

# Economic Bulletin

A Quarterly Publication of the Banking and Payments Authority of Timor-Leste

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## Investment of the Petroleum Fund Assets

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### Note that...

- ? **The Petroleum Fund Law recently publish gives the Central Bank (now BPA) part of the responsibility of the Fund operational management**
- ? The Central Bank will manage Fund resources following government instructions
- ? **To reflect the new functions given to it, BPA changed its structural organization**
- ? The international oil price has increased significantly in the last several months due to short term causes but also due to structural changes
- ? **The main long term change in the oil market was the huge increase in China's consumption due to its high economic growth**
- ? The bigger and bigger China oil consumption will push it to buy more and more in the international market pushing prices to new highs
- ? **The ups and downs in oil price will reflect themselves in the ups and downs of Timor-Leste oil revenues and we should recognise this as a normal issue**

**The Law establishing the Petroleum Fund of Timor-Leste states that the Central Bank (BPA) will be responsible for the operational management of the Fund's investments.** The management of the Fund is carried out according to the guidelines set by the Minister of Planning and Finance (MOPF) in a Management Agreement to be signed between the Minister and the Central Bank. Under this agreement, the Minister retains the authority to determine the investment policy decisions, while the Central Bank performs the operational management of the Fund's investments. In order to assist the Minister on issues related to investment strategy, performance indicators, investment managers and other relevant issues, the Law creates an Investment Advisory Board (IAB) with five members: the Director of Treasury; Head of the Central Bank; three members appointed by the Minister, two of them with significant experience in investment management.

This article discusses the key issues associated to the operational management of the Petroleum Fund. The intention is to explain to the public how the Central Bank manages the Petroleum Fund investments according to the guidelines set in the Law and in the Management Agreement.

The Management Agreement between the Minister of Planning and Finance (MoPF) and the Central Bank details the duties and responsibilities of each entity in implementing the legal framework to guarantee the sustainability of the Fund and that the petroleum wealth is used for the benefit of current and future generations. The effective implementation of the investment guidelines is important to preserve this scarce and non renewable resource. The legal framework clearly identifies the accountability and transparency mechanism necessary for the prudent management of the Petroleum Fund investments.

The Law and the Management Agreement set clear the investment guidelines for the Central Bank to follow. In the first five years, at least ninety percent of the Fund's assets are to be invested in US Treasury securities, or in other high grade sovereign issuers in

US dollars or on short-term US dollar deposits with highly rated banks. The remaining ten percent may be invested in other asset classes, provided they follow the guidelines set by the Minister of Planning and Finance. The first Management Agreement to be signed allows for no investment in these other asset classes. The portfolio of assets shall replicate a benchmark index represented by the Merrill Lynch 0-5 year US government bond index.

In order to implement the operational management functions of the Petroleum Fund, the Central Bank has created a new Department known as the Department of the Petroleum Fund, to be headed by an Executive Director and having two divisions corresponding to the core areas of an investment unit: Division of Investment and the Division of Risk Management. The back office functions will be carried out by the existing divisions within the Department of Payments and Accounting. Beside that, a Unit to be known as "Petroleum Fund Secretariat" has been created for the purpose of providing secretariat services to the Investment Advisory Board. This function will be undertaken by staff from the Division of Economic Studies and Statistics, under the direction of the General Manager.

What are the main duties and responsibilities of each of these areas?

### The Division of Investment

This Division is responsible for the investment of the Petroleum Fund's assets according to the directive determined by law and the General Manager of the BPA. It has the responsibility to ensure that the following functions are carried out:

- Identify all maturing assets that need to be rolled over, and determine the periods for which the assets should be reinvested;
- Call on authorized counterparties to ensure that placement of assets is made optimally;
- Ensure that trades take place at the best quoted rate, provided that dealing and counterparty limits are not breached;
- Ensure that deal tickets or other appropriate documentation is prepared on a timely basis for all deals made;

Continue on page 2

- Ensure that appropriate instructions to pay or receive are prepared so that the settlements and accounting can execute them in a timely manner;
- Review changes of interest and exchange rates in the market or movements in benchmark indices, and undertake such activities as may be necessary to rebalance or hedge the Fund's investment portfolio within the defined risk management framework;
- Prepare daily, weekly and monthly management reports on dealing activities, including a director's reports and individual broker reports, according to specific procedures and instructions.

