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CONFIDENTIAL

February 7, 1986

To: Members of the Executive Board  
From: The Secretary  
Subject: Indonesia - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Indonesian rupiah.

Mr. Belanger (ext. 8671) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

INDONESIA

Real Effective Exchange Rate--Information Notice

Prepared by the Asian Department  
and the Exchange and Trade Relations Department

(In consultation with the Legal Department  
and the Research Department)

Approved by P.R. Narvekar and Eduard Brau

February 6, 1986

The recent evolution of Indonesia's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. This index shows that, as of November 1985, the Indonesian rupiah had depreciated in real effective terms by more than 10 percent since the last occasion on which Indonesia's exchange rate developments were discussed by the Executive Board--the Article IV consultation (EBM/85/20, 2/8/85). The real effective depreciation is estimated to have amounted to 11.3 percent.

Exchange rate policy and developments in Indonesia during the past few years are described in the recently issued report on the 1985 Article IV consultation discussions (SM/86/11) and the report on recent economic developments (SM/86/13).

On March 30, 1983, the rupiah was devalued by 28 percent in terms of the U.S. dollar. This adjustment is estimated to have offset most of the real effective appreciation of the rupiah following the November 1978 devaluation (Chart). The authorities have subsequently pursued a flexible exchange rate policy aimed at maintaining Indonesia's competitive position, while containing domestic inflation through appropriate demand management policies. This policy has been broadly successful in stabilizing the real effective value of the rupiah.

To some extent, however, the rupiah has moved with the U.S. dollar (the intervention currency) in real terms against other major currencies. Thus from April 1983 to February 1985, the rupiah appreciated by 8½ percent in real terms, and the tendency of the rupiah to appreciate was noted by Executive Directors at the conclusion of the last Article IV consultation. From February to November 1985, however, it is estimated that the real effective rate of the rupiah declined by 11½ percent.

Discussion by the Executive Board to conclude the 1985 Article IV consultation with Indonesia is scheduled for February 14, 1986.

Table 1. Indonesia: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1981						
I	102.4	99.3	103.1	99.8	109.3	109.4
II	106.4	104.2	102.1	99.5	110.9	111.4
III	110.0	107.8	102.0	99.0	113.2	113.4
IV	106.8	104.4	102.3	98.0	115.7	114.8
1982						
I	111.4	105.8	105.3	96.4	120.7	120.9
II	112.9	108.3	104.2	95.9	120.8	121.5
III	115.9	111.0	104.4	94.4	123.1	123.2
IV	116.3	109.1	106.6	91.4	127.2	125.9
1983						
I	113.1	103.2	109.6	89.6	131.8	132.2
II	84.9	76.3	111.2	64.6	135.6	136.5
III	87.7	77.4	113.1	63.8	139.6	139.7
IV	87.4	76.9	113.6	63.3	142.6	141.0
1984						
I	88.4	76.4	115.7	62.9	147.8	148.3
II	88.8	76.0	116.9	62.2	151.0	152.1
III	90.8	77.7	116.9	60.4	152.9	153.1
IV	90.8	77.5	117.1	58.9	155.3	153.5
1985						
I	91.1	79.4	114.8	57.6	154.4	154.9
II	89.6	77.0	116.3	56.4	158.3	159.6
III	86.6	74.2	116.6	56.0	160.3	160.4
Monthly						
1985						
Feb. <u>3/</u>	91.1	80.0	113.8	57.6	153.0	154.5
Mar.	91.5	79.6	114.9	57.0	155.2	154.9
Apr.	90.0	77.5	116.1	56.7	157.5	158.7
May	89.6	77.1	116.2	56.3	158.2	159.3
June	89.2	76.5	116.5	56.1	159.4	160.7
July	86.9	74.8	116.2	56.1	159.5	160.5
Aug.	86.2	73.8	116.7	56.1	160.5	160.4
Sept.	86.6	74.1	116.8	55.9	160.9	160.2
Oct.	82.1	70.3	116.7	55.9	161.7	160.3
Nov.	80.8	68.9	117.2	55.9	162.8	160.8
Percentage change						
Feb.- Nov. 1985	-11.3	-13.8	2.9	-3.0	6.4	

