THE REPUBLIC OF INDONESIA

Recent Economic Developments

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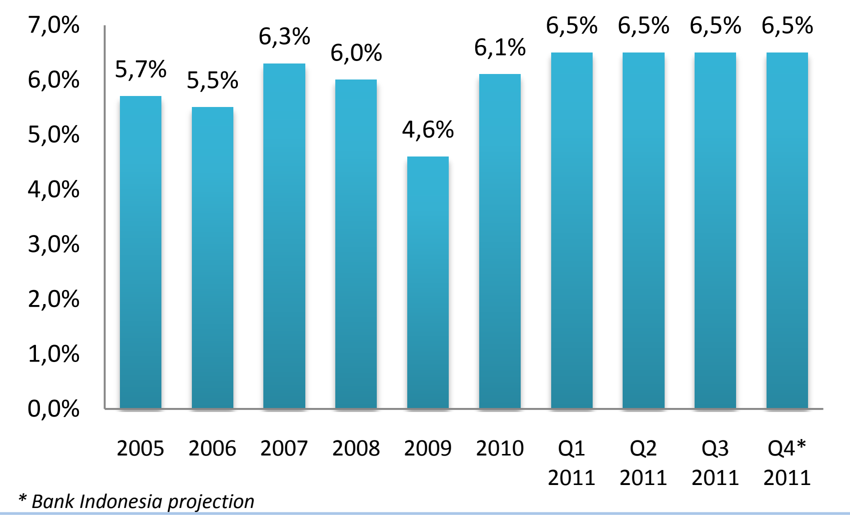
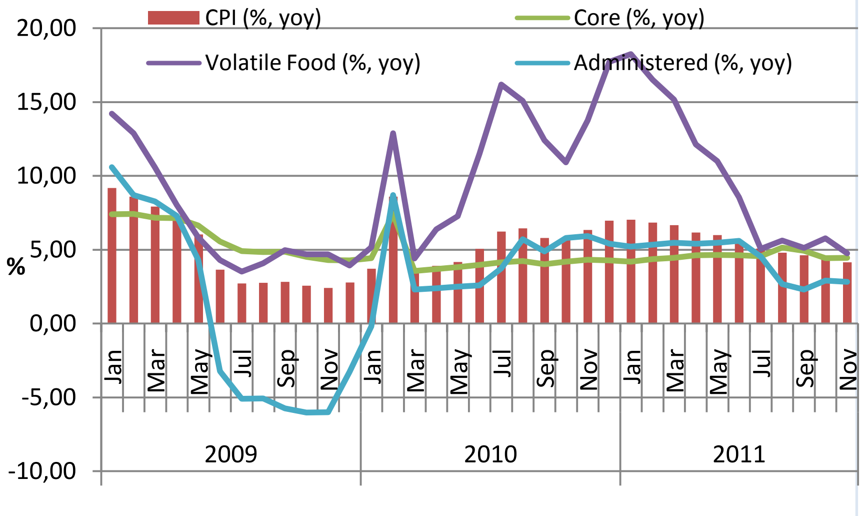
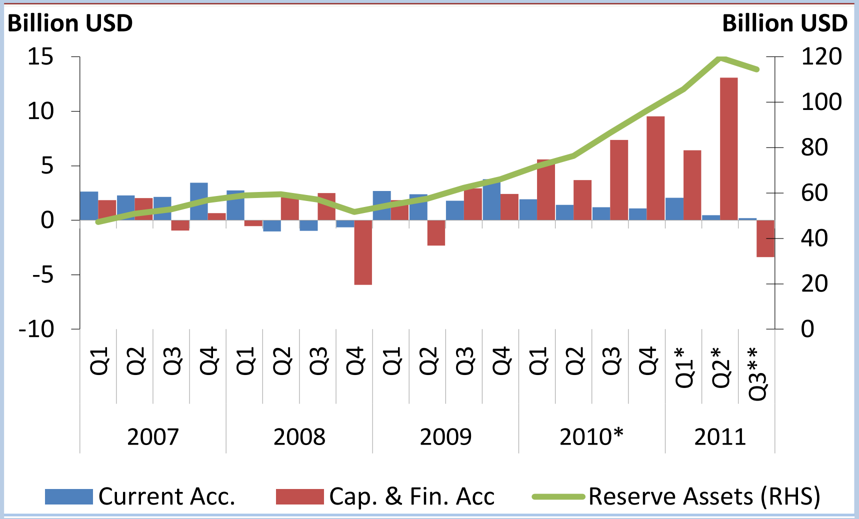


* *Bank Indonesia projection*

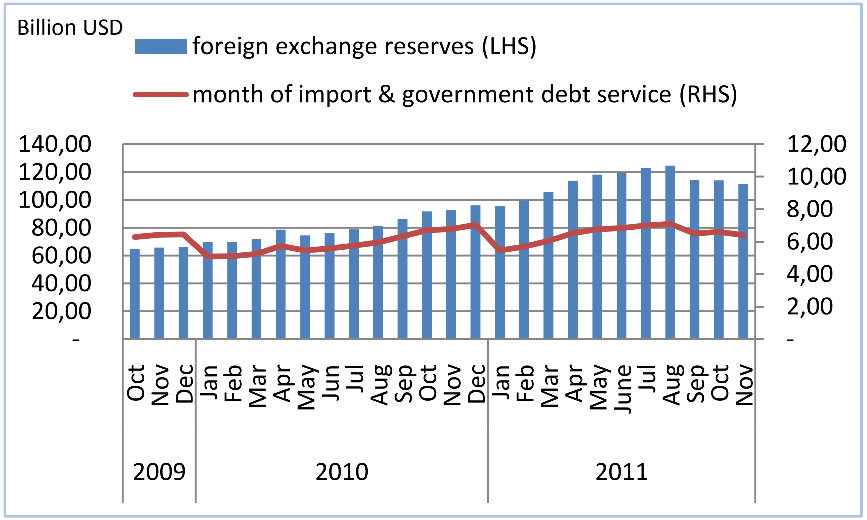
Inflation



Balance of Payments



Foreign Exchange Reserves



Source: Bank Indonesia

Executive Summary

- **The Indonesian economic growth remains strong, supported by well-maintained macroeconomic and financial system stability.** In the 4th quarter of 2011 the economic growth is forecasted to reach 6.5% and the overall economic growth for 2011 is predicted to reach 6.5%. This growth level supported by remained strong domestic demand and exports performance.
- **Investment realization up to the 3rd of 2011 spurred optimism that the full year target of Rp240 trillion is achievable.** The investment realization on the 3rd quarter (July-September) 2011 is Rp 65.4 trillion, an increase of 15.3% compared to the same period in 2010. The cumulative investment realization on January to September 2011 is Rp 181.0 trillion; consists of Rp 52.0 trillion from domestic direct investment (PMDN) realization and Rp 129.0 trillion from foreign direct investment (PMA) realization. The distribution of project location in the 3rd quarter of 2011 outside Java is Rp 24.3 trillion (37.2%), an increase of 13.6% compared to the same period in the previous year which was Rp 21.4 trillion. During January to September 2011, the distribution of the project location outside Java was Rp 81.0 trillion (44.7%), an increase of 46.4% compared to the same period in 2010 amounted to Rp 55.3 trillion.
- **Indonesia balance of payments in 2011 is predicted to continue charting a considerable surplus although it faces pressures in the second half of the year.** The pressure is mainly experienced by capital and financial account due to higher uncertainty in the global financial markets and economy. The International reserves at the end of November 2011 reached USD111.3 billion, a level that is sufficient for 6.4 months of imports and official external debt service payments.
- **The Inflationary pressures continue to decline in line with the correction in volatile food prices, the absence of inflationary pressures from administered prices and moderate core inflation level.** The CPI in November 2011 recorded at 0.34% (mtm) or 4.15% (yoy).The key factor for low volatile food prices inflation is adequate supply of foods from domestic production as well as imports. Meanwhile, the subdued of core inflation is helped by large correction in international commodity prices, stability of rupiah exchange rate, and improving inflation expectation. If the decreasing trend of inflation continues, the CPI inflation for overall 2011 is expected to be lower than 4%.
- **On the fiscal front, Indonesia continue to perform a prudent fiscal management in 2011,** with strong commitment to fiscal consolidation, aiming on continue declining in debt-to-GDP ratio, diversifying government debt profile, and reducing funding reliance on international capital market.
- **Financial System Stability has been maintained** as indicated by the Financial Stability Index which were well below the treshold of 2 (1.65 on November 2011). Banking system remain strong with improvement in the banking intermediation despite financial market turmoil on the impact of global economic condition. Stable and prudently manage banking industry marked by secure level of capital and liquidity, with capital adequacy ratio (CAR) above the minimum level of 8% (17.1% end of October 2011) and gross non-performing loans (NPLs) managed at comfortably safe level below 5% (2.7% end of October 2011)
- **In the Board of Governors' Meeting convened on December 8th, 2011, Bank Indonesia decided to keep BI Rate unchanged at 6.0%.** This decision is based on overall assessment on recent economic condition, risk factors, and economic prospects. Board of Governors views that current BI Rate is still consistent with inflation targets, and remains conducive for financial stability and mitigating the impacts of worsening global economic outlook on Indonesian economy. The assessment on economic condition and outlook show that domestic economy remains strong and stable. Going forward, Board of Governors continues to monitor closely the risks of worsening global economy as well as to maintain macroeconomic and financial stability, and to stimulate domestic economy. Board of Governors affirms that the implementation of monetary and countercyclical macro-prudential policy mix is a necessary in managing the economy and keep inflation within its targets, that is, 4.5%±1% for 2012 and 2013.

Improved International Perception and Rising Investment

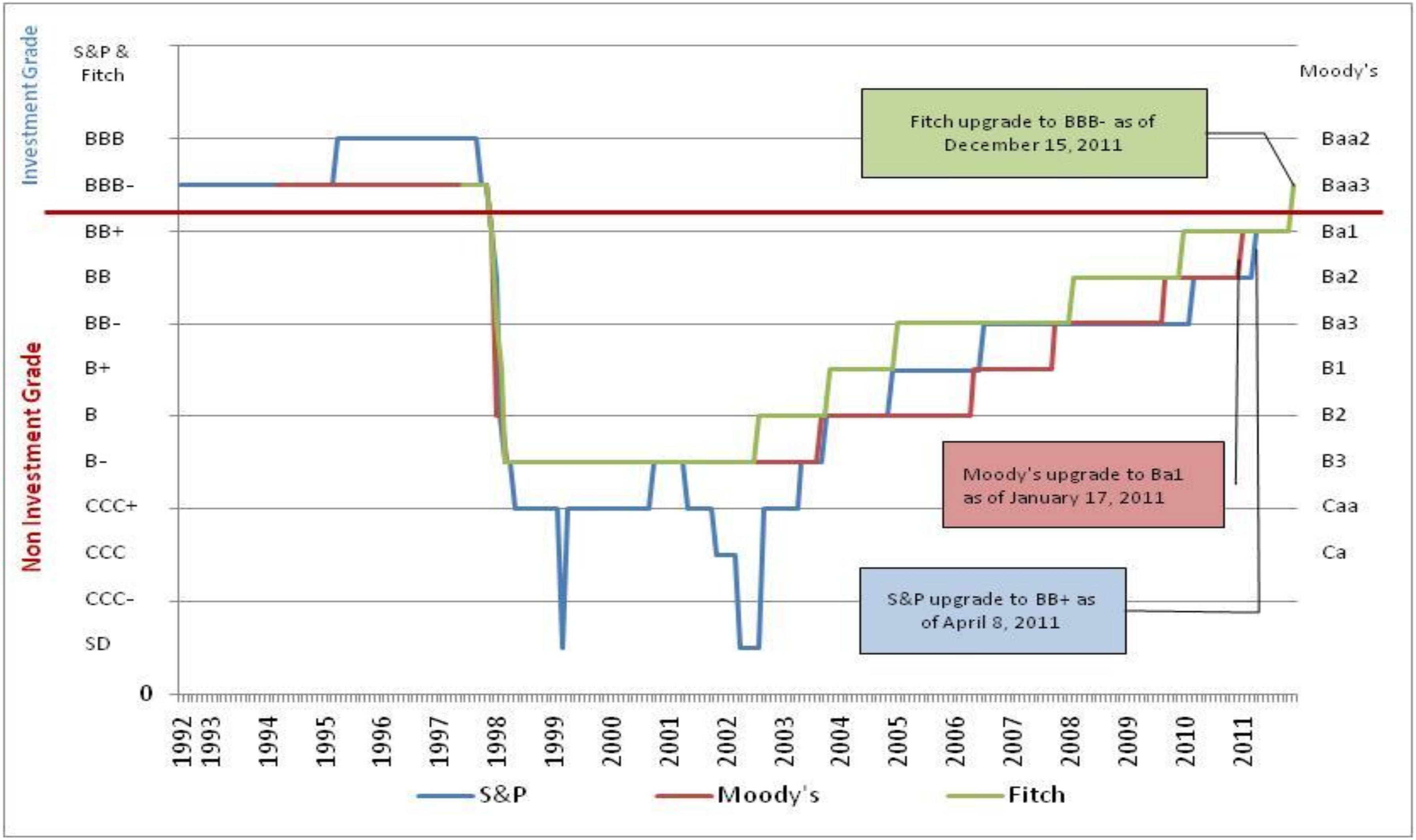
Improving International Perception: Acknowledged by Rating Agencies

Resilient economy, which impressively navigates through the global crisis and continued confidence in economic outlook, the Republic continued to receive good reviews.

