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MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telcon with Indonesian President Soeharto

PARTICIPANTS: The President  
President Soeharto

Interpreter: Fred Burks

Notetakers: Sandra J. Kristoff, Sean Rice,  
David Higgins and George Chastain

DATE, TIME February 13, 1998, 9:54 - 10:32 p.m. EDT  
AND PLACE: Camp David

The President: Since we spoke several weeks ago, I have followed developments in Indonesia closely. I wanted to stay in touch and am calling now because I am concerned about the financial situation. (C)

Your personal leadership has produced unprecedented economic growth and prosperity for Indonesia and its people. I am convinced you can get through this present difficulty. (C)

I share your desire to see rapid economic recovery and want to do what I can to work with you. I understand one of the proposals under consideration is establishment of a currency board. I have studied this proposal and have serious concerns about it that I want to share with you. (C)

I have consulted with the IMF and G-7 countries and everyone seems to believe that if you implement a currency board you could put at risk all the progress you have achieved. (C)

If markets go after the board, it could create a run that seriously depletes Indonesia's reserves and complicates the efforts of the IMF and the international community to provide support. It could drive up interest rates, lead to the collapse of banks and the banking system and make it easier for speculators to move against the rupiah. When speculators make a

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Classified by: Glyn T. Davies

Reason: 1.5 (b)(d)

Declassify on: 02/17/08

UNITED STATES DEPARTMENT OF STATE

REVIEW AUTHORITY: CHARLES E LAHIGUERA

DATE/CASE ID: 30 APR 2008 200502960

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run, it can drive down a country, even as it did Great Britain, and this would worsen the situation for you. (C)

I know these currency boards seem to have worked in a couple of other countries, but everybody I know thinks it will not work for Indonesia. It seems a better course would be to focus on strengthening the banking system, resolving private sector debt and continuing to implement the IMF reforms. (C)

I want to work with you and with the IMF in supporting efforts to stabilize the exchange rate. We are mobilizing a multilateral effort to help restore trade finance lines to Indonesia, working with the IMF and the G-7. We also have a substantial program of food assistance to offer just to help you meet the temporary shortfall you now face. (C)

Mr. President, the task of restoring market confidence also has a political component and that is why it is important to implement the IMF reforms with a leadership team that commands broad public support and respect. And as you and I have discussed many times now, it is important to maintain openness and broad public participation in the political system to maintain growth and your impressive record of accomplishments. It seems to me that in order to complete the difficult economic adjustments you will need public support. Allowing a broad range of viewpoints to be heard will act to help generate that support. (C)

Mr. President, I believe in your leadership record and the fundamental strength of your country. I will do what I can to help. That's why I felt moved as a friend to share with you my concern about this currency board idea. (C)

President Soeharto: Thank you very much for your interest and I appreciate that you are a close friend of Indonesia and are paying close attention to the situation here. (C)

The problem is that after January 15, when I gave the letter of intent to the IMF, and even since November when the IMF started to provide assistance, the situation has gotten worse. (C)

I am trying to implement precisely the letter of intent. First, the state budget is being revised even though some in Parliament are reluctant to do so. Second, we are taking appropriate steps on banking reform, including merging banks and appointing new personnel. Eventually, there will be only three state banks. Third, we have established a restructuring program for private

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banks. The task is to see that mergers take place. In order to restore confidence in the banking system, the government is guaranteeing savings and deposits. But we are not going to liquidate any more banks because we believe this would be disadvantageous. We will set up new rules about minimum accounts and banks that cannot meet those rules will be out of business. (C)

The problem is that despite all this, the decline in the exchange rate continues. The rupiah was at 15,000 to one dollar; now it is at 10,000. Companies have stopped their work, which has caused layoffs and unemployment and unrest. (C)

To stop this fall in the exchange rate, the government has intervened repeatedly and we have used \$10 billion of our reserves to shore up the rupiah. Continuing to intervene will jeopardize our limited reserves, which are needed to import goods for industry, for example spare parts. If we continue to intervene, we will exhaust our reserves. (C)

One IMF requirement is expediting trade liberalization. I have done that, but a consequence has been that many companies cannot distribute basic goods. There is a scarcity of foodstuffs and supply and demand has driven up prices, which in turn has produced unrest. The public has called on the government to remedy the problem. But because of the continued decline of the rupiah, it is difficult to calculate how much we need to import, even of such items as medicine and powdered milk, which also now are in short supply. Unless we take control and try to stop the fall of the rupiah, I fear all companies will stop all business, even as we are in the process of reforming the banking system. (C)

At the moment we are contemplating introduction of a currency board system. But I share your view that there is a great risk in doing this. I fear, however, that unless we take this step all manner of things will get worse and there will be a great effect on the rest of Southeast Asia. (C)

If the currency board is not introduced, what is the alternative? How do we stop the rupiah's fall? I appeal to you to approach the G-7 and ask them to pay attention to the situation in Indonesia. I will not insist on a currency board in Indonesia. If there is a better alternative, I would be happy to apply it. (C)

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So this is the situation in Indonesia now. I appreciate your help regarding our food shortages. (C)

The President: I hear your message and I understand your frustration. If the rupiah falls, you will lose your reserves. And if the currency board is caught short and falls, you will lose the reserves as well, just quicker. (C)

I want to go back to the G-7 and the IMF and talk to them about alternatives. I want this to work out and am worried the currency board will be an open target. I am worried about collapse. I will talk to the others and get back to you in a few days. (C)

President Soeharto: Thank you for your pledge. We need to make a decision soon as the people are demanding that their President do something to fix the situation and save the country. The Indonesian people see the IMF as a savior too late. (C)

The President: Thank you. I will get to work on it. (C)

President Soeharto: Thank you. (C)

-- End of Conversation --

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