

**Indonesia: Detailed Assessment of Observance of IMF Code of Good Practices on  
Transparency in Monetary and Financial Policies**

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FINANCIAL SECTOR ASSESSMENT PROGRAM

# INDONESIA

DETAILED ASSESSMENT OF OBSERVANCE OF IMF CODE OF  
GOOD PRACTICES ON TRANSPARENCY IN MONETARY AND  
FINANCIAL POLICIES

## MONETARY POLICY

DECEMBER 2010

INTERNATIONAL MONETARY FUND  
MONETARY AND CAPITAL MARKETS DEPARTMENT

THE WORLD BANK  
FINANCIAL AND PRIVATE SECTOR DEVELOPMENT  
VICE PRESIDENCY  
EAST ASIA AND PACIFIC REGION  
VICE PRESIDENCY

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**GLOSSARY**

BI	Bank Indonesia
BI Act	Bank Indonesia Act
Bapepam-LK	Capital Market and Financial Institution Supervisory Agency
Board	Board of Governors
BPK	Supreme Audit Board
DPR	House of Representatives
DQAF	Data Quality Assessment Framework
FASBI	Deposit Facility for Bank Indonesia
FSAP	Financial Sector Assessment Program
IFS	International Financial Statistics
IRFCL	International Reserves and Foreign Currency Liquidity
IT	Inflation Targeting
MIGA	Multilateral Investment Guarantee Agency
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPC	Monetary Policy Committee
ROSC	Report on the Observance of Standards and Codes
SBI	Bank Indonesia Securities
SUNs	Government Securities

## I. SUMMARY, KEY FINDINGS, AND RECOMMENDATIONS <sup>1</sup>

1. **There is a reasonably high degree of transparency in Indonesia's monetary policy, with much progress having been made over the last decade.** Bank Indonesia (BI) is the central bank for Indonesia, responsible for the conduct of monetary policy.
2. **The primary objective of BI with respect to monetary policy is laid out in the Bank Indonesia Act (BI Act).**<sup>2</sup> The Act empowers BI to conduct monetary policy free from any interference from the government and/or other parties. The relationship between BI and fiscal operations is similarly clearly defined in laws and regulations.
3. **The adoption of an inflation targeting (IT) framework in 2005 significantly enhanced the effectiveness of BI in conveying its objective to the wider public.** The IT framework puts a premium on the transparency of monetary policy in anchoring inflationary expectations. To this end, BI has improved its communication with the public using a range of media outlets, including internet web pages, various publications, and regular press conferences. Data dissemination standards meet the Special Data Dissemination Standard developed by the International Monetary Fund (IMF).
4. **Rules and regulations are also in place to safeguard the integrity of BI.** The BI Act includes provisions to hold BI accountable to the House of Representatives (DPR), the government, and the public by requiring regular disclosure of information to the public and reporting to the President and DPR. Audited financial statements of BI have been published annually since 2000. BI staff is required to provide financial disclosure statements and abide by a code of conduct.
5. **BI has improved transparency in a number of ways after receiving a draft version of this assessment.** These include publishing on the BI website a description in plain language of its monetary policy decision-making process, an explanation of its monetary operations and instruments, and a summary of the internal regulations that safeguard the integrity of BI's operations.
6. **Nonetheless, BI plans to improve transparency in two ways.** First, from a policy perspective, BI's IT objective will be further clarified. Second, from an operational perspective, the criteria for selecting BI's counterparties in the foreign exchange market will be publically disclosed.

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<sup>1</sup> The main assessor was Ms. Xiangming Li of the Monetary and Capital Markets Department (MCM) of the IMF.

<sup>2</sup> Republic of Indonesia Act No.23/1999, which was amended by Act No.3/2004, and Act No.6/2009.

## A. Introduction

7. **This assessment covers the transparency of monetary policy in the Republic of Indonesia**, and in particular, BI's role in the formulation and implementation of this policy. It forms part of the Financial Sector Assessment Program (FSAP) for Indonesia, which was conducted jointly by the IMF and the World Bank during 2009–2010. The assessment was primarily undertaken during the first FSAP mission in October 2009 with subsequent refinements through written communications with the authorities.

## B. Information and Methodology Used for Assessment

8. **The assessment was conducted according to the IMF's Code of Good Practices on Transparency in Monetary and Financial Policies**, as issued in September 1999, and supporting documents as approved in July 2000.

9. **The assessment is primarily based on information available as of October 2009**, in particular on the relevant laws and regulations then in force. After receiving a draft version of this assessment, BI took a number of steps to enhance transparency, and the ratings in some practices have been marked up accordingly. The review also incorporates a wide range of other materials published by the Indonesian authorities, including those on their website and draws extensively on a self-assessment and a response to a questionnaire. In addition, the assessment was informed by discussions held during the FSAP mission with the authorities at a senior level and with various departments and divisions of BI, as well as with representatives of the private financial sector.

10. **The most important documents underlying the assessment are** (i) the BI Act, (ii) the Banking Act,<sup>3</sup> and (iii) the Act on Foreign Exchange Activities and Exchange Rate System.<sup>4</sup> Use was made also of (i) BI's monthly Monetary Policy Review, quarterly Monetary Policy Report, and Annual Economic Report, (ii) press releases, (iii) website pages, (iv) BI regulations and circulars, (v) the Board of Governors Regulations, and (vi) other documents such as BI's Annual Financial Statements and the Report on the Observance of Standards and Codes for Data Dissemination (available on the IMF website). All these documents are available on the BI or IMF website, or can be obtained by contacting the BI's Legal Information Team.

11. **The assessment has benefited from and has been coordinated with the other assessments undertaken as part of the FSAP** on Indonesia's observance of standards and codes covering banking regulation and supervision, securities market regulation, and the payments and securities settlement systems.

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<sup>3</sup> Republic of Indonesia Act No.7/1992, which was amended by Act No.10/1998.

<sup>4</sup> Republic of Indonesia Act No.24/1999.

12. **The assessor is most grateful to the authorities for their full cooperation throughout the assessment.** They gave their time generously for valuable discussions and were always willing to provide materials to assist with the assessment.

### C. Institutional and Market Structure—Overview

13. **BI conducts monetary policy, supervises commercial and rural banks, and is responsible for the oversight of the payments system.** Other financial institutions are supervised by the Capital Market and Financial Institution Supervisory Agency (Bapepam-LK), which is subordinate and responsible to the Ministry of Finance (MOF).

14. **BI is an independent state institution.** The BI Act explicitly safeguards the central bank against any government interference in the conduct of monetary policy, with the exception of emergency liquidity lending by BI to systemically important banks and the setting of inflation targets. In addition, BI's operational budget is subject to the DPR's approval. The governing body of the BI is the Board of Governors (Board), which consists of the governor as the chairman of the board, the senior deputy governor as the vice chairman, and at least four but no more than seven deputy governors. The governor and senior deputy governor are nominated by the president and confirmed by the DPR; other deputy governors are also confirmed by the DPR, but their nominations by the president are based on the governor's recommendation. A member of the board is appointed for a term of five years, and can be reappointed for no more than one consecutive term. While members may resign, they may not be dismissed during their term of office unless they are convicted of a felony, unable to attend meetings in person for a period of three consecutive months without reasonable cause, declared bankrupt or unable to settle liabilities to creditors, or permanently incapacitated. While the BI Act has a clause stating legal protection for BI staff in the fulfillment of their duties, uncertainties persist regarding the scope and strength of this protection.

15. **The ultimate objective of BI is to achieve and maintain the stable value of the rupiah.** The BI Act specifies that this objective has two key aspects: (i) a stable price of goods and services (internal price), and (ii) a stable exchange rate (external price).<sup>5</sup> The priority of these two aspects of the objective is not explicitly stated in the Act. BI's internal regulation explains that ~~price~~ price stability is the ultimate objective of monetary policy, while exchange rate stability is one of the prerequisite conditions for price stability, monetary stability and financial system stability." In a more recent BI internal regulation, it was noted that ~~the~~ the monetary policy framework has one ultimate objective which is inflation."

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<sup>5</sup> Elucidation to Article 7 of BI Act.

16. **In July 2005, BI adopted an IT framework.** Official annual headline inflation targets are set for three years by the MOF, in coordination with BI. The most recent targets announced in 2008 were  $5\pm 1$  percent for 2008,  $4.5\pm 1$  percent for 2009, and  $4\pm 1$  percent for 2010.<sup>6</sup>

17. **Under the IT framework, BI is authorized to establish operational targets and to manage the money supply in a manner that is consistent with the official target.** BI has the authority to set the overnight interest rate target (BI rate) as the policy rate, which is announced by the Board of Governors in monthly Board of Governors meetings and implemented through monetary operations. BI uses a range of actions and instruments to achieve its policy objective, including by: (i) conducting open market operations in the rupiah or foreign currencies, (ii) setting the statutory reserve requirements, and (iii) establishing regulations for credit or financing. BI securities (SBIs) are the main instrument for liquidity management (Figure 1) and have been used to withdraw a structural excess liquidity that currently characterizes the Indonesian banking system. Repos collateralized with SBIs and government securities (SUNs) are used for standing facilities and fine-tuning for liquidity withdrawal, but they are not a main instrument because of BI's limited SUN holdings. The reserve requirements are used sometimes to manage liquidity. BI also has a deposit facility (FASBI), whose interest rate, along with the interest rate of the repos facilities, forms the interest rate corridor.

