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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Joint Statement by the Hon. **BOEDIONO**,
Governor of the Fund, and the
Hon. **SRI MULYANI INDRAWATI**,
Governor of the Bank, for **INDONESIA**,
at the Joint Annual Discussion

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1. We are meeting at a time of great challenge and risk in the global economy. The global financial crisis, rising commodity prices, and a considerable slowdown in global economic growth, are presenting unprecedented challenges in the history of global economy. As this is a global crisis, we need a global solution. We believe that given their mandates, the International Monetary of Funds and the World Bank must play the leading role in the crisis resolution, provide guidance on the appropriate policy responses, and reshape the works to better assess and prevent future crises.

Global Economy and Financial Market

2. The slowdown in the global economy continues to deepen, with the slow growth in both advanced and emerging economies. Risks to growth are firmly on the downside, particularly if the financial conditions should deteriorate further and that financial strains would be more intense. Emerging economies are increasingly affected by the spillovers from financial and economic stress in advanced economies, with clear signs of decelerating economic activity and continuing inflationary pressures. The immediate challenge is thus for macroeconomic and financial policies to support the recovery and stabilize financial conditions, while keeping inflation under control.

3. Monetary and fiscal policies are very important to anchor inflationary expectations and to mitigate negative feedback loops between the financial system and the economy in the near-term. In this regard, we welcome the policy responses in the US to provide support to the economy in the face of financial stress while ensuring adequate liquidity to the financial system. Direct fiscal intervention with the use of public sector balance sheet has already taken place in the US and in a number of advanced countries to contain systemic financial risks. Nonetheless, we view that closer and concerted policy coordination, particularly those among advanced economies, is the key to immediately address the liquidity problem in the global financial system and manage the orderly deleveraging process. It will also be critical to continue with reforms to strengthen the financial system.

Refocusing the Fund

4. We welcome the efforts of the Fund to identify the underlying causes of these potentially devastating problems. The current crisis once again provides an important lesson that the rapid financial innovation without proper market safeguards and adequate regulation and supervision can lead to systemic failures. This clearly calls for a redesign of international financial architecture. Reforms in regulation and supervision of institutions and markets are needed and to be coordinated on a global scale to mitigate the risk to global financial stability. We call on the Fund, in closer coordination with other international fora including the Financial Stability Forum (FSF), to play a leading role to provide the multilateral platform for discussing and eliciting the appropriate responses.

5. In the short-term, since we are still grappling with crisis, what we need is to move quickly and coherently with more concrete solutions to avoid a global financial catastrophe. To this end, the Fund should be advising members what to do and how best to respond to the fallout from the crisis, how to restore the stability and preventing further spillover effects. We call on the Fund to play a more proactive role in the much needed global policy coordination through its multilateral consultation. Building on its expertise and experience from wide membership, the Fund is better place to provide such policy advices. We also urge the Fund to expedite the new liquidity instrument to help members better prepared in their crisis prevention framework as they integrate into global financial system.

6. The turmoil has posed challenges to policy makers and highlighted the importance of better analysis of global stability risks. In this regard, we commend the Fund's progress to meet its Reform Agenda. We are convinced that the reforms will help the Fund become more efficient in carrying out its mandates and sharpen its focus. On surveillance, we are pleased to note that the Fund will enhance its surveillance on macro-financial linkages and advance its early warning framework. However, in the current global financial crisis, a better integration of multilateral surveillance into bilateral surveillance should also be prioritized.

7. We also believe that the Fund's existing lending instruments are based on a model that is no longer suited to the needs of a large part of the membership. The global financial system has evolved enormously since the Fund was created, and so have members' needs for Fund support. While the Fund has adapted to members' evolving needs, this was not nearly fast enough. In addition to expeditiously concluding the work on a new liquidity instrument, there is urgent need for exploring analytical considerations for Fund lending, re-examining conditionality, reviewing the Fund's lending role in low-income countries, and reviewing access limits and financing terms for using Fund resources.

8. We also welcome the establishment of Committee on the IMF Governance and Reform. We believe that in addressing global issues, the Fund depends heavily on its capability to establish an adaptive and flexible management structure. In this regard, we trust that the Committee would come up with recommendations that benefit all its members. Nonetheless, we must not forget that further addressing the voice and representation of developing and emerging economies remains one of the key issue on IMF Governance reform. We calls on the Fund to make further progress in closing the gap between actual and calculated quota shares to reflect their relative positions in the world economy.

Strategizing the Bank

9. The current global challenges also call for the central role of the World Bank. We need to mitigate the spill-over risks of continued high commodity and food prices to development agendas. Higher inflation reduces the capacity to advance important development goals. In some extreme cases, it might undo many of the achievements of the past decades and push more people into poverty. We believe that the Bank is well positioned to lead a coordinated global effort to tackle these problems.

10. Looking beyond the crisis, we support the Bank's efforts to achieve its Long-term Strategic Direction. We believe the Strategy provides a better mechanism for aligning aid with national development strategies. We appreciate the increasing role of Country offices to maximize the Bank's understanding of client countries.

11. We are heartened that the Bank remains committed to a leading role in advancing climate change efforts. We also applaud the Bank's for assisting developing countries to access and maximize the benefits of various financing schemes. The Bank is well positioned to act as a catalyst in the efforts to increase the private sectors' climate change role, as well as facilitating technology transfers.

12. We believe that tackling corruption and improving transparency both at an international and country level is a fundamental condition for ensuring a sound path for development. We note that together we could do more to implement the Stolen Asset Recovery (StAR) Initiative. This important project needs concrete and collective efforts to investigate, trace, and repatriate stolen assets. A coordinated effort would help rid the globe of safe havens for stolen assets.

13. We encourage the Bank to continue with efforts to advance structural reforms and to increase the voice and role of developing countries. This should include efforts to increase representation of staff from developing countries in the senior management ranks and to empower all members to participate in the leadership selection process.

Responding to the Crisis—Indonesia's Experience

14. In closing, we reaffirm Indonesia's commitment as a solid and reliable partner of the Bank and the Fund. We continue to do our part to mitigate the spillover risks of the unfolding crisis into the emerging markets. We have so far been able to withstand the negative impact of the global crisis, thanks to our prudent macroeconomic policy, strengthened financial sector, and adequate foreign exchange reserves. Nonetheless, this is a challenging task, particularly given the increasing trade-off between inflation and growth while preserving financial stability. In this context, we have taken measures to adjust the economic policy mix to reduce inflationary pressure while maintaining financial stability and growth momentum.

15. On the fiscal front, in order to secure fiscal sustainability and at the same time allow the needed fiscal space, we have moved forward towards more streamlined subsidies accompanied by well-targeted social transfers as well as reinforcing expenditure restraints. On monetary front, the central bank has pre-emptively raised its policy interest rate to curb inflation expectations and the second-round impacts of domestic fuel price increase, while at the same time ensure sufficient liquidity in the financial system. Going forward, we will press forward our effort to enhance our crisis management framework, including our plan to strengthen legal aspects of the crisis management and protocol that outlines procedures and clarifies the responsibility of agencies.