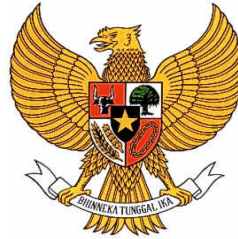


CHECK AGAINST DELIVERY



H. E. DR MARI ELKA PANGESTU

**MINISTER OF TRADE
REPUBLIC OF INDONESIA**

KEYNOTE SPEECH

***Crisis, Poverty: What Scenario and
Perspective?***

Seminar

**Sustainable Human Development: What are Our Responses,
Democracy and The Religion**

**Indonesian Catholic Association of Graduates and Intellectuals
Yogyakarta, 20 July 2009**

Distinguished Guests

Ladies and Gentlemen

Today's seminar on *Sustainable Human Development: What are our Responses, Democracy and Religion* is very timely. I am saying this because democracy and religion is a key pillar in supporting any developing country's economic development and broader nation building.

This seminar is a great way to bring key experts and stakeholders together to discuss the key challenges to achieve high and sustainable human development.

I am interested to this topic, particularly from the perspective of developing the domestic market and channeling the gains from trade into development and poverty alleviation.

This seminar is also come very handy in the context of the global financial difficulties. It is a good time to consider how we can strategically support formulating policies to support sustainable human development.

Against this backdrop, today, I will try to provide:

- An overview of the global financial crisis;
- Indonesia's proactive response to the global financial crisis;
- The growth scenario for the future; and
- Some perspectives on a way forward.

The global financial crisis: an unprecedented crisis and a positive international response

The global financial crisis caught everybody by surprise. Developed and developing countries saw a dramatic downturn in international trade, production, and cross-border capital flows. This is the most serious fall in confidence since the Great Depression. Developed countries growth slowed dramatically and this spilled over into lower growth in many developing countries.

Governments around the world have taken initiatives to address the global financial crisis with a comprehensive and well coordinated response to support economic growth. The G20 has provided a framework for responding to the crisis with the G20 Leaders Global Plan for Recovery and Reform.

This Plan has had the desired effect by building confidence in the financial sector and is now bringing stabilization to the global economy. But the world cannot be complacent, a continuation of the recovery will call for continuing to build on the positive momentum generated to date including with the G20 initiatives.

Asia has weathered the Storm Well

Asia has generally weathered the storm well as compared to developed countries. This reflects the strength of Asian economies at the start of the global financial crisis.

Asian economies have improved their policy framework as a result of reform efforts. Reforms include improving monetary management,

fiscal reforms, debt reduction, more resilient financial systems and ensuring comfortable levels of foreign exchange reserves. Many of these reforms commenced in response to the Asian financial crisis in 1997 and have been ongoing since 1997.

Asian economies have responded to the spillovers decisively with prompt implementation of countercyclical monetary and, in some cases, fiscal measures to support growth. Given these strong fundamentals and policy track record, the severity of the slowdown in the Asian region means that Asia was *generally* less affected than other countries by the global financial crisis.

What are the effects on poverty?

The global financial crisis is likely to increase poverty.

While developed countries are experiencing some of the sharpest contractions, poor people in developing countries are much more vulnerable and likely to experience negative consequences. Lower economic growth rates combined with high levels of initial poverty leave many households in developing countries highly exposed to the crisis.

Slower levels of economic growth will see those that are the most vulnerable in society having fewer employment opportunities. Slowing economic growth has seen layoffs and a fall in the demand for firms to employ new staff.

The poor may also be vulnerable from reduced social protection. Some governments may lack the funds to expand their social safety nets to protect the poor. Aid budgets from mainly developed to developing

countries may reduce the assistance that supports pro-poor policies and provides direct financing for the poor.

Indonesia's response to the global financial crisis has lessened the effects

Indonesia's macroeconomic performance is relatively healthy and the government is fully aware of all of the challenges faced by Indonesia and has taken actions to deal with these challenges.

The resilience of Indonesia's economy is affirmed by international ratings agencies assessing Indonesia as having a stable outlook. International ratings agencies note Indonesia's fiscal prudence and comfortable level of foreign reserves.

The government is fully aware of how the global credit crisis has and will affect Indonesia. The government has taken a series of targeted actions to address the challenges of the crisis and move Indonesia quickly back to average levels of economic growth.

The Government of Indonesia's response to the global financial crisis

Many of the policy responses to the crisis by the Government of Indonesia focus on ensuring the stability of the financial system. The Government of Indonesia recognizes that the financial system plays a major role for high levels of economic growth.