## The Division of Risk Management

The Division is responsible for monitoring the risks associated with the Petroleum Fund's assets according to the arrangements determined by the Law, the Minister of Planning and Finance and the General Manager of the BPA, and ensuring that the following functions are carried out:

### — Measure and manage of risks, as follows:

- Maintain the benchmark monthly;
- Calculate the modified duration of the benchmark and the portfolio daily, checking that the modified duration is within the allowed deviation margin;
- Prepare reports with explanations if modified durations of the actual portfolio falls outside the allowed deviation;
- Monitor the mandates of external portfolio managers, whenever they are operational, by calculating modified durations and returns of the actual portfolio and comparing them against defined benchmarks;
- Review the Fund's need for cash or short-term liquidity instruments, and determine how surplus funds should be invested;
- Monitor the inflow of receipts against forecasts and alert senior management where significant deviations from the forecasted amounts are experienced;
- Develop a credit risk framework, including proposing credit risk limits for placement of funds with qualifying external institutions;
- Check the Front Office compliance with credit risk, dealing, and other limits, and report on breaches of these limits to senior management.

### — Calculate and report on the performance of the Fund's investments, as follows:

- Perform a daily market valuation of the actual portfolio based on the closing prices of the previous day;
- Determine the rate of return on the actual and benchmark portfolios daily;
- Generate accounting entries as required to reflect the effect of the market values on the values recorded in the primary books of account;
- Prepare such reports as may be required by the Investment Advisory Board;
- Assist in the preparation of the periodic and annual reports of the Petroleum Fund through the provision of data and commentaries as may be required.

## The Back Office

is responsible for ensuring that all confirmation and settle-

ment activities are carried out to the highest standards of reliability, timeliness and integrity, and responsible for the following tasks:

- Send and receive confirmations, by reference to properly authorized deal tickets, with approved counterparties;
- Ensure that settlements take place within defined exposure limits;
- Prepare accounting entries based on deal tickets;
- Organize the resolution of details where deals are not fully confirmed;
- Ensure that properly authenticated payment instructions are sent to correspondent banks based on the following:
  - § Deals received from the Petroleum Fund Investment Management Division;
  - § Payment orders received from Central Bank customers;
  - § Payment orders on behalf of the Central Bank.
- Receive incoming messages from counterparties, authenticate them if required, and process messages appropriately;
- Report on confirmation and settlement activities to the Front Office as appropriate;
- Maintain records of all payments made and received;
- Liaise with BPA customers, the Petroleum Fund management, and other parties as appropriate to ensure that all day-to-day issues and problems are resolved in a timely manner;
- Other tasks as may be required for the effective management of the settlements function.

## Petroleum Fund Secretariat

The Executive Secretary shall be the principal supporting person to the IAB of the Petroleum Fund. He or she shall be responsible for the submission of proposal for the review of board members on issues related to:

- Performance benchmarks of desired returns and appropriate risks;
- Investment instructions;
- Evaluation of the performance of investment managers and recommendation on the appointment or removal of investment manager;
- Changes in the overall investment strategy or management of the Petroleum Fund;
- Preparation of proposals for review of the IAB on investment strategy; and
- Coordinated the organization and follow up the board meetings

The successful implementation of the operational management of the Petroleum Fund will depend on the close coordination of these functions. The Central Bank has been working to ensure the effective implementation of the guidelines set in the Management Agreement. The close cooperation between the Central Bank and the MOPF and the pursuit of good management, accountability and transparency practices will assure that the investment of the petroleum wealth meets the needs of current and future generations.

## Petroleum: The international market, prices and Timor Leste revenue

### Recent evolution of the international market of petroleum

In our Bulletin of October last year already described the problem of the petroleum price evolution and their consequences relatively to the world economy. This article intends to be an actualisation taking into consideration the significant evolution that has ever since occurred and that can be synthesized in the fact since the beginning of this year to date petroleum prices has registered an increase of about 50% to become a "black gold" (about 40 dollars per barrel in January and almost 60 today). The current (end of July/05) it is about 59 USD/barrel.

Several factors have been competing along the last months for this increase. They go from the bad time (that affected, for several times, the production in the Gulf of Mexico) to the fears as for the effect of the social and political agitation in the Nigeria, of the problems with the production and export in the Iraq, of the production difficulties in the Soviet former-union related with the relationships among the central power and some of the big products of petroleum, of the increase of the demand at the western countries to the great increase to the demand (and acquisition in the international market) of petroleum by China in the sequence of its fast economic growth of the last years--- about 8-9%/year.

All the above fact corresponds to a difficulty of expansion of the supply of product --- whatever it is in gross or, mainly, refined, that it results in good part of the weak investments that were done, there are also some behind, when the prices of the "crude" were a lot below the actual, locating in the end of 2001 in a value as low as about 17 USD/barrel (a less than 4 years, tends more than triplicate ...)

### China and its search for more sources of supply

As we referred above, one of the causes of the increase of the petroleum price was the increase of its demand for China due to the combination of two facts: (i) the fall of the domestic production resulting from the progressive exhaustion of their oil wells; and (ii) the growing needs of energy derived from its fast economic growth.

