STATEMENT OF H.E. SRI MULYANI INDRAWATI,
MINISTER OF FINANCE OF THE REPUBLIC OF INDONESIA
ON THE OCCASION OF
THE 15TH MEETING OF THE CONSULTATIVE GROUP ON INDONESIA

Jakarta, 14 June 2006

Distinguished Guests,
Ladies and Gentlemen,

Earlier you heard the introductory remarks from the Coordinating Minister for Economic Affairs. It is a great honor for me to speak before this very impressive audience and to have an opportunity to meet many distinguished delegates and dear friends of Indonesia.

Just two weeks ago we were reminded of the devastation and memories of those who suffered from the earthquake and tsunami calamity in Aceh and Nias. This time however, devastation struck the peaceful region of Jogjakarta, Central Java. Current reports account for more than 5,800 deaths and 20,000 injured, with over 200,000 left homeless. Besides the unimaginable human loss, the economic and social impact to this region is equally as devastating, increasing the number of poor and reversing recent gains in rural development. We are heartened by the reservoir of support and rapid response from you, our CGI friends and international aid agencies, in helping us again in this time of great need.

Distinguished Guests,

Now let me direct my remarks toward updating you our nation's economic performance, investment outlook, and policy initiatives.

Our commitment to fiscal prudence was strengthened in 2005 will be further maintained this year despite possible upward trend in our deficit spending. Our budget deficit stood at 0.5% of GDP in 2005 and is trending at around 1.5% for 2006. The higher budget deficit can be attributed to many factors, including carry over spending from 2005, and increased budget spending for education, electricity subsidies, interest payments, and for Jogjakarta's reconstruction.

In comparison to the previous two years, the Central Government's budget execution has shown improvement but remains lower than expected and regional government spending remains a concern. To address this and support growth, we are focusing on ways to accelerate implementation of front-loading spending and disbursements while adhering to good governance practices.

We achieved first quarter growth of 4.59% (y-o-y) and project the economy to be on course to grow at 5.7 to 5.9% for this year, although lower than forecast. We expected to return to our high-growth projections of between 6 to 6.5% for 2007. Accordingly, continue to maintain macroeconomic policies that can endure potential external shocks and market disruptions.

Inflation during the first 5 months of 2006 came in at 2.41%, down from 3.76% over the same period last year. In June, CPI inflation eased to 15.74% (y-o-y) or 1.98% (q-t-q). The CPI improvement can be attributed to appreciation of the Rupiah exchange rate, reductions in food-price volatility, and the government's announcement to defer plans for increasing electricity tariffs.

The 2007 budget is now under discussion with our parliament. One of its key assumptions includes deficit targeting at between 0,7-0,9% of GDP, the financing of which will be sourced from a blend of both CGI and non-CGI members, and government bonds. We believe the size of the deficit is very much financible.

Ladies and Gentlemen,

In the last few weeks we have seen sharp decline in both exchange rates and capital markets. The Rupiah strengthened to its high point of Rp.8,740 and the JSX peaked at 1,553 on May 11, before pulling back sharply. In general, this trend reflected global sentiment for emerging markets, but in Indonesia, the movement was quite pronounced as it reflected earlier gains enjoyed by our market.

In spite of the challenging and changing global environment we find ourselves in, Indonesia continues to experience strong economic momentum. During the past year we have seen our economic growth pattern transition from consumption-led, to one driven by investment and exports.

Overall, the nation's Balance of Payments continues to improve as reflected in higher surpluses covering our current, capital and financial accounts. Capital inflows also increased significantly, especially in the forms of portfolio investments attracted by favorable interest rate differentials and improvement in the risk premium. Accordingly, our nation's credit rating has been upgraded once again by the international rating agencies, and it is our aim to translate these rating gains into attracting more foreign and domestic investment.

Distinguished Guests,

Now allow me to direct my remarks toward investment and policy reforms.

Our economic growth was not high enough to create sufficient job opportunities, reduce unemployment, and cut poverty levels. We all can agree that stronger economic growth driven by investment is required to achieve sustainable development.

We realize regional competition for investment dollars is increasing with our Asian neighbors focusing their energies on creating a more favorable environment for the private sector. Not only do we need to the same, but better and faster.

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This year our government launched its Investment Policy Package entailing a series of measures and actions to improve our nation's investment climate. The key elements of this package include strengthening investment service institutions, synchronizing Regional and Central regulations, and improving customs, taxes, and labor regulations.

The investment law has now been submitted to Parliament and there is increasing clarity on the proposed Tax Law, including key revisions that redress the balance between tax-payers and tax-officials. The Customs and Tax DGs have long been regarded as among the serious barriers to efficient business operations. The new leadership, modernization, and revised laws reflect our willingness to address private sector concerns. Illegal local tax is also being addressed and the plan is to move from an open to close list system, providing no room for regions to create illegal taxes and levies. A preliminary version of the revised labor law designed to increase flexibility ran into opposition from labor groups and is being revisited.

Additionally, two other policy packages covering infrastructure and the financial sector constitute an integral part of this Investment Policy Package. Although we are not happy with the progress over infrastructure projects, we have made significant gains in the areas of risk-sharing and coordination of government projects. I have just signed a decree on the risk sharing mechanism for infrastructure projects under the umbrella of public-private partnerships. There is movement on the financing side as well, with progress on infrastructure financing including guarantee-funds.

On the project implementation, recently I have signed a revised KMK35/2003 on the On-Lending and On-Granting schemes. These two decrees are expected to provide efficiency, effectiveness and governance as well as a window for non-cost recovery projects.

The Financial Policy Package is now being prepared to address key issues governing the regulation and supervision of both banking and non-banking financial institutions. We are acutely aware that no set of packages will work without also focusing on how to best deal with their implementation. As you know, implementation has become a key measurement for everyone involved with policy reform initiatives.

Distinguished Guests,

Some questions still remain about what actions we have taken with implementing policy reforms. Let me first say, that we are more committed than ever to see reforms take hold for improving our nation's well-being. As we all know, a journey of a thousand miles begins with taking that first step, and to meet your expectations and those of our people, we've had to skip the walking phase and are learning how to sprint! As each of you know from your own country's' experience, building a market-oriented, democratic society doesn't happen in one or generation or even two. In fact, some of you have been at this game for over 200 years, which is why we need your support for improving ours.

From the purview of the Ministry of Finance, we are continuing with implementing major reforms, most notably in the areas of tax and customs, to improve our competitiveness, and to maximize revenue collection. Strengthening our fiscal management, treasury management, and improving quality of public spending continue to be key priorities. As part of our structural reforms, last week our President signed the reorganization plan for the Ministry of Finance. The feature of the new organization is to establish new DG on Fiscal Balance, Debt Management and the creation of Fiscal Policy Office (FPO). Again, this is just one of many steps aimed at improving the fiscal management, delivery and performance within my portfolio.

Distinguished Guests,

Finally, and as I have highlighted earlier, I hope that CGI as Indonesia's main source of external financing, will without fail, realize its commitment toward our nation's development and with a renewed sense of responsiveness and understanding to our needs in combating poverty.

Thank you.