EBS/83/69

CONFIDENTIAL

March 31, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Indonesia - Exchange Rate

There is attached for the information of the Executive Directors a paper prepared by the staff on recent modifications in Indonesia's exchange arrangements.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Indonesia--Exchange Rate

Prepared by the Asian and Exchange and Trade Relations Departments

Approved by Tun Thin and Manuel Guitian

March 31, 1983

The Executive Director for Indonesia has notified the Fund of recent modifications in Indonesia's exchange arrangements, as described in the attached communication to the Secretary.

On March 30, 1983, the rupiah was devalued by 27.6 per cent against the U.S. dollar from Rp 702.50 per US$1 to Rp 970.00 per US$1. This adjustment has brought the real exchange rate broadly to the level that prevailed after the November 15, 1978 devaluation of 33.6 per cent from Rp 415/US$1 to Rp 625/US$1 (EBS/78/688). The exchange rate adjustment is consistent with the staff's views and analysis as set out in the report on the 1982 Article IV consultation with Indonesia (SM/82/224), discussed by the Executive Board on January 7, 1983.

A number of developments have led to this exchange rate action. The most important factor has been the progressive weakening in the international oil market. During most of 1982, Indonesia's oil production was well below capacity, and in January and February of 1983, production had declined to 60 per cent of capacity. Following the recent OPEC agreement, Indonesia's oil prices were decreased by $5 per barrel. Based on the reduced price of oil and production at the OPEC ceiling (1.3 m.b.d.), net oil and LNG earnings in the balance of payments would fall below $6 billion in 1983/84 (fiscal year beginning April 1), compared with the peak net oil and LNG earnings of $10.6 billion in 1980/81. Weak world market conditions have also adversely affected Indonesia's non-oil exports. These exports which amounted to $6.2 billion in 1979/80, fell to less than $4 billion in 1982/83 and are projected to recover only modestly in 1983/84. (In both 1979/80 and 1980/81 large current account surpluses were realized.) Meanwhile, foreign exchange expenditures on imports and services have grown rapidly. Under these conditions, adjustment measures had become necessary to avoid a large financing gap. Failure to adjust in the current situation would also have seriously jeopardized the open trade and payments system, which has greatly benefited Indonesia's growth and development for more than a decade.

The communication by the authorities indicates that they are committed to managing the exchange rate flexibly in order to meet any unexpected external developments. The authorities are now working out the necessary supporting fiscal, monetary and pricing policies to make the devaluation successful, and are in close contact with the Fund staff.

Attachment

ATTACHMENT

Office Memorandum

TO The Secretary

DATE: March 30, 1983

FROM A. Hasnan Habib

SUBJECT Devaluation of the Indonesian Rupiah

Would you please inform the Executive Board of the following message which I received today from my Indonesian authorities:

Effective March 30, 1983, at 11:30 a.m. Jakarta time, the exchange rate of the Indonesian Rupiah against the U.S. dollar, the intervention currency, was adjusted to Rp 970.00 per U.S. dollar. This represents a depreciation vis-a-vis the dollar of 27.6 percent from the rate of Rp 702.50 per U.S. dollar, which prevailed on March 30 at 10:00 a.m. Jakarta time. Indonesia intends to continue following a policy of a managed float, but will take into account movements against a somewhat broader set of currencies than was the case prior to the adjustment. The exchange rate adjustment, as well as supporting monetary and fiscal measures, has been undertaken in response to a large balance of payments deficit in fiscal year 1982/83 and the prospect that, with the decline in the oil export price, the deficit will widen in 1983/84. The depreciation is aimed at restraining imports and improving the competitiveness of the Indonesian economy so as to provide a basis for development of non-oil exports over the medium-term. In addition, the Indonesian government is in the process of reviewing the planning and implementation of some development projects with relatively high impo[rt] content.