- **Fitch Ratings (December 15, 2011): upgraded Indonesia's sovereign credit rating, to BBB- level for foreign currency long-term senior debt, with stable outlook.** The rationale behind the upgrade is Improved economic performance, strengthened external liquidity, low and declining public debt ratios, and a prudent overall macro policy framework. Rapid progress in tackling structural weaknesses combined with sustained economic growth in line with or better than Fitch's projections without a build-up of external imbalances or a severe inflation shock would enhance Indonesia's economic and sovereign credit fundamentals and exert upward pressure on the rating.
- **Rating and Investment Information, Inc (November 14, 2011): affirms Indonesia's sovereign credit rating, at the BB+ level for foreign currency sovereign ratings, with positive outlook.** R&I stated that rationale behind the affirmation is Indonesian economy has become more resilient to deterioration in the external environment. The rating could be upgraded if R&I ascertain that Indonesia will be able to maintain the stability of the macro economy, which positively evaluates, even in the face of the global economic and financial instability.
- **Japan Credit Rating Agency, Ltd (August 24, 2011): affirmed Indonesia's foreign currency long-term senior debt at BBB- and local currency long term senior debt BBB with stable outlook.** JCR stated that this ratings affirmation reflects the country's sustainable economic growth outlook underpinned by solid domestic demand, alleviated public debt burden brought by prudent fiscal management, and reinforced resilience to external shocks stemming from accumulated foreign exchange reserves and an improved external debt management capacity.
- **S&P (April 8, 2011): upgraded Indonesia's long-term foreign currency rating to BB+ from BB with positive outlook.** With the rating upgrade, puts Indonesia 1 notch closer to investment grade by the three major rating agencies. The positive outlook also indicates the possibility of Indonesia to have another upgrade in the near future. The main factor supporting this decision is continuing improvements in the government's balance sheet and external liquidity, against a backdrop of a resilient economic performance and cautious fiscal management.
- **Moody's Investors Service (January 17, 2011): upgraded Republic of Indonesia's foreign and local-currency bond ratings to Ba1 with stable outlook.** This follows Moody's release last December which placed the ratings on a review for possible upgrade. The key factors supporting this action were (1) economic resilience which accompanied by sustained macroeconomic balance; (2) Improved government's debt position and central bank's foreign currency reserve adequacy; and (3) Improved prospects for foreign direct investment inflows which expected to fortify Indonesia's external position and economic outlook.

Sovereign Rating History

Solid economic fundamentals supported the improvement of Indonesia's sovereign credit rating since 2001



Improving International Perception: Significant Raise in Perception Indices

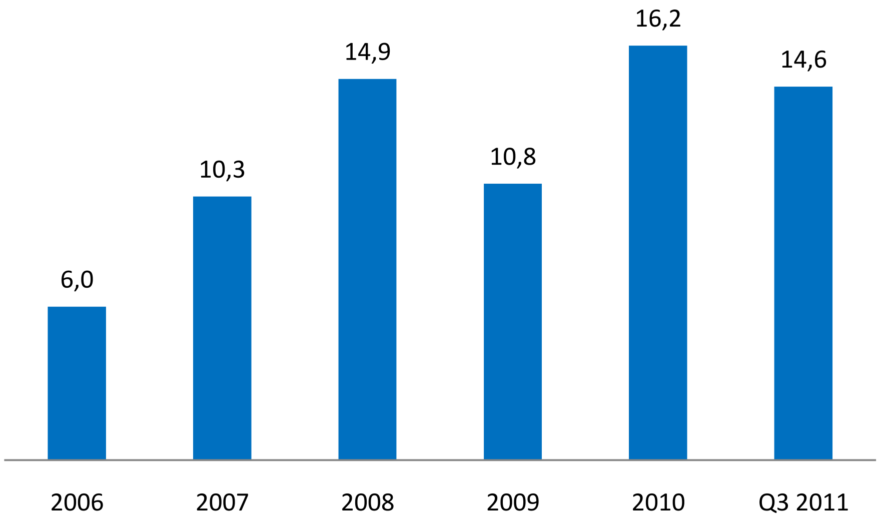
Conducive business climate improvement to support optimism in FDI inflows

- **The IMD Competitive Center (May 19, 2010) reports a major improvement in Indonesia's global competitiveness, with Indonesia moving up from 42nd to 35nd place among a total of 57 major nations surveyed worldwide.** For Indonesia, the improvement in 2010 has been achieved through significant gains in economic performance, followed by government efficiency and infrastructure improvement.
- **OECD (March 31, 2011): Indonesia's Credit Risk Classification (CRC) still category 4.** Indonesia is in one peer with Colombia, Egypt, Philippina, Turkey and Uruguay. The last year upgrade was a timely acknowledgement by the developed economies of the consistent economic improvement. And an upgrade in this category would significantly improve Indonesia's credit standing in front of the creditor countries especially the credit exports creditor countries which eventually would decrease the debt burden.
- **World Economic Forum – The Global Competitiveness Report 2011 – 2012 (September, 2011):** reported that Indonesia ranks 46th and remains one of the best performing countries within the developing Asia region, behind Malaysia and China yet ahead of India, Vietnam, and the Philippines.
- **The World Bank - Ease of Doing Business 2012 placed Indonesia in 129th among 183 nations (October 2011).** It is stated on the report that Indonesia made starting a business easier by introducing a simplified application process allowing an applicant to simultaneously obtain both a general trading license and a business registration certificate.
- **Transparency International – Corruption Perception Index 2011 (December 2011):** reported that Indonesia posts an impressive gain of 10 places into 100th (2011) from 183 countries surveyed.

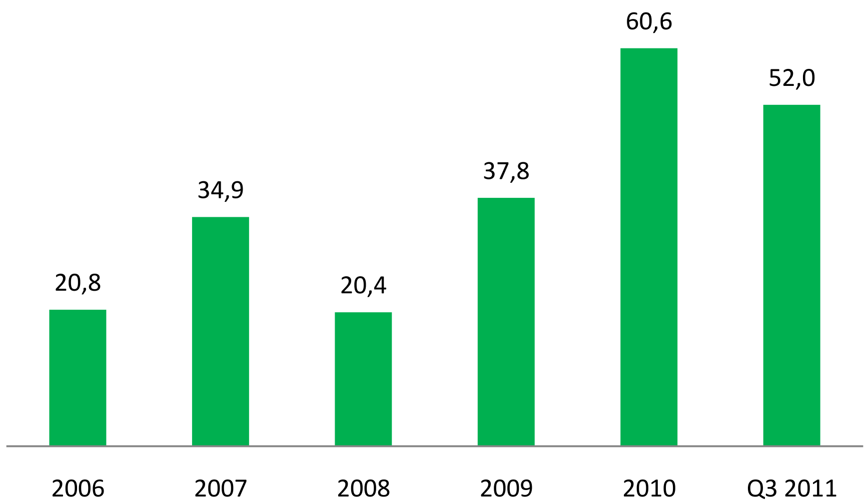
Strong investment underpinned by competitiveness and stability

- The investment realization on the 3rd quarter (July-September) 2011 is Rp 65.4 trillion, an increase of 15.3% compared to the same period in 2010. The cumulative investment realization on January to September 2011 is Rp 181.0 trillion; consists of Rp 52.0 trillion from domestic direct investment (PMDN) realization and Rp 129.0 trillion from foreign direct investment (PMA) realization.
- The distribution of project location in the 3rd quarter of 2011 outside Java is Rp 24.3 trillion (37.2%), an increase of 13.6% compared to the same period in the previous year which was Rp 21.4 trillion. During January to September 2011, the distribution of the project location outside Java was Rp 81.0 trillion (44.7%), an increase of 46.4% compared to the same period in 2010 amounted to Rp 55.3 trillion.
- Those figures raised the expectation that domestic and foreign direct investment realization target of Rp240 trillion in 2011 can be accomplished. Continuous improvements of investment policies and services, acceleration of infrastructure development and the provision of fiscal incentives on capital investment will contribute to the realization of this target.

Realized foreign direct investment (USD billion)

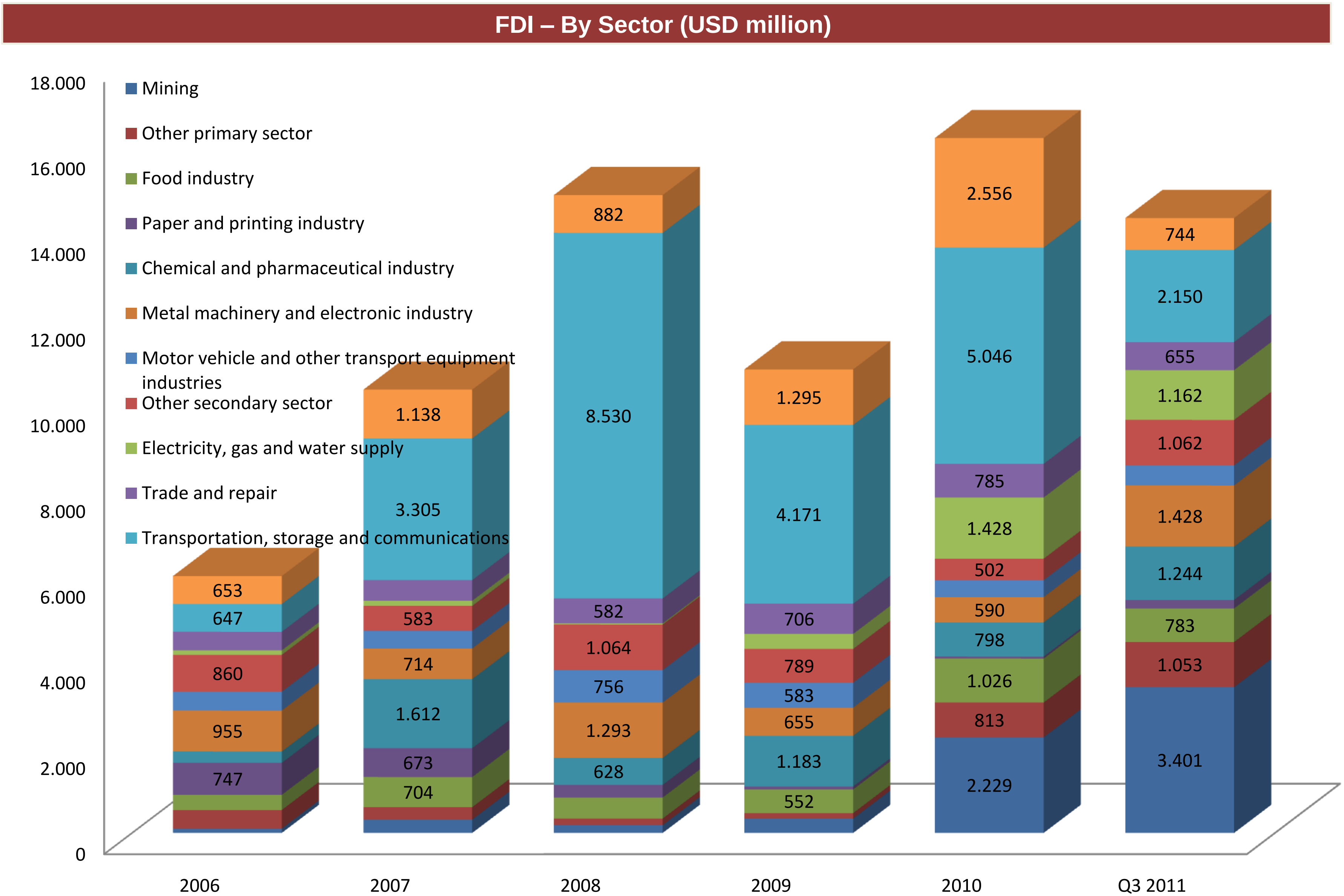


Realized domestic direct investment (IDR trillion)



Source: BKPM
* US$ / Rp. exchange rate of 8,823, the BI middle exchange rate as of September 30, 2011.

Strong investment underpinned by competitiveness and stability



Source: BKPM

Preserved Macroeconomic Stability

Robust and Stable Economy Continues to Chart Strong Growth

- **The Indonesian economic growth remains strong, supported by well-maintained macroeconomic and financial system stability.** In the 4th quarter of 2011 the economic growth is forecasted to reach 6.5% and the overall economic growth for 2011 is predicted to reach 6.5%. This growth level supported by remained strong domestic demand and exports performance.