18. **Other reforms have also led to a significant improvement in BI's monetary operational framework.** In 2008, the overnight interbank rate officially replaced the one-month SBI rate as the operational target. This separated the targeted interest rate from that of the main monetary instrument. The interest rate corridor was narrowed from an asymmetric one of 800 basis points (bps)—the ceiling and floor were 500 bps above and 300 bps below the BI rate, respectively—to a symmetric corridor of  $\pm 50$  bps. The SBI maturity was extended first by the introduction of the six-month SBI in mid-2008 and then shifting to greater reliance on three- and six-month SBIs for liquidity absorption while reducing the frequency of the SBI auction from weekly to monthly with a transition period during March-June, 2010.<sup>7</sup> The auction method of fine-tuning money market operations was changed from fixed-rate tenders to variable-rate tenders.<sup>8</sup>

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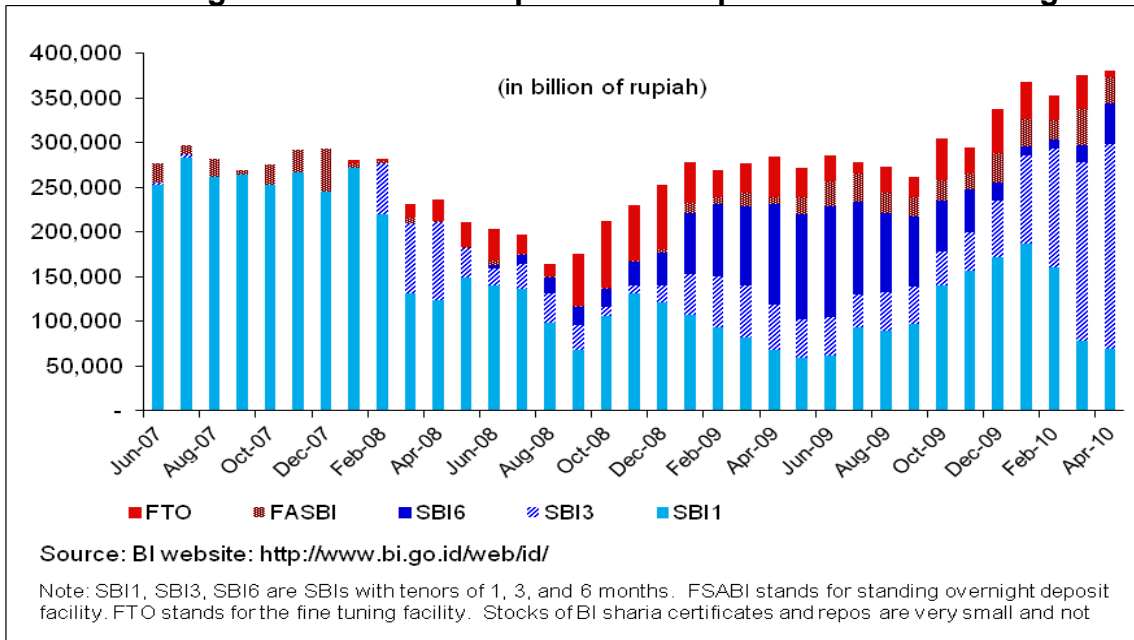
<sup>6</sup> The average inflation was about 11 percent in 2008 and 2.8 percent in 2009.

<sup>7</sup> Extending SBI's maturity profile is intended to motivate banks to manage liquidity in a longer time horizon and support financial market deepening while improving the efficacy of monetary operations.

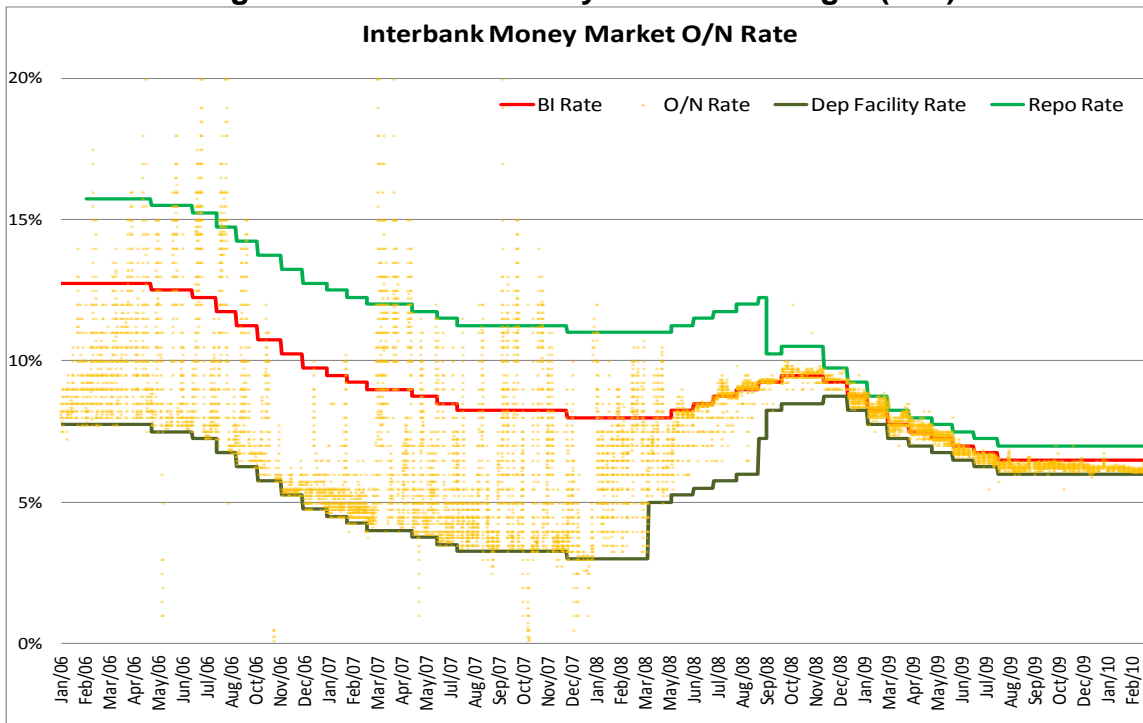
<sup>8</sup> In response to the global financial crisis, BI took a number of measures to stabilize the market in late 2008, including (i) an extension of the fine-tuning instruments from 14 days to a maximum of 3 months, (ii) opening a window repo of 2-14 day, (iii) an expansion of the eligible collateral for the short-term Funding Facility to include high-quality assets in addition to SBIs and SUNs, (iv) a lengthening of the maturity of the foreign exchange swap tenor from 7 days to a maximum of 1 month, and (v) simplifying the reserve requirement ratio for rupiah deposits from 5 percent plus an add-on (1 -3 percent based on the amount of rupiah deposits) to 7.5 percent without the add-on, and lowering the reserve requirement for foreign currency deposits from 3 percent to 1 percent.



**Figure 1. Indonesia: Open Market Operations Outstanding**



**Figure 2. Interbank Money Market Overnight (O/N) Rate**



19. **Collectively, these reform initiatives have improved monetary transmission.** The volatility of the overnight rate has declined significantly following the shift in the operating target. The stabilization of the overnight rate has also improved the efficiency of the secondary market for SBIs, as evidenced by a decline in the volatility across the SBI yield curve and a rise in the co-movement with the BI rate. Nevertheless, there may be scope for a further reduction of interest rate volatility by, for example, introducing reserve averaging.

20. **Despite these achievements, more work is needed to anchor inflation expectations and counter the perception of some market participants that BI is also aiming to manage the exchange rate.** To this end, a clear public statement with the endorsement of the government or the DPR of the primacy of the inflation consideration would be useful. Furthermore, communication to the public about the inflation targets could be made clearer. BI's monetary reports discuss progress towards the inflation target; however, the target is often different from the official target announced by the MOF. For example, in the September 2009 monthly report, it was noted that —A6.50%, the BI Rate level is also regarded consistent with achievement of the 2010 inflation target set at  $5\% \pm 1\%$ .” The official target for 2010, however, was  $4 \pm 1$  percent. This is confusing to markets. In addition, the measure of inflation—whether it is the annual average or end-year inflation—is not explicitly specified.

21. **The effectiveness of monetary policy operations could also be further enhanced by strengthening BI's balance sheet.** This can be achieved by restructuring the non-tradable government securities with tradable securities.<sup>9</sup> With more tradable government securities on its balance sheet, BI would have greater flexibility in its choice of monetary instruments for implementing monetary policy.

#### **D. Main Findings**

22. **Indonesia now observes most of the Transparency Code for Monetary Policy.** A significant improvement in transparency has been achieved in recent years, reflecting BI's awareness of the benefits of enhanced policy transparency. After receiving a draft assessment and prior to the second FSAP visit, BI has adopted a number of the measures recommended by the mission, and, hence, improved the ratings in a number of practices. Nonetheless, BI is working to improve its transparency on two fronts: (i) to clarify further BI's objective; and (ii) to disclose the criteria for selecting BI's counterparties in the foreign exchange market to enhance transparency in its monetary operations.

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<sup>9</sup> BI received non-tradable government bonds in exchange for liquidity injections into the banking system in the late 1990s. These bonds carry little interest and account for close to 1/3 of BI's assets. The interest rate on these bonds was cut from the initial 1–3 percent to 0.1 percent in January 2009.

### **Clarity of roles, responsibilities, and objective of the central bank for monetary policy**

23. BI observes most of the elements in this section of the Code. The responsibilities and objective of BI, as well as the relationship between BI and the MOF, are explicitly specified in the BI Act. In addition, BI also summarizes its objective and responsibilities on its web pages, in its various publications, and senior officials' speeches. Nevertheless, the clarity of BI's ultimate objective could be enhanced by a more explicit public statement with the endorsement of the government or DPR regarding the primacy of the domestic price target over the exchange rate consideration, since there are periods when these two aspects of BI's objective could potentially be in conflict.

### **Open process for formulating and reporting monetary policy decisions**

24. BI observes many elements of this section of the Code. The framework, instruments, and targets for monetary policy are described and publicly disclosed on the BI website and in various publications. Under the IT framework, the MOF, in consultation with BI, announces three-year inflation targets in a decision. These targets are presented on BI's web pages and various publications, along with monetary and other macroeconomic developments. Monetary policy decisions and the main underlying considerations are communicated promptly (within hours) to the public. BI also holds public consultations prior to introducing significant changes to the structure of monetary regulations.

25. However, transparency can be improved in two ways. First, the inflation targets that are used by BI often differ from the official targets. The MOF and BI should establish a clear mechanism for revising the official inflation targets whenever developments render the official targets unrealistic. BI has initiated discussions with the MOF to resolve this issue after receiving a draft version of this assessment. Second, the transparency of BI's market operations would be enhanced by disclosing the criteria for selecting BI's counterparties in the foreign exchange market. This would promote an even playing field for banks that wish to act as agents for BI. BI is working on publishing the criteria.

26. After receiving a draft assessment, BI has moved swiftly to correct some shortcomings. These include providing on its website a plain language explanation of its monetary operations and instruments, as well as the process and organizational structure for the formulation of monetary policy. It also includes in its regular publications a discussion of the progress made towards achieving the inflation target.

### **Public availability of information on monetary policy**

27. BI observes most of the elements of this section of the Code. Indonesia has met the Special Data Dissemination Standard (SDDS) since June 2000, and BI discloses its detailed balance sheet monthly and condensed balance sheet weekly (with less than one-week delay).

Both sets of data are available on the BI website. BI also has a Public Relation Bureau, which manages and coordinates information provided to the public, and has a publication program.

### **Accountability and assurances of integrity by the central bank**

28. BI is accountable to DPR for the performance of its various functions. It is required to submit to the DPR an annual report, covering all the areas of BI's responsibility. BI's Board regularly appears before legislative committees in DPR to explain the conduct of monetary policy and the state of the economy. The audited financial statement of BI is published and is also available on BI's website. Rules and regulations are in place to establish internal procedures and guard against conflicts of interest.

29. BI is now observing most elements in this section after implementing promptly recommendations in a draft version of this assessment. These include the disclosure on its website of (1) internal regulations that establish the main procedures necessary to ensure the integrity of operations, including internal audit arrangements, and (2) the financial disclosure requirement and regulations governing staff conduct. Nevertheless, there is room for improvement. While the BI Act has a clause stating protection for BI's staff, the clause should be refined to remove uncertainties regarding the scope and strength of this protection. In addition, while having the financial statements audited by the Supreme Audit Board (BPK) meets Practice 4.2.1, BI's credibility would be enhanced by having the accounts audited in parallel by an internationally recognized accounting firm. This is a common practice among overseas central banks.

