

**STATEMENT OF THE GOVERNOR OF BANK INDONESIA: BANK INDONESIA  
DECIDED TO LOWER THE BI RATE TO 12.50%**

In the meeting of the Board of Governors (RDG) of Bank Indonesia, May 9<sup>th</sup> 2006, Bank Indonesia has decided to cut the BI rate by 25 bps to 12.50%. This policy, which keeps on reflecting the tight bias monetary policy, was taken after the assessment to the latest economic condition and future prospect that shows further macroeconomic stability in April 2006 as reflected in the exchange rate movement, inflation and monetary condition. The Board of Governors thinks that macroeconomic stability is improving further, therefore medium and long-term inflation is projected to be on target.

The Rupiah exchange rate remains in strengthening trend and is inclined to be lower than earlier projection, which is in line with still huge short-term capital inflows. From monetary side, monetary policy implementation has been able to maintain monetary condition amid huge foreign capital inflows. Inflation in April 2006 was recorded 0.05% (m-t-m) or 15.1% (y-o-y) and year to date inflation was 2.03%. With such positive development and the tendency of further declining public inflation expectation, CPI inflation 2006 is predicted to be lower than the projection of  $8 \pm 1\%$ .

Nonetheless, Bank Indonesia will continue to monitor various risk factors both internally and externally to anticipate the sustainability of macroeconomic stability. From internal side, risk factors among others are fiscal stimulus pressure and the possibility of obstruction in goods distribution related with infrastructure condition in several region. From external side, global oil price movement and the tendency of tight global monetary policy need to be monitored carefully.

Jakarta, 9 May 2006  
Office of The Governor