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Statement by the Hon. **H.E. PRIJADI PRAPTOSUHARDJO**,
Governor of the Bank for **INDONESIA**,
at the Joint Annual Discussion

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Governor of the Bank for Indonesia,
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Mr. Chairman, Governors, Ladies and Gentlemen,

I am honored to have the opportunity as the newly appointed Minister of Finance of Indonesia to address the Annual Meetings of the Governors of the Fund and the Bank in Prague this year.

More than three years have now passed since the East Asian crisis engulfed the region that caused untold misery to millions of people in the affected economies, and it is, therefore, very encouraging to note that the measures taken by these countries in dealing with the crisis have finally produced positive results. Slowly, but surely, they are emerging from the crisis and some of them are beginning to regain the pre-crisis levels of economic activity.

Indonesia, which was hit hardest by the crisis, is also showing vivid signs of recovery. Macroeconomic stability has been restored and public confidence is on the rise especially since the presidential election last October. The economy, benefiting from increases in export, investment and consumption, grew satisfactorily in the first and second quarters of 2000, by 3.6% and 4.1% respectively compared to the previous quarters. The general price level has been stable, contributed very much by the relatively low inflation rates. From January to August of 2000, the inflation rate was kept low at 4.7%. Moreover, unlike last year, investment has replaced consumption as the leading contributor to the GDP growth. Investment grew by 14% and 21.1%, respectively in the first and second quarters of 2000. Both exports and imports showed an impressive rebound. From January to July of 2000, exports increased by 33.7% compared to the same period last year, while imports, consisting mainly of raw materials and capital goods, increased by 18.8% in the same period. Furthermore, the resulting current account surplus contributed to an increase in the amount of gross foreign assets reaching US\$27.5 billion in the second quarter of 2000, sufficient to fulfill imports of non-oil and gas for 11 months. With these favorable trends, we expect that the GDP will grow by 4.9% or more this year, exceeding our original target of 3.8%. While this rate is much lower than the average growth that we enjoyed for many years prior to the crisis, it is nevertheless a significant improvement from the negative 14% growth rate registered in 1998.

The encouraging economic performance was closely related to the positive developments experienced by the Rupiah's exchange rate during the past 11 months. In September last year the exchange rate was around Rp.9,000 per US dollar. Although experiencing high volatility, the Rupiah has recently shown a tendency to strengthen to

around Rp8,300. Indeed, this is a significant achievement if we consider that at one-time the value of Rupiah was around Rp15,000 against the dollar two and half years ago.

The strengthening of the Rupiah, the relatively stable domestic prices as well as favorable conditions in the global financial market provided breathing room for Bank Indonesia, our Central Bank, through the open market operations, to reduce interest rates without jeopardizing the macroeconomic stability. The one month BI's certificate of deposit (SBI) interest rate has been brought down gradually from 46.4% in November 1998 to 13.2% in August 2000.

We are fully aware that one of the main causes of the financial crisis is the weakness of our banking system that has exacerbated the problems faced by the corporate sector. Therefore, the success of our national economic recovery is very much dependent upon our ability to restore the soundness of the banking sector. However, restructuring the banking system is not only very complicated but also costly. But, despite the difficult environment, the effort to restructure our banking system has produced encouraging results. Most of the private banks that were taken over by the state (BTO banks) have now been recapitalized. Some of these recapitalized banks are presently in the process of being privatized, and for banks that are unable or unwilling to participate in the recapitalization program, the Government is adopting alternative solution strategies including mergers or closures.

The assets of the liquidated banks have been taken over and managed by the Indonesian Bank Restructuring Agency (IBRA), which is given the tasks to carry out asset sales, debt restructuring, return assets to the private sector, and achieve collection targets to support state budget. The IBRA continues to strengthen efforts to accelerate loan collection and asset recovery by all state and BTO banks so as to minimize the bank restructuring costs.

In the corporate sector, the government has intensified efforts to resolve the private debt problem facilitated by the Jakarta Initiative Task Force (JITF) in close cooperation with IBRA. Presently, restructuring private debt is focused on big debtors. Until now, IBRA has succeeded to restructure 40% of the debt of 21 largest obligors. As of July 31, 2000, JITF has restructured private debt totaling US\$5 billion. JITF plans to achieve a target of US\$12 billion by April 2001 and in order to speed up corporate sector restructuring, the government will provide the necessary incentives in the forms of debt forgiveness, debt to asset settlements and debt to equity swaps.

Despite the encouraging developments in the macroeconomic front, as well as in the financial and real sectors, we are aware that much remains to be done. In this respect, I can assure you that there is a strong commitment within the highest levels of the government and among leaders of the main political parties to undertake all the necessary reform programs so as to secure a speedy economic recovery that is so critical to the success of our long-term struggle in fighting poverty.

Turning to the Bank and Fund matters, we are pleased with the new commitment made by Mr. Horst Köhler and Mr. James Wolfensohn to enhance the partnership between these two institutions in order to help improve the quality of life and reduce poverty around the world through sustainable and equitable growth. In this connection, we would like to express our support and readiness for cooperation in the effort to achieve this great goal in the years ahead.

We are also encouraged by the progress achieved in the implementation of the HIPC Initiative and welcome the enhanced HIPC framework. However, we are concerned that the financing problem of this initiative remains unresolved. It is our view that debt relief provided should not jeopardize the financial integrity of the multilateral institutions as well as the assistance to other low-income countries such as those provided under IDA. Therefore, we would like to urge all bilateral and multilateral donors to provide the necessary financial supports to this Initiative to avoid setbacks in providing debt relief to poor countries.

I would also like to take this opportunity to express our deep concern over the increasing tendency of the World Bank to involve itself in non-socioeconomic matters of its member countries. We believe that this is not a healthy development and can adversely affect its relations with its clients and, thus, its effectiveness in poverty alleviation. We, therefore, urge the Bank to adhere strictly to its mandate, as stated in the Articles of Agreement.

Finally, let me conclude by expressing our gratitude and appreciation for the support of the international community in helping us to implement our economic program. We are confident that with your continued support and under the leadership of President Abdurrahman Wahid, we will emerge from the crisis much better prepared to face the challenges of globalization, thereby enabling us to embark on a more sustainable path of development.