Economic Growth Forecast

Table 3.1
Forecast of Economic Growth - Demand Side

Sector	2009	2010	2011				2011*	2012*	2013*
			I	II	III	IV*			
Private Consumption	4,9	4,6	4,5	4,6	4,8	4,9	4,7	4,7 - 5,1	4,7 - 5,1
Government Consumption	15,7	0,3	2,8	4,5	2,5	6,9	4,5	7,4 - 7,8	4,7 - 5,1
Gross Fixed Capital Formation	3,3	8,5	7,3	9,2	7,1	7,2	7,7	9,7 - 10,1	11,8 - 12,2
Exports of Goods and Services	-9,7	14,9	12,3	17,4	18,5	17,3	16,5	11,7 - 12,1	12,8 - 13,2
Imports of Goods and Services	-15,0	17,3	15,6	16,0	14,2	14,1	14,5	13,5 - 13,9	15,3 - 15,7
GDP	**4,6**	**6,1**	**6,5**	**6,5**	**6,5**	**6,5**	**6,5**	**6,3 - 6,7**	**6,4 - 6,8**

* Bank Indonesia Projection

Economic Growth Forecast

Table 3.2
Forecast of Economic Growth - Supply Side

S e c t o r	2009	2010	2011				2011*	2012*	2013*
			I	II	III	IV*			
Agriculture	4,0	2,9	3,6	3,9	2,7	2,0	3,1	3,1 - 3,5	3,0 - 3,4
Mining and Quarrying	4,4	3,5	4,3	0,8	0,3	0,4	1,4	0,8 - 1,2	0,8 - 1,2
Manufacturing	2,2	4,5	5,0	6,1	6,6	6,4	6,1	5,6 - 6,0	5,6 - 6,0
Electricity, Gas, and Water Supply	14,3	5,3	4,3	3,9	5,2	5,1	4,6	4,6 - 5,0	4,9 - 5,3
Construction	7,1	7,0	5,3	7,4	6,4	6,5	6,4	8,2 - 8,6	9,5 - 9,9
Trade, Hotels, and Water Supply	1,3	8,7	7,9	9,6	10,1	9,9	9,4	9,3 - 9,7	9,3 - 9,7
Transportation and Communication	15,5	13,5	13,7	10,7	9,5	10,2	10,9	9,9 - 10,3	9,9 - 10,3
Financial, Rental, and Business Services	5,1	5,7	7,3	6,9	7,0	7,0	7,0	6,8 - 7,2	6,9 - 7,3
Services	6,4	6,0	7,0	5,7	7,8	7,0	6,9	6,5 - 6,9	6,1 - 6,5
GDP	**4,6**	**6,1**	**6,5**	**6,5**	**6,5**	**6,5**	**6,5**	**6,3 - 6,7**	**6,4 - 6,8**

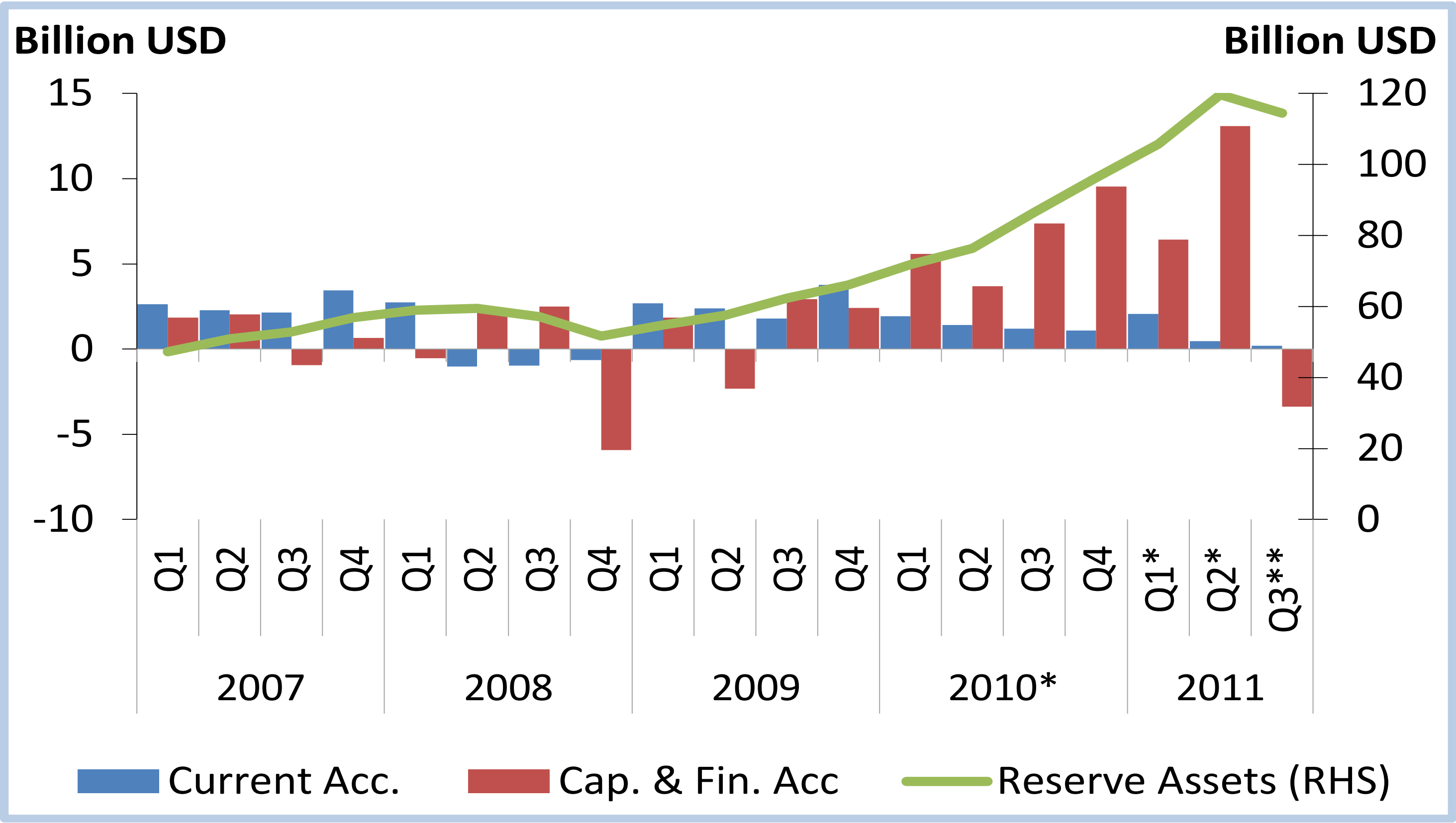
* Bank Indonesia Projection

Source: Bank Indonesia.

Balance of Payments Q3/2011

The current account recorded a surplus of US$0.2 billion supported by surpluses in trade balance and current transfer. However, a **downturn in the capital and financial account** put pressure on **the overall balance of payments that posted a US$4.0 billion deficit.** International reserves at end of November 2011 reached US$111.3, sufficient for 6.4 months of imports and official external debt service payments.

Balance of Payments



Source: Bank Indonesia

Balance of Payments Q3/2011

- **The surplus in current account stood at US$0.2 billion in Q3/2011 (0.1% of GDP),** contributed primarily by surpluses in the goods trade balance that spurred by robust export performance. This current account surplus, however, was lower from the previous quarter, as deficit in income account widened due to higher investment income paid out to foreign investors.
- On the other hand, **the capital and financial account turned into deficit of US$3.4 billion** as foreign investors reduced their holdings of domestic stocks and government securities, while at the same time there were significant foreign holdings of Bank Indonesia Certificates (SBIs) falling due.

Indonesia's Balance of Payments

in billion USD

I T E M S	2009	2010*					2011		
	TOTAL	Q1	Q2	Q3	Q4	TOTAL	Q1*	Q2*	Q3**
I. Current Account	**10.6**	**1.9**	**1.4**	**1.2**	**1.1**	**5.6**	**2.1**	**0.5**	**0.2**
A. Goods [1]	**30.9**	**7.0**	**6.8**	**7.6**	**9.2**	**30.6**	**8.7**	**9.6**	**9.6**
- Exports	*119.6*	*35.1*	*37.4*	*39.7*	*45.8*	*158.1*	*45.8*	*51.8*	*52.8*
- Imports	*-88.7*	*-28.1*	*-30.6*	*-32.1*	*-36.6*	*-127.4*	*-37.1*	*-42.2*	*-43.2*
1. Non Oil & Gas	**25.6**	**5.8**	**5.9**	**6.6**	**9.1**	**27.4**	**8.6**	**10.6**	**9.1**
2. Oil	**-4.0**	**-1.7**	**-2.1**	**-2.0**	**-2.9**	**-8.7**	**-3.4**	**-5.1**	**-4.1**
3. Gas	**9.4**	**2.8**	**3.1**	**3.0**	**3.0**	**11.9**	**3.5**	**4.2**	**4.6**
B. Services	**-9.7**	**-2.1**	**-2.3**	**-2.2**	**-2.8**	**-9.3**	**-2.1**	**-3.4**	**-2.8**
C. Income	**-15.1**	**-4.0**	**-4.3**	**-5.4**	**-6.7**	**-20.3**	**-5.5**	**-6.7**	**-7.6**
D. Current transfers	**4.6**	**1.1**	**1.1**	**1.2**	**1.3**	**4.6**	**1.0**	**1.0**	**1.0**
II. Capital & Financial Account	**4.9**	**5.6**	**3.7**	**7.4**	**9.5**	**26.2**	**6.4**	**13.1**	**-3.4**
A. Capital Account	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
B. Financial Account [2]	**4.8**	**5.6**	**3.7**	**7.4**	**9.5**	**26.2**	**6.4**	**13.1**	**-3.4**
1. Direct Investment	**2.6**	**2.5**	**2.3**	**1.7**	**4.2**	**10.7**	**3.2**	**3.5**	**2.4**
2. Portfolio Investment	**10.3**	**6.2**	**1.1**	**4.5**	**1.4**	**13.2**	**3.6**	**5.5**	**-4.7**
3. Other Investment	**-8.2**	**-3.1**	**0.3**	**1.2**	**3.8**	**2.3**	**-0.4**	**4.1**	**-1.1**
III. Total (I + II)	**15.5**	**7.5**	**5.1**	**8.6**	**10.6**	**31.9**	**8.5**	**13.6**	**-3.2**
IV. Net Errors & Omissions	**-3.0**	**-0.9**	**0.3**	**-1.6**	**0.6**	**-1.6**	**-0.8**	**-1.7**	**-0.8**
V. Overall Balance (III + IV)	**12.5**	**6.6**	**5.4**	**7.0**	**11.3**	**30.3**	**7.7**	**11.9**	**-4.0**
Memorandum:									
Reserve Asset Position	66.1	71.8	76.3	86.6	96.2	96.2	105.7	119.7	114.5
In Months of Imports & Official Debt Repayment	6.5	5.2	5.6	6.3	7.0	7.0	6.1	6.9	6.6
Current Account (% GDP)	1.95	1.18	0.80	0.65	0.58	0.79	1.05	0.22	0.09
Debt Service Ratio (%)	23.2	21.2	23.2	20.3	23.7	21.7	18.0	22.5	21.2
o/w. Government & Monetary Authority DSR (%)	7.5	5.0	7.2	4.8	6.2	5.8	4.5	5.3	3.7

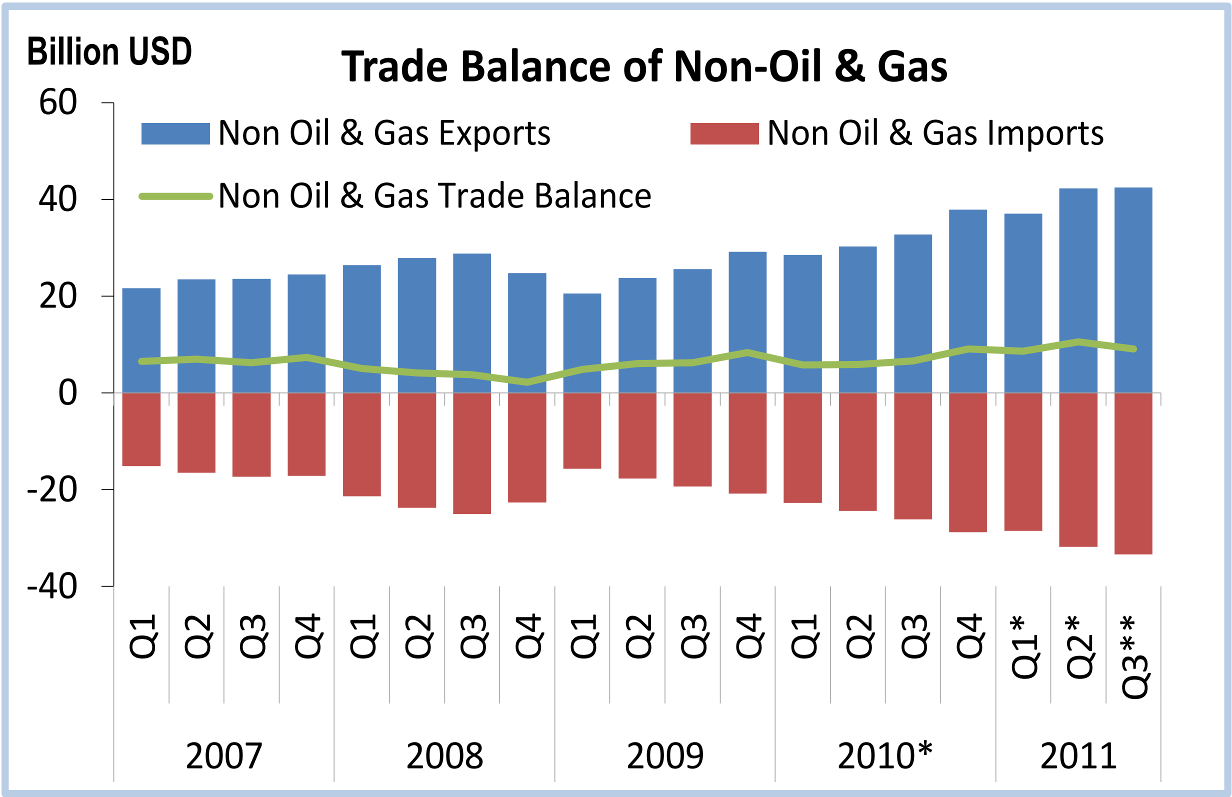
1) In terms of free on board (fob)
2) Excluding reserves and related items
3) Negative represents surplus and positive represents deficit.
* Provisional figures
** Very provisional figures

Source: Bank Indonesia

Balance of Payments Q3/2011: Current Account

- **The non-oil & gas trade balance recorded a large surplus of US$9.1 billion,** supported by strong non-oil & gas exports that charted 29.5% growth (yoy), amid the declining trend of commodity prices. Exports of resource-based commodities remained the main contributors to this export performance.
- Non-oil imports also grew high (27.3%; yoy) in response to solid domestic demand during the reporting period. Imports of raw materials and capital goods, comprised of 70% and 20% of total import, grew by 25% and 34% respectively.

