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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **JUSUF ANWAR**,
Governor of the Bank for **INDONESIA**,
at the Joint Annual Discussion

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Mr. Chairman, Fellow Governors, Ladies and Gentlemen,

On behalf of the government and people of the Republic of Indonesia, let me convey our heartfelt sympathy and prayers to the people of Louisiana, Mississippi and Texas. We understand all too well of your suffering. Our own tragedy in Aceh and the hurricanes of the Gulf Coast remind us once again how humble we are in the face of nature and the generosity people and nations are capable of.

It is also my privilege to congratulate and welcome a dear friend of Indonesia, Mr. Paul Wolfowitz to your new post as President of the World Bank. We are certain the Bank will benefit from your experience working with developing countries and we look forward to our association with you.

Distinguished Board of Governors,

Before I address specific Bank issues, let me share a few thoughts about the 2005 World Summit. The Government of Indonesia is absolutely committed to achieving the Millennium Development Goals. All of our economic and financial policies must be judged by the extent to which they contribute to the rapid and permanent reduction in poverty.

In the face of continuing global risks and opportunities, the Fund continues to play an important role that focuses on strengthening crisis prevention and resolution, and so we look forward to understanding better how this role might be made even more effective.

I would like to thank the Bank and all of our development partners for the tremendous staff support and financial assistance, including the debt moratorium, during the tsunami. I would also like to highlight three Bank related issues: debt relief and the importance of IDA's financial viability; fund replenishment; and equal treatment for developing countries.

First, IDA Financial Viability. We understand that proposed Debt Relief will use IDA funds. The total cost to IDA is a substantial share of IDA's balance sheet and, inevitably, a drain on IDA resources. In our view, IDA is one of the key resources available for least developed countries and so its financial viability is critical. We strongly recommend that IDA replenishment be concluded prior to Debt Relief implementation, which requires us to move forward the IDA replenishment schedule.

Second, allocating IDA Funds. We propose that IDA funds be targeted more effectively in fighting poverty. To do this, allocations should not be limited to **IDA Only Countries** but should include **IDA Eligible Countries**. IDA eligible countries continue to encounter pockets of very serious poverty and limiting resource eligibility impedes efforts to combat it and achieve global MDGs. Efforts are also needed to lower borrowing costs and diversify products to better match developing countries needs, especially through new "client friendly" financial products. I request the Bank's Management to seek ways to enhance the use of IDA for poverty reduction especially through basic infrastructure.

Third, Uniformity of Treatment. We expect programs to be extended to eligible countries based on clear and relevant criteria and that its management should resist pressures to apply different standards in different regions.

I see that conditionality forms part of this year's progress report. As a Borrowing Country member, we have often found that conditionality is too rigid and we appreciate the new Development Policy Loans that provide greater flexibility and ownership. To this end, I share the view of the progress report on Conditionality and congratulate you on the substance it presents.

Distinguished Board of Governors,

Now, let me turn to a few key developments in Indonesia.

This year saw the continuation of a democratic transition in Indonesia. Our President, Mr. Soesilo Bambang Yudhoyono, was directly elected and began his term in office with a pledge to combat corruption and required the cabinet to take the same pledge. The task is not going to be easy but there have been a number of reforms including those in my own ministry that create improved incentives and a better framework. More importantly, there has been a rapid increase in number of high profile cases in the courts that have sent a strong signal to the market.

We are relatively pleased with our economic growth rate achieving 5.9 percent in the first semester of 2005 including over 13 percent growth in investment. These are the best numbers since the crisis, and we hope to build on this momentum.

Near term policy direction remains committed to macro stability and the recent turmoil in the exchange and bond market demonstrates just how important this remains. To quarantine a rapid depreciation in the Rupiah, we've had to raise interest rates. Even more imperative, is the government's commitment to reduce domestic fuel subsidies as part of a broad strategy to bring prices to international levels, diversify energy sources and increase production.

Longer term, the government remains committed to fiscal sustainability with budget deficits below 1% of GDP. To achieve this, fiscal policy will focus on tax and custom reforms, more efficient spending and reallocating poorly targeted fuel subsidies to better-focused programs aimed towards achieving MDGs.

We are now finishing our first year of major budget and institutional reforms at the Ministry of Finance. These reforms are aimed at improving budget, treasury, and in subsequent stages, revenue processes for improving governance and reducing corruption. As with any major reforms, we have had our share of teething problems. Initiating and working through our new processes were compounded by the drain on resources as we responded to the crisis in Aceh. The 2006 budget is already in a much stronger position than this past year's, giving us ample time to reap the rewards gained from more efficient and prioritized spending and improved governance.

We continue with accelerating our fiscal reforms with this year's launching of a major tax reform package. Amended laws on general provision of tax, income tax, VAT, customs-excise is ready to be discussed with our parliament, and a new regional tax code will soon follow. A common theme of these laws is our commitment to making our tax environment more business friendly through stream-lining procedures and lower tariffs. And, we are equally concerned with broadening the tax base and equity through improving law enforcement and combating smuggling with zero tolerance.

Bank Indonesia, our Central Bank, has also pushed ahead with a number of reforms this year. In addition to tightening monetary policy, BI has enacted a number of complementary regulations designed to reduce excess liquidity and limit the ability to obtain financing for foreign exchange transactions without underlying transactions. In the financial sector, supervision standards are being raised to international levels for improving transparency and corporate

governance. Finally, and perhaps most importantly, on September 22nd we established the country's Deposit Insurance Agency, a critical step in phasing out the government's blanket guarantee scheme.

Distinguished Board of Governors,

Finally, let us strengthen our cooperation and efforts in achieving our overarching mission in combating poverty.

Thank you.