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

STATEMENT
by
Mr. Boediono
Minister of Finance of Indonesia

October 3, 2004
Washington, DC

Mr. Chairman,

Allow me to use my time today on three topics. First our view on the evolving international economic situation, some comments on the situation in Indonesia and finally on policy direction at the IMF and World Bank.

We are pleased that global recovery in 2004 remains solid and is becoming increasingly broad based. So far, Indonesia has benefited from this growth and we would like to build on strengthening world economic foundations. However, we fear the balance of risks may be tipping toward external shocks. The world recovery and our own face increased risks from geopolitical events, high oil prices, and persistent global imbalances. We urge the international community to address these common risks.

For Indonesia 2004 has been an eventful year. Last week brought to a peaceful conclusion a series of three nationwide elections that began in April, marking a significant step for the country toward a full-fledged democracy. We now have our first directly elected President and there is a tangible air of excitement as new and stronger executive and legislative branches take office.

On the economic front, we have had a strong performance as we exit from the IMF program. You might recall that among countries in the region, Indonesia was hit by the last crisis hardest and longest. That was the worst financial crisis the present generation can remember. The situation was much aggravated by the occurrence of the most severe drought in many decades and a massive social and political upheaval. Perseverance and consistency in macroeconomic policy and financial sector reform in the past few years have eventually led to the return of economic stability and economic recovery. The balance sheets for corporations, financial institutions and households have improved considerably since the crisis and have underpinned the recovery. Economic growth has edged up steadily from –13% during the crisis year of 1998 to around 5% this year and around 5.5% next year.

The financial sector, which had been shattered by the crisis, has undergone a fundamental restructuring and the process will continue. The last of the banks taken over during the crisis is now being sold. Bank lending is increasing robustly and more loans are going to industry and there is more regional dispersion in lending. A new Deposit Insurance Law has been passed and the institution is now being established. Finally, bond and stock markets have rebounded spectacularly, providing an increased source of government and corporate financing.

The transition from the present government to the new government this month is widely expected to be smooth. The Parliament has just passed the budget for 2005 that sets the stage for the continuation of the prudent macroeconomic policy. Next year the budget deficit is projected to be less than 1 % of GDP and the debt to GDP ratio to fall below 50%. Only 3 years ago our debt stood at almost 100% of our GDP. The 2005 budget also projects an acceleration in growth, moderation in inflation and stable domestic interest rates.

The government has delivered on a broad set of reform measures promised in the "White Paper" as part of our exit strategy from the IMF program. In the finance area I would note with special satisfaction the passage of 3 basic laws: the State Finance, Treasury and Audit laws. These laws along with a major reorganization at the Ministry of Finance should improve significantly the quality of our fiscal policy operations and raise the overall standard of governance in public finances. We have also just passed an amendment on the Bankruptcy law that requires Ministry of Finance approval to bring insurance and other non-bank finance companies to court for bankruptcy. There have also been revisions to the laws governing regional autonomy to reinforce fiscal equalization and require prudent borrowing. The next government seems equally committed to continuing, even accelerating, the reform agenda.

Let me switch to my final topic that is the policy direction at the World Bank and IMF. But first let me wish the Breton Woods institutions a happy 60th birthday. This is an important moment for all of us to reaffirm our commitment to building better and more prosperous global communities.

Faced with the dynamic risks and opportunities of globalization, the Fund has rightly concentrated on strengthening crisis prevention and resolution.

At the World Bank, the shift in emphasis from Adjustment to Development Policy Lending is also positive. Lending addressed to structural and institutional change matches Indonesian government priorities. Increased flexibility, greater program ownership and stronger links to the budget cycle are also attractive features. However, more is needed if we are going to reach our MDGs. Thus we welcome the innovative thinking behind the International Financing Facility and global taxation.

Let me close with a few words about the recent bombing in Jakarta. First, the government, police and security agencies are resolved to track down, apprehend and prosecute all those involved. There is already some early progress in the investigation. Terrorism cannot be allowed to succeed. Indonesia stands ready to actively participate in the international effort to combat terrorism. Second, the economic and political resilience after the bombing reflected well on Indonesia's improved fundamentals.

All in all 2004 has seen further progress in our recovery. A positive election outcome should accelerate the recovery and allow us to push ahead with renewed vigor on our reform agenda.

Thank you.