Trade Balance: Non-Oil & Gas

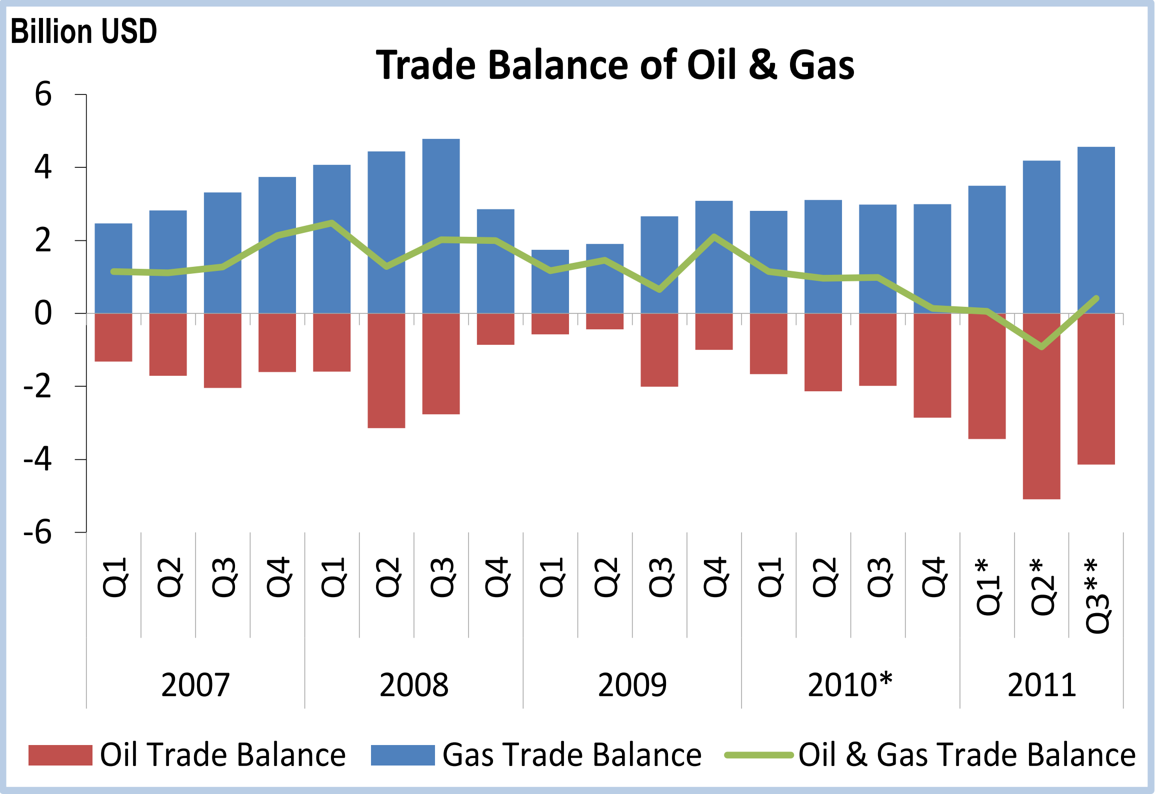


Source: Bank Indonesia

Balance of Payments Q3/2011: Current Account

- After registering a deficit in the preceding quarter, **the oil and gas trade balance returned to a surplus of US$0.4 billion,** as the gas trade balance surplus increased and the deficit of oil trade balance narrowed.
- The improvement in the oil trade balance was due to increased national oil production and less volume of oil imports amid the downward trend in oil price during the reporting period.

Trade Balance: Oil & Gas

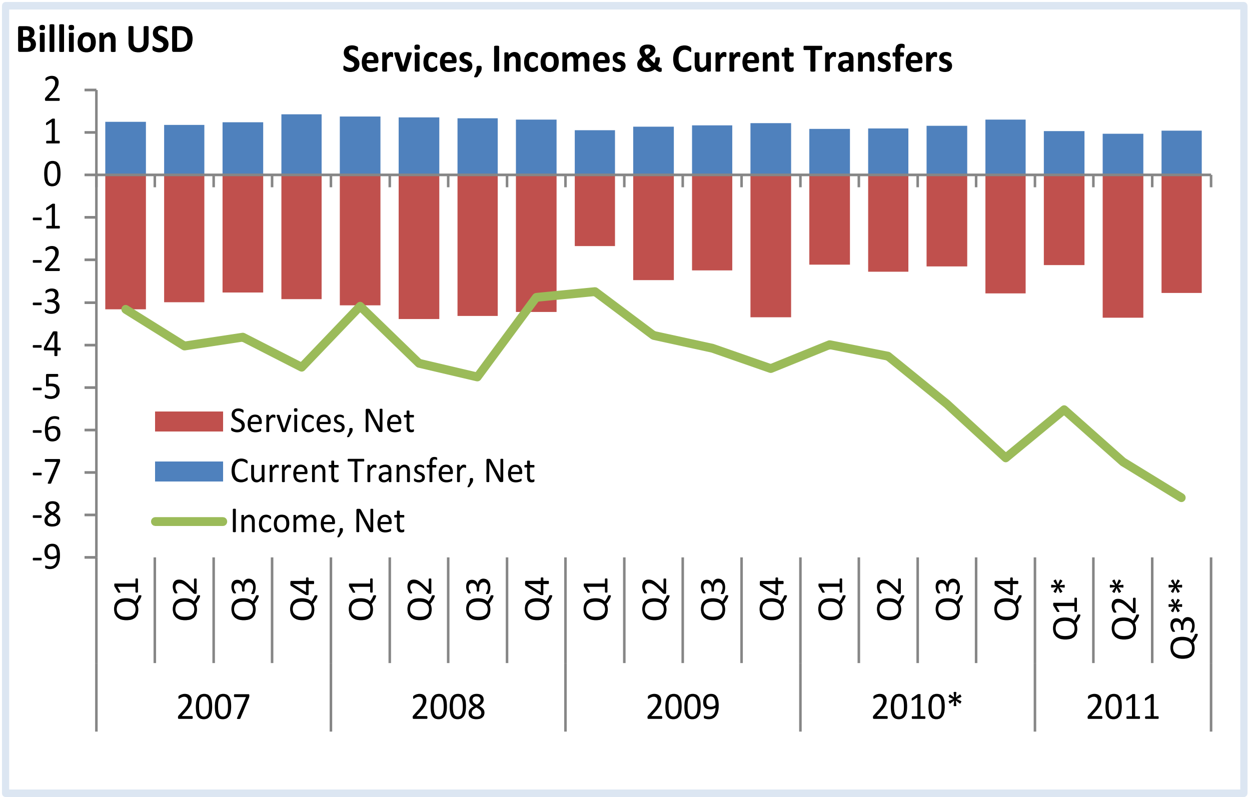


Source: Bank Indonesia

Balance of Payments Q3/2011: Current Account

- **The services account deficit in Q3/2011 improved** in comparison to the deficit in preceding quarter, as travel services regained surplus in line with growing numbers of foreign travelers coming in Indonesia.
- **current transfers surplus was stable,** supported by steady workers' remittances inflows.
- **On the other hand, the income account deficit widened to US$7.6 billion (Q2/2011: US$6.7 billion deficit),** primarily explained by higher investment income paid out to foreign investors in line with relatively high investment yield and sound business performance.

Services, Income, and Current Transfers

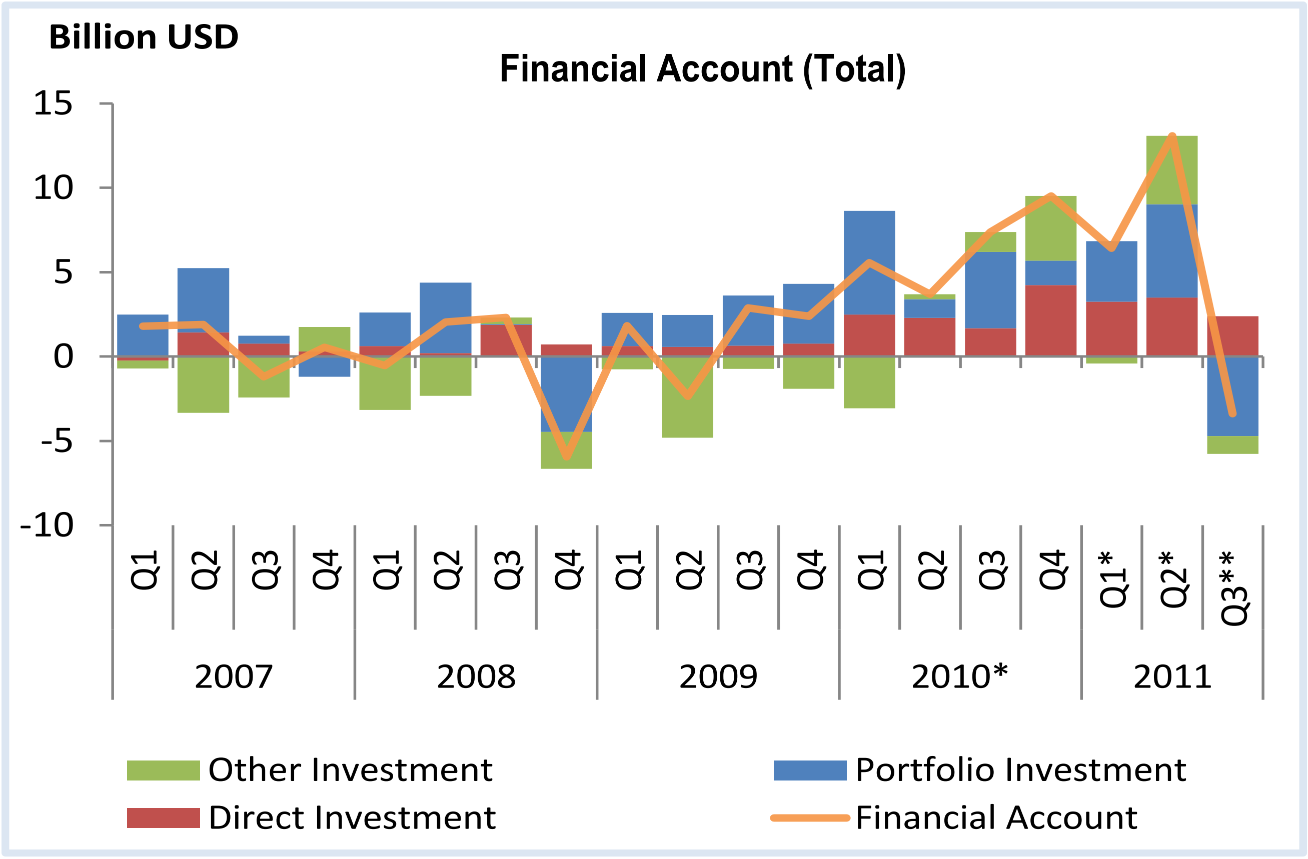


Source: Bank Indonesia

Balance of Payments Q3/2011: Capital & Financial Account

- **The financial account turned into deficit of US$3.4 billion,** triggered by portfolio capital outflows in response to the global financial market turmoil in the wake of prolonged delays in finding a resolution to the Eurozone debt crisis.
- In contrast, **foreign capital inflows by means of direct investment and lending to the private sector remained high** buoyed by a conducive investment climate and stable macro-economic condition.