**Table 1. Summary Observance of the Transparency Code (Monetary Policy)**

Principle	Grading	Description
1.1 The ultimate objective(s) and institutional framework of monetary policy should be clearly defined in relevant legislation or regulation, including, where appropriate, a central bank law.	O	<p>The BI Act states that the ultimate objective of BI is to achieve and maintain the stable value of the rupiah. The ultimate objective is also explained on the BI's website, in quarterly monetary reports, and brochures describing BI's functions and objective. BI has adopted an IT framework since July 2005.</p> <p>The clarity of BI's ultimate objective could be enhanced by a more explicit public statement with the endorsement of the government or DPR regarding the primacy of the domestic price target over the exchange rate consideration, since there are periods when these two aspects of BI's objective could potentially be in conflict.</p>

Principle	Grading	Description
1.2 The institutional relationship between monetary and fiscal operations should be clearly defined.	O	The institutional relationship between monetary and fiscal operations is defined in the BI Act, government decrees, and memorandum of understanding (MOU) between BI and MOF.
1.3 Agency roles performed by the central bank on behalf of the government should be clearly defined.	O	The agency role performed by the BI on behalf of the government is defined in the BI Act and other laws such as the Government Securities Act and laws governing Indonesia's membership in international organizations.
2.1 The framework, instruments, and any targets that are used to pursue the objectives of monetary policy should be publicly disclosed and explained.	BO	<p>The framework and targets of BI in conducting monetary policy are set out and publicly disclosed on BI's website and also in various BI publications. The inflation target is set by the MOF in consultation with BI and announced in a decision. Regulations governing monetary instruments are available on BI's website or can be obtained from BI's Legal Information Team.</p> <p>The MOF and BI should establish a clear mechanism for revising the official inflation targets timely to avoid discrepancies between the official targets and those that are used by BI. Whenever developments render the official targets unrealistic, BI should clearly explain the reasoning for the difference between the official and BI's targets.</p> <p>The criteria for selecting BI's counterparties in the foreign exchange market should be disclosed.</p> <p>After receiving a draft version of this assessment, BI has explained on its website the monetary operations and monetary instruments and has initiated discussions with the MOF to eliminate the discrepancy between BI's inflation targets and the official targets announced by the MOF.</p>

Principle	Grading	Description
2.2 Where a permanent monetary policy making body meets to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, information on the composition, structure, and functions of that body should be publicly disclosed.	O	<p>The Board is the highest decision making forum for prescribing BI's monetary policies. Under the BI Act, the Board is required to convene at least monthly to set its monetary policy and at least weekly to assess monetary implementation. In practice, the Board makes decisions on the policy rate (the BI rate) in the preannounced monthly meeting and on open market operations in the weekly meeting. The composition of the Board and the role of the Board meeting in monetary policy decisions are stated in the Article 41 and 43 of the BI Act.</p> <p>After receiving a draft version of this assessment, BI explained the procedures and organizational structure for the formulation of monetary policy, and thus achieved a higher grade.</p>
2.3 Changes in the setting of monetary policy instruments (other than fine-tuning measures) should be publicly announced and explained in a timely manner.	O	Changes to the monetary instruments are decided in the monetary policy meeting and communicated immediately (within an hour) to the public through a press release posted on the BI website and in the Official Gazette.
2.4 The central bank should issue periodic public statements on progress toward achieving its monetary policy objective(s) as well as prospects for achieving them. The arrangements could differ depending on the monetary policy framework, including the exchange rate regime.	O	BI publishes monthly, quarterly, and annual reports, as well as press releases, which cover economic and monetary developments.
2.5 For proposed substantive technical changes to the structure of monetary regulations, there should be a presumption in favor of public consultations, within an appropriate period.	O	BI conducts public consultation prior to making changes to the structure of monetary regulations via a series of discussions with commercial banks and experts. Depending on the nature of policy changes under consideration, the consultation period varies from 3–6 months.
2.6 The regulations on data reporting by financial institutions to the central bank for monetary policy purposes should be publicly disclosed.	O	Regulations and BI circulars on data reporting by financial institution, for both banks and non-bank financial institutions are posted on BI's website. BI's powers to require data reporting are stated in the laws.

Principle	Grading	Description
3.1 Presentations and releases of central bank data should meet the standards related to coverage, periodicity, timeliness of data and access by the public that are consistent with the International Monetary Fund's data dissemination standards.	O	Indonesia has met the Special Data Dissemination Standard (SDDS) since June 2000.
3.2 The central bank should publicly disclose its balance sheet on a preannounced schedule and, after a predetermined interval, publicly disclose selected information on its aggregate market transactions.	O	BI discloses its detailed balance sheet monthly and condensed balance sheet weekly (with less than one-week delay); both are available on BI's website.
3.3 The central bank should establish and maintain public information services.	O	BI has a Public Relations Bureau, which manages and coordinates information provided to the public, and also a publication program.
3.4 Texts of regulations issued by the central bank should be readily available to the public.	O	BI regulations are published in the State Gazette and its supplements. BI sends new regulations and circulars to banks by mail. Most BI regulations and circulars issued after 2004 are available on BI's website, in many cases in both English and Indonesian. These documents could also be obtained by contacting the Legal Information Team, whose contact information is listed on web pages for individual regulations and circulars.
4.1 Officials of the central bank should be available to appear before a designated public authority to report on the conduct of monetary policy, explain the policy objective(s) of their institution, describe their performance in achieving their objective(s), and, as appropriate, exchange views on the state of the economy and the financial system.	O	BI's Board must regularly appear before legislative committees in DPR to explain the conduct of monetary policy and the state of the economy. Upon request, BI is obliged to provide a written explanation to DPR on any specific issue on which the parliament wishes further clarifications.

Principle	Grading	Description
4.2 The central bank should publicly disclose audited financial statements of its operations on a preannounced schedule.	O	<p>Audited financial statements (balance sheet, surplus/deficit report, statement of changes in equities, cash flow report, summary of significant accounting policies, and the note to the financial statements) and an audit opinion have been published annually since 2000.</p> <p>Having the financial statements audited by BPK meets the requirement. However, it would add to BI's credibility to have the accounts audited in parallel by an internationally recognized accounting firm.</p> <p>After receiving a draft version of this assessment, BI published on its website its internal regulation on internal audit arrangements, thereby fully observing this practice.</p>
4.3 Information on the expenses and revenues in operating the central bank should be publicly disclosed annually.	O	Information regarding expenses and revenues is published annually in the surplus/deficit section of the annual financial statement.
4.4 Standards for the conduct of personal financial affairs of officials and staff of the central bank and rules to prevent exploitation of conflicts of interest, including any general fiduciary obligation, should be publicly disclosed.	O	<p>After receiving a draft version of this assessment, BI has published on its website a summary of the financial disclosure requirement and regulations governing staff's conduct, and, therefore, has observed this practice.</p> <p>The legal protection provided by BI Act meets the requirement, however, the clause should be refined to remove uncertainties regarding the scope and strength of this protection.</p>
<i>Aggregate:</i> Observed (O) – 16, broadly observed (BO) – 1, partly observed (PO) – 0, not observed (NO) – 0, not applicable (N/A) –0.		

### E. Recommended action plan and authorities' response

#### Recommended action plan

**Table 2. Recommended Action Plan to Improve Observance of the Transparency Code (Monetary Policy)**

Reference Practice	Assessment 1/	Recommended Action
<b>I. Clarity of Roles, Responsibilities and Objectives of Central Banks for Monetary Policy</b>		



1.1.1	The ultimate objective(s) of monetary policy should be specified in legislation and publicly disclosed and explained.	BO	The clarity of BI's ultimate objective could be enhanced by a more explicit public statement with the endorsement of the government or DPR regarding the primacy of the domestic price target over the exchange rate consideration, since there are periods when these two aspects of BI's objective could potentially be in conflict.
1.1.3	The legislation establishing the central bank should specify that the central bank has the authority to utilize monetary policy instruments to attain the policy objective(s).	O	Strengthening BI's balance sheet by restructuring the non-tradable government securities with tradable securities will increase the stock of BI's collateral for monetary operations and increase the flexibility available to BI in its choice of monetary instruments for the conduct of monetary policy.
<b>II. Open Process for Formulating and Reporting Monetary Policy Decisions</b>			
2.1	The framework, instruments, and any targets that are used to pursue the objectives of monetary policy should be publicly disclosed and explained.	BO	The MOF and BI should establish a clear mechanism for revising the official inflation targets. Whenever developments render the official target unrealistic, BI should clearly explain the rationale for the difference between the official target and BI's projection.  After receiving a draft assessment, BI has initiated discussions with the MOF to resolve this issue.
2.1.2	The rules and procedures for the central bank's relationships and transactions with counterparties in its monetary operations and in the markets where it operates should be publicly disclosed.	BO	The criteria for selecting BI's counterparties in the foreign exchange market should be disclosed. This will facilitate an even playing field for banks to act as agents for BI. BI is currently working on implementing this recommendation.
2.4.2	The central bank should present to the public on a specified schedule a report on the evolving macroeconomic situation, and its implications for monetary policy objective(s).	O	The forecast horizon in the quarterly report could be extended. A monthly report could usefully note upfront the scheduled date of the next policy meeting.
<b>IV. Accountability and Assurances of Integrity by the Central Bank</b>			
4.2.1	The financial statements should be audited by an independent auditor.	O	Having the financial statements audited by BPK meets Practice 4.2.1. However, it would add to BI's

	Information on accounting policies and any qualification to the statements should be an integral part of the publicly disclosed financial statements.		credibility to have the accounts audited in parallel by an internationally recognized accounting firm.
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1/ O: observed. BO: broadly observed. PO: partly observed.

