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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

Press Release No. 18

October 6 - 8, 1998

Statement by the Hon. **BAMBANG SUBIANTO**,
Governor of the Bank for **INDONESIA**,
at the Joint Annual Discussion

**STATEMENT OF
H.E. BAMBANG SUBIANTO, MINISTER OF FINANCE,
THE BANK GOVERNOR FOR INDONESIA
AT 1998 ANNUAL MEETINGS**

Mr. Chairman, honorable delegates, ladies and gentlemen,

It is an honor for me to address for the first time these Annual Meetings of the World Bank and the International Monetary Fund. Let me first touch upon the East Asian crisis. Since the last Annual Meetings, the crisis has become more severe and widespread in ways that no one would have anticipated. While a measure of financial stability has been restored in some Asian countries, the recovery is not in sight yet. On the contrary, the ripple of the crisis has reached far into other corners of the world.

The continuing crisis has raised concerns about the future prospects of some of these Asian countries and their impact on the global economy. Their remarkable past achievements in economic and social development, particularly in alleviating poverty, are now in danger to be wiped out suddenly. These countries are now facing a very challenging task to protect these hard-earned achievements and prevent masses of people from being thrown back into poverty. For Indonesia, the crisis has brought more than adverse economic consequences. In this connection, I would like to reaffirm the strong commitment of my government to continuing the economic reforms despite the difficult social and political environment in the country.

Our economic stabilization and reform program consists of four main elements: to restore confidence and reform financial institutions; restructure private sector debt; improve efficiency and competitiveness; and strengthen public and corporate governance.

To restore the confidence of depositors in the banking system we have provided a comprehensive guarantee to all bank depositors and creditors. Although high interest rates pose a heavy burden for the business sector, they are essential to encourage people to put their money back into the banks in line with our effort to control inflation and bring the exchange rates to a more sustainable level. Liquidity will be relaxed gradually if rupiah strengthens and the inflation rate declines. Banks that no longer meet the standard banking requirements are placed under the control of the IBRA (Indonesian Bank Restructuring Agency). Out of 55 banks placed under IBRA, 10 were suspended, 4 were taken over by IBRA (through recapitalization), and the remaining will be recapitalized. Other banks not placed under IBRA will also be recapitalized.

The second element of our stabilization and economic reform is solving the debt problem of the private sector. In this regard, we have reached a framework for debt agreement with external creditors to restructure corporate and inter-bank debt. Companies that are unable to fulfill their debt obligations are required to enter the bankruptcy process through a special court. In this regard, the House of Representatives has recently approved

the new bankruptcy laws which provide a basis for resolving commercial disputes fairly, transparently and rapidly.

More recently we also have formulated the restructuring framework to promote the resolution of private debt, known as Jakarta Initiative. The measures include improvements in the laws and taxation with a view to supporting the restructuring process. With these frameworks, we expect the flows of bank financing will be restored to normalcy, productive activities revived and job opportunities recreated.

The third element of our program concerns the real sector. Here we are removing various elements or procedures that give rise to economic rents and inefficiencies such as by abolishing licenses. Meanwhile the awarding of business licenses, contracts, or procurement of goods and services by the government and State-Owned Enterprises (SOEs) will be carried out openly and competitively. We also strive to create a climate of fair competition to strengthen our productive sector. Furthermore, we expect to complete a competition law this year.

The fourth element is improving corporate and public governance. To improve corporate governance, we need to have better monitoring by both banks and capital markets through improving transparency and disclosure and by adopting stricter accounting practices. The government bureaucracy will be developed into an organization that is capable to carry out efficient conduct of governance and public service provision, free from intervention and political influence.

All of our endeavors to reform and reenergize our economy will not be successful without the assistance from our development partners. In this opportunity, I would like to express our appreciation for the immediate responses of the international community in providing financial support to Indonesia as well as in helping our government address the social consequences of the crisis.

The emergence of financial crisis in Asia has again underscored the importance of close monitoring of the financial system. Improved collaboration through an early sharing of information and close cooperation between the Bank and the IMF remains of vital importance. We encourage the Bank to further strengthen its collaboration with the IMF in the future while maintaining its mandate which is promoting sustainable poverty reduction and economic and social development. In this regard, the Bank's ability to carry out such a mandate would depend on the ability of the resources. Therefore, all shareholders should consider all options including general capital increase in order to strengthen the financial capacity of the Bank.

I commend the Bank and the Fund for the progress in the implementation of the HIPC (Heavily Indebted Poor Countries) Initiative and in the initiative to provide debt assistance to post-conflict countries. It is our hope that the debt assistance provided will enable the benefiting countries to provide more social services for their citizens.

Let me conclude by expressing our appreciation again to the World Bank and the International Monetary Fund for their contribution in our development efforts. We look forward to a closer development partnership in the years to come.

Thank you.