To have an idea of the growth of the China demand refer that their total consumption of petroleum increased from about 2,3 million barrels a day in 1990 to 5,6 million in 2003. The estimates indicate that in 2010 consumption will be of 7,6 million and in 2025 it will be of 12,8 million of barrels a day, of which 9,4 million will be imported. Today about 35% of the consumption is supplied through imports.

Just as in the recent years, the demand, by China, of petroleum in the international market should increase about of 8% in 2005, being responsible for a third of the increase total of the demand that will verify this year. Refer that in 2003 the imports of the oil products (crude petroleum and its derived) for China were of 2,1 million of barrels a day and in 2004 started to be of 3 million (1,7 and 2,3 million, respectively, only of crude).

This reality has been taking China to seek provision a little from every country, establishing businesses of long period for the supply /exploration of petroleum with several countries that go from Iran to Iémen, of Gabon to the Sudan, of Australia to Indonesia and Cazaquistán. Already this year, for instance, China made an agreement with Angola--- that it is already the second supplier of China, after Arab Saudi--- that

included the purchase about 50% of some fields of petroleum and the concession of huge loans to Angola in exceptional financial conditions--- that the turn, for instance, relatively independent of eventual financings "conditioned" of the grant from the IMF.

As we said above, it is the policy that has been, in part, responsible for the raised of the prices of the petroleum in the international market. If we have in consideration that the strategic reserves of the country (i.e., the volume of petroleum products stored in a certain moment in the country) are limited to the equivalent of about 22 days of consumption--- against the usual 90 in most of the countries, particularly the richest--- and that China disposes today of very appreciable exchange reserve (almost 700 billion of USD!), we will have an image of what can come to happen in the close future if the authorities of the country decide, as they have apparently already have decided, to use part of those reserves in exchange value for increase their stocks of petroleum.

Then it can happen larger pressure on the prices of the petroleum and a climb of these--- or, at least, its maintenance in the level (high) the one that has state with all consequences relatively to the softening of the growth of the main global economy (United States and Europe, mainly). This diversification of sources of supply of China translates also in to the fact of the area of Asia-Pacific to have been the origin of 61% of the Chinese imports in 1990 and today they supply only 12% of the petroleum imports of the country. The Medium East, in the other side, saw increased its percentage from 39% to 45% and Africa to answer for 28% of the imports. Angola is already today the main second supplier of China after Saudi Arabia.

In spite of that fall of importance of the imports with origin in Asia-Pacific, the truth is that the efforts to supply in the area continue. Like this, for instance, two of the largest Chinese state companies specialized in this sector bought strong participations recently in fields of petroleum in Indonesia, associating with the Pertamina.

Also Australia is in the aim of Chinese, that already are partners of Chevron in a project of exploration of gas liquefied and try to deepen that connection with partnerships for the exploration of other fields of gas. Doesn't admire, because, the interest that the country has been maintaining as for the exploration of the petroleum and gas on - and off-shore in Timor-Leste.

This interest--- namely for areas whose "nationality" is in litigation as it is the case of the Islands Spratley, a significant part of the Sea of the South of China and areas more of-shore to north--- it can be in the base of potentials future conflicts for the control of producing areas of petroleum. The own Prime minister of Malaysia, Abdullah Badawi, alerted recently for them and we should have in consideration that some authors consider that it will already be had entered, today, in the final phase of the readiness of petroleum the world level, turning more and more scarce face to the needs of its use---the one that difficultly no will echo in larger pressures for the increase of its price.

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# Petroleum: The international market, prices and Timor Leste revenue (conc. of page 3)

## The Timor-Leste petroleum revenue and its evolution

The pressure that has been mentioned as the international market took, as referred above, an increase of almost 50% of the price of the petroleum since the beginning of this year up to now, locating at present (end of July/05) in the surrounds of USD 58-59 USD per barrel. The question that all can put is been, to short-medium period, this price will stabilize in this strip, to increase or to decrease. Of this evolution it will depend whatever the evolution of the international economy or for revenue of the exports countries like Timor - Leste.

As for the first, the increase that was verified recently it already took to the revision, in drop, of the growth estimates for this year and, eventually, for the next that, to verify, it will reduce the tension in the market of petroleum and it can contribute for the drop (how much?) of its price. There are estimates (ex., of ANZ) that foresee that the price of the barrel will come to lower for the average of USD 46,2 per barrel this year and for USD 40,5 in 2006. Be noted, however, that the estimates as the evolution of this price that are in the base of the relative calculations to the forecast of the incomes of petroleum of the Timor Sea in the preparatory works of the General Budget of the State for 2005-06 are the following ones (USD per barrel):