Financial Account: Total

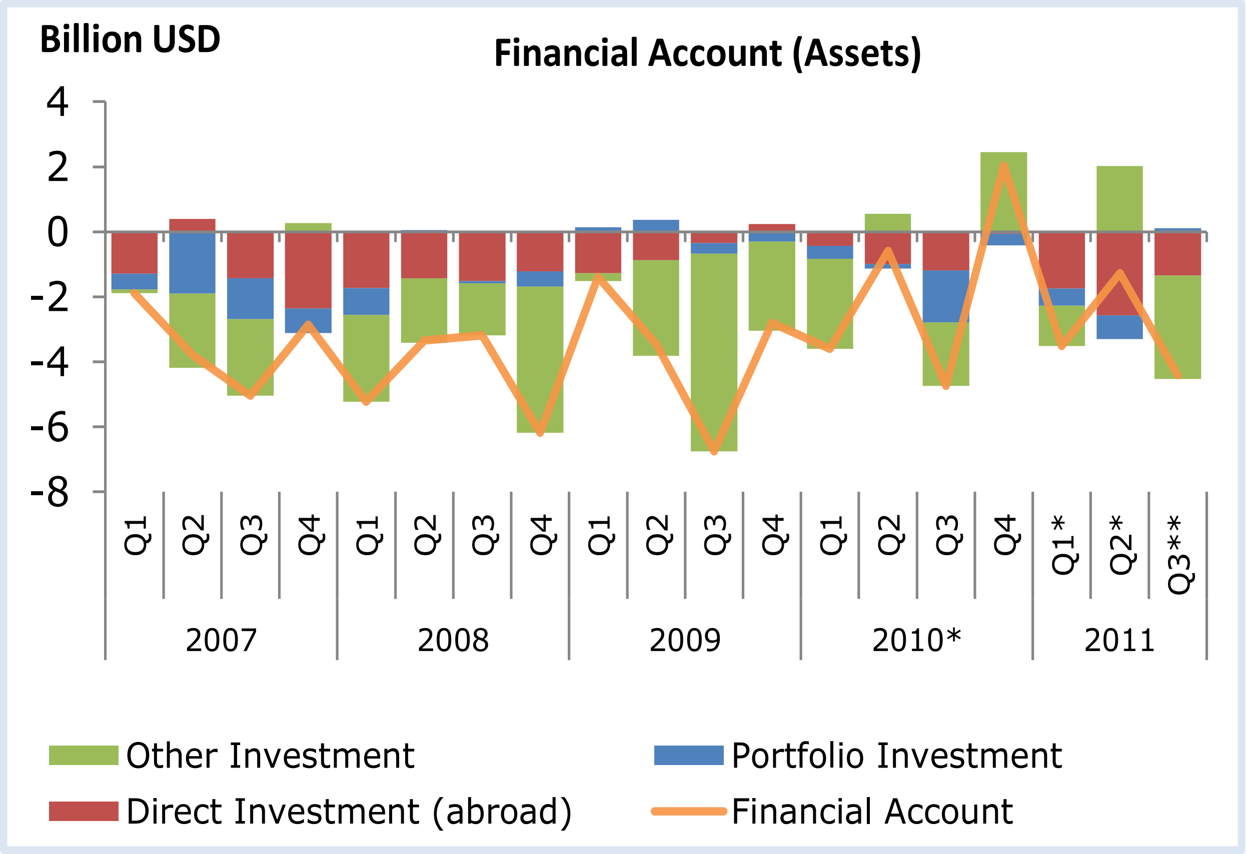


Source: Bank Indonesia

Balance of Payments Q3/2011: Capital & Financial Account

The residents' investment abroad **(the financial account - assets) posted a higher net outflows (US$4.4 billion),** that contributed to the financial account deficit in Q3/2011. This development was primarily explained by banks' replacement of deposits abroad in line with strong export performance and expectation of foreign currency demand of their customers.

Financial Account: Assets

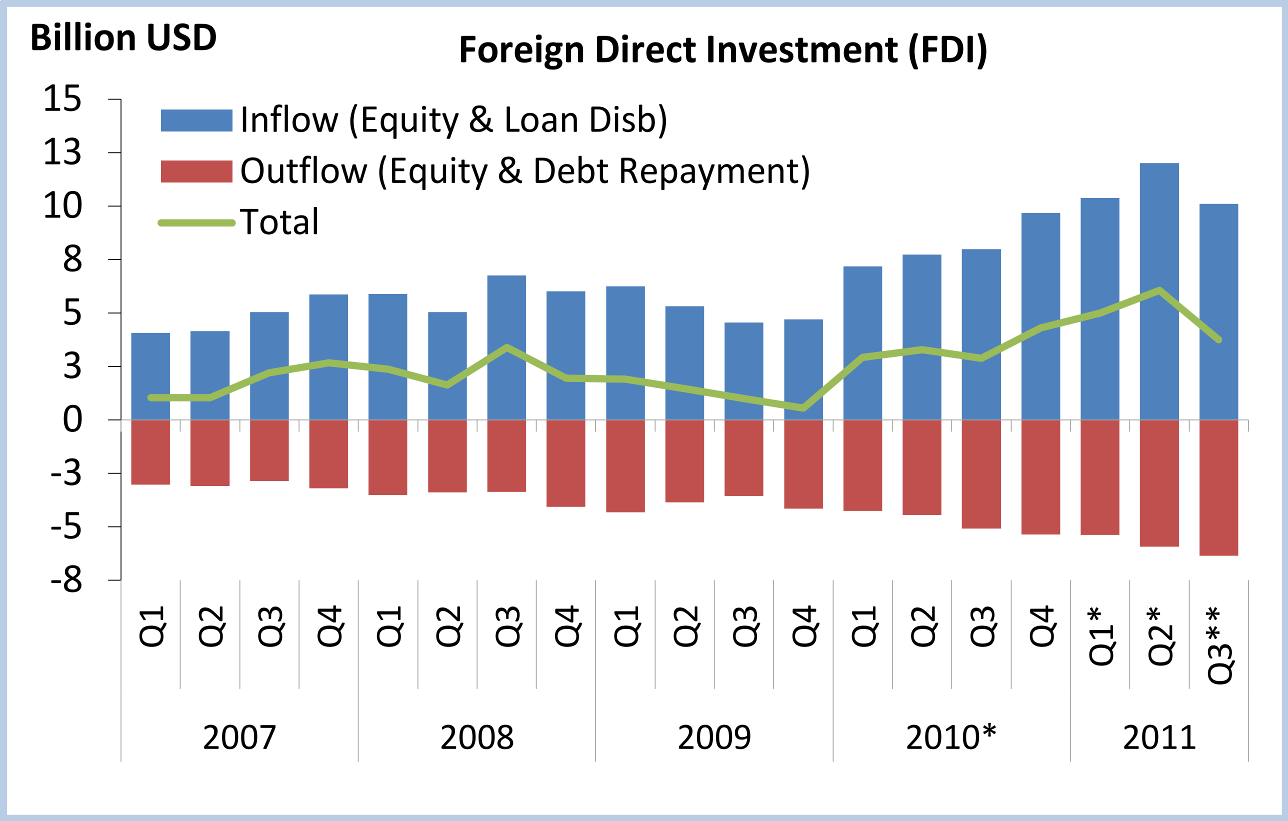


Source: Bank Indonesia

Balance of Payments Q3/2011: Capital & Financial Account

Amid unfavorable external condition, **foreign direct investment remained strong, charting a net inflows of US$3.7 billion.** Conducive investment climate and prospect of strong domestic economic fundaments have raised foreign investors' confidence to invest their capital in Indonesia.

Financial Account Liabilities: Foreign Direct Investment (FDI)

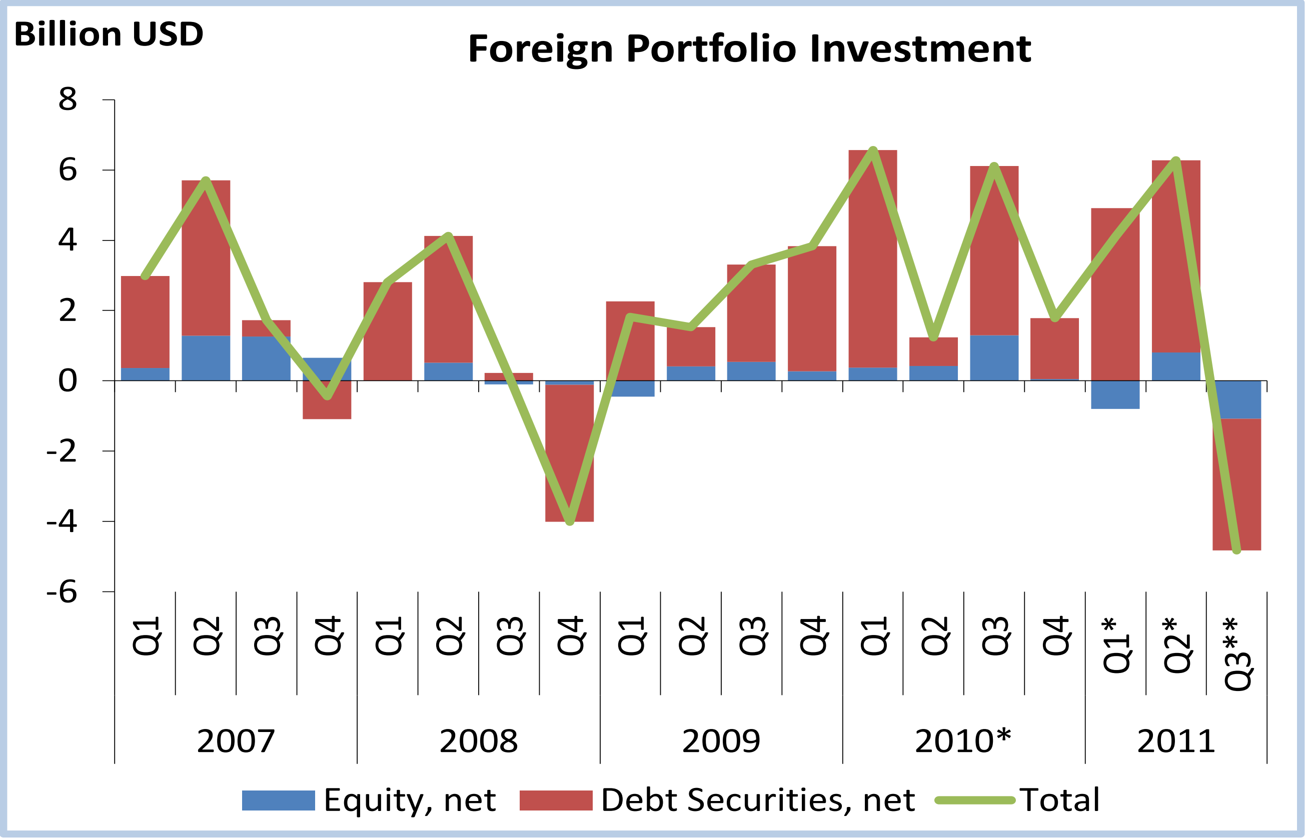


Source: Bank Indonesia

Balance of Payments Q3/2011: Capital & Financial Account

Foreign portfolio investment posted a US$4.8 billion deficit in Q3/2011, compared to a US$6.3 billion surplus in the preceding period. Portfolio capital outflows were charted particularly in domestic stocks and government securities market in response to growing uncertainties triggerred by the Eurozone sovereign crisis and the US slowdown. Meanwhile, at the same time, there were significant foreign holdings of Bank Indonesia Certificates (SBIs) falling due.

Financial Account Liabilities: Foreign Portfolio Investment

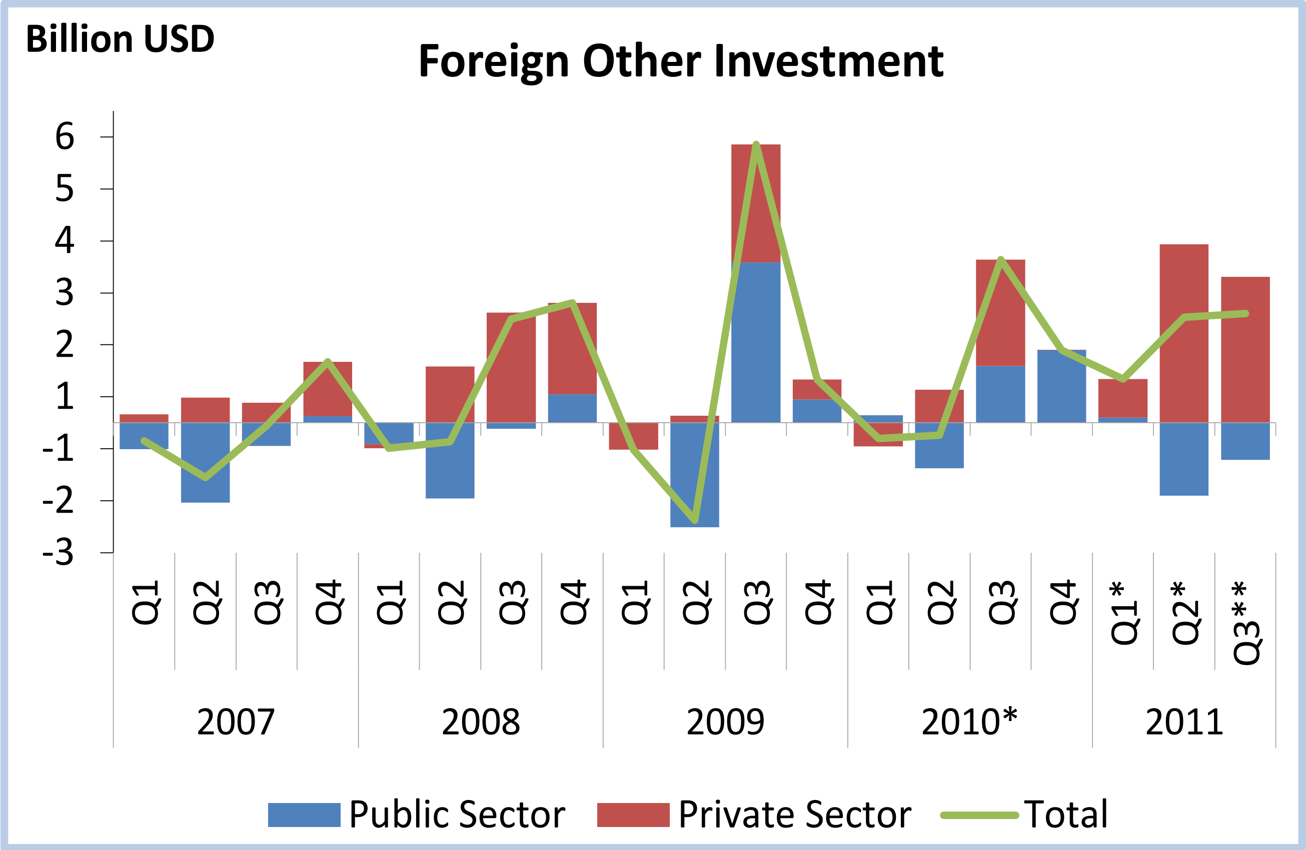


Source: Bank Indonesia

Balance of Payments Q3/2011: Capital & Financial Account

- **Foreign other investment booked a US$2.1 billion surplus,** mainly owing to net inflow of loans borrowed by private sector.
- Meanwhile, other investment of the public sector recorded a lower net outflows, as a government foreign debt repayment lessened in the reporting period.

