Indonesia: Country Assistance Strategy - Progress Report

The Government’s policy response to the crisis is showing some positive results. The exchange rate appears to have been stabilized, inflation is decelerating, interest rates are declining, and the current account of the balance of payments is expected to be in surplus. But, as the authorities recognize, this is only the beginning and much remains to be done.

The three objectives of the Government’s reform program, namely: protecting the poor, stabilizing the economy, and introducing structural reforms to rekindle growth, remain valid in spite of uncertainties due to the upcoming parliamentary and presidential elections. Yet uncertainties will remain and the Bank will need to respond flexibly to developments as they unfold.

Regarding the Bank Group Strategy in Indonesia, I have the following selective comments:

First, I welcome the self evaluation on what went wrong and where the Bank could have done better. The lessons drawn from this and from the OED report should guide the Bank’s strategy in support of the Government’s reform program.

Second, I welcome the emphasis on reinforcing the social safety nets. The social impact of the crisis in Asia is of tragic proportions, no more so as in Indonesia. As the report notes, the unprecedented social gains that Indonesia achieved over the last three decades are in danger of being completely reversed. There is a need to continue data collection and updating in order to first assess the true social impact and enable better targeting of programs.

Third, I am pleased to note that IFC has strengthened its presence in the country. I am also pleased to note that in spite of some setbacks in its efforts to restructure its Indonesia portfolio, IFC is actively involved in facilitating trade finance for a group of Indonesian exporting industries.
Fourth, to restart the banking sector, priority should be given to the strengthening of the Indonesian Bank Restructuring Agency. The joint effort the Bank, the IMF and ADB, in this area is welcome. To restart the corporate sector, it would be important for the authorities to move quickly to strengthen the commercial courts. In this regard, the planned corporate restructuring TA project should be accelerated.

Fifth, to facilitate the resumption of growth, adequate infrastructure and strong institutions should be in place. I therefore support the strategy to focus on infrastructure maintenance at this stage, and to improve the legal and institutional foundations for greater competition in trade and production.

Sixth, I can support the base case scenario for FY98-00, and the allocations to adjustment lending. We recognize that front loading of the adjustment program poses risks to the Bank in view of the upcoming elections and the subsequent appointment of a new Cabinet. Nonetheless, the country is in crisis and needs immediate support to try to come out of it. Regarding the use of IDA resources, I note that paragraph 61 of the report proposes an IDA lending program of SDR 300 million (currently equivalent to US$400 million) during FY00-02. Table 4 indicates a proposed lending of US$310 million during FY99-00. Are these two separate lending proposals? Moreover, the report states that in the low case scenario IDA lending is expected to be one third lower. Staff should keep an open mind on this. Indonesia is still highly vulnerable to external conditions, and the report indicates that the global outlook continues to look grim for Indonesia. If the worsening economic situation is triggered by such external factors, then it will be essential that more IDA resources, and not less, should be allocated for the protection of the poor.

Finally, Mr. Chairman, the road ahead is very difficult and extremely challenging not least to the authorities. I wish them every success.