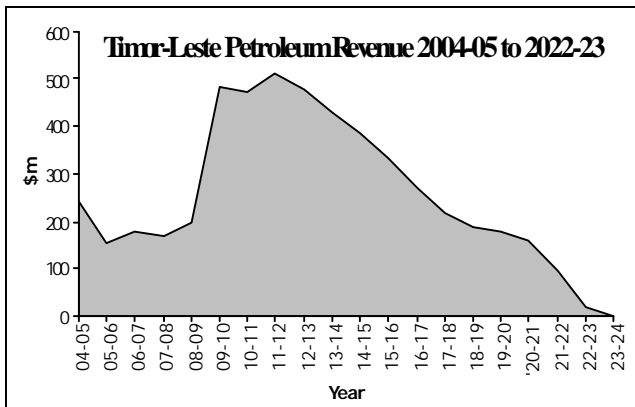
### World Oil Price Assumptions

(estimates for effects of calculations of the petroleum revenues and that are USD 5,00 lower than the estimates of the international prices)

2005	2006	2007	2008	2009	2010
40.62	37.72	36.02	35.02	34.39	33.99

Taking the above as base of the prices indicate, the estimate for the international price of the petroleum taken as base was of 45,62 USD/barrel for 2005 and of 42,72 USD/barrel for 2006; the level of these values, the estimates of petroleum revenue of the Timor Sea ("not including the Greater Sunrise well, for which negotiations are not yet finished" and that should begin production within 6-7 years) are those at the graph below.

Refer, in first place, that the available estimates are quite so: estimates and, as such, appropriate of render or not. The proximity degree between the estimates and the reality depends on several such factors as (eventual) technical problems with the production, the evolution effective of the prices of the petroleum in the international market. Tends above for base the estimate prices of petroleum and the perspectives as for the production, the petroleum revenue estimate for Timor-Leste in the preparatory works of the Budget of State for 2005-06 are, for the years up to 2008-09, in millions of USD, the following ones (round values): 159 million, 186 million, 181 million and 219 million. This given an total of 744 millions for four years.



These revenues can turn down the prices of the petroleum taken as base of the calculations decrease in result of one fall more accentuated that foreseen of the international price of the petroleum or to increase this price goes superior to the foreseen. Be noticed, for instance, that the estimates of ANZ mentioned above are, for 2006, 2,2 USD most lower and that if they were taken as base of the calculations of revenues these would suffer a break (eventual) about 5% in 2006 (about 9-10 million USD).

This instability of the petroleum revenues makes difficult the management of the resources of the Timor Sea and of the Budget of State. See, for example, what happened with this type of revenue for this period of 4 years: in the Budget of 2004-05 the initial estimate was that would be of 270 million USD that "transformed" in 547 when the revision of the referred budget in

passed November/December and, now, in the actual 745 million of USD, almost the triple of the initial estimate.

Like this and because Timor-Leste is (now) a producer of petroleum, the increase of the price of this is good to our country because increases its revenue, essential for the financing of the national development and for the increase of the value of Petroleum Fund that is destined to be used fundamentally for the future generations. Remember once again that these values don't include the futures revenues of the Greater Sunrise area. When this is to produce if it confirms the separation in parts similar of their revenue (fiscal and of royalties) among Timor-Leste Australia, the total revenues to receive for our country starting from the Timor Sea will be able to, more than to duplicate the values foreseen actually.

This, in itself, is a (a lot) good news but it will only be if in fact the application of the available resources be made carefully and in benefit of all. It is that are not few the examples of countries that, due to the wealth of the petroleum or other that are dispose, saw involved in serious social crises and economics. It is that is necessary to avoid that repeats in our country. The future generations won't forgive us if we don't get it. We will get!

\*..... (not including the Greater Sunrise well, for which "negotiations are not yet finished"..... revision from previous version.