Financial Account Liabilities: Foreign Other Investment

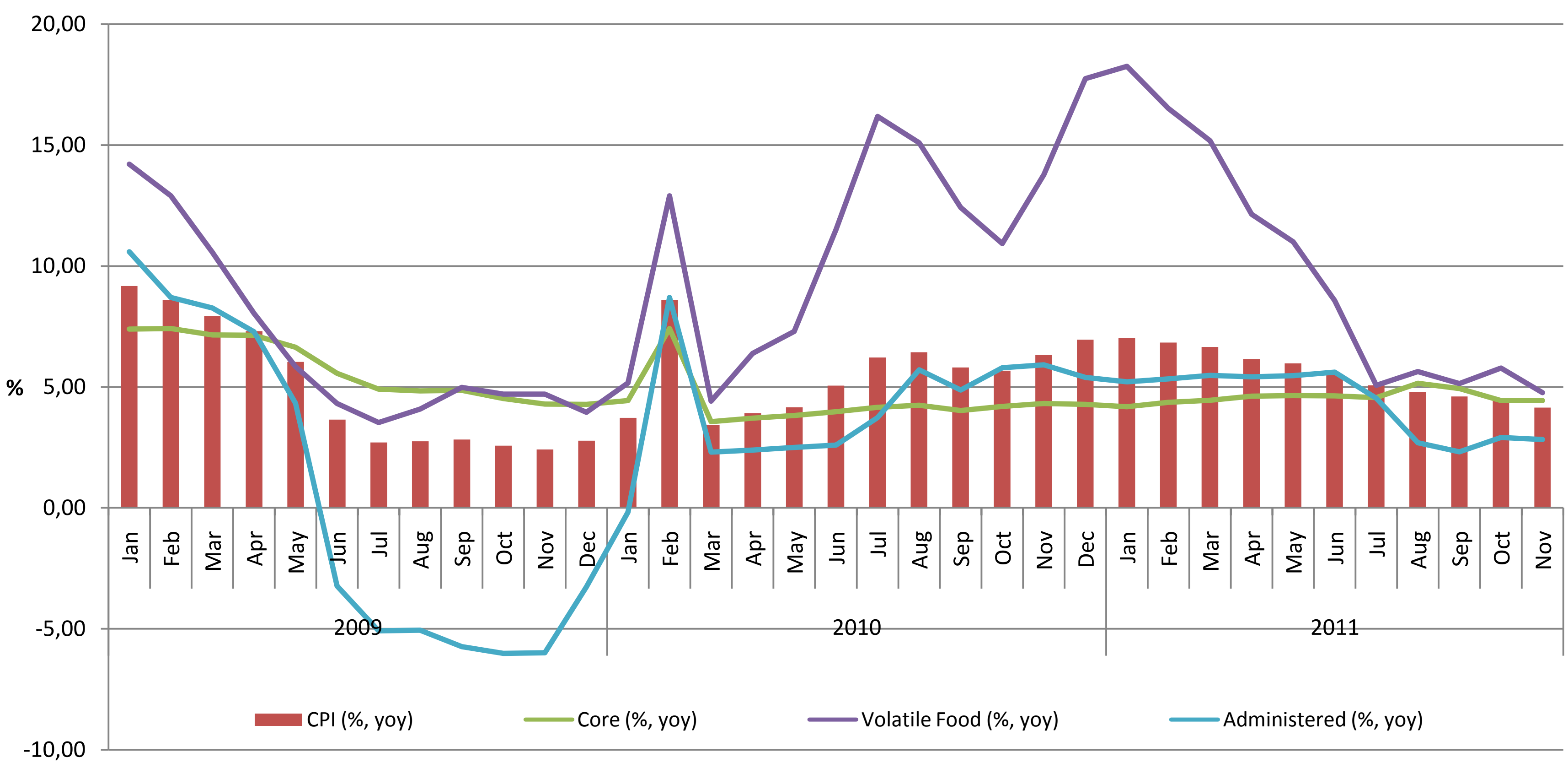


Source: Bank Indonesia

The Inflation Pressures Tend To Decline

- **The Inflationary pressures continue to decline in line with the correction in volatile food prices, the absence of inflationary pressures from administered prices and moderate core inflation level.** The CPI in November 2011 recorded at 0.34% (mtm) or 4.15% (yoy). Key factors to the low volatile food prices is adequate supply of foods from domestic production as well as imports. Meanwhile, the subdued of core inflation is helped by large correction in international commodity prices, stability of rupiah exchange rate, and improving inflation expectation. If the decreasing trend of inflation continues, the CPI inflation for overall 2011 is expected to be lower than 4%.

Inflation – by component

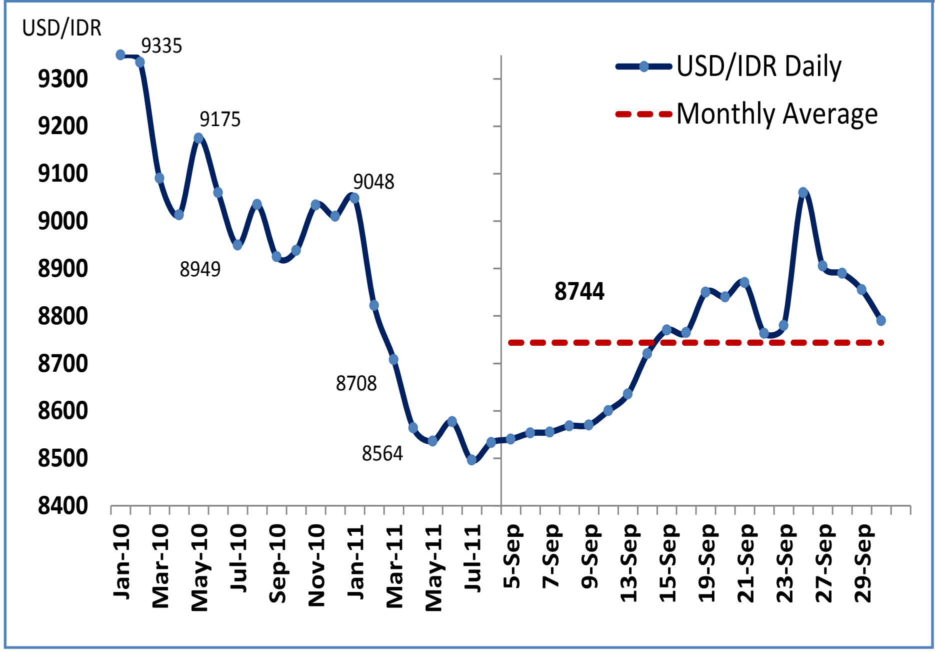


Source: Bank Indonesia

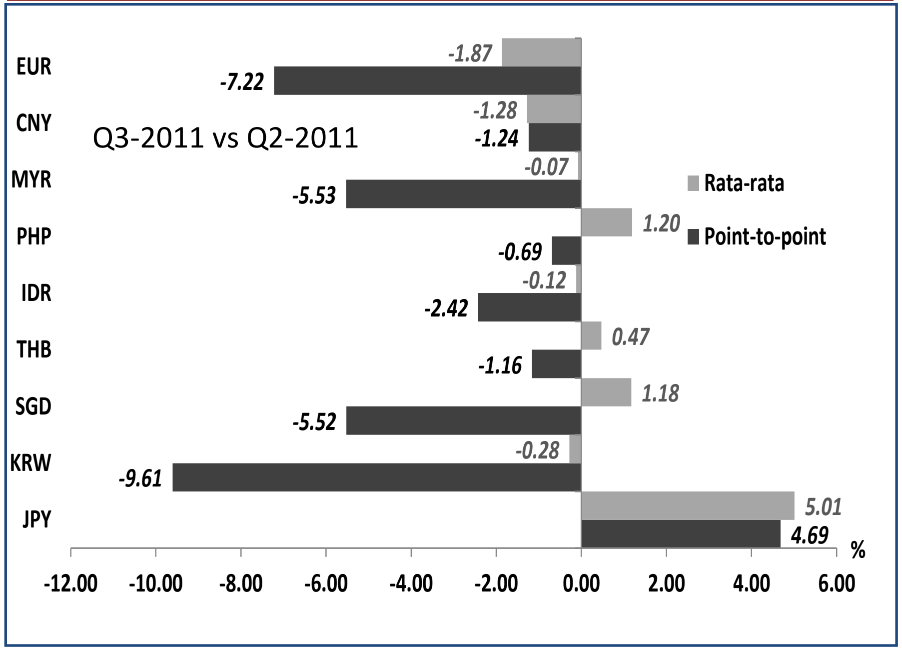
Exchange Rate

- **Rupiah experienced depreciation with increased volatility.** During the third quarter of 2011, in general Rupiah depreciated along with rising global risk factors. The rupiah depreciated by 2.42% (ptp) from Rp8.577 at the end of Q2-2011 to Rp8.790 per USD at the end of Q3-2011. Nevertheless, the depreciation of Rupiah is still in line with other countries' exchange rates in the region. Pressure on Rupiah is mainly driven by global risks due to concern on the global economic prospect.

Rupiah Exchange Rate



Apr./Depr. Of Regional Currency & EURO

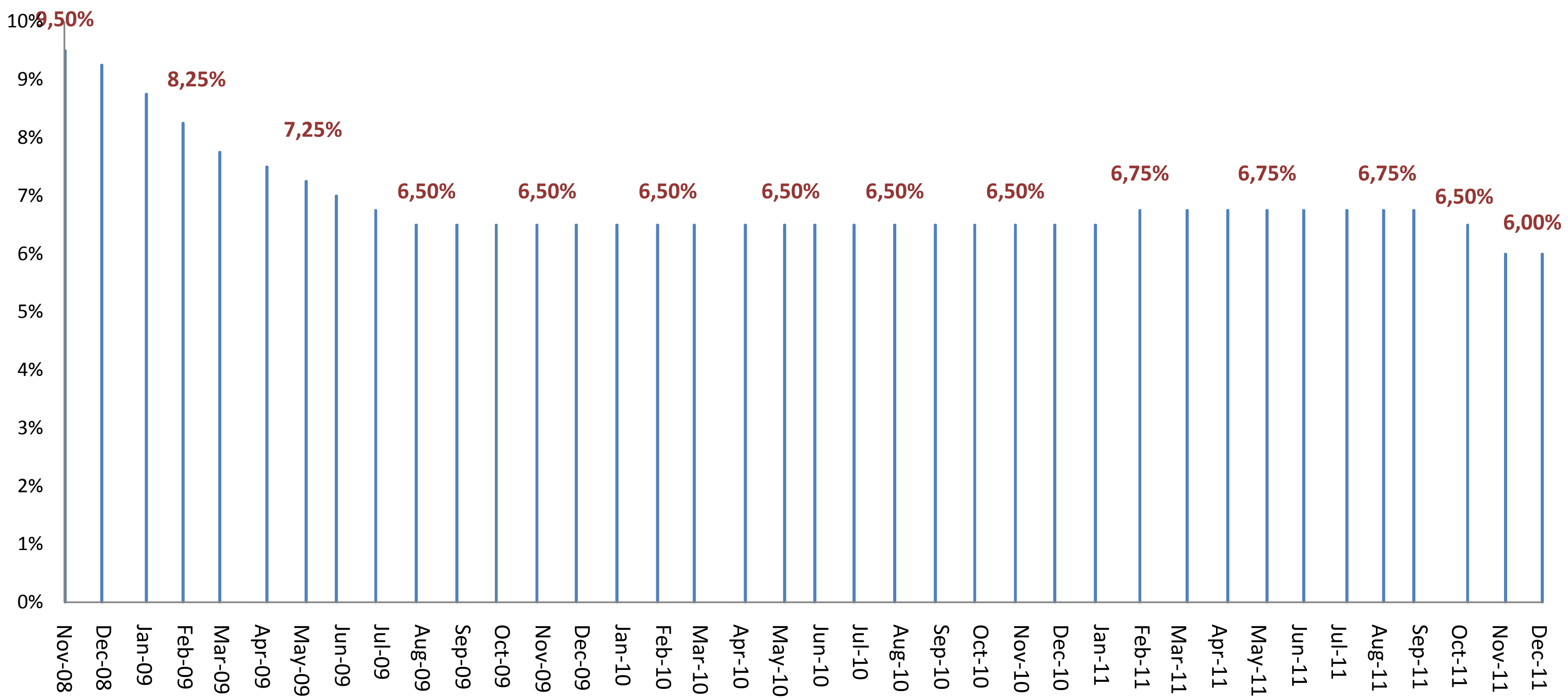


Source: Bank Indonesia.

