

## **Mr Sabirin looks at how to create value with macroeconomic adjustments**

Keynote address by the Governor of the Bank of Indonesia, Dr Syahril Sabirin, at the Presidents Forum Dinner organized by Business Week in Singapore on 4/2/99.

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Ladies and Gentlemen

It is both a pleasure and a great honor for me to be here to speak at this important forum. Let me extend my gratitude to the organizer and express my warm welcome to all participants in this gathering this evening.

The economic crisis that swept this region since almost two years ago has resulted in a previously-unimaginable loss to the economies in the region: the loss of confidence from within and without, the loss of the value of assets, the loss of employment opportunities, and more importantly the loss of opportunity to continue the high growth performance that the region had enjoyed for many years. But there are two aspects that I hope, and I believe, have not been lost, namely: (one) the pride that once these economies were called the Asian Tigers and that the performance of these economies was named the East Asian Miracle, and (two) the confidence and the enthusiasm that these economies can become high performers once again.

The value and everything else that were lost have to be regained. I do believe that the foundations that once transformed these regional economies into an economic growth area were not easily swept away. This region still possesses many ingredients for growth. It is endowed with a large industrious labor force, the basic economic machinery is well developed, some of the economies are rich in natural resources, and – very importantly - the economies have the ability to adopt and implement the necessary economic adjustment measures. It is the economic adjustment measures, or macroeconomic policies in general, that I would like to focus on this evening, and what kind of value they have created for the economies.

In a market oriented economy, the aim of macroeconomic policies can be summarized, in my view, in a simple phrase, namely to establish a conducive environment for economic activities to take place and for businesses to grow. Such an environment must consist of a number of things, including price stability, exchange rate stability, a well-functioning credit and payment system, efficient public administration, a just and well-functioning legal system, and well-developed infrastructures. It is such an environment that the crisis-affected countries would need to rebuild. And it is such an environment that the policy makers in this region have been struggling to redevelop.

As it is often true in many cases, problems and crises also bring with them opportunities. Among the opportunities associated with the economic crisis in Asia is the opportunity to look back and examine very closely what is lacking and what needs to be done to strengthen the foundations for growth.

The policy makers in this region have made use of the opportunities to restructure the banking system, to introduce or revise the bankruptcy law as well as the law on competition, to trim and privatize state-owned enterprises, to redefine the role of the central bank, and many other things. All these together should constitute a more solid foundation for future growth.

The policy makers in this region have gone a long way. The monetary policies, and macroeconomic policies in general, have shown very encouraging results in terms of price and exchange rate stability. Interest rates, which had to be kept high during the stabilization period, have come down to more affordable levels. Economic activities have shown some pick-up. And, it is quite possible in my view that this region can become a growth center once again.

However, we need to remain cautious given the uncertainties that linger in the world economy today. Recent devaluation of the Brazilian real, followed by the change in the exchange rate system, is just another illustration of how high the uncertainty is. Therefore, in formulating future strategic directions, in my view, we need to be optimistic, but cautiously optimistic.

At the same time, the world is ever-changing. Quite a number of new developments have taken place in recent years, which directly or indirectly shaped the environment we are operating in. This year we also witnessed the launching of the euro. Although it still remains to be seen, I hope the euro will contribute substantially to a greater stability in the currency markets, something we need badly today. In the technology sector, we are witnessing an extraordinary growth of the internet industries, which to some extent can be illustrated by skyrocketing prices of internet stocks in United States. Following this trend, we are also witnessing efforts by many enterprises to make a foray into e-commerce. This phenomenon most likely will change the way we do trade and business in the future.

Although at this juncture it is still hard to predict the impact of these structural changes on our environment, at least there are some obvious elements influencing the direction. Those are factors such as innovations, strategic alignments at the micro level and economic integration, macroeconomic adjustments, liberalization and direction towards market economy at the macro level. No less important is our expectation in the future and forward looking strategies which most of the time play an important role in driving economic activities.

With those new forces driving our world economy towards a new direction, the pace differs across countries. For crisis impacted countries in this region, the opportunities will be dependent upon the speed of recovery of those economies which are also affected by the degree of success of macroeconomic adjustments. In fact, macroeconomic adjustments have been typically one key strategy in this region. For the case of Indonesia, high growth in the past was substantially facilitated by many adjustment measures in our economy, particularly in the financial sector.

Therefore, in responding to the current crisis, it is important for the authorities in this region to reinvent this key element and incorporate it into the changing environment. Just as on the micro level we need to understand our strengths, weaknesses, opportunities and our key competence, the similar approach to some degree may be used in the macro level. Macroeconomic adjustments should adapt to the changing environment and I think elements of this approach can be found in the efforts of regional authorities to respond the current crisis. Combined with those current driving factors I have mentioned, and positive elements that still exist in this region, I believe the value created will be more significantly measured by better resource allocation in every element of the economy and more synergies obtained. If any single entity of the economy can generate maximum value from its business, aided among other things by conducive macroeconomic situation, the economy as a whole will create substantial value as well.