# Monetary statistics

<i>million USD dollars</i>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>
<b>Net foreign assets</b>	<b>283,682</b>	<b>319,746</b>	<b>353,277</b>	<b>355,271</b>
<b>Claims on non-residents</b>	<b>338,138</b>	<b>375,238</b>	<b>409,539</b>	<b>410,875</b>
Claims of the ABP/BPA	296,476	329,472	362,712	364,840
Claims of the commercial banks	41,662	45,765	46,827	46,035
<b>Liabilities to non-residents</b>	<b>54,456</b>	<b>55,492</b>	<b>56,262</b>	<b>55,603</b>
Liabilities of the ABP/BPA	12,024	12,024	12,439	12,360
Liabilities of the commercial banks	42,432	43,467	43,823	43,243
<b>Internal credit</b>	<b>-171,220</b>	<b>-203,483</b>	<b>-235,647</b>	<b>-237,701</b>
Credit to the Central Administration/Government	0	0	0	0
credit from ABP/BPA	0	0	0	0
credit from commercial banks	0	0	0	0
Deposits of the Central Administration/Government	268,991	299,238	331,633	337,564
deposits with ABP/BPA	268,991	299,238	331,633	337,564
deposits with the commercial banks	0	0	0	0
<b>Net credit to Central Administration = credit - deposits</b>	<b>-268,991</b>	<b>-299,238</b>	<b>-331,633</b>	<b>-337,564</b>
Credit to private sector (corporations, individuals)	97,770	95,755	95,987	99,862
credit from the ABP/BPA	-1,682	-2,069	-2,157	-1,778
credit from commercial banks	99,452	97,824	98,144	101,640
<b>Deposits of the commercial banks with ABP/BPA</b>	<b>5,495</b>	<b>7,493</b>	<b>6,809</b>	<b>6,252</b>
<b>Demand and term deposits</b>	<b>87,198</b>	<b>90,693</b>	<b>89,903</b>	<b>92,180</b>
<b>Demand deposits with commercial banks</b>	<b>52,977</b>	<b>54,190</b>	<b>54,905</b>	<b>57,011</b>
From non-financial public corporations	528	284	292	301
From corporations and individuals	52,449	53,906	54,613	56,710
<b>Term deposits</b>	<b>34,221</b>	<b>36,504</b>	<b>34,998</b>	<b>35,169</b>
ABP/BPA term deposits	0	0	0	0
Corporations and individuals	34,221	36,504	34,998	35,169
<b>Other net assets</b>	<b>743</b>	<b>494</b>	<b>366</b>	<b>22</b>
from ABP/BPA	-808	-842	-689	-799
from commercial banks	1,551	1,336	1,056	821
<b>Equity and reserves</b>	<b>24,964</b>	<b>25,646</b>	<b>26,403</b>	<b>25,347</b>
<b>Equity contributed by owners</b>	<b>24,196</b>	<b>24,460</b>	<b>24,644</b>	<b>23,182</b>
ABP/BPA	7,727	7,727	7,727	7,727
Commercial banks	16,469	16,733	16,916	15,455
<b>Earnings</b>	<b>125</b>	<b>544</b>	<b>1,117</b>	<b>1,522</b>
ABP/BPA	1,092	1,182	1,302	1,222
Commercial banks	-967	-639	-185	300
<b>General and special reserves</b>	<b>643</b>	<b>643</b>	<b>643</b>	<b>643</b>
ABP/BPA	643	643	643	643
Commercial banks	0	0	0	0

- (1) Since August 2003 the monetary statistics have included Bank Mandiri, with the Banking sector comprising four institutions (three commercial banks and a micro-credit institution).
- (2) The negative value of "net claims on central government" means that the banking system is holding more government deposits than government debt (of which there is none in Timor-Leste). For a similar reason "domestic claims" is also negative

In the three months to June 2005, changes in net foreign asset was 25.2% compared to the previous quarter, increased to US\$ 355.27 million.

The main reason of this evolution was the increase in foreign deposits of 140%, with origin in ABP and that they correspond, in essence to the applications of Government deposits in the central bank, which increased almost 70 million USD during the period in analysis.

The credit of the commercial banks to the economy increased, however, by 2 million USD, about 2%, while the deposits in the commercial banks increased 5 million, about 3%.



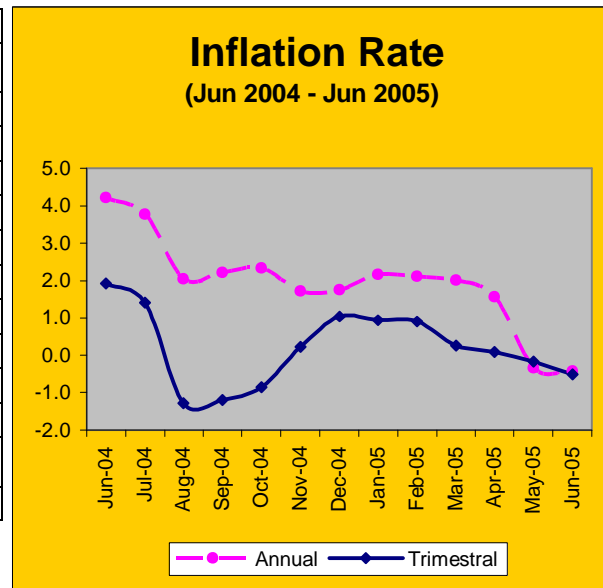
## Prices evolution in Dili

Items	CPI	CPI	CPI	Inflation	Inflation
	Jun	Mar	Jun	quarterly	Year on year
	2004	2005	2005		
<b>All Groups</b>	<b>116.3</b>	<b>116.4</b>	<b>115.8</b>	<b>-0.5</b>	<b>-0.4</b>
Foods	118.3	115.6	113.7	-1.6	-3.9
Alcohol and Tobacco	116.9	119.0	128.3	7.8	9.8
Clothing and Footwear	129.8	131.5	130.8	-0.5	0.8
Housing	108.3	114.5	116.6	1.8	7.7
Household Furnishings	106.1	105.2	104.4	-0.8	-1.6
Health	111.6	120.8	120.8	0.0	8.2
Recreation and Education	109.8	109.7	109.7	0.0	-0.1
Transport and Com.	104.7	114.3	114.7	0.3	9.6

