGF for the region might reduce this problem.

Medium-Term Loan. A $1 billion loan could come out of the Exchange Stabilization Fund. The mechanism for this would be comparable to what was done in the case of Mexico, although the scale of any loan would be far smaller.

- This approach carries significant political risk, as it would likely provoke a sharp outcry from Senator d'Amato and others who opposed the Mexico bailout. It is particularly risky given the pending status of the NAB on the Hill, and would likely lead to reimposition of the d'Amato restrictions on use of the ESF.

- It would be unprecedented for a loan of this type to be provided without an assured source of repayment. It is possible, however, that an arrangement similar to the case of Mexico could be made using Indonesia's

- The loan does, however, provide the strongest possible signal of U.S. support.