Monetary Policy Stance

- **In the Board of Governors' Meeting convened on December 8th, 2011, Bank Indonesia decided to keep BI Rate unchanged at 6.0%.** This decision is based on overall assessment on recent economic condition, risk factors, and economic prospects. Board of Governors views that current BI Rate is still consistent with inflation targets, and remains conducive for financial stability and mitigating the impacts of worsening global economic outlook on Indonesian economy. The assessment on economic condition and outlook show that domestic economy remains strong and stable. Going forward, Board of Governors continues to monitor closely the risks of worsening global economy as well as to maintain macroeconomic and financial stability, and to stimulate domestic economy. Board of Governors affirms that the implementation of monetary and countercyclical macro-prudential policy mix is a necessary in managing the economy and keep inflation within its targets, that is, 4.5%±1% for 2012 and 2013.

BI Rate



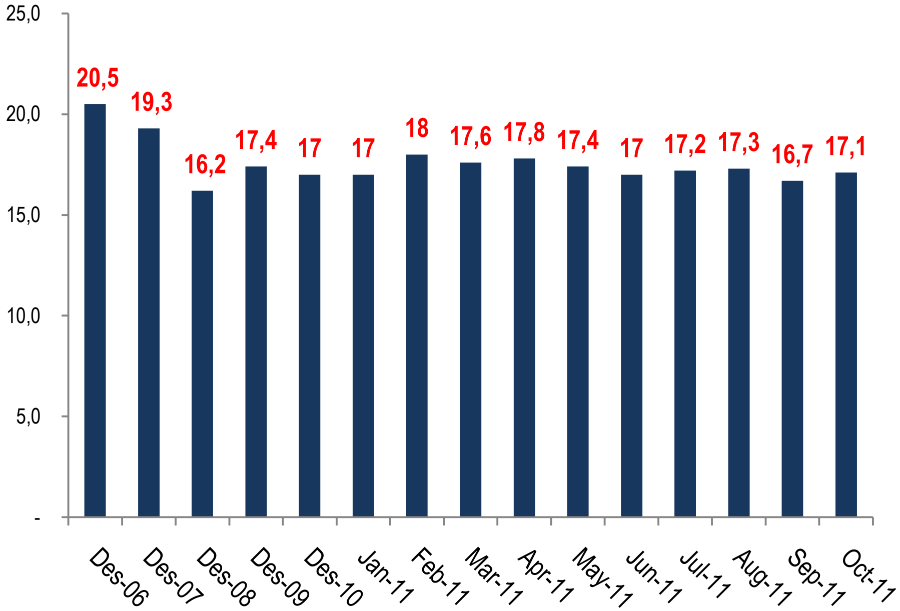
Source: Bank Indonesia.

Sound Financial Sector

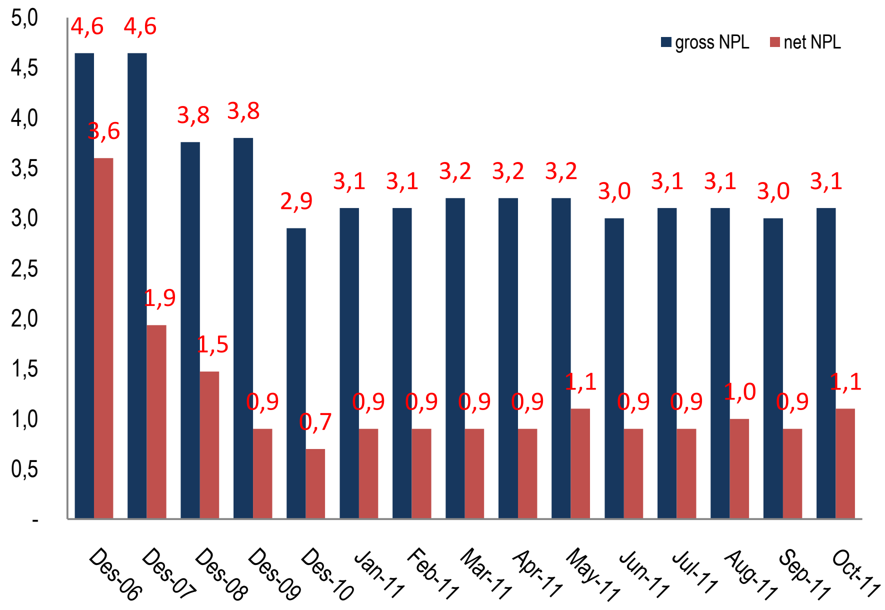
Stability in the banking system remains firm alongside steady improvement in credit growth

- Financial System Stability has been maintained as indicated by the **Financial Stability Index** which were well below the treshold of 2 (1.65 on November 2011).
- Banking system remain strong with improvement in the banking intermediation despite financial market turmoil on the impact of global economic condition. Stable and prudently manage banking industry marked by secure level of capital and liquidity, with capital adequacy ratio (CAR) above the minimum level of 8% (17.1% end of October 2011) and gross non-performing loans (NPLs) managed at comfortably safe level below 5% (2.7% end of October 2011).

Sufficient CAR (%)



Sound level of NPLs (%)

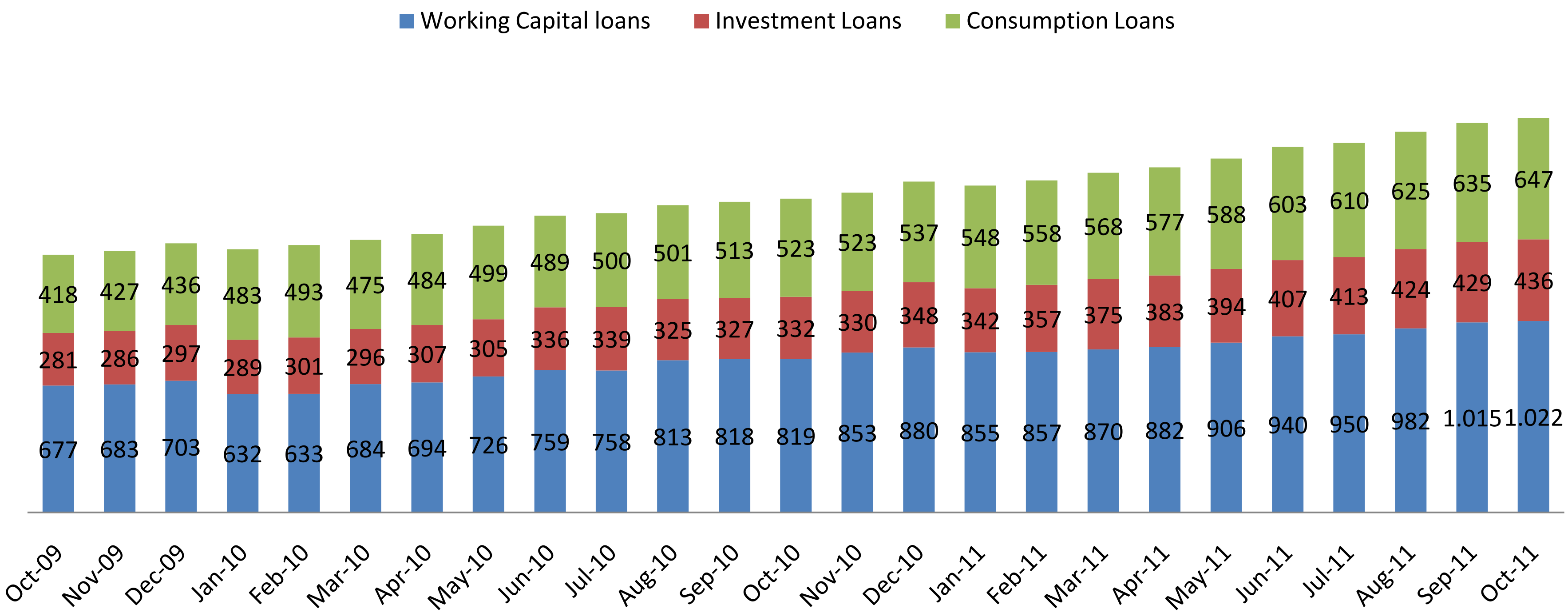


Source: Bank Indonesia

Banking Intermediation

- Further improvement in banking intermediation is also reflected in progressively improving credit growth, recorded in October 2011 at 25.7% (yoy) on the strength of expansion in all lending categories including credit to SMEs.
- Bank Indonesia will keep monitoring banking sector condition and improve sector efficiency so that the intermediation function can be optimized.

Steady loan growth



Source: Bank Indonesia

Main Banking Indicators

Banking System Stability remains sound with stable CAR, continuous credit expansion and low NPL

Indicators	Dec-07	Dec-08	Dec-09	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11
Total Asset (T Rp)	**1.986,5**	**2.310,6**	**2.534,1**	**3.008,9**	**2.990,7**	**2.993,1**	**3.065,8**	**3.069,1**	**3.136,4**	**3.195,1**	**3.216,8**	**3.252,6**	**3.371,5**	**3.407,5**
Deposits (T Rp)	1.510,8	1.753,3	1.973,0	2.338,8	2.302,1	2.287,8	2.351,4	2.340,2	2.397,2	2.438,0	2.464,1	2.459,9	2.544,9	2.587,3
- Demand Deposits	405,6	430,0	465,9	535,9	530,6	529,8	540,8	528,3	561,2	577,0	567,3	524,2	580,6	596,5
- Savings Accounts	438,6	498,6	605,4	733,2	715,8	713,2	722,7	734,5	740,8	753,7	763,5	785,7	797,0	802,7
- Time Deposit	666,7	824,7	901,7	1.069,8	1.055,6	1.044,9	1.087,8	1.077,4	1.095,2	1.107,3	1.133,3	1.150,0	1.167,3	1.188,1
- Loans (T Rp)	1.002,0	1.307,7	1.437,9	1.796,0	1.776,1	1.803,9	1.844,2	1.872,6	1.918,6	1.979,6	2.002,3	2.060,8	2.108,6	2.135,5
Capital Adequacy Ratio (%)	**19,3**	**16,8**	**17,4**	**17,0**	**17,0**	**18,0**	**17,6**	**17,8**	**17,4**	**17,0**	**17,2**	**17,3**	**16,7**	**17,1**
NPL Gross (%)	**4,6**	**3,8**	**3,8**	**2,9**	**3,1**	**3,1**	**3,2**	**3,2**	**3,2**	**3,0**	**3,1**	**3,1**	**3,0**	**3,1**
NPL Gross (without channeling) (%)	**-**	**-**	**-**	**2,6**	**2,8**	**2,8**	**2,8**	**2,8**	**2,9**	**2,7**	**2,8**	**2,8**	**2,7**	**2,7**
Net Non Performing Loans (%)	1,9	1,5	0,9	0,7	0,9	0,9	0,9	0,9	1,1	0,9	0,9	1,0	0,9	1,1
Return on Assets (%)	2,8	2,3	2,6	2,7	3,0	2,8	3,1	3,0	3,0	3,1	3,0	3,0	3,1	3,1
Net Interest Margin (%)	5,7	5,7	5,6	5,7	5,6	5,5	5,9	5,8	5,8	5,8	5,8	5,9	6,0	6,0
Ops. Expense/Ops. Income (%)	84,1	88,6	86,6	80,0	83,5	80,5	77,8	78,5	78,2	80,0	81,6	80,8	79,4	79,1
Loan to Deposit Ratio (%)*	**66,3**	**74,6**	**72,9**	**75,5**	**75,8**	**77,5**	**77,2**	**78,8**	**78,8**	**80,0**	**80,1**	**82,6**	**81,7**	**81,4**
No. of Banks	130	124	121	122	121	121	121	121	121	121	120	120	120	120

*) without channeling

Source: Bank Indonesia

Prudent Fiscal Management

Fiscal Policy Overview

To achieve the 2011 Development Targets through: welfare improvement, democracy improvement and law enforcement

Strategy

- **Pro-Growth:** through relaxed fiscal policy
- **Pro-Job:** through tax incentive to boost investment and export, and also increased infrastructure development expenditure;
- **Pro-Poor:** through well targeted subsidies, and social safety net programs;
- **Pro-Environment:** through better environment management

Revenue Policy

- Government initiatives in relation to tax and custom revenues
  - Continue tax administration reform agenda
  - Explore tax potential through extensification (widening tax base) and intensification (increasing number of taxpayers
  - Increase the quality of tax inspection and investigation
  - Strengthen custom and excise supervision
  - Provide tax incentive and custom facilities
- Steps to increase non-tax revenues include: increase natural resource production, enhance efficiency of SOEs and improvement of service Line Ministries