### Authorities' response to the assessment

30. **BI welcomes the assessment that monetary policy in Indonesia is being conducted with a reasonably high degree of transparency.** It also appreciates the recognition that, through BI's continuous and extensive efforts, much progress has been made over the last decade toward achieving the ultimate objective of domestic price stability. BI is fully committed to further enhancement of its transparency in the conduct of monetary policy and has the following comments:

- BI has been conducting an extensive campaign to communicate to the public the priority of inflation over exchange rate as BI's ultimate objective. This priority was clearly stated in the 2005 Board of Governors Regulation (PDG, amended in 2008), in the summary of the PDG that is currently on BI's website, and in the monthly press release covering the decisions of the Board of Governors (BOG) Meeting on Monetary Policy. Finally, a statement highlighting the primacy of domestic price stability (inflation) will be explicitly mentioned in the upcoming government decree that set the new inflation target for 2010, 2011, and 2012.
- The Note of Agreement between the Government and BI concerning the Setting Mechanism of Inflation Target, Monitoring, and Control (available on BI's website) states that, if extraordinary conditions cause the stipulated inflation target to become unrealistic, BI shall submit a proposal on revising the inflation target, and the Government will decide the target. Currently the proposal is being discussed by the Government and BI, and the revised target is expected to be realistic and in line with the medium-term disinflation process.
- To enhance monetary transparency, BI publishes the procedures for monetary operations, including disclosure of the criteria for counterparty eligibility in open market operations.
- In BI's Monetary Quarterly Report, which also includes explanations of inflation development, the forecast horizon has been extended to 1 year since Q3-2009, and the Q4 report gives the forecast for the next 2 years. The schedule for the monthly BOG meeting is available on BI's website and now in the monthly report.
- Since early 2009, BI and MOF have been discussing the conversion of long-term non-tradable government bonds held by BI into tradable ones. A parliamentary hearing had

been held in February 2010. BI and MOF agree that such a conversion would benefit both and improve the efficiency of asset-liability management, and expect to resolve this matter soon.

- The audit of BI's financial statements by the BPK has already complied with the BI Act, the Indonesian Generally Accepted Audit Standard, and the Governmental Audit Standard, which incorporates the Professional Public Accounting Standards. The BPK is not intending to use international accounting firms due to cost considerations.
- Article 45 of the BI Act has explicitly provided legal protection for BI employees with no limitation on the scope. BI, as a legal entity and public institution, is not immune from legal proceedings in administrative and civil courts, reflecting the principle of equality before the law. BI agrees that Article 45, especially the criteria of good faith, needs to be refined in the context of both the political and judicial systems of Indonesia.

## II. DETAILED ASSESSMENT

31. A practice will be considered **observed** whenever all assessment criteria are generally met without any significant deficiencies. A practice will be considered **broadly observed** whenever only minor shortcomings are observed that do not raise any concerns about the authority's ability and intent to achieve full observance with the practice within a prescribed period of time. A practice will be considered **partly observed** whenever, despite progress, the shortcomings are sufficient to raise doubts about the authority's ability to achieve observance. A practice will be considered **non-observed** whenever substantive progress toward observance has not been achieved. A practice will be considered **not applicable** whenever, in the view of the assessor, it does not apply given the structural, legal, and institutional features within a country.

**Table 3. Detailed Assessment of Observance of the Transparency Code  
(Monetary Policy)**

<b>I. Clarity of Roles, Responsibilities and Objectives of Central Banks for Monetary Policy</b>	
<b>1.1</b>	<b>The ultimate objective(s) and institutional framework of monetary policy should be clearly defined in relevant legislation or regulation, including, where appropriate, a central bank law.</b>
Description	<p>The BI Act states that the ultimate objective of BI is to achieve and maintain the stable value of the rupiah. The laws and relevant regulations are published in the official gazette and available in English and Bahasa Indonesia on the BI website.<sup>10</sup> The ultimate objective is also explained on the BI's website, in quarterly monetary reports, and brochures describing BI's functions and objective.</p> <p>BI adopted an IT framework in July 2005.<sup>11</sup> The inflation target is set by the MOF in consultation with BI.</p>
Assessment	Observed
Comments	See 1.1.1.
<b>1.1.1</b>	<b>The ultimate objective(s) of monetary policy should be specified in legislation and publicly disclosed and explained.</b>
Description	<p>The ultimate objective of BI's monetary policy is specified in Article 7 of the BI Act: to achieve and maintain the stable value of the rupiah. The BI Act specifies that this objective has two key aspects: (i) a stable price of goods and services (internal price) and (ii) a stable exchange rate (external price). The priority of these two aspects of the objective is not explicitly stated. BI's internal regulations (2005 and 2008) explain that "price stability is the ultimate objective of monetary policy, while exchange rate stability is one of the prerequisite conditions for price stability, monetary stability and financial system stability." This statement also appeared on the website at the time of the assessment.</p> <p>BI's objective is disclosed and explained on BI's website in both English and Bahasa, as well as in BI's various publications.</p>
Assessment	Broadly observed
Comments	The clarity of BI's ultimate objective could be enhanced by a more explicit public statement, with the endorsement of the government or DPR regarding the primacy of the domestic price target over the exchange rate consideration, since there are periods when these two aspects of the objective could potentially be in conflict.
<b>1.1.2</b>	<b>The responsibilities of the central bank should be specified in legislation.</b>
Description	BI has three responsibilities as stated in Chapter III Article 8 of the BI Act: (i) to formulate and implement the monetary policy, (ii) to regulate and safeguard the payment system, and (iii) to regulate and supervise the banking system.

<sup>10</sup> See <http://www.bi.go.id/web/en/Tentang+BI/Undang-undang+BI/>

<sup>11</sup> <http://www.bi.go.id/web/en/Moneter/Inflation+Targeting/Inflation+Targeting+Framework>

	<ul style="list-style-type: none"> <li>Responsibilities for monetary policy are elaborated in Section IV (Article 10-14).</li> <li>Responsibilities for regulating and safeguarding the national payment system are detailed in Section V (Articles 15-23).</li> <li>Responsibilities for regulating and supervising banks are discussed in Section IV (Articles 24-35).</li> </ul> <p>BI's responsibilities are described on BI's website, various publications, and pamphlets.</p>
Assessment	Observed
Comments	
1.1.3	The legislation establishing the central bank should specify that the central bank has the authority to utilize monetary policy instruments to attain the policy objective(s).
Description	<p>Article 10 of the BI Act grants BI the power to prescribe and implement monetary policy. Under the IT framework, BI has the authority to establish intermediate targets, including the interest rate, and to use an array of monetary instruments, including: (i) open market operations in the rupiah and foreign exchange money markets; (ii) the statutory reserve requirements, and (iii) regulations for credit or financing. BI can also operate monetary instruments on Sharia principles.</p> <p>BI sets the BI rate (overnight rate), conducts monetary operations, and uses standing facilities to achieve the inflation target, which is set by the government in consultation with BI.</p>
Assessment	Observed
Comments	Strengthening BI's balance sheet by restructuring the non-tradable government securities with tradable ones will increase the stock of BI's collateral for monetary operations and increase the flexibility in BI's choice of monetary instruments for the conduct of monetary policy.
1.1.4	Institutional responsibility for foreign exchange policy should be publicly disclosed.
Description	<p>Article 5 paragraph (1) of Act No. 24/1999 concerning The Foreign Exchange Flow and Exchange Rate states that the government decides the exchange rate system based on BI's recommendation. Article 12 of the BI Act grants BI the responsibility to implement the exchange rate policy in accordance with the prescribed exchange rate regime.</p> <p>Article 12 of the BI Act elucidates that BI has the following power: (i) under a fixed exchange rate system, to devalue or revalue the rupiah against foreign currencies; (ii) under a floating exchange rate system, to intervene in the foreign exchange market; and (iii) under a managed floating rate system, to fix the daily exchange rate and the width of the intervention band.</p> <p>Indonesia has adopted a floating exchange rate regime since August 14, 1997.</p>
Assessment	Observed
Comments	
1.1.5	The broad modalities of accountability for the conduct of monetary policy and for any other responsibilities assigned to the central bank should be specified in legislation.

Description	<p>Articles 58, 58A and 59 of the BI Act require that BI report to the DPR on its performance and future plan, provide the reports to the government for information, and publish the reports. BI's reports to the DPR cover all three areas of its responsibilities noted in section 1.1.2.</p> <p>At the beginning of the fiscal year, BI provides an annual report that assesses the performance in the previous year and presents the policy plan, targets, and performance indicators for the coming year. In particular, BI's operational budget is approved by the DPR on a lapse of time basis, while no approval is necessary for the policy budget.</p> <p>BI is required to submit a written quarterly report on the performance of its duties and the exercise of its powers to the DPR and to the government. The annual report and quarterly reports submitted by BI are evaluated by the DPR and used as material for the annual performance assessment of the Board and BI.</p> <p>The quarterly and annual reports to DPR are required by law to be disclosed to the public in the mass media, with summary reports published in the State Gazette. Currently, BI publishes them on its website (in Bahasa Indonesia and English).<sup>12</sup> Audited annual financial statements and the associated notes are also published.</p> <p>Article 58A of the BI Act also requires that a Supervisory Body be established to assist the DPR in supervising BI in specific areas. The Supervisory Body, which consists of 5 members, is required to submit reports on the performance of its tasks to the DPR not less than once every three months, or at any time requested by the DPR.</p> <p>Under Article 59 of the BI Act, the Supreme Audit Board may conduct a special examination of BI at the request of the DPR if deemed necessary.</p> <p>While the reports of the Supervisory Board of Bank Indonesia to the DPR are not published, reports of special examinations by the BPK requested by DPR are publicly disclosed on BPK's website (<a href="http://www.bpk.go.id">http://www.bpk.go.id</a>). For instance, report No. 05/02/LHP/XV/04/2009 and No. 05/03/LHP/XV/04/2009 dated April 15, 2009 can be downloaded at BPK's website at : <a href="http://www.bpk.go.id/doc/hapsem/2009i/APBN/065_BI_LK.pdf">http://www.bpk.go.id/doc/hapsem/2009i/APBN/065_BI_LK.pdf</a></p>
Assessment	Observed
Comments	The previous members of Supervisory Body was appointed by DPR in 2005, with their terms of appointment expired in 2008. New members were appointed on February 16, 2010. There was a period when the Body had no appointed members.
1.1.6	If, in exceptional circumstances, the government has the authority to override central bank policy decisions, the conditions under which this authority may be invoked and the manner in which it is publicly disclosed should be specified in legislation.
Description	Article 4 paragraph (2) and Article 9 of the BI Act provide an explicit safeguard against any Government involvement in BI's decision making except in emergency lending to systemically important banks as specified in the same article.