### Explanation:

\*) % Change of consumer price index on June 2005 against consumer price index March 2005

\*\*\*) % Change of consumer price index on June 2005 against Consumer Price Index, June 2004



The Consumer Price Index (CPI) as published by the National Statistics Department of East Timor shows that rate of change in the consumer prices was negative declined of 0.5 percent in the three month to June 2005 compared to an positive changed of 0.3 percent in the previous quarter.

The decreased was caused by the declining in food groups, clothing and footwear, and household furnishing. The 'Foods' group recorded the largest decrease, of which with the decreased of amount 1.6 percent, compared to a 1.0 percent in the three month previous.

The annual headline inflation rate was negative 0.4 percent in June 2005, compared to the increase of 4.2 percent in the same quarters 2004. The slow down of inflation was mainly due to the decrease in foods by -3.9%.

## Interim Summary Financial Statements of ABP/BPA

### *Autoridade Bancária e de Pagamentos de Timor Leste* Banking and Payments Authority of Timor Leste

Avenida Bispo Medeiros, PO Box 59, Dili, Timor Leste

#### SUMMARY FINANCIAL STATEMENTS

BALANCE SHEET As at 30 June 2005		PROFIT AND LOSS STATEMENTS For the 12 months ended 30 June 2005	
	US Dollars		US Dollars
<b>ASSETS</b>		<b>INCOME</b>	
Cash and Bank	129,693,341	Income from Financial Assets	956,081
Investments	235,139,750	Income from Government	620,000
Other Assets	1,184,028	Income from Foreign Govt Securities	3,361,580
<b>TOTAL ASSETS</b>	<b>366,017,119</b>	Fees and Charges Recover	268,993
		Other Income	193,029
<b>LIABILITIES</b>		<b>TOTAL INCOME</b>	<b>5,399,683</b>
Currency Issued	1,465,161		
Government Deposits	337,789,541	<b>EXPENSES</b>	
Domestic Financial Institutions	4,676,346	Interest and Bank Charges	3,226,303
International Financial Institutions	12,360,244	Distribution of Currency	173,513
Other Liabilities	134,125	Personnel	270,251
<b>TOTAL LIABILITIES</b>	<b>356,425,417</b>	Administration	347,368
		Depreciation	160,095
<b>NET ASSETS</b>	<b>9,591,702</b>	<b>TOTAL EXPENSES</b>	<b>4,177,767</b>
<b>EQUITY</b>			
Capital	7,727,188	<b>NET PROFIT</b>	<b>1,221,915</b>
General Reserve	642,599		
Retained Earnings	1,221,915		
<b>TOTAL EQUITY</b>	<b>9,591,702</b>		

The summary statements above are presented in accordance with section 56.2 of Regulation 2001/30 and have been prepared on an accrual basis from the financial records of BPA as at 30 June 2005. These Financial Statements are unaudited.

  
 Abraão de Vasconcelos  
 General Manager



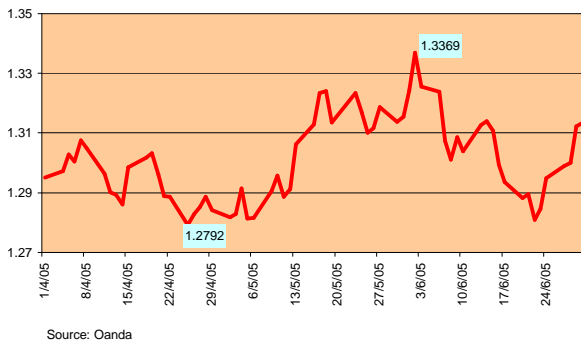
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# Foreign Exchange markets

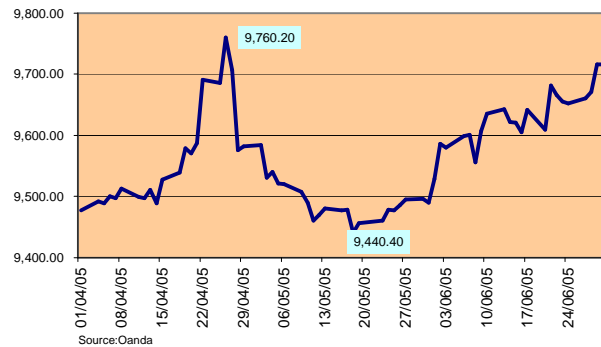
Latest developments

In the two graphs below and to the left, where we can see the amount of foreign currency (AUD-Australian dollar, and Euro) that each unit of national currency (USD) can buy, a depreciation of USD is represented by an ascent of the respective curve. In the graph of the right, representing the amount of Indonesian rupiahs bought by each USD, a depreciation of the USD is represented by a descent of the curve because it will allow to buy less rupiahs.

