

EBS/86/219

CONFIDENTIAL

September 15, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Indonesia - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on a recent change in the exchange arrangements of Indonesia.

Ms. Ripley (ext. 6531) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

Indonesia--Exchange Arrangements

Prepared by the Asian and the
Exchange and Trade Relations Departments

Approved by P. R. Narvekar and Eduard Brau

September 15, 1986

In the attached communication, dated September 15, 1986, the Executive Director for Indonesia has notified the Fund of a change in the exchange rate of the Indonesian rupiah.

On September 12, 1986, the exchange rate of the rupiah was changed from Rp 1,134 per U.S. dollar to Rp 1,644 per U.S. dollar, representing a depreciation of 31 percent in terms of the U.S. dollar, the intervention currency. This adjustment has brought the real effective exchange rate to 33 percent below the level prevailing at the time of the Board discussion in February 1986 (EBM/86/28, 2/14/86), and 46 percent below the level prevailing after the March 30, 1983 devaluation of 27.6 percent (EBS/83/69).

The exchange rate action, which aims at strengthening the performance of the non-oil/LNG sector, was prompted by the decline in world oil prices that has taken place since the beginning of the year. The consequent loss of oil revenue has seriously clouded the prospects for balance of payments viability and sustained growth of output and employment in Indonesia; accelerated growth in the non-oil/LNG sector is essential if those prospects are to improve. At the conclusion of the 1985 Article IV consultation with Indonesia in February 1986, Executive Directors considered that a marked strengthening of the performance of the non-oil/LNG sector was necessary if the country's growth objectives were to be safeguarded. They also noted that an integrated strategy based on cautious financial policies, a flexible exchange rate policy, and industrial and trade policy measures, would permit adjustment at higher rates of growth. The authorities' recent exchange rate action represents an essential component of this strategy. The staff hopes that the authorities will implement soon all other measures necessary to help achieve the objectives of the exchange rate action.

The 1986 Article IV consultation discussions that are scheduled to start in Jakarta on October 22, 1986 will offer the opportunity for a review and assesement of the stance of policies.

No action by the Executive Board is proposed at this time.



Office Memorandum

TO: The Secretary

Sept. 15, 1986

FROM: J.E. Ismael

SUBJECT: Devaluation of the Indonesian Rupiah

Would you please inform the Executive Board that effective September 12, 1986, 8:00 p.m., the Indonesian Government has devalued the Rupiah to a new rate of 1,644 to the U.S. dollar from 1,134 earlier that day.

The devaluation would, therefore, be 31 percent under the formula used by the International Monetary Fund.