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Important measures against private capital out flows: the case of Indonesia

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Abstrak

Weak policy measures and improper monitoring of the flows and consumption of short-term external funds during the boom period (especially in early and mid 1990's) had been substantial in contributing to the country's currency and economic crisis in mid 1997. Private capital outflows in the form of capital flight had aggravated the intensity of the recent economic crisis as it drained the capital out at the time when it was most needed. Capital flight is estimated using an indirect measure (originally used by World bank, 1985) which involves a residual of some other variables. Accordingly, capital flight is calculated as the identified acquisitions of external assets except official reserves, plus recorded errors and ornissions. An econometric analysis was conducted to determine factors affecting capital flight from Indonesia. Using Augmented DickeyFuller and Phillip-Perron tests of unit root, it was found that ail variables except FDI, uncertainty and interest rate differentials are nonstationary. The Johansen's approach was used to test co-integration in multivariate system that involved long run and short run estimations. The results show that exchange rate depreciation, increase in external debt, GDP, FDI and inflation are important determ~inants of capital flight from Indonesia. Policy measures to prevent future capital flight problem should incorporate the impact and interdependence of various macroeconomic variables. Balanced policy measures based on both fiscal and monetary policies are important in order to maintain or strengthen the confidence of the public. It is important to carefully monitor the flows and consumption of external funds especially during the time of prosperity.