<sup>12</sup> Report to the DPR (in Indonesian only): <http://www.bi.go.id/web/id/Publikasi/Laporan+kepada+DPR/>  
Economic report: <http://www.bi.go.id/web/en/Publikasi/Laporan+Tahunan/Laporan+Perekonomian+Indonesia>  
Annual financial statement: <http://www.bi.go.id/web/en/Publikasi/Laporan+Tahunan/Laporan+Tahunan+BI/>

Assessment	Not applicable
Comments	
1.1.7	The procedures for appointment, terms of office, and any general criteria for removal of the heads and members of the governing body of the central bank should be specified in legislation.
Description	<p>The governing body of the BI is the Board, which consists of the governor as the chairman, senior deputy governor as the vice chairman, and at least four but no more than seven deputy governors. Terms of office and general criteria for removal of the heads and members of the governing body of the central bank are specified in the BI Act Article 41.</p> <p>The governor and senior deputy governor are nominated by the president and confirmed by the DPR; other deputy governors are also confirmed by the DPR but their nominations by the president are based on the governor's recommendation. A member of the Board is appointed for a term of five years, and can be reappointed for no more than one consecutive term.</p> <p>While members may resign, they may not be dismissed during their term of office unless they are convicted of a felony, unable to attend meetings in person for a period of three consecutive months without reasonable cause, declared bankrupt or unable to settle liabilities to creditors, or permanently incapacitated. The replacement of members whose term of office has been terminated is conducted yearly with a maximum of two persons.</p>
Assessment	Observed
Comments	
1.2	<b>The institutional relationship between monetary and fiscal operations should be clearly defined.</b>
Description	The institutional relationship between monetary and fiscal operations is defined in the BI Act, government decrees, and memorandum of understanding (MOU) between BI and MOF (see below for details).
Assessment	Observed
Comments	
1.2.1	If credits, advances, or overdrafts to the government by the central bank are permitted, the conditions when they are permitted, and any limits thereof, should be publicly disclosed.
Description	Credit to the government by the central bank is not permitted, as stipulated under Article 56 of the BI Act. The central bank is barred from providing any credit to the government and is no longer involved in financing development programs or any type of government direct spending.
Assessment	Not Applicable.
Comments	
1.2.2	The amounts and terms of credits, advances, or overdrafts to the government by the central bank and those of deposits of the government with the central bank should be publicly disclosed.

Description	<p>BI is prohibited from providing any credit to the government. Information on deposits of the government with BI is publicly disclosed on the BI website (in English and Bahasa Indonesia) in the monthly Indonesian Financial Statistics and in the IMF's monthly International Financial Statistics (IFS).</p> <p>Starting January 2009, an agreement between BI and the government took effect to remunerate the government for funds held in BI, consistent with the State Treasury Act of 2004 and Government Decree No 39/2007 concerning Government Cash Management. For 2009, the interest rate is set at 65 percent of the BI rate for Rupiah accounts and 65 percent of the official rate of the home currency for foreign exchange accounts. This agreement also requires the MOF to consult BI for timing of the placement of funds in commercial banks. The agreement is available on BI's website at <a href="http://www.bi.go.id/NR/rdonlyres/31BB9F44-6677-4FFB-9807-43187F8A5614/19399/mou_menkeu_bi.pdf">http://www.bi.go.id/NR/rdonlyres/31BB9F44-6677-4FFB-9807-43187F8A5614/19399/mou_menkeu_bi.pdf</a>) and a press release is posted on the website of the MOF at <a href="http://www.perbendaharaan.go.id/pro/cetak.php?id=2176">http://www.perbendaharaan.go.id/pro/cetak.php?id=2176</a>.</p>
Assessment	Observed
Comments	
1.2.3	The procedures for direct central bank participation in the primary markets for government securities, where permitted, and in the secondary markets, should be publicly disclosed.
Description	<p>Under Article 55 of the BI Act, BI is prohibited from buying government securities in the primary market for its own account, except (i) in the case of purchasing short-term government securities solely for the purpose of monetary operations, or (ii) as part of the provision of the emergency financing facility as specified in Article 11 paragraph (4) of the same Act.</p> <p>MOF decree No. 50/PMK.08/2008 on Government Securities Auction in Primary Market<sup>13</sup> permits BI to purchase short-term (less than one year) government securities (Surat Perbendaharaan Negara-SPN) in the primary market as a non-competitive bidder. A non-competitive bidder is explicitly defined in the decree. The procedure for the auction of government securities by BI is specified in BI Regulation Number: 9/3/PBI/2007.</p> <p>Purchase of government securities in the secondary market is regulated by (i) BI Regulation 10/21/PBI/2009, the latest amendment to BI Regulation 4/9/PBI/2002 on Open Market Operations, and (ii) Circular Letter 6/21/DPM on Procedure of Buying and / or Selling of Government Securities in Secondary Market by BI in Relation to Open Market Operations. All these documents are on BI's website.</p>
Assessment	Observed
Comments	
1.2.4	Central bank involvement in the rest of the economy (e.g., through equity ownership, membership on governing boards, procurement, or provision of services for fee) should be conducted in an open and public manner on the basis of clear practices and procedures.

<sup>13</sup> A copy can be found at:

[http://www.dmo.or.id/dmodata/4Peraturan\\_dan\\_Ketentuan/4Keputusan\\_atau\\_Peraturan\\_Menkeu/PMK%2050\\_PMK.08.pdf](http://www.dmo.or.id/dmodata/4Peraturan_dan_Ketentuan/4Keputusan_atau_Peraturan_Menkeu/PMK%2050_PMK.08.pdf).



Description	<p>Under Article 64 of the BI Act, BI is authorized to hold equity participation in any legal or other entities (entities such as clearing agencies, rating agencies and bank deposit guarantee agencies), only if it is deemed necessary for the implementation of its tasks. Approval from the DPR is required for investment in other types of institutions. Internal rules and procedures for equity participation have been established by BI in an unpublished internal regulation (2006). The regulation requires that all equity participation, even if it is deemed necessary for the implementation of its tasks, be approved by DPR.</p> <p>The BI Act prohibits the members of the Board from holding positions outside BI, including governing boards, with the exception of those in international organizations such as the IMF or World Bank.</p>
Assessment	Observed
Comments	BI published a summary of the internal rules and procedures for equity participation on its internet after receiving a draft assessment, thereby fully observing this practice.
1.2.5	The manner in which central bank profits are allocated and how capital is maintained should be publicly disclosed.
Description	<p>The general rules for surplus distribution are specified in Article 62 of the BI Act:</p> <p>(1) 30 percent of surplus is allocated to the Special Purpose Reserve; the remaining surplus shall be accumulated as general reserves, so that the total amount of capital and general reserves reaches 10 percent of all monetary liabilities as referred to in Article 6 paragraph 2 of BI Act.</p> <p>(2) In the event that the discharge of the duties and powers of Bank Indonesia resulted in the capital of Bank Indonesia diminishing to less than Rupiah 2,000,000,000,000 (two trillion rupiahs), all or part of the Bank Indonesia surplus for the current year as referred to in paragraph (1) shall be allocated to the General Reserve to cover these risks.</p> <p>(3) In the event that after the measures referred to in paragraph (1) the capital of Bank Indonesia is still less than Rupiah 2,000,000,000,000 (two trillion rupiahs), the Government shall be required to cover the deficit after approval from the House of Representatives.</p> <p>(4) Any remaining surplus after subtraction by the allocation of funds as referred to in paragraph (1) shall be transferred to the Government.</p> <p>Article II of the BI Act specifies that as long as the full settlement of BI liquidity support has not been completed, special reserves shall be set at 10 percent. Starting from 2009, the surplus distribution is conducted after income tax.</p> <p>The Special Purpose Reserve shall be used for replacement and/ or renewal of fixed assets, procurement of equipment, and organizational and human resources development. The General Reserve shall be used to reinforce BI's capital or to cover any deficits in the BI's annual financial profit and loss statement.</p> <p>Profit allocation and capital accumulation are published in BI's Annual Report (published by</p>

	BI-DPSHM) and BI's Financial Report (published by BI-DKI), which are available on BI's website. BI's Annual Report is also submitted to the DPR.
Assessment	Observed
Comments	
<b>1.3</b>	Agency roles performed by the central bank on behalf of the government should be clearly defined.
Description	The agency role performed by the BI on behalf of the government is defined in the BI Act and other laws (see below for details).
Assessment	Observed
Comments	
1.3.1	Responsibilities, if any, of the central bank in (i) the management of domestic and external public debt and foreign exchange reserves, (ii) as banker to the government, (iii) as fiscal agent of the government, and (iv) as advisor on economic and financial policies and in the field of international cooperation, should be publicly disclosed.
Description	<p>Agency roles performed by BI on behalf of the government include:</p> <p>i) Management of domestic public debt: BI is the auction and administration agent of government securities and the government is required to consult with BI before issuing government securities. This is specified in Article 55 (paragraphs 1 and 3) of the BI Act, Act No.24/2002 concerning Government Securities and Act No.19/2008 concerning Government Sharia Securities. External public debt is not managed by BI.</p> <p>ii) Management of foreign exchange reserves: Article 13 of the BI Act gives BI responsibility for managing foreign exchange reserves and authorizes BI to implement various foreign exchange transactions and receive foreign borrowing in managing the reserves.</p> <p>iii) Banker to the government Article 52 of the BI Act specifies that BI shall act as the account holder of the government and pay interest on the government cash balance.</p> <p>iv) Fiscal agent of the government : Article 53 of the BI Act specifies that BI acts for and on behalf of the government to receive foreign borrowing, and administer and settle claims with foreign parties.</p> <p>v) Advisor on economic and financial policies Article 54 requires the government to seek BI's opinion and/or invite BI to cabinet meetings on economic, banking and financial issues or other matters within the authority of BI. Besides providing an opinion during cabinet meetings, BI can also provide information and advice to the government regarding the state budget, issuance of debt securities and other policies relating to its duties and responsibilities. Government officials may attend the BI Board meetings, but have no voting rights.</p> <p>vi) International cooperation. The BI Act grants BI the power to cooperate with other central banks and international organizations, either in its own right or on behalf of the state. BI has responsibility in several international organizations, including ASEAN, ASEAN + 3, EMEAP, ADB, IDB, G20, BIS, IMF, and the World Bank. BI's responsibility in IMF, Multilateral Investment</p>

	<p>Guarantee Agency (MIGA) and IDB is specifically stipulated in:</p> <ul style="list-style-type: none"> <li>• Act No. 9/1966 concerning re-membership of the Republic of Indonesia in the IMF and IBRD, and Government Regulation No. 1/1967 concerning the Implementation of Act No. 9/1966,</li> <li>• Presidential Decree of the Republic of Indonesia No. 32/P, 2006 concerning the appointment of the Governor of BI as the ex-officio Governor in the IMF and Alternate Governor in the MIGA,</li> <li>• Presidential Decree of the Republic of Indonesia No. 5/1975 concerning endorsement of the agreement establishing the IDB.</li> </ul> <p>BI's role in international cooperation is publicly disclosed on BI's website (<a href="http://www.bi.go.id/web/en/Tentang+BI/Hubungan+Kelembagaan/Lembaga+Internasional/">http://www.bi.go.id/web/en/Tentang+BI/Hubungan+Kelembagaan/Lembaga+Internasional/</a>).</p>
Assessment	Observed
Comments	
1.3.2	The allocation of responsibilities among the central bank, the ministry of finance, or a separate public agency, for the primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trade in government securities, should be publicly disclosed.
Description	<p>Article 55 of the BI Act requires the MOF to consult with BI before debt issuance. The Elucidation further states that BI would evaluate the monetary implications of this issuance and advise the MOF on the terms.</p> <p>As the auction agent of government domestic securities in the primary market, BI announces the government securities auction plan, conducts the auctions, and announces the auction results. This, along with BI's role in administering government securities including registration, clearing and settlement, and repayment in both primary and secondary markets, is specified in Act No.24/2002 concerning Government Securities, Act No.19/2008 concerning Government Sharia Securities, and Article 2 of BI Regulation No.9/3/PBI/2007 concerning Government Securities Auction and Administration.</p> <p>BI has used government securities for its monetary operations as stipulated in the Regulation No. 10/21/PBI/2009 as the latest amendment to BI Regulation No. 4/9/PBI/2002 concerning Open Market Operations. Procedures regarding the arrangement for purchase and sale of government securities in the secondary market for open market operations are stipulated in several related circular letters, which are available on the BI website.</p> <p>For global issuance, the MOF appoints other parties to perform the auctions and clearance and settlement.</p>
Assessment	Observed
Comments	