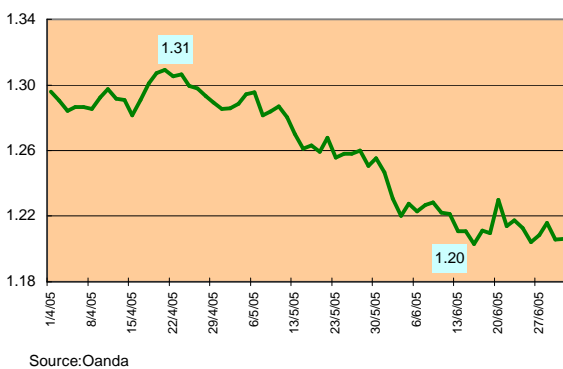
**USD per AUD**  
(Apr - Jun 2005)



**USD per IDR**  
(Apr 05- Jun 05)



**USD per Euro**  
(Apr - Jun 2005)



The graphs demonstrate that during the second quarter of 2005 were verified some instability of the exchange of the USD face to the Australian dollar (AUD) and, same, face to the Euro— away in this case less accentuated.

Relatively to this last one it has been verifying in the last times a depreciation that if it is mainly due to the improvement of the situation economic in the USA and to the increased of the interest rate in this country.

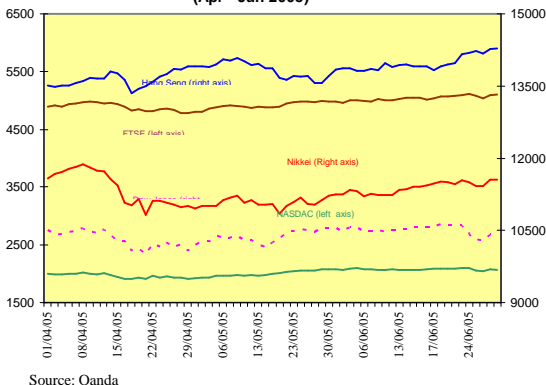
As for AUD, the instability of its exchange in relation to the USD has been larger and it's seems to face in the end of the quarter a depreciation phase after a "correction" acted by a quick revaluation immediately before.

In the case of the rupee Indonesia, after a valorisation, this currency depreciated again face to USD due to the impact of the increased of the price of the petroleum and to the fears of a higher inflation due, namely, to strong decreases of the subsidies to oil products.

