

Optimistic for the future

INTERVIEW WITH DR BOEDIONO

GOVERNOR, BANK OF INDONESIA



DR BOEDIONO

was born in 1943, Blitar, East Java. Prior to his appointment as Governor of the Bank of Indonesia in May 2008, he served as the Bank's deputy governor in charge of fiscal monetary policy. Previously, under the Megawati administration he acted as Minister of finance from 2001 to 2004, and as state minister for National Planning and Development. As an economics professor, he has lectured at Gadjah Mada University and has written a number of text books on economic theory and monetary policy.

Please explain the role of the bank and what your key aims and objectives are.

The Central Bank of Indonesia is an independent body responsible for monetary policy, banking policy, and the payment system. Independence means that we set our own policies.

My immediate task when taking over as governor in mid-2008 was managing the negative impact on the economy of the Government's increase in domestic fuel prices by 30 per cent in May of that year. Because the cost of fuel affects every aspect of life, especially food prices. We have seen inflation rise, and the Bank's main aim is how to reduce this. We have been deploying monetary banking instruments to drive inflation down. Taking into account the recent fall in fuel prices on the international market, the country's inflation rate for 2009 will fall, which gives us room to cut the benchmark interest rate.

Could you tell us about the bank's regulatory role?

Our banking sector has progressed well since the crisis of 1997/98. We have to make sure that we don't repeat the mistakes we made then. During the financial crisis of 97/98, the weakest link in our economy, and which caused such a long and profound crisis, was the banking sector. We have done a lot to improve things. One is through our supervisory capacity. In the past ten years we have beefed up our capacity with help from institutions like the International Monetary Fund. To further support our supervisory effectiveness, we are moving towards implementing Basel II. Along with our supervisory capacity improvements we also promote better governance within banks.

We have also been trying to consolidate the banking sector. A decade ago there were some 240 banks here, now there are around 140. Foreign investors have bought some banks. Consolidation is a medium-term objective.

Could you tell us about the regulatory climate for foreign investors moving into the financial and banking sector?

Foreign investors can become majority owners in Indonesian banks: Standard Chartered are acquiring banks here, and doing well; as are some of the Singaporean and Malaysian banks. The same regulations apply to foreign banks coming into operate under their own name as to domestic entities.

What has been the impact of the global credit crunch on Indonesia's banking sector?

Fortunately our banking sector's exposure to the sub-prime market was minimal. So far our banking sector has been quite robust in terms of basic indicators like non-performing loans, but indirectly yes, I think we are beginning to feel the crunch. For example, it is harder to get access to funding, it's more expensive. At the same time, investors are more selective now. But there will not be a recession. The government has approved a US\$6.1 billion economic stimulus package. Our problem remains how to stabilise and control inflation.

What is your vision for Indonesia's banking sector?

I think we have to work hard. Singapore is far ahead of us in terms of financial sector improvement. Thailand may be slightly ahead. So our main focus will be to strengthen our base here. The domestic banking sector has to be consolidated, that's the first priority. We need to create a domestic champion, a bank that can play at a regional level, or even globally. We are a big economy and the financial sector has room to expand.

Is there anything in particular that you would like to say to the international investment community?

I am very optimistic about the future. Looking at it objectively, we are in a good position to achieve our growth goals. The Indonesian economy is projected to grow by 4 per cent this year and 5.1 per cent in 2010. As exports contribute only about a third of GDP, the country is less dependent on trade than its neighbours.

Looking at the long-term, we are aiming for growth of more than 7 per cent annually for 30 years. I think we can get that level of performance back. The resources of course are here, but resources may not be the main factor for growth. Progress in developing our political system is also a factor. We have been moving very quickly to strengthen our democracy, something that affects economic policy. There will be elections this year, and the new government will inherit the pre-conditions for boosting growth.

Private investors are involved in infrastructure: there are big projects underway to build roads, railways, and ports. By 2010 all growth constraints will have eased, so if we do everything right I think 7 per cent growth or more a year is very well within our reach and will continue. 