<b>II. Open Process for Formulating and Reporting Monetary Policy Decisions</b>	
<b>2.1</b>	<b>The framework, instruments, and any targets that are used to pursue the objectives of monetary policy should be publicly disclosed and explained.</b>
Description	<p>The framework and targets of BI in monetary policy decisions are set out and publicly disclosed on BI's website and also in various BI publications. See next section for instruments.</p> <p>The inflation target is set and announced in a decision by the MOF following consultation with BI. As noted under 1.1.1, in practice the BI sets the inflation projections, which are published in the quarterly Monetary Policy Report and press releases and viewed by the public as the de facto targets. The deviation of the actual inflation from the official target, as announced by the MOF, is not discussed.</p> <p>BI has full independence under the BI Act in setting the interest rate target and, designing and operating monetary instruments. Since June 2008 BI has adopted the overnight interbank money market interest rate as its operational target. This enhancement on monetary management is published on the website. A large number of regulations and amendments that govern the operation of monetary instruments are available on the website.</p> <p>Regarding institutional arrangements, the Board is the policy making body, which meets monthly to set the targets and BI rate. A Monetary Policy Committee (MPC) is also in place, advising the Board on issues relevant to the Board's monetary policy decision-making. The establishment of the MPC is based on an unpublished regulation (2005). It consists of the governor as chairman, the senior deputy governor as vice chairman, and deputy governor in charge of monetary policy, deputy governor in charge of monetary operations, and managers of related work units as members. The same unpublished regulation also establishes a Monetary Policy Evaluation Committee, a coordination forum, which consists of the deputy governor in charge of monetary policy, and directors from the monetary and banking sectors.</p>
Assessment	Broadly observed
Comments	The MOF and BI should establish a clear mechanism for revising the official inflation targets timely to avoid discrepancies between the official targets and those that are used by BI. Whenever developments render the official target unrealistic, BI should clearly explain the reasons for the difference between the official target and BI's projection. After receiving the draft assessment, BI has initiated discussions with the MOF to resolve this issue.
<b>2.1.1</b>	<b>The procedures and practices governing monetary policy instruments and operations should be publicly disclosed and explained.</b>
Description	<p>The procedures governing monetary policy instruments and operations are described in various laws and regulations. Most regulations after 2004 are available on BI's website. BI's quarterly reports note that BI sets the policy interest rate (overnight), and uses standing facilities to manage liquidity. BI's monthly, quarterly, and annual reports also report any modifications to the instruments.</p> <p>BI conducts foreign exchange interventions involving spot, forward, or swap transactions</p>

	in accordance with BI regulation No.10/21/PBI/2008 regarding Open Market Operations. <sup>14</sup> Starting in January 2009, Foreign exchange liquidity management is also conducted by foreign exchange repo transactions, collateralized with the government's global bonds.
Assessment	Observed
Comments	After receiving a draft version of this assessment, BI explained its monetary operations and instruments in plain language on its website. This is particularly useful as regulations issued before 2004, but still in force, are not on the website and amended regulations are not published in a consolidated form. The rating has been improved accordingly.
2.1.2	The rules and procedures for the central bank's relationships and transactions with counterparties in its monetary operations and in the markets where it operates should be publicly disclosed.
Description	<p>The rules and procedures for BI's relationship with counterparties are specified in various regulations, including those regulating monetary policy instruments and operations.</p> <p>The banks have to meet some criteria to become BI's counterparties in the foreign exchange market. These requirements are specified in unpublished internal operating procedures with counterparty risk being the main factor in selecting counterparties.</p> <p>The list of primary dealers for government securities are publicly disclosed on the website of MOF: <a href="http://www.dmo.or.id/en/content.php?section=17">http://www.dmo.or.id/en/content.php?section=17</a>, and all banks are eligible to be BI's counterparties in the open market operations.</p>
Assessment	Broadly observed
Comments	The criteria for selecting BI's counterparties in the foreign exchange market should be disclosed, which would facilitate an even playing field for the banks that wish to act as agents for BI. BI is working on implementing this recommendation.
2.2	<b>Where a permanent monetary policy making body meets to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, information on the composition, structure, and functions of that body should be publicly disclosed.</b>
Description	<p>The Board meeting is the highest forum of decision making process in prescribing BI's monetary policies. Under the BI Act, the Board is required to convene at least once a month to set its monetary policy and at least once a week to assess monetary implementation. In practice, the Board makes decisions on the policy rate (the BI rate) in the monthly meeting and on open market operations in the weekly meeting.</p> <p>The composition of the Board and the role of the Board meeting in monetary policy decisions are stated in the Articles 41 and 43 of the BI Act. Detailed procedures and the organizational structure regarding formulation of monetary policy are stated in an internal regulation of 2005, while formulation of monetary policies is regulated in another internal regulation of 2001.</p>
Assessment	Observed

<sup>14</sup> All BI regulations are published in the State Gazette and in the supplement of the State Gazette while the Circular Letters of Bank Indonesia are published in State Publication.

Comments	After receiving a draft version of this assessment, BI has published on its website the organizational structure and procedures for the formulation of monetary policy, observing this practice.
2.2.1	If the policy making body has regularly scheduled meetings to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, the advance meeting schedule should be publicly disclosed.
Description	<p>Monetary policy decisions are made regularly by the Board at the monthly Board meeting. Article 43 of the BI Act requires a monthly Board meeting. The schedule for the coming year is proposed in the third week of December and published on the BI website before the end of the year. Currently there is no regulation / law that obliges BI to publish the schedule of monthly board meetings and or other meetings in advance.</p> <p>The Board also meets weekly on Tuesdays to assess policy implementation.</p>
Assessment	Observed
Comments	
<b>2.3</b>	<b>Changes in the setting of monetary policy instruments (other than fine-tuning measures) should be publicly announced and explained in a timely manner.</b>
Description	<p>Changes to the monetary instruments are decided in the monetary policy meeting and communicated immediately (within an hour) to the public through a press release posted on the BI website and in the Official Gazette.</p> <p>Internal regulation requires that when an adjustment to a monetary policy instrument is decided in the monthly Board meeting, the decision has to be announced to the public no later than one day after the meeting. If the adjustment is decided in a weekly Board meeting, BI instantly releases the information through BI's website and a press release.</p>
Assessment	Observed
Comments	
2.3.1	The central bank should publicly disclose, with a preannounced maximum delay, the main considerations underlying its monetary policy decisions.
Description	<p>At the end of each monthly Board meeting, a press release is issued before 2:00 pm announcing the policy decisions and the main consideration in reaching the decision. Monthly or quarterly reports are posted on the website in Indonesian within three days, even though there is no regulation on the time lag for the posting of these reports. Every quarter, a press conference is held right after the board meeting to discuss the policy decisions and economic developments. BI also meets market analysts monthly within a few days of the Board meeting to exchange views.</p> <p>The monthly Monetary Policy Review analyzes economic and financial conditions and outlines the main considerations underlying monetary policy decisions, and discusses the prospects of the economy in the short and medium term. These monthly reports are replaced by quarterly reports in January, April, July, and October, which include more in-depth analysis and forecasts, as well as analysis of the impact of evolving macro developments on inflation, and hence on policy decisions.</p>

	The BI is required to submit a quarterly performance report to DPR and to meet officials in DPR to discuss BI's decisions and the direction of monetary policy. The section on monetary policy in the report to DPR has broadly the same content as that released on BI's website.
Assessment	Observed
Comments	
<b>2.4</b>	<b>The central bank should issue periodic public statements on progress toward achieving its monetary policy objective(s) as well as prospects for achieving them. The arrangements could differ depending on the monetary policy framework, including the exchange rate regime.</b>
Description	In addition to monthly and quarterly reports and press releases noted in section 2.3.1, BI also produces an Annual Economic Review, which covers the economic and monetary developments for the past year. This annual report is usually available on BI's website in Indonesian in March and in English at the latest in April.  In all of these reports published prior to October 2009, inflation developments relative to the official target were rarely discussed.
Assessment	Observed
Comments	
2.4.1	The central bank should periodically present its monetary policy objectives to the public, specifying, inter alia, their rationale, quantitative targets and instruments where applicable, and the key underlying assumptions.
Description	BI reiterates its monetary policy objective and IT framework in the preface section of the quarterly reports, noting that the optimal balance between inflation and economic growth is reflected in the inflation target.  The quarterly report is usually organized as follows: <ul style="list-style-type: none"> <li>• Chapter 1 provides a general overview including a summary of the factors leading to the policy decision;</li> <li>• Chapter 2 presents macroeconomic developments;</li> <li>• Chapter 3 discusses the monetary developments and policy implementation, including inflation, as well as financial market developments;</li> <li>• Chapter 4 provides the forecast for the rest of the year and assumptions behind the projections; and</li> <li>• Chapter 5 concludes with a terse discussion of policy responses and rationale.</li> </ul> In addition, BI also presents its policy objective and the rationale for the policy decisions in press conferences, press releases, and other public engagements.

