



**INDONESIA**

**BOEDIONO, Governor**

On behalf of the Indonesian delegation, I would like to thank President Tadao Chino and the Asian Development Bank (ADB) for the excellent program this year. Our heartfelt appreciation goes to people and the Government of the Republic of Korea for their generosity and hospitality.

As you know, among countries in this region, Indonesia has been hit by the 1997 crisis hardest and longest. In the past 3 years or so, however, the country has been slowly but steadily pulling itself out of the crisis.

Let me, therefore, take this opportunity to update you on the recent economic development in Indonesia and then comment on the program and achievements of ADB.

The Government of Indonesia is pleased to report that 2003 represented another step on the road to recovery. Prudent fiscal and monetary policy had contributed a continued deceleration in inflation and interest rates while the exchange rate strengthened and stabilized. This pattern continued into the first quarter of 2004.

These strengthening fundamentals generated some acceleration in growth in 2003, which was 4.1% compared to 3.7% in 2002 and 3.3% in 2001. The sources of growth had been consumption and, more recently, exports, while investment continued to be weak. There are a number of reasons for the poor investment performance, but the most serious may be the uncertainty around the outcome of the election. The parliamentary election was concluded successfully in April. Now a very competitive presidential race is getting under way. A first-round election is set for July and again in September if one of the candidates does not receive more than 50% of the votes. Indications so far are giving us confidence that the process will go well and that the improvements to the electoral system will yield a stronger accountable government and parliament.

However, our reform agenda is too pressing to wait for the results of the election. Last year the Government issued a White Paper that provides a detailed macroeconomic and structural reform strategy for 2003 and 2004. Key recent reform accomplishments include the establishment of a National Export and Investment Team chaired by the President and tasked with addressing critical obstacles. In April a one-roof licensing service was created to speed up investment approvals. With the assistance of the donor community, tax and customs reform, which was begun last year, continues to progress, and a reorganization of the Ministry of Finance to enhance

budgeting and treasury operations is getting under way. We will shortly submit new tax legislation to parliament with provisions we believe will spur investment and job creation. On the critical governance agenda, the Anti-Corruption Committee should be operational shortly and Anti-Money Laundering Agency is now actively investigating cases.

The outlook is positive. An improving global economy should increase exports and investment later this year and 2005. We now expect growth in 2004 to reach close to 5%, and inflation will be below 6%. This will set the stage for a pick-up in growth and continued stability in 2005. Next year, we project growth will be 5.0% to 5.5%, inflation in the 5.0% range, and short-term interest rates around 7.0%.

With our recovery back on track, Indonesia is now at or close to pre-crisis poverty levels. We will use this momentum to not only meet but exceed the Millennium Development Goals and we look to ADB to support our effort. For our part we intend to implement a Poverty Strategy that provides a comprehensive framework and focus for anti-poverty actions.

We would like to commend ADB in its efforts to develop new financial and developing instruments that can assist governments and private sectors to find a longer-term local currency financing for infrastructure and other projects. This effort dovetails with our macroeconomic strategy to bring down long-term interest rates to spur private investment while building more active and efficient capital markets. We look forward to working with ADB on this and hope this effort will result in an attractive product for long term local currency financing.

We are very pleased to learn that the Asian Development Fund (ADF) negotiation has come to a successful conclusion. This will enable ADB to enhance its efforts to combat poverty.

We also appreciate the recent reduction in the ordinary capital resources borrowing cost by 20 basis points as well as the elimination of the front-end fee, but I appeal to the Board to continue working to reduce borrowing costs for member countries.

Overall, 2003 recorded progress for ADB and its members. Indonesia looks forward to working more closely with ADB to strengthen our recovery and speed up our development.