



INDONESIA

BOEDIONO, Governor

Let me express my appreciation to the Asian Development Bank (ADB) for organizing this meeting and to the Government of the People's Republic of China and the city of Shanghai for hosting us.

I want to take this opportunity to do two things: (i) comment on the program and achievements of ADB in the past year, and (ii) update you on recent developments in Indonesia.

Let me begin by congratulating ADB on overcoming the challenges of 2001. The President, Management, and members can take pride in turning in a strong financial performance during trying times. As a borrowing member country, we hope that improved financial performance will lead to lower borrowing costs. We support the comprehensive resource management plan, and feel that its preparation should be expedited. Other positive steps include the reorganization of ADB to increase its effectiveness and the effort to strengthen private sector operations through a wider range of financial instruments, strategic alliances with other development agencies, and partnerships with the private sector.

Finally, we welcome ADB's initiative to introduce LIBOR-based loans. The improved flexibility and market-based nature of this product should be beneficial to Indonesia.

Now let me say a bit about the economic situation in Indonesia. 2001 was a challenging year for us, as it was for all of the countries in the region. The slowing world economy, accelerated by the tragic events of September 11 and their aftermath, took a toll. In Indonesia, 2001 growth was 3.3%. This was not impressive, but was still one of the higher growth rates in Southeast Asia last year.

But that was the past. In 2002 we are seeing unmistakable signs of economic revival. There has been a resurgence in confidence, a resurgence that began with the transfer of the presidency to Megawati Soekarnoputri in July, and accelerated after the

successful conclusion of the Consultative Group meeting in November. Since January, the rupiah has appreciated over 10% and the spread on our Yankee bond has narrowed significantly. As world economic conditions improve, exports are also beginning to recover. Inflation, which deteriorated significantly under the previous government, has begun to ease. And all indications are that growth is accelerating in 2002.

I believe that this turnaround reflects the real progress that we have made in addressing the challenges facing the country. In particular, resolving security issues has been a key focus of this administration. And while problems remain, we are definitely making headway. At the same time, the political infighting that undermined policy in recent years has also been significantly reduced.

In the economic area, the Government is also squarely facing its problems. This is most obvious in fiscal policy where we raised fuel prices twice in the past year. This significantly lowered the cost of untargeted subsidies and reduced underlying concerns about fiscal sustainability. Now we must push ahead by aggressively enhancing revenues. Through these efforts we were able to achieve our budget deficit target of 3.7% of gross domestic product for 2001 and reduce the targeted deficit for 2002 to 2.5%. Looking ahead, we believe that we can bring our fiscal accounts into balance in a few years. In the interim, we are intensifying efforts to privatize state enterprises and sell assets held by the bank restructuring agency. For example, we successfully sold our largest private bank and more assets are in the pipeline.

However, we continue to need the support of our donors. We particularly appreciate the assistance of ADB, the World Bank, and other members of the CGI, and all of the members of the Paris Club in helping us meet our financing needs. As we move forward to 2003 and beyond, we hope to reduce our dependence on borrowing and debt rescheduling, and therefore lower the stock of debt. But we will still need assistance in various forms from the international community. In this regard, we urge you to replenish the Asia Development Fund as soon as possible to make room for additional concessional financing to all countries.

There are two additional areas that I would like to highlight. The first relates to our program to improve governance, a key goal of both the Government and ADB. One of the key commitments here was the anti-money-laundering law recently passed by Parliament. The second area concerns our efforts to expand poverty reduction through a social protection strategy, including programs and enhanced policy efforts aimed at employment generation to allow the poor to lift themselves out of poverty.

Finally, let me discuss the decentralization effort that has been integral to our political reform process. Fortunately, 2001 saw a relatively smooth implementation of a very ambitious decentralization program, but there have been problems. For instance, decentralization is making counterpart financing more difficult. Many local governments find it difficult to provide counterpart funds, and formulating a workable solution to this problem is a current priority.

In closing, let me say that I believe that Indonesia has turned the corner in its recovery from the crisis that began in 1997. With improvements in political stability, security, and economic reforms, a virtuous circle is forming. The Government views ADB as a key partner in this process.