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ISLAMIC DEVELOPMENT BANK GROUP

Statement of the IDB Governor for the Republic of Indonesia

The 42nd Annual Meeting of the IDB Board of Governors
Jeddah – Kingdom of Saudi Arabia
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(English)

In the Name of Allah the Most Compassionate Most Merciful

**Your Excellency, Chairman of the Board of Governors
Your Excellency Governors and Alternate Governors
Your Excellency, President of the Islamic Development Bank
Distinguished Guests, Ladies and Gentlemen**

Assalamualaikum warahmatullahi wabarakatuh.

Praise be to Allah the Almighty, the most Gracious and the most Merciful, only by His blessing we can gather here in Jeddah, in good health and high spirits for the forty-second Board of Governors Meeting of the Islamic Development Bank. Prayers and peace be upon Prophet Mohammad SAW, his family, his companions, and his followers.

First of all, let me begin by extending our profound gratitude and deep appreciation the IDB President, H.E. Dr. Bandar M.H. Hajjar and his team for their excellent collaboration with the Government of the Kingdom of Saudi Arabia in preparing the forty-second IDB Annual Meeting in Jeddah, Saudi Arabia. We believe this event will further strengthen our cooperation, and will valuably contribute to member countries development and the future of the IDB.

Mr. Chairman, allow me to applaud the Bank for the achievements and successes in its undertakings and activities over the last forty-two years. Due to the studious determination and hard work of the Bank's management and staff in close corporation with the member countries, the Bank was able to continue its growing reputation of a solid development partner throughout the many crises the world have been through. The Bank's achievement on getting the highest ratings from the three major credit rating agencies over consecutive years is also an impressive performance of a world-class management.

Excellencies and Distinguished Guests,

I would like to touch a bit on the global economic condition. A moderate recovery is expected for 2017. The divergence in growth performance between commodity exporters and importers is on track to narrow in 2017 with the expected increase in commodity prices. However, stagnant global trade, subdued investment, protectionist pressures, risk of financial market disruptions and heightened policy uncertainty will be shadowing global growth target. Furthermore, weak investment is weighing on medium-term prospects across many emerging markets and developing economies. The pick-up in growth from countries taking fiscal initiatives is broadly welcome, but we cannot ignore the danger that the recovery gets knocked off track by policy errors or financial risks and vulnerabilities. Coherent, committed and coordinated policy action is needed to simultaneously raise growth rates and improve inclusiveness.

Furthermore, in Middle East and Africa, growth is projected to be somewhat more robust in oil-importers than expected in mid-2016, driven by a broad-based strengthening of activity in these countries. Key risks to the outlook are a weaker-than-expected rise in oil prices and conflict-related spill-overs. Challenges include staying the course with policy adjustment, particularly fiscal policy, to support medium-term macroeconomic stability; diversifying away from oil; developing more dynamic private sectors; and harnessing the potential benefits of demographics.

Amid low commodity prices, weakness of international trade, and uncertainty of global economic policy coordination, Indonesia continues to show high economic growth, at the level of 5.02% in 2016. This is supported by low level of inflation, high domestic consumption, and diversification of the industry composition. Indonesia conducts budget reform process to create credible, productive, and realistic budget in order to support sustainable and inclusive economic objective, while maintaining for fiscal deficit. In the real sector, Indonesia issues economic policy packages to maintain consumption and investment climate. However, as a developing country with rapid economic development, Indonesia still faces many challenges, such as high rate of poverty and inequality. Therefore, the Government of Indonesia continue to work hard to achieve well-targeted and inclusive economy by preserving a prudent fiscal policy and to pursue high – but sustainable – growth with emphasis on maintaining budget discipline and public debt management.

Distinguished Guests and Delegates

Amid the global uncertainty of **rising protectionism** in western countries, IDB member countries should be in one position to face it. Protectionism is on the rise and has to be stemmed because its threaten the economic growth and geopolitical stability. We have to come up with one comprehensive strategy to preserve our common goals while also strengthening our relationship among members. The importance of **value of free trade, trade facilitation, and trade development among IDB member countries** could be one of our key weapons to tackle the issues. Related to that, we can go back to the needs of attracting more capital flows and boosting trade within and with other IDB Member Countries to sustain high economic growth. In this context, the bank is expected to increase its role in fostering regional economic cooperation and trade.

In humanity and social side, **the rising of Islamophobia** towards Muslims should be handled seriously and wisely. An exaggerated fear, hatred, and hostility toward Islam and Muslims that is perpetuated by negative stereotypes resulting in bias, discrimination, and the marginalization and exclusion of Muslims from social, political, and civic life. Many people will be affected by this negativism and misunderstanding. In the aftermath, Muslims across the globe are experiencing psychological trauma, which adds to the environmental stress that Muslims have been facing. I believe IDB member countries can play important role in bringing people together, promoting mutual respect and tolerance among Islamic and western countries.

In addition, we have also to be aware on the issue of **terrorist financing and money laundering**. Both activities are financial crimes with economic effects. These can threaten the stability of a country's financial sector or its external stability more generally. In some cases, it has strong relationship with terrorist activities, which in turn raise Islamophobia towards Muslims. Effective anti-money laundering and combating the financing of terrorism regimes are essential to protect the integrity of markets and of the global financial framework as well as to mitigate the impact of Islamophobia. In this regard, Indonesia would like to contribute more to the efforts to eradicate money laundering and terrorism financing by join the Financial Action Task Force (FATF). The process, now is ongoing.