Assessment	Observed
Comments	
2.4.2	The central bank should present to the public on a specified schedule a report on the evolving macroeconomic situation, and its implications for monetary policy objective(s).
Description	<p>The monthly, quarterly and annual reports evaluate the latest macroeconomic developments, including inflation, the exchange rate, and monetary conditions, which form the basis for any monetary policy response.</p> <p>The Financial Stability Report has been published since 2003. Since 2006, it has been published on a semi-annual rather than annual basis.</p> <p>BI also publishes the Indonesia Economic Outlook, which contains an analysis of the prospects for the economy (including forecast) over the medium term (3–5 years). This publication is available on the BI website.</p>
Assessment	Observed
Comments	The forecast horizon in the quarterly report could be extended. A monthly report could usefully note upfront the scheduled date of the next policy meeting.
2.5	<b>For proposed substantive technical changes to the structure of monetary regulations, there should be a presumption in favor of public consultations, within an appropriate period.</b>
Description	BI takes into consideration public opinion in reformulating and enhancing its monetary regulations. This is obtained via a series of discussions with commercial banks and experts. Depending on the nature of policy changes under consideration, the consultation period varies from 3–6 months. Frequently asked questions on the proposed policy changes are distributed to the interested parties. In the case of the recent introduction of a secondary reserve requirement, the consultation period lasted for 6 months.
Assessment	Observed
Comments	
2.6	<b>The regulations on data reporting by financial institutions to the central bank for monetary policy purposes should be publicly disclosed.</b>
Description	<p>Regulations and BI circulars on data reporting by financial institutions, for both banks and non-banks are posted on BI's website.<sup>15</sup> BI's powers to require data reporting are stated in four laws:</p> <p>Banks are required to report under the BI Act. Article 14 grants BI the power to conduct a macro or micro survey when deemed necessary to discharge its responsibility for implementing monetary policy; regulating and safeguarding the payments system; and regulating and supervising banks. Article 28 obligates banks to submit reports, information and explanations as prescribed by BI, which has the power to require data reporting by</p>

<sup>15</sup> For example, <http://www.bi.go.id/web/en/Peraturan/Perbankan/> and <http://www.bi.go.id/web/en/Peraturan/Moneter/>



banks' holding companies, subsidiaries, related parties and affiliated parties.

The Republic of Indonesia Act No.24/1999 Concerning The Foreign Exchange Activities And Exchange Rate System ([http://www.bi.go.id/NR/rdonlyres/FD69B0C2-C22D-4542-BB6C-7129EDADAEAA/14789/uu\\_2499\\_eng.pdf](http://www.bi.go.id/NR/rdonlyres/FD69B0C2-C22D-4542-BB6C-7129EDADAEAA/14789/uu_2499_eng.pdf)): Article 3 grants BI power to require information and data on foreign exchange transactions by residents.

The Republic of Indonesia Act No.10/1998 Concerning Banking ([http://www.bi.go.id/NR/rdonlyres/E59D56AB-5BA9-4828-A7B2-0FC008B49A61/13309/act\\_1098e.PDF](http://www.bi.go.id/NR/rdonlyres/E59D56AB-5BA9-4828-A7B2-0FC008B49A61/13309/act_1098e.PDF)) requires commercial banks to submit monthly financial reports (balance sheets and profit-and-loss statements, and including explanations) to BI in a timely manner and in a format set by BI.

The Republic of Indonesia Act No.21/2008 Concerning Sharia Banking ([http://www.bi.go.id/NR/rdonlyres/C7402D01-A030-454A-BC75-9858774DF852/14396/UU\\_21\\_08\\_Syariah.pdf](http://www.bi.go.id/NR/rdonlyres/C7402D01-A030-454A-BC75-9858774DF852/14396/UU_21_08_Syariah.pdf)) requires Sharia Banks and Sharia Business Units to submit all information and explanations on their activities in a manner as stipulated by BI.

Furthermore, the reporting obligation to BI is also stipulated in detail in BI regulations:

- BI Regulation No.1/9/PBI/1999 concerning Monitoring of Foreign Exchange Flows Conducted by Banks and Non-Bank Financial Institutions. This regulation states that banks are obliged to report foreign exchange flows conducted by themselves and their customers, while non-bank financial institutions are required to report foreign exchange flows conducted through non-domestic banks.
- BI Regulation No.2/22/PBI/2000 as amended by the BI Regulation No.11/17/PBI/2009 on the External Debt Reporting Obligation. Banks and non-bank companies are required to submit a monthly report to BI on their outstanding foreign borrowings, both long term (over a year) and short term, for the purposes of monitoring and compiling of balance of payment statistics.
- BI Regulation No.5/26/PBI/2003 the concerning Monthly Report of Sharia Commercial Banks requires Sharia commercial banks to submit a financial report to BI on a monthly basis.
- BI Regulation No.7/1/PBI/2005 as amended by the BI Regulation No.10/20/PBI/2008, concerning Bank Foreign Borrowing requires banks to report their long-term (over a year) foreign financing plans and to obtain approval prior to signing loan agreements.
- BI Regulation No.8/12/2006 concerning Commercial Bank Periodic Reports focuses on specific weekly balance sheet items, third party funds, the minimum capital requirement, and the legal lending limit.
- BI Regulation No.9/2/PBI/2007 concerning Commercial Bank Daily Reports focuses on the reporting of the interbank money market, derivative transactions, and specific daily balance sheet items.
- BI Regulation No.10/3/PBI/2008 concerning Commercial Bank Head Office Report states that commercial banks' head offices are obliged to report to BI their financial condition and business activities consisting of transactional and operational activities.
- BI Regulation No.10/7/PBI/2008 concerning Non-bank Corporate Foreign

	<p>Borrowings states that non-bank corporations (including non-bank financial institutions and other corporations) are required to report their foreign financing plan annually and selected financial information semi-annually for debt sustainability analysis purposes. The regulation also sets out guidelines for foreign borrowings with an emphasis on the macro and micro prudential framework.</p> <ul style="list-style-type: none"> <li>• BI Regulation No.10/40/PBI/2008 concerning Commercial Bank Monthly Report, which has been amended by the BI Regulation No.11/18/PBI/2009, states that in order to support monetary, payment system, and banking supervision policy formulation, the commercial banks individually and consolidated with subsidiaries, including banks' businesses and their subsidiaries operating abroad, are obliged to submit financial reports to BI on a monthly basis. This regulation has already adopted Basel II Core Principles on risk based banking supervision. The detailed reporting format and system are regulated in the BI Circular Letter No.11/2/DSM, as well as the Banking Report Manual.</li> </ul> <p>Data collection To improve data coverage, BI and the MOF have cooperated on the data collection from non-bank financial institutions, particularly finance companies, which is governed by the Regulation of the Financial Institution General Directorate No. KEP-1500/LK/2005. This regulation requires finance companies to report their balance sheet and profit and loss statement to the MOF and BI.</p> <p>Confidentiality BI Act No. 23 Article 14 requires BI to keep the data source and individual data confidential. Article 71, paragraph 1 stipulates the sanctions (imprisonment and fine) against employees who disclose confidential data.</p>
Assessment	Observed
Comments	
<b>III. Public Availability of Information on Monetary Policy</b>	
<b>3.1</b>	<b>Presentations and releases of central bank data should meet the standards related to coverage, periodicity, timeliness of data and access by the public that are consistent with the International Monetary Fund's data dissemination standards.</b>
Description	<p>Indonesia subscribed to the SDDS on September 24, 1996; posted metadata on the Dissemination Standards Bulletin Board (DSBB) on May 21, 1997; and met the SDDS specifications for the coverage, periodicity, and timeliness of the data, as well as for the dissemination of advance release calendars on June 2, 2000. Since then, Indonesia has been in observance of the SDDS, regularly updating its metadata and maintaining its advance release calendar for all data categories. BI is responsible for disseminating financial and external data with prescribed periodicity and timeliness. The detailed information on data coverage reported in the SDDS system is available at <a href="http://www.bi.go.id/sdds/">http://www.bi.go.id/sdds/</a>.</p> <p>Indonesia's dissemination practices against SDDS requirements in 2008 are available at <a href="http://dsbb.imf.org/vgn/images/AnnualReports/2008/IDN_SDDS_AR2008.PDF">http://dsbb.imf.org/vgn/images/AnnualReports/2008/IDN_SDDS_AR2008.PDF</a></p> <p>Monetary and Balance of Payments Statistics have been assessed in July 2005 in the IMF Report on the Observance of Standards and Codes (ROSC) for Data Dissemination. The assessment shows that current practices generally meet the objectives of the Data Quality Assessment Framework (DQAF) and internationally accepted statistical practices without any significant deficiencies. (<a href="http://www.imf.org/external/pubs/ft/scr/2005/cr05255.pdf">http://www.imf.org/external/pubs/ft/scr/2005/cr05255.pdf</a>).</p>
Assessment	Observed

Comments	
<b>3.2</b>	<b>The central bank should publicly disclose its balance sheet on a pre announced schedule and, after a predetermined interval, publicly disclose selected information on its aggregate market transactions.</b>
Description	<p>Article 63 of the BI Act requires BI to publish a weekly condensed balance sheet in the State Gazette of the Republic of Indonesia. While the publication schedule is not specified, in practice BI publishes the weekly condensed balance sheet at the latest 7 days after the weekly balance sheet.</p> <p>Article 61 of the BI Act requires BI to complete the compiling of the Annual Financial Report no later than 30 days after the end of a fiscal year, and submit it to the Supreme Audit Board (BPK) at the latest 7 days after the report has been compiled. BI is also obliged to publish an annual financial statement through mass media. While the publication schedule is not specified in the BI Act, in practice BI publishes the report at the latest 30 days after receiving the audit report from the BPK. A long form of the annual financial statement, as well as an audit opinion, is also published on the BI website.</p> <p>BI also releases information on its monetary operations, including open market operations, the standing facility and foreign exchange reserves management.</p> <p>An Audited Financial Report is published by the Public Relations Department in August and is available on the website. Hard copies of the reports are available at the headquarters of BI.</p>
Assessment	Observed
Comments	
<b>3.2.1</b>	A summary of the central bank balance sheet should be publicly disclosed on a frequent and pre announced schedule. Detailed central bank balance sheets prepared according to appropriate and publicly documented accounting standards should be publicly disclosed at least annually by the central bank.
Description	<p>Referring to 3.2 above on publication of balance sheets.</p> <p>The accounting policies adopted by BI are regulated by Bank Indonesia Financial Accounting Guidance, which conforms to the Indonesian Financial Accounting Standards, as well as by the agreements among BI, BPK and the Financial Accounting Standards Board of the Indonesian Institute of Accountants.</p>
Assessment	Observed
Comments	
<b>3.2.2</b>	Information on the central bank's monetary operations, including aggregate amounts and terms of refinance or other facilities (subject to the maintenance of commercial confidentiality) should be publicly disclosed on a pre announced schedule.
Description	<p>The outstanding amount of monetary operations is regularly published on BI's website on a monthly basis (<a href="http://www.bi.go.id/web/en/Moneter/Indikator+Moneter">http://www.bi.go.id/web/en/Moneter/Indikator+Moneter</a>).</p> <p>The indicative target and result of BI's bill auction are announced weekly on BI's website (<a href="http://www.bi.go.id/web/en/Moneter/Lelang+Sertifikat+BI/">http://www.bi.go.id/web/en/Moneter/Lelang+Sertifikat+BI/</a>) and commercial banks' daily report system (LHBU) within an hour.</p> <p>Liquidity projections including maturing OMO instruments are published on a daily basis</p>

