



**Speech by
Dr. Syahril Sabirin, Governor of Bank Indonesia
At the 11th Meeting of the Consultative Group on Indonesia
Jakarta, Indonesia
7 November 2001**

*Mr. Chairman,
Distinguished Delegates,
Ladies and Gentlemen,*

On behalf of my colleagues in Bank Indonesia, allow me to welcome you here in Bank Indonesia. It is an honor to be chosen as the venue of this important meeting for the second time. I am hopeful that the facilities and the environment here could contribute to fruitful discussions during our two-day meeting.

Let me start by stressing the role Bank Indonesia can play to reduce poverty, or perhaps more appropriately, to prevent any further impoverishment. It is obvious that the poor suffered the most during this economic crisis. Not only because they did not have wealth to be used as cushions against economic downturn but the unstable and increasing prices cut down their already very low real income. This is why price stability, in which Bank Indonesia plays an important role in achieving it, is not only one of the prerequisites for a sustainable economic recovery but also for reducing poverty.

With such an important role, the task of Bank Indonesia to promote monetary and financial stability has been more difficult to carry out during the crisis. New challenges appear before we are able to deal with the old ones.

We began 2001 hopeful that the structural adjustment program would get back on track quickly with the IMF's agreement, domestic socio-political conditions would improve and the world economic outlook would recover quickly following a soft landing of the US economy. Based on such expectations, Bank Indonesia set an inflation target of 6% - 8.5%, including the impact of government price and income policies, for 2001. This target was supported by the projection that economic growth would reach 4.5% - 5.5% and by the assumption that the average rupiah exchange rate for 2001 would be in the range of Rp7,750 - Rp8,250 per US dollar. To reach that inflation target, base money was targeted to grow by 11% - 12% through the end of 2001.

Ladies and Gentlemen,

To accomplish its goals, Bank Indonesia continues to take careful and measured policy steps to achieve the monetary target. Monetary policy sticks to the principle of forward-looking inflation control without sacrificing the on-going recovery.

In the banking area, we focus our policy on efforts to accelerate the recovery of bank intermediary function through the bank-restructuring program. This policy is accompanied by efforts to meet the minimum 8% capital adequacy ratio (CAR) by end of 2001 and to reduce non-performing loans (NPLs) to 5%.

In the area of the payment system, our policy is directed at the development of a safe, efficient, and reliable payment system in order to support the whole economy as well as the monetary policy. In this regard, we expand the implementation of Bank Indonesia Real Time Gross Settlement System (BI-RTGS) to regions throughout Indonesia. This expansion of BI-RTGS' implementation is meant to reduce systemic risk in the payment system and to improve the efficiency of bank liquidity management and monetary policy.

Despite these efforts, as the year unfolded economic conditions deviated from the initial assumptions. Various factors – economic as well as non-economic – put pressure on the exchange and inflation rates. Delays in reaching agreement with the IMF, the deterioration of the political environment prior to President Megawati's appointment as the country's fifth President, the sharp global slowdown and the events that have followed the atrocities of 11 September, have forced us to revise our forecast more than once. All of these factors contributed to a slower progress in bank and debt restructuring programs, weaker rupiah, and higher inflation rate.

Consequently, economic prospects for 2001 were scaled back from expectations at the beginning of the year. Our latest economic expectations indicate that the CPI-based inflation rate will be slightly above 10% and the Indonesian economy will grow by 3 to 4%. We expect the rupiah to strengthen but remain below our assumption at the beginning of the year. Base money will grow higher than our early year target, primarily due to an increase in public demand for currency brought on by continued uncertainty surrounding the economic recovery.

Ladies and Gentlemen,

I have just explained how high inflationary and exchange rate pressures and continued uncertainty surrounding the economic recovery have confronted Bank Indonesia with a set of difficult choices. In this kind of situation, our biggest challenge is to implement monetary policy in a way that strikes the appropriate balance between maintaining monetary stability – especially in restraining inflation – and maintaining the momentum of economic recovery. Accordingly, Bank Indonesia will continue its efforts to safeguard rupiah stability in a consistent manner. This will be done with caution. We will avoid excessive interest rate increases and ensure that interest rates continue to provide positive signals to the economy so as to support the overall economic recovery and avoid creating negative expectations.

I strongly believe that problems that are besetting the Indonesian economy cannot be solved in isolation but by us working together in a coordinated effort with strengthened policies and consistencies in implementation. The Government and its related agencies, Bank Indonesia, and even the Parliament must work together and in conjunction with the IMF, the World Bank, and international donors to bring Indonesia out of this multi-dimension crisis. Together, we will move ahead toward a sustainable economic recovery.

Ladies and gentlemen, thank you very much for your time and attention.

Jakarta, 7 November, 2001