Ladies and gentlemen,

As you are evaluating business strategic directions in this region, allow me to update you with some recent developments in Indonesia, which I hope may be taken into account in weighing risks and opportunities. Although the crisis has severely impacted our economy, bringing around a 14% contraction, not all of the economic sectors were affected. Agriculture, which traditionally has been our backbone in securing food supplies and mass employment, was less affected by the crisis and still recorded positive growth. Food production, plantation and forestry have recorded substantial growth relative to the impact of crisis. Indeed, disturbance to the agriculture sector was more attributed to natural causes such as El Niño. In some provinces many farmers are even enjoying windfall profits from the large depreciation of the rupiah.

This fact shows that during the crisis economic activities shift somewhat to resource based sectors. For Indonesia this shift is natural considering the abundant resources available in the country. For this crisis period, this development is heartening since securing food prices is very important in our efforts to control inflation, especially that of basic necessities, and to arrest pressures from social unrest and income disparities. In this respect, we are quite happy that our inflation was slightly below our target of 80% last year, thanks to improved distribution of food and other basic necessities. More importantly, the rate has sharply decelerated in the past few months. In fact in October the rate was negative, in November it was close to zero, although the months of December and January again recorded positive rates due to holiday times. In 1999 as a whole we expect inflation to be below 20%, and with this expectation interest rates can be expected to decline during the remaining months so as to stimulate economic recovery.

As compared to a level of around 71% in August last year, interest rates now are much lower at around 37%. In the coming weeks and months, we will monitor the monetary situation very closely and run our monetary policy very cautiously. Although we believe that the current interest rate is still too high in real terms, our monetary stance will be relaxed to make interest rate decline only when we are convinced that such a stance would not create any jitters in the exchange market.

Ladies and gentlemen,

When we look back just to a few months ago, that is to the month of May 1998 when the current government was installed, we have accomplished quite a lot in such a short period of time. Politically, a very drastic reform to democracy has taken place. With the approval by Parliament of the basic political laws and with a clear agenda for a general election in June and presidential election in October or November, a solid foundation for democracy is already established. We are confident that by the end of the year, if not already now, we will be the third largest democracy in the world.

We also have accomplished quite a lot in improving our legal system. Among other things, a new bankruptcy law has been enacted and a special bankruptcy court is already in place. And the law on competition is about to be completed by Parliament, and a new draft law on central bank, which stresses the independence of the central bank, has been submitted to Parliament. On the economic front, a lot more has been done. The last important piece we are currently working on is the restructuring and recapitalization of the banking system. The sharp economic decline during the crisis has reduced the value of banks' assets quite significantly, leaving many of the banks with negative net worth. Without sufficient recapitalization of the banking system, economic recovery cannot take place. We have practically completed the preparation process for recapitalization, including due diligence by international auditing firms, preparation and examination of business plans, and tight fit and proper tests for the management and the banks. The actual recapitalization process will take place shortly.

Along with banks' restructuring, companies' restructuring should also take place at the same time. A number of actions in synergy are being conducted for this purpose. Aside from the INDRA (Indonesian Debt Restructuring Agency) scheme, the Jakarta Initiative was established to help facilitate the meetings between debtors and creditors, and a special task force to help banks restructure their assets was also set up. We should expect that the restructuring of companies will take place along with the restructuring of the banks, and they should be strengthening each other's progress.

Ladies and Gentlemen,

With all of those ongoing readjustments in our economic landscape today, we believe that our economy is heading for a new and structurally more sound economy supported by sound pillars of a modern economy. We are promoting more competition, eliminating monopolies, dismantling trade barriers, and eliminating inefficiencies as well as implementing more market mechanisms. To some extent, this crisis has taught us valuable lessons on how to improve our economy's efficiency in the future.

Looking at its elements, our economic reform comprises the most comprehensive and fundamental adjustments covering many important ingredients for a more sustainable open and market driven economy. Those agendas perhaps were not even imagined a few years ago when our economy was running high, which unfortunately also tended to mask some weaknesses in our economic structure. We are committed to fix all of the weaknesses while maintaining much of what we have achieved in the past. In this regard we are bound not to deviate from many important underlying principles that have driven our economic growth in last three decades. Indonesia is still an open economy based on market mechanisms.

As my final remarks, I would like to illustrate the attitude of many Indonesians in observing many changes in our society today. Many of us like to explore philosophical understandings among these changes. Many believe that those changes, although this may be painful, are necessary in achieving better condition. There are always lessons and insightful meaning for those who understand, mostly those who possess positive minds and forward looking orientation. With this positivism we will finally see light at the end of the dark tunnel.

Our economic activities will continue to develop and will be driven by adjustments in our economy and by those who can see opportunities amidst the changes taking place in Indonesia today. And I am sure there are ample business enterprises keen to benefit from the opportunities in Indonesia. This is particularly true for those who take a long-run view on Indonesia. Although in the short run some still perceive Indonesia as a relatively high risk country, the rewards for doing business in or with Indonesia now, I believe, should also be high.

I am aware that you are here to weigh risk and reward to evaluate your business directions. By so doing you are aiming to increase the value of your business and your shareholders. As a monetary authority in Indonesia, we do similar things to create value by committing to our macroeconomic adjustments, reducing uncertainties and focusing on the directions we have established. This synergy is of a greater value for our stakeholders, namely the people at large.

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