	on BI's website ( <a href="http://www.bi.go.id/web/en/Moneter/Proyeksi+Likuiditas/">http://www.bi.go.id/web/en/Moneter/Proyeksi+Likuiditas/</a> )
Assessment	Observed
Comments	
3.2.3	Consistent with confidentiality and privacy of information on individual firms, aggregate information on emergency financial support by the central bank should be publicly disclosed through an appropriate central bank statement when such disclosure will not be disruptive to financial stability.
Description	The aggregate information on emergency financial support by BI has been published in the Audited Annual Financial Statement, which is available on BI's website at ( <a href="http://www.bi.go.id/NR/rdonlyres/DE967D0A-080F-452E-8685-704A968010CA/16892/AnnualFiancialStatementBankIndonesia2.pdf">http://www.bi.go.id/NR/rdonlyres/DE967D0A-080F-452E-8685-704A968010CA/16892/AnnualFiancialStatementBankIndonesia2.pdf</a> ).
Assessment	Observed
Comments	
3.2.4	Information about the country's foreign exchange reserve assets, liabilities and commitments by the monetary authorities should be publicly disclosed on a pre announced schedule, consistent with the International Monetary Fund's Data Dissemination Standards.
Description	Detailed information on foreign exchange reserves is available on the BI website, which refers to Official Reserve Assets and International Reserves and Foreign Currency Liquidity (IRFCL);, and thus complies with the SDDS-IMF. BI publishes the international reserves and foreign currency liquidity on a monthly basis. ( <a href="http://www.bi.go.id/sdds/">http://www.bi.go.id/sdds/</a> )
Assessment	Observed
Comments	
<b>3.3</b>	<b>The central bank should establish and maintain public information services.</b>
Description	<p>Information provided to the public is managed and coordinated by the Public Relation Bureau in BI. Public information services are provided through the website, press releases and publications.</p> <p>On the BI website, the Indonesian Information and Business Data (DIBI) page (<a href="http://www.bi.go.id/web/id/dibi">http://www.bi.go.id/web/id/dibi</a>) and Investor Relation Unit (IRU) page (<a href="http://www.bi.go.id/web/en/Publikasi/Investor+Relation+Unit/">http://www.bi.go.id/web/en/Publikasi/Investor+Relation+Unit/</a>) provide access to a wide range of statistics and other information.</p> <p>Macroeconomic statistics are made available to the public in the Special Data Dissemination Standard (SDDS) (<a href="http://www.bi.go.id/sdds">http://www.bi.go.id/sdds</a>), and the Information Gallery (Gerai Info), which is located at BI headquarters, provides comprehensive information including on Sharia banking, the payments system, the credit bureau, and others.</p> <p>BI regularly communicates policy via mass media and also arranges visits by the public including schools for educational purposes. BI organizes conferences on issues relevant to monetary policy and central banking for professionals and, occasionally, the general public. BI also arranges visits by analysts, economists, investors, and rating agencies for updates on economic developments, BI's policies, and current issues.</p> <p>Brochures about BI's monetary policy framework and objective, as well as various reports</p>

	are available at BI's headquarters.
Assessment	Observed
Comments	
3.3.1	The central bank should have a publications program, including an Annual Report.
Description	<p>BI has a publications program on the website, which includes (i) the Annual Report, (ii) Economic Report, (iii) Monetary Policy Report (quarterly), (iv) Monetary Review (monthly) Financial System Stability Report, (v) Payment System Report, (vi) Report on Development of International Economics, Finance and Cooperation, (vii) working papers and seminar materials, and (viii) surveys. Many of these reports are also available in printed form in BI's museum. BI also submits specifically requested reports to DPR, which are posted at <a href="http://www.bi.go.id/web/id/Publikasi/Laporan+kepada+DPR/">http://www.bi.go.id/web/id/Publikasi/Laporan+kepada+DPR/</a>.</p> <p>In cooperation with the Coordinating Ministry of Economic Affairs and the MOF, BI maintains the IRU web pages to provide information on recent economic developments, and monetary and fiscal policies including debt management policy and government bonds data.</p>
Assessment	Observed
Comments	
3.3.2	Senior central bank officials should be ready to explain their institution's objective(s) and performance to the public, and have a presumption in favor of releasing the text of their statements to the public.
Description	<p>BI regularly holds a press conference after the Board meeting to explain the objective and performance of the institution, following which the texts of senior officials' statements are distributed to participants and published on BI's website. BI also participates in national and international events/conferences on central banking issues, during which senior officials convey to the public BI's medium to long-term view.</p> <p>A spokesperson is empowered by the Board of Governor's regulation regarding BI's Public Relations to represent BI in providing explanations and data to the public.</p> <p>BI's Board must regularly appear before committees in DPR to explain the conduct of monetary policy and the state of the economy. Upon request, BI is obliged to provide a written explanation to DPR on any specific issue on which the DPR wishes further clarifications.</p> <p>As noted in 2.3.1, BI also meets analysts within 2–3 days after the board meeting. Monthly meetings with market participants are held to discuss operational issues.</p>
Assessment	Observed
Comments	
3.4	<b>Texts of regulations issued by the central bank should be readily available to the public.</b>

Description	BI regulations are published in the State Gazette and the supplement of the State Gazette. BI sends new regulations and circulars to banks by mail. Most BI regulations and circulars issued after 2004 can be accessed on BI's website, in many cases in both English and Indonesian. These documents could also be obtained by contacting the Legal Information Team, whose contact information can be found at web pages for individual regulations and circulars, for example <a href="http://www.bi.go.id/web/en/Peraturan/Moneter/se_110209.htm">http://www.bi.go.id/web/en/Peraturan/Moneter/se_110209.htm</a>
Assessment	Observed.
Comments	
<b>IV. Accountability and Assurances of Integrity by the Central Bank</b>	
<b>4.1</b>	<b>Officials of the central bank should be available to appear before a designated public authority to report on the conduct of monetary policy, explain the policy objective(s) of their institution, describe their performance in achieving their objective(s), and, as appropriate, exchange views on the state of the economy and the financial system.</b>
Description	BI's Board must regularly appear before legislative committees in DPR to explain the conduct of monetary policy and the state of the economy. Upon request, BI is obliged to provide a written explanation to DPR on any specific issue on which the parliament wishes further clarifications.
Assessment	Observed
Comments	
<b>4.2</b>	<b>The central bank should publicly disclose audited financial statements of its operations on a preannounced schedule.</b>
Description	Audited financial statements (balance sheet, surplus/deficit report, statement of changes in equities, cash flow report, summary of significant accounting policies, and the note to the financial statements) and an audit opinion have been published annually since 2000 (see 3.2 for more discussion).
Assessment	Observed
Comments	
<b>4.2.1</b>	<b>The financial statements should be audited by an independent auditor. Information on accounting policies and any qualification to the statements should be an integral part of the publicly disclosed financial statements.</b>
Description	Article 61 of the BI Act requires that BI's financial statements be audited by BPK (see 3.2, 3.2.1, and 4.2). The BPK is constitutionally independent from the government in performing its task, and the State Audit Law 15/2006 passed on 30 October 2006 has strengthened its financial and operational independence.  The qualification to the financial statements is an integral part of the publicly disclosed financial statements.
Assessment	Observed.

Comments	Having the financial statements audited by BPK meets Practice 4.2.1. However, it would add to BI's credibility to have the accounts audited in parallel by an internationally recognized accounting firm. This is a common practice among most OECD country central banks (a requirement of the European Central Bank Statutes, for example) and emerging market central banks.
4.2.2	Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed.
Description	<p>BI has internal procedures for operational tasks, internal financial management, the accounting process, and internal audit/supervision. BI also conducts an internal audit regularly to make sure that the internal regulation has been implemented properly. Internal regulations set out the main procedures for internal audit, which is not publicly disclosed.</p> <p>BI Act No. 3/2004 calls for the establishment of the Bank Indonesia Supervisory Body (see 1.1.5 for details).</p> <p>The annual financial report noted that BI's internal control function has been audited.</p>
Assessment	Observed.
Comments	After receiving a draft assessment, BI has published a summary of its internal regulation on internal audit arrangements, observing this practice.
4.3	Information on the expenses and revenues in operating the central bank should be publicly disclosed annually.
Description	Information regarding expenses and revenues is published annually in the surplus/deficit section of the annual financial statement (see answer to 4.2). Revenue is reported by main functions (monetary policy, banking supervision, payment systems), and expenses reported by main and supporting function (logistics, staffing, and administration). The financial statement reports are published annually on BI's website and through media outlets. Hard copies of the reports are available at BI headquarters of Bank Indonesia.
Assessment	Observed
Comments	
4.4	Standards for the conduct of personal financial affairs of officials and staff of the central bank and rules to prevent exploitation of conflicts of interest, including any general fiduciary obligation, should be publicly disclosed.
Description	<p>The BI Act prohibits members of the Board from 1) having any direct or indirect interests in any enterprises, 2) holding any other position concurrently in other entities except when their tasks require them to hold such a position, and 3) holding membership or a management position in a political party.</p> <p>Article 71 of the BI Act specifies the penalties should a BI official illegally disclose confidential information, while Article 72 authorizes the Board to impose sanctions on employees who fail to perform their obligations.</p> <p>The BI Act allows Board members to hold positions outside BI with the written approval of the Board, including international agencies such as IMF and World Bank, as well as</p>

	<p>agencies that perform tasks that are closely related to central banking (Deposit Insurance Agency, Pension Fund agency for BI's employees).</p> <p>BI officials are also bound by internal regulations:</p> <ul style="list-style-type: none"> <li>• Internal regulation (2000). The Board members, director and head of BI are obliged to report their assets (land and building, vehicles, precious metal, cash, time deposits, savings accounts, checking accounts, securities and other moveable assets) and liabilities periodically to the Corruption Eradication Commission (KPK). Other officials of BI are obliged to report their assets and liabilities to the Governor.</li> <li>• Internal regulation (2002). BI's officials and their family are prohibited from receiving and / or asking for gifts, price discounts, services, money and commission that may influence the objectivity of their task. BI officials are also prohibited from having side jobs unless they have written permission from BI and are prohibited from being a member of political parties.</li> <li>• Internal regulations state explicitly the strategic value of BI's officials and BI's corporate culture.</li> </ul>
Assessment	Observed
Comments	After receiving a draft version of this report, BI has published a summary of the financial disclosure requirement and regulations governing staff's conduct on its website. The rating is marked up accordingly.
4.4.1	Information about legal protections for officials and staff of the central bank in the conduct of their official duties should be publicly disclosed.
Description	<p>The BI Act establishes that employees of BI are appointed and removed by the Board. Article 45 states the legal protection for officials and staff in conducting their official duties.</p> <p>The governor, the senior deputy governor, and any other BI official cannot be punished for decisions taken or policies implemented in accordance with the tasks and authority as prescribed in the BI Act, as long as these policies are conducted in good faith. A BI Board regulation states that legal protection by BI for employees in the conduct of their official duties is provided in the form of legal consultation and security assistance.</p>
Assessment	Observed
Comments	The legal protection clause in the BI Act should be refined to remove uncertainties regarding the scope and strength of this protection.