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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **BOEDIONO**,
Alternate Governor of the Bank for **INDONESIA**,
at the Joint Annual Discussion

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Mr. Chairman, Governors, Ladies and Gentlemen:

It is reassuring to hear the recent news about the world economy. The U.S. economy continues to show strength, while Europe and Japan are transmitting positive signals. Meanwhile, emerging economies as a group are also faring better. Japan, in particular, deserves to be congratulated for its remarkable turn around. Meanwhile, the proposed reform of the HIPC Framework would make not only good politics but also good economics.

Turning to my country, Indonesia, it is clear that the better prospects of the world economy should provide a better environment for our recovery. Conversely, the world economy is bound to benefit from our quick recovery. Let me mention some recent facts about Indonesia.

One year ago, at the time of the last joint annual meetings, Indonesia's economic fortunes had reached a nadir. Inflation had risen to an annual rate of 82%, the rupiah had depreciated by some 75% and traded at Rp. 10,000 per US\$, one-month interest rates were at 64%, and real GDP had collapsed by 16%. At that time, no one knew whether things would get better or worse in the months to come. Significant political uncertainties lay ahead.

Today the Indonesian economy is in far better shape but, unfortunately, similar uncertainties remain. Inflation has almost been eradicated, with the annual rate falling to less than 6% in August. The one-month interest rates have dropped below 13%. By mid-July of this year the rupiah had strengthened to Rp. 6,600 per US\$, before it weakened again to the current level around Rp. 8,400 per US\$. Share prices on the Jakarta Stock Exchange have risen by more than 60% from their level one year ago. Consumer spending, agricultural production and a few manufacturing activities are starting to look

up. With oil prices having doubled from the beginning of the year and commodity prices beginning to stabilize, Indonesia's external payments position should improve in coming months.

In recent weeks, these clear signs of economic recovery have been blurred by uncertainties arising from the emergence of a bank scandal, events in East Timor and rising political temperature in the run up to the Presidential election. There is a lesson to be learned here. The underlying message of this experience is that despite two years of unprecedented economic misfortune, the Indonesian economy remains alive and fundamentally strong. Given half a chance, it will bounce back. At the same time, it is also clear that the recovery remains fragile and requires constant nurturing by a steady and caring hand.

Much of the credit for the improved outlook is due to the implementation of a consistent economic stabilization and restructuring program, in support which the international community has played a crucial role. We wish to express our appreciation for this support. Financial sector restructuring and corporate debt resolution have been key elements of this program. Over the past year, notable progress has been made on both fronts, which I shall not elaborate here.

However, recent events threaten to undo much of such progress. The restructuring program has been paralyzed by a banking scandal that strikes at the integrity of the institutions charged with recapitalizing and restructuring our banks. We consider it to be a very serious matter and we know that we need to resolve it in a transparent manner and in a manner that is consistent with Indonesian law. A judicial process for the case will start within a matter of days. I should add that the prevailing public sentiment ensures that only a transparent and complete resolution will meet the public's expectations.

The upcoming Presidential election is another source of uncertainty. It is our hope that the resolution of these two issues will allow us to regain the momentum that we had attained earlier this year.

Finally, I would like to express the deep regret of the people of Indonesia for the loss of life caused by events in East Timor. Let me reaffirm that the Government of Indonesia is committed to taking the steps necessary to enable the fulfillment of the newly expressed will of the majority of East Timorese to seek a new destiny outside Indonesia.

Thank you.