



# Contents

2	<b>Chapter 1: Overview</b>
6	Developments in the Indonesian Economy During 2005
12	Policy Measures
12	Monetary Policy
16	Banking Policy
16	National Payment System Policy
17	Lesson to be Learned
17	Maintaining Consistent Macro Policies
18	Strengthening The Implementation of Sectoral Policies
18	Strengthening Institutional Capacity
18	Policy Coordination and Building Strategic Partnerships
19	Maintaining The Positive Expectations of Households and Business Players
19	Economic Prospects and Policy Directions
19	Global Economic Prospects
21	Economic Growth Prospects
21	The Balance of Payments Prospects
21	Exchange Rate Prospects
21	Inflation Prospects
22	Banking Prospects
23	Risks and Uncertainty
24	Policy Directions
26	<i>Box: The Impact of Global Oil Price Increases</i>
31	<b>Chapter 2: Macroeconomic Conditions</b>
32	Aggregate Demand
39	Aggregate Supply
43	Labor and Employment
46	Economic Growth Policies in 2005
48	<i>Box: Challenges to Investment Promotion</i>
51	<i>Box: Financing Economic Growth in 2005</i>
54	<i>Box: Regional Economic Review</i>
59	<b>Chapter 3: The Exchange Rate</b>
60	Rupiah Dynamics
61	Contributing Factors
61	Fundamentals

62	Sentiment .....
63	Foreign Exchange Transactions .....
65	Policy Response .....
65	Monetary Policy .....
66	Foreign Exchange Transactions: Regulating and Monitoring .....
66	Policy Coordination among the Monetary and Fiscal Authorities .....
68	<i>Box: Estimating Crisis Indicators in 2005</i> .....
70	<i>Box: Rupiah Stabilization Policy Packages</i> .....
<b>74</b>	<b>Chapter 4: Inflation</b> .....
74	Inflation Development .....
74	CPI Inflation .....
75	Other Inflation Indicators .....
76	Factors Affecting Inflation .....
77	Non-fundamental Factors .....
77	Government Policies on Administered Prices .....
78	Volatile Foods .....
79	Fundamental Factors .....
79	Inflation Expectations .....
79	External Pressure .....
80	Interaction between Aggregate Demand And Aggregate Supply .....
81	Evaluation on Inflation Target in 2005 .....
81	Policies to Control Inflation .....
82	<i>Box: The Role and Tasks of the Inflation Management Team</i> .....
<b>88</b>	<b>Chapter 5: Monetary Developments</b> .....
89	The Implementation of Monetary Policy .....
89	Monetary Policy Strategy .....
90	Monetary Policy Operation .....
93	Liquidity Development .....
93	Base Money .....
94	Excess Bank Liquidity .....
95	Money Supply .....
96	The Transmission of the BI Rate in the Financial Market .....
96	Transmission through Interest Rate Channel .....
98	Transmission through Bank Credit Channel .....
98	Transmission through Financial Asset Price Channel .....
100	Transmission through Exchange Rate Channel .....
101	<i>Box: The Implementation of Inflation Targeting Framework in Indonesia</i> .....
105	<i>Box : Developments of Reksa Dana in 2005</i> .....

109	<b>Chapter 6: Balance Of Payments</b>
112	Current Account
112	Exports
114	Imports
116	Services Account
116	Capital Account
116	Official Capital Account
117	Private Capital Account
119	International Reserves
120	<i>Box : Improvements in the Indonesian Balance of Payments' Statistics</i>
123	<b>Chapter 7: Government Finance</b>
125	Government Revenues and Grants
127	Government Expenditures
129	Deficit Financing
131	Contribution towards the Economic, Monetary and Reserves Condition
134	<b>Chapter 8: Banks and Other Financial Institutions</b>
135	Banking Policy
136	Progress in the Consolidation Process
136	Reinforcing the Banking Infrastructure
137	Strengthening Prudential Banking
138	Promoting the Intermediary Function
140	Promotion of Micro, Small, and Medium Enterprises (MSMEs)
142	Policy for the Capital Market and Other Financial Institutions
143	Commercial Banks
148	MSMEs Lending
150	Rural Banks
151	The Capital Market and Other Financial Institutions
151	The Capital Market
151	Finance Companies
155	The State-Owned Pawn Company
157	<i>Box : Emergency Financing Facility</i>
159	<i>Box : Mapping of the Profile and Problems of MSMEs in Indonesia</i>
161	<i>Box : Closure of PT Bank Global Internasional Tbk – One Step in Building a Sound Banking Industry</i>
165	<b>Chapter 9: Sharia Banking and Other Sharia Financial Institutions</b>
165	Islamic Banking Development
165	Institutional Development
165	The Performance of Sharia Banks
168	Policy of the Sharia Banking Industry