Excellencies and Distinguished Guests,

Recently, Indonesia, under the G20 initiative, has welcomed the Compact with Africa initiative to enhance South to South cooperation, especially in the area of investment. We also hosted the last

World Bank IDA18 Replenishment which is very successful, and Indonesia stepping up to also support this replenishment, knowing that our past success to address poverty is because of the support from multilateral institutions. That is why when we have ability to contribute, we are going to do our role. We believe that Compact with Africa could support African countries working toward creating an enabling environment for investment to thrive.

In this opportunity, I would like to re-emphasise the importance of **promoting Islamic finance**. IDB as one of the leading global development banks should continue its efforts to promote Islamic based finance system. It is noteworthy to inform that Islamic finance not only offers an alternative source of financing for real economic development but also has inherent characteristics and principles that lend themselves well to catalyse and promote real economic development. Islamic finance highlights the importance of a close link between financial transactions and real economic activity and also continues to support economic growth across the globe by providing Shariah-compliant modes of funding and financing. Some characteristics and principles of Islamic finance promote risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare in the economy. Furthermore, Islamic based financial system has proven to be more resistance against crisis as it is protected by its fundamental operating principles of risk-sharing and the avoidance of leverage and speculative financial products.

Furthermore, I would like to address my concern regarding the issue of **'inclusive growth'**. The recent trend of protectionism has created the perspective that 'global growth' had taken away domestic growth from some countries, which created inequality for growth distribution. However, I'd like to remind us all that in our effort to achieve the inclusive growth we have to boost our global growth first and distribute that proportionally all over the world. In this situation, I believe multilateralism and market openness are keys to reach our goals for both global growth and inclusiveness.

Parallel with my previous point, the issue of inclusiveness is increasingly important given rising inequalities across and within countries. Without addressing the issue of inequality, growth will not be sustainable. To achieve such goal, Indonesia has put **infrastructure development** as our main priority. In 2017, Indonesia will focus to achieve inclusive economic growth and poverty reduction through infrastructure development and investment climate improvements. I believe that IDB's and member countries goal is parallel with Indonesia's priorities. Hence, I strongly suggest that IDB should continue its long-term initiative, which is updating, upgrading and maintaining infrastructure, as well as promoting infrastructure development as a means to end stagnation and promoting growth and employment in a sustainable manner.

As Indonesia always commit to build green economy, I'd like to share with you that we are now on in the process of mapping the need, capability and structure of the environmental data on the national scale. We have already issued a roadmap for **sustainable finance** in Indonesia to support our efforts to bring economic and environmental sustainability interests together. Indonesia has committed to rationalize and phase-out inefficient fossil fuel subsidies and Indonesia has reaped real benefits from the reforms. Indonesia has eased the fiscal burden by creating more space in the budget to optimize Government spending. Now, Infrastructure spending has doubled since reform. Basic service spending, such as on education and health, has also markedly increased. The reforms also provide opportunities to accelerate renewable energy and Biofuel implementation. Taking into consideration the positive impact of the fossil fuel subsidies reform, I encourage other IDB country members to re-confirm the commitment **to rationalize and**

phase out inefficient fossil fuel. I believe that the commitment will support countries to enhance competitiveness, optimize their quality of spending, strengthen inclusive growth and address environmental issues.

Excellencies and Distinguished Guests,

The IDB Group has continuously carried out its vision to become a world-class development bank based on Islamic principles. We have observed the IDB Group has expanded its capacity to assist its member, in form of financing assistance as well as technical assistance. Further, through the 10-year Strategic Framework, the IDB Group has set its direction to be able to more effectively respond to member countries' needs, in line with the dynamic challenge that the member countries are facing.

Meanwhile, member countries faces more complex challenge and have to redouble their effort to be able to secure growth. What I meant by growth here is not merely about high growth, but also an inclusive one. The high number of growth will be meaningless if not evenly distributed. In this regard, the IDB Group should implement comprehensive strategy to achieve its ultimate goal "promoting comprehensive human development" by assisting member countries through financing and technical assistance.

While we are pleased with the continued strong financial resources and high profile of credit rating of the IDB Group, we view there is need for the IDB Group to boost their financial capacity and flexibility to match with the high need to support for member to address global and domestic economic challenge. In that regard, the IDB Group could increase their capacity, among other, by enhancing collaboration with other International Organizations as well as philanthropic organization, or by exploring ways optimize their balance sheet.

Excellencies and Distinguished Guests,

To sum up my statement, I urgently urge IDB, as one of the leading development banks, to increase its participation on restoring the global economic. And to its member countries, we should strengthen our cooperation and integration. IDB also has to serve as a mediator among its member countries to deepen its interaction and dialogue to build a more open, transparent and effective IDB.

On behalf of the Government of Indonesia and the Indonesian Delegation, we would like to wish President H.E. Dr. Bandar M.H. Hajjar and his management every success in implementing IDBs future agenda. I would also like to reiterate our commitment to be a solid and reliable partner for IDB Group and its member countries. I sincerely hope that this Annual Meeting serves as another milestone in furthering the goals of the IDB Group, aimed at facilitating the socio-economic development of our member countries in the Region. I pray to Allah Almighty that all our efforts to improve the prosperity of Muslims throughout the world will receive His divine blessing and support.

Thank you.

Wassalamualaikum warahmatullahi wabarakatuh.