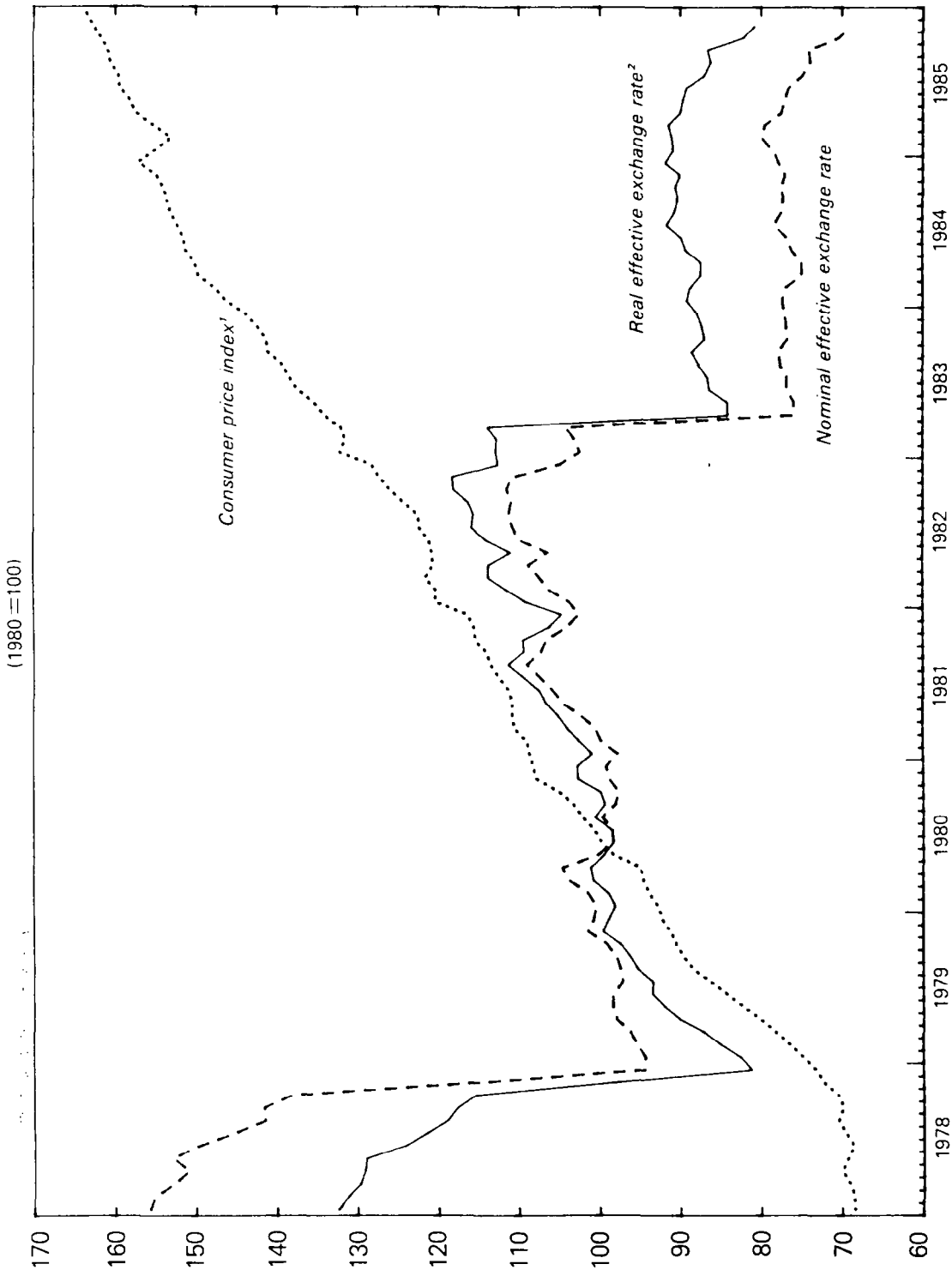
Source: Information Notice System.

1/ Increases mean appreciation.

2/ Using seasonally adjusted price indices.

3/ Date of latest consideration by Executive Board.

# REAL EFFECTIVE EXCHANGE RATE AND RELATED SERIES



Source: Information Notice System.

<sup>1</sup>Seasonally adjusted.

<sup>2</sup>Trade-weighted index of nominal effective exchange rate deflated by seasonally adjusted consumer prices; increase means appreciation