To restore and to now maintain liquidity in the financial system, the Government has placed funds with state-owned banks and raised the deposit guarantee amount. A crisis protocol has also been designed and regulations have been refined to deal with changes in the financial markets.

To curb speculative derivative transactions that could destabilize the value of the Indonesian Rupiah, the government is more actively managing state-owned enterprises' foreign exchange transactions. Greater disclosure is required for large-sized transactions of foreign currency against the Indonesian Rupiah. The Government has also maintained a sufficient level of foreign exchange reserves through trade financing facilities and the prevention on illegal imports.

The Government will continue to actively support the economy through monetary tools. Following the easing of inflationary pressures, Bank Indonesia has responded swiftly to the slide in economic growth by lowering the policy rate. Large Indonesian banks have also cut their lending rates in response.

The Government has also implemented policies to stimulate real sector growth. These include an accelerated program of loan disbursement for government and state owned enterprises projects as well as government guarantees for trade financing. To reduce operational costs for the manufacturing sector, the government reduced premium gasoline and diesel prices.

The Government continues to improve competitiveness and governance. The Government remains committed with its economic reform agenda. The Government is improving its economic

competitiveness maintaining its relatively open international trade policy stance and simplifying regulations, for example, regulations for the implementation of the National Single Window program.

The fiscal stimulus initiatives include expanding infrastructure programs. The Government will provide tax incentives for selected sectors and regions, and allocate additional non-energy tax subsidies. In terms of tax revenue, Indonesia will continue to reform the tax structure and implement the Income Tax Law.

Many of these measures are also in the context of the Government's commitment to fully participate in the joint global efforts to do whatever is necessary to return to the path of average levels of economic growth.

What is a likely growth scenario for the future?

2009 so far has been characterized by returning stability. Most economists think that this trend is likely to continue for the rest of 2009 with some positive signs of returning to economic growth emerging in 2010. A return to average levels of economic growth is expected in the medium term to long term.

In the short term, different countries are likely to fair differently from the effects of the global financial crisis for the rest of 2009 and 2010.

The scenario for developed countries and developing countries will clearly be different.

For many developed economies, their level of economic growth will continue to find it challenging in returning to average levels of

economic growth. They have been the worst affected from the global financial crisis especially with the difficulties in their financial systems.

For developing economies, their level of economic growth is likely to return to average levels of economic growth in reasonably good time. They have been less affected by the crisis as compared to other economies.

While this is the case, it should be noted that developing countries would be affected by the lower economic growth in developed countries. Some clear linkages are between international trade and investment. In the short-term, there is likely to be lower demand from developing countries for imports from developed countries. Investment, which is a major driver of economic growth, from developed countries to developing countries is also expected to be lower.

Some perspectives on a way forward

Within the context of this scenario on economic growth a policy framework for the future is to:

- Continue to strengthen the financial systems – a major conduit for economic growth;
- Maintain accommodative monetary policy. Financial systems will need to ensure that they maintain a quantitative easing as long as is possible to ensure credit continues to flow; and
- Maintain a fiscal stimulus to boost domestic demand.

What should be the focus governments' response to reduce the impact on poverty?

A part of governments' response is to mitigate the poverty impacts of falling growth. Several measures that can be taken by governments include:

- Step up efforts to strengthen social safety nets for the poor;
- Focus stimulus packages on employment generation. Critical to helping the poor in the long term will be the ability of governments to cope with the fallout and fiscal programs that create jobs; and
- Commitments from donors to increase aid to developing countries with a focus support for poverty alleviation.

Distinguished Guests

Ladies and Gentlemen

This event is a great opportunity for interaction between representatives from Asia and around the world to discuss the critical role of democracy and religion to support sustainable human development.

I would also like to request the organizing committee to provide results from this meeting to the Minister of Trade. The Minister considers meetings of this nature as important input for formulating policies conducive for sustainable human development.

Before I finish, I just want to give a special thank you to the Indonesian Catholic Association of Graduates and Intellectuals for

organizing this large event. I know that a lot of hard work and effort has gone into organizing this event.

I would also like to thank:

- All the speakers, especially those international speakers that have traveled from afar to be at this event; and
- The audience who will provide valuable input over the next couple of days at this seminar.

Thank you and I hope you enjoy the seminar and I look forward to receive fruitful recommendation from this Seminar.

MARI ELKA PANGESTU

MINISTER OF TRADE