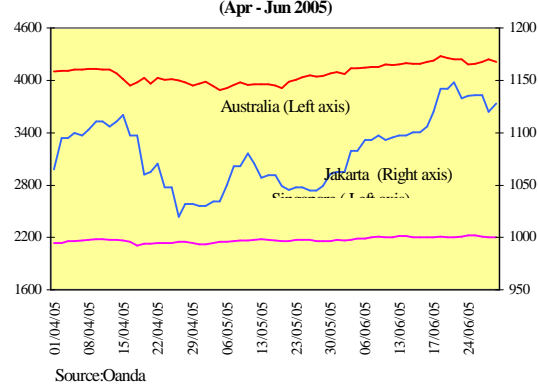
# Financial Markets

Latest developments

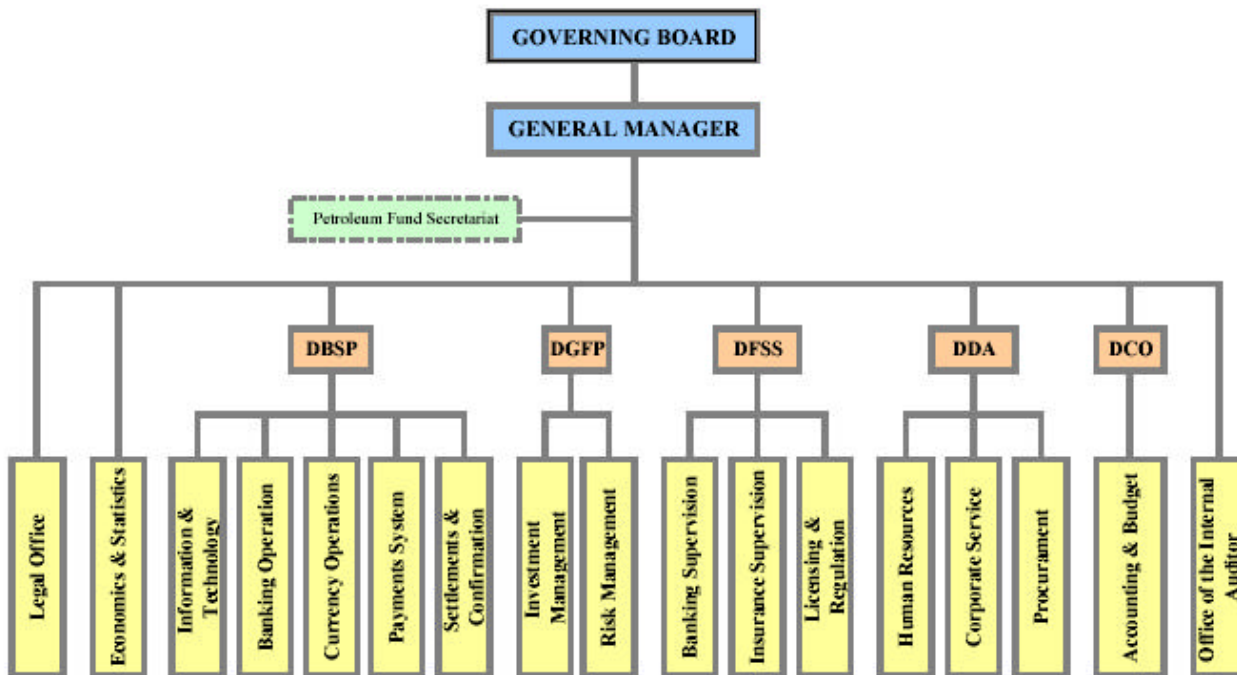
**The Evolution of Stock Exchange indexes**  
(Apr - Jun 2005)



**The Evolution of Stocks Exchange Indexes**  
(Apr - Jun 2005)



## BPA new Structure



### Notes:

- ? DBSP - Department of Banking and Payments System
- ? DGFP - Department of Petroleum Fund Management
- ? DFSS - Department of Financial System Supervision
- ? DDA - Department of Administration
- ? DCO - Division of Accounting and Budget

## China : change in the exchange rate

In 1994, after a period of fast growth and with the intention of accelerating still more the opening of its economy to the international market, China introduced one deep alteration of exchange rate policy, unifying the official exchange rate, then a lot of over valorisation, with the exchange rate of the operations accomplished mainly by the foreign companies that were installed there. Then and of the movements that were followed that unification resulted the fixation of a fixed exchange rate of 8,28 Yuan per USD that was in force until some days ago.

In fact, in an answer (moderate) to the pressures of the United States, of the European Union and of several international organizations—but in a timing for itself chosen—, the China has just reviewed its exchange policies and introduced, simultaneously, a depreciation of 2%—the new rate is of 8,11 Yuan per USD—, much less than the (unrealistic) 10% “demanded” for the countries and referred organizations. The new policy makes the exchange rate to depend not of USD (as up to now) but of a “basket” of currencies no detailed was provides the composition and the relative weight of each currency.

The cautious policy of China should be necessary to seeing as the market resists the increase of its export products whether (for us mainly...) to the need not to put in risk the trust of the investors in the stability of the exchange rate of the dollar of Hong Kong—fixed for about 20 years! —and that it would put in cause the important things of the financial market of the Special Autonomy Area.

## Indonesia exchange rate policy

The economic policy followed by the authorities of our neighbour the occident (and north) has been responsible for a recovery of the economy that guaranteed to the country a high growth rate and when is growing for the last several years: 4,9% in 2003, 5,1% in 2004 and (forecast) 5,7% this year - - with an almost stabilization at this level (5,6%) in 2006. It will be the only case that was verified because in the other countries the growth was much more unstable (5% in 2003 in the average of ASEAN-5: Indonesia, Malaysia, Philippines, Singapore and Thailand).

Now, an important component of that successful economic policy has been a monetary policy driven with rigidity by the central bank of the country with the objective of facilitating the economic growth. Only that meant a supply monetary varying the rate sometimes larger and that it assured inviting real interest rate to the investment and the restructure of some businesses.

One of the consequences of this policy was one progressive depreciation of the rupiah - - it rates average of 8465 IDR/USD in 2003 and 9270 IDR/USD in 2004 - - that partly if it turned necessary to counterbalance the inflation rate (6,1% in 2004 and, in projection, 7,7 this year) that is the higher of Asia and that it would put in cause the competitiveness of the exports of the country, that has one of the higher rate of growth in the area (12,6% and 14,7% in 2003 and 2004).

For 2006 a deliberate revaluation of the rupiah is expected if it is possible, as it is waited, to be lower the inflation rate.