171	Sharia Financial Markets and Other Sharia Financial Institutions .....
171	Sharia Liquidity Market .....
171	Sharia Capital Market .....
173	Sharia Mutual Funds .....
173	Sharia Insurance .....
175	<i>Box : The Key Results of the 6<sup>th</sup> International Conference on Islamic Economics and Finance</i> .....
<b>179</b>	<b>Chapter 10: National Payment System</b> .....
179	Development of Payment Instruments .....
179	Cash Payment Instruments .....
179	Currency in Circulation .....
180	Outflow and Inflow of Currencies .....
181	Cash Position .....
181	Destruction of Currency .....
182	Counterfeit Money .....
182	Non-Cash Payment Instruments .....
182	RTGS Transactions .....
184	Clearing Transaction .....
185	Card-Based Payment Instruments .....
186	Payment System Policy .....
186	Cash Payment System .....
186	Satisfying the Currency Requirement .....
187	Maintaining the Quality of Fit-for-Circulation Rupiah .....
187	Tackling Widespread Circulation of Counterfeit Money .....
188	Improving the Services of the Cash System .....
189	Non-cash Payment System .....
189	Bank Indonesia National Clearing System (SKNBI) .....
190	Failure-to-Settle (FTS) Mechanism .....
191	Credit-Card-Consumer-Complaint Month .....
191	Business Continuity Plan .....
192	Payment System Supervision .....
192	Adjustment of the Provision Governing Card-Based Payment Instruments (APMK) .....
194	<i>Box: Cash Center</i> .....
197	<i>Box: Development of Government Electronic Banking in Supporting the Application of Treasury Single Account (TSA)</i> .....
199	<i>Box: Improving the Provisions on Card-Based Payment Instruments (APMK)</i> .....
<b>202</b>	<b>Chapter 11: The World Economy and International Cooperation</b> .....
202	World Economy .....
203	The United States .....
204	European Region .....
205	Japan .....
205	Latin America .....

206	Non-Japan Asia .....
207	Financial Markets Development .....
209	International Commodity Market .....
209	Oil/Gas Commodities .....
210	Non-Oil/Gas Commodities .....
211	International Cooperation .....
211	Regional Financial Cooperation .....
211	Asian Capital Markets .....
211	Asian Stock Markets .....
212	Asian Bond Markets .....
213	Financial Sector Stability .....
214	Trade Liberalization in Goods and Services .....
214	Sustainable Development .....
214	Poverty Alleviation .....
215	Alternative Development Financing Mechanism .....
217	<i>Box: The Impact of the Yuan and Ringgit Revaluation on Indonesian Economy</i> .....
220	<b>Chapter 12: Economic Outlook and Policy Direction in 2006</b> .....
222	Underlying Assumptions .....
222	The Global Environment .....
224	Fiscal Policy Scenario .....
227	Real Sector Policy .....
227	The Indonesian Economy Outlook in 2006 .....
227	Forecast for Aggregate Supply and Demand .....
227	Forecast for Aggregate Demand .....
231	Forecast for Aggregate Supply .....
234	Forecast for Indonesia's Balance of Payments .....
234	The Current Account .....
235	Capital and Financial Account .....
236	Forecast for the Rupiah .....
237	Inflation Forecast .....
238	Fundamental Factors .....
239	Non-fundamental factors .....
240	Forecast for the Banking System .....
241	Forecast for the Payment System .....
242	Risk Factors .....
242	Instability in Oil Prices .....
242	Constrains in Implementation of Government Investment Policy .....
242	Renewed Pressures from Global Imbalances .....
243	Policy Direction .....
244	Monetary Policy Direction .....
246	Policy Direction for the Banking System .....
246	Reinforcement of Institutional Structures in the Banking System .....

251	Strengthening the Bank Intermediary Function .....
252	Sharia Banking Policy .....
253	Policy Direction for the Payment System .....
<b>256</b>	<b>Appendices .....</b>
257	A Head Office, Representative Offices, Branch Offices .....
258	B Board of Governors of Bank Indonesia As of December 31, 2005 .....
259	C.1 Organization and Human Resources .....
263	C.2 Organization Chart of Bank Indonesia .....
269	D.1 Bank Indonesia Balance Sheets .....
270	D.2 Bank Indonesia Surplus Deficit Statement .....
271	E.1 List of Bank Indonesia Regulations in 2005 .....
276	E.2 Bank Indonesia Circular Letters (Extern) in 2005 .....
281	E.3 Various Important Regulations and Policies in Economic and Finance Areas in 2005 .....
287	F. Statistic Tables .....
336	G. Banknotes Specimen Issued in 2005 .....
337	H. Abbreviations .....