Expenditure Policy

- Spending policy based on Performance-Based Budgeting (EAPs) and the Medium Term Expenditure Framework (MTEF) with the emphasis on the outcomes
- Central budget allocations to support 11 development priorities: (i) bureacracy and governance reform; (ii) education; (iii) health; (iv) poverty alleviation; (v) food security; (vi) infrastructure; (vii) investment and business climate; (viii) energy; (ix) environment and disaster management; (x) under-developed and post-conflict areas; and (xi) cultural creativity and technological innovation
- Transfer to regions policy will be improved and transfers to regions will be reformulated

Financing Policy

- Debt Financing Policy
  - Prioritizing issuance of government securities in domestic market
  - Foreign currency government securities issuance complementary to domestic currency government securities issuance
  - Implementation of Asset Liability Management with Bank of Indonesia
  - Continuing development of government securities program to enhance depth and liquidity in the secondary market
- Non-Debt Financing Policy
  - Deployment of accumulated cash surplus
  - Utilizing withdrawals from the Investment Fund Account (Rekening Dana Investasi) and effective asset management
  - Financing for infrastructure in the form of infrastructure guarantees

Source: Ministry of Finance

The 2012 Budget Highlight

(trillion rupiah)

Items	2011 Revised Budget	2012 Budget	2012 Diff. with Rev.Budget 2011
A. State Revenue and Grants	1.169,9	1.311,4	141,5
I. Domestic Revenue	1.165,3	1.310,6	145,3
1. Tax Revenue	878,7	1.032,6	153,9
Tax Ratio	*12,2*	*12,7*	*0,6*
2. Non Tax Revenue	286,6	278,0	(8,6)
II. Grants	4,7	0,8	(3,8)
B. State Expenditures	1.320,8	1.435,4	114,7
I. Central Government Expenditures	908,2	965,0	56,8
A. Ministries/Agencies Expenditure	461,5	508,4	46,9
B. Non Ministries/Agencies Expenditure	446,7	456,6	9,9
- Oil Subsidy	129,7	123,6	(6,1)
- Electricity Subsidy	65,6	45,0	(20,6)
II. Transfer to Region	412,5	470,4	57,9
1. Balanced Fund	347,5	400,0	52,4
2. Special Autonomy & Adjustment Fund	65,0	70,4	5,5
C. Primary Balance	(44,3)	(1,8)	42,5
D. Overall Balance (A - B)	(150,8)	(124,0)	26,8
% Deficit to GDP	*(2,1)*	*(1,5)*	*0,6*
E. Financing	150,8	124,0	(26,8)
I. Domestic Financing	153,6	125,9	(27,7)
II. Foreign Financing	(2,8)	(1,9)	0,9

Source: Ministry of Finance

Summary of Macroeconomic Assumptions

Macroeconomic Assumption	2011	2012	
	Revised Budget	Proposed Budget	Agreement with Budget Comitteee (Banggar)
Growth (%)	6.5	6.7	6.7
Inflation (%)	5.65	5.3	5.3
SPN 3 months for 2012 (%)	5.6	6.5	6.0 *)
Exchange Rate (RP/US$)	8,700	8,800	8,800
ICP (US$/bbl)	95	90	90
Lifting (MCBD)	0.945	0.950	0.950

***) Changes in assumption of SPN 3 months in accordance with Banggar agreement will lead to changes in the allocation of 2012 debt interest payments**

Source: Ministry of Finance

Improved Government Debt Position

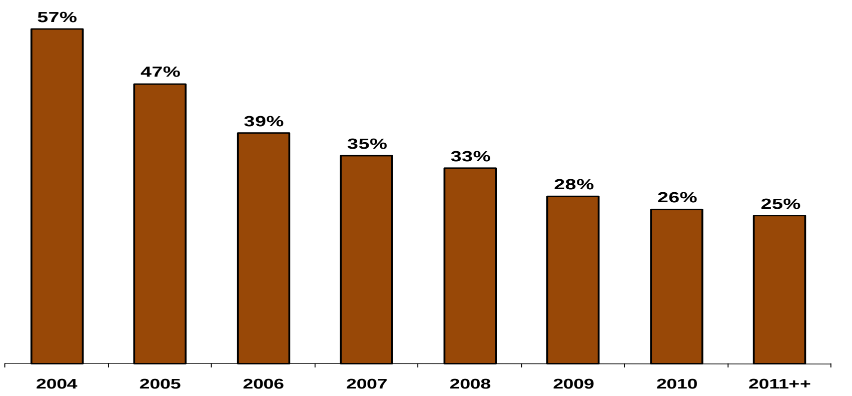
Debt Securities Strategy 2011

- **Prioritizing issuance of government securities in domestic market**
  - ✓ Supporting money market and capital market development to strengthen financial system
  - ✓ Promoting the creation of investment-oriented society
  - ✓ Supporting efficient monetary management
- **Foreign currency government securities issuance is complementary to domestic currency government securities issuance**
  - ✓ Diversification of financing instruments to widen the market
  - ✓ Maintaining the presence of government financial instruments in global market
  - ✓ Avoiding crowding out in domestic market
- Government securities issuance is taking into account the support to the implementation of **Asset Liability Management** with Bank of Indonesia
- Continuing development of government securities program to **enhance the depth and liquidity in secondary market**

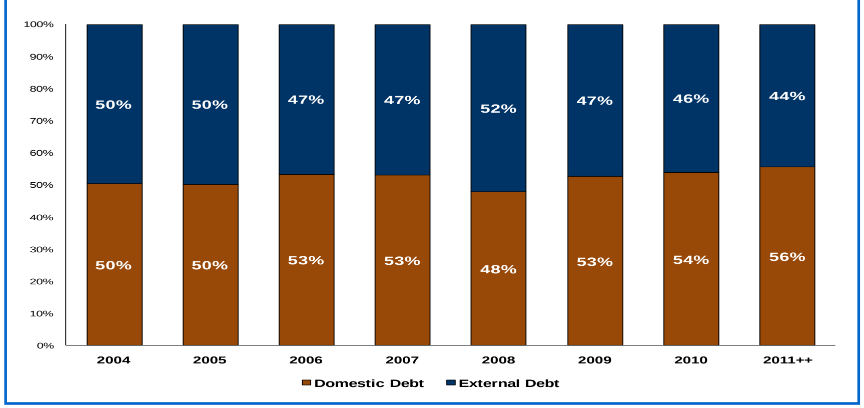
Source: Ministry of Finance

Debt To GDP

Debt to GDP Ratio



Debt Composition



Notes:
Based on debt outstanding as of June 2011
*** = Preliminary , GDP Number Based on Revised Budget 2011 Assumption**

Table of Debt to GDP Ratio

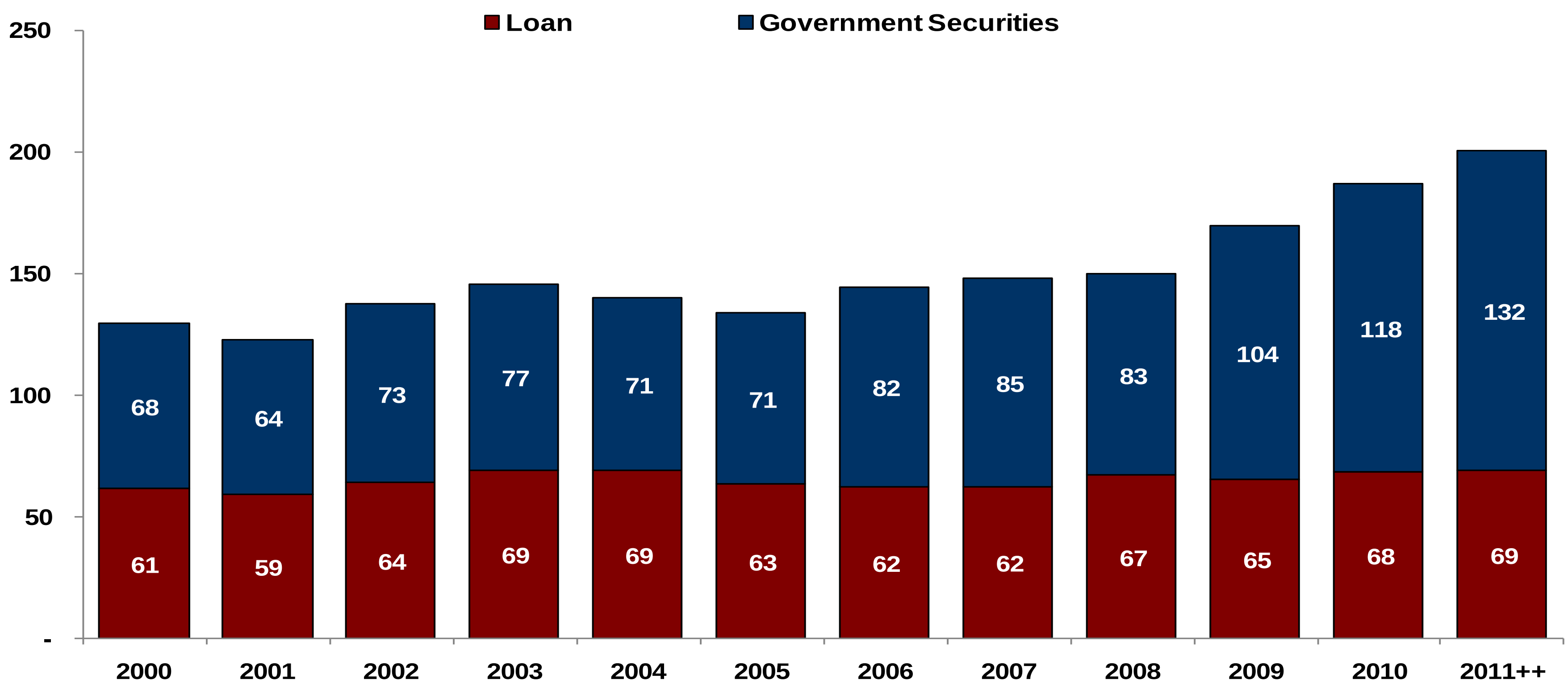
	End of Year							
	2004	2005	2006	2007	2008	2009	2010	2011++
GDP	2.295.826,20	2.774.281,00	3.339.480,00	3.949.321,40	4.954.028,90	5.613.441,74	6.422.918,20	6.888.149,80
Debt Outstanding (billion IDR)	1.299.504,02	1.313.294,73	1.302.158,97	1.389.415,00	1.636.740,72	1.590.656,07	1.676.851,19	1.723.896,74
- Domestic Debt (Securities)	653.032,15	658.670,86	693.117,95	737.125,54	783.855,10	836.308,91	902.429,79	958.396,82
- Foreign Debt (Loan+Securities)	646.471,87	654.623,87	609.041,02	652.289,46	852.885,62	754.347,16	774.421,40	765.499,92
Debt to GDP Ratio	56,60%	47,34%	39%	35%	33%	28%	26%	25%
- Domestic Debt to GDP Ratio	28,44%	23,74%	21%	19%	16%	15%	14%	14%
- Foreign Debt to GDP Ratio	28,16%	23,60%	18%	17%	17%	13%	12%	11%

Notes:
* = Preliminary, GDP number based on Revised Budget 2011 Assumption

[Outstanding as of June, 2011]

Source: Ministry of Finance

Outstanding of Total Central Government Debt



[in percentage]

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011++
Loan	47%	48%	47%	47%	49%	47%	43%	42%	45%	38%	37%	34%
Government Securities	53%	52%	53%	53%	51%	53%	57%	58%	55%	62%	63%	66%
Total Central Government Debt	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

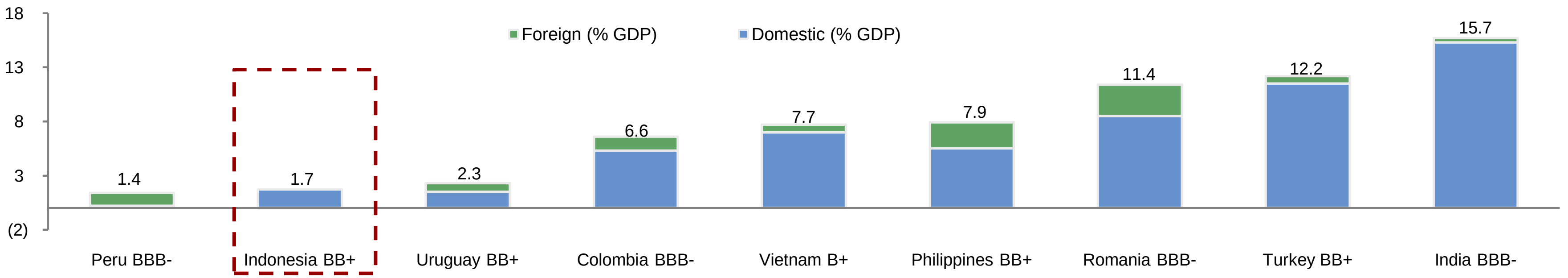
+ Preliminary numbers, as of June, 2011

Source: Ministry of Finance

Balanced and contained borrowing needs

Debt profile shows smooth external repayment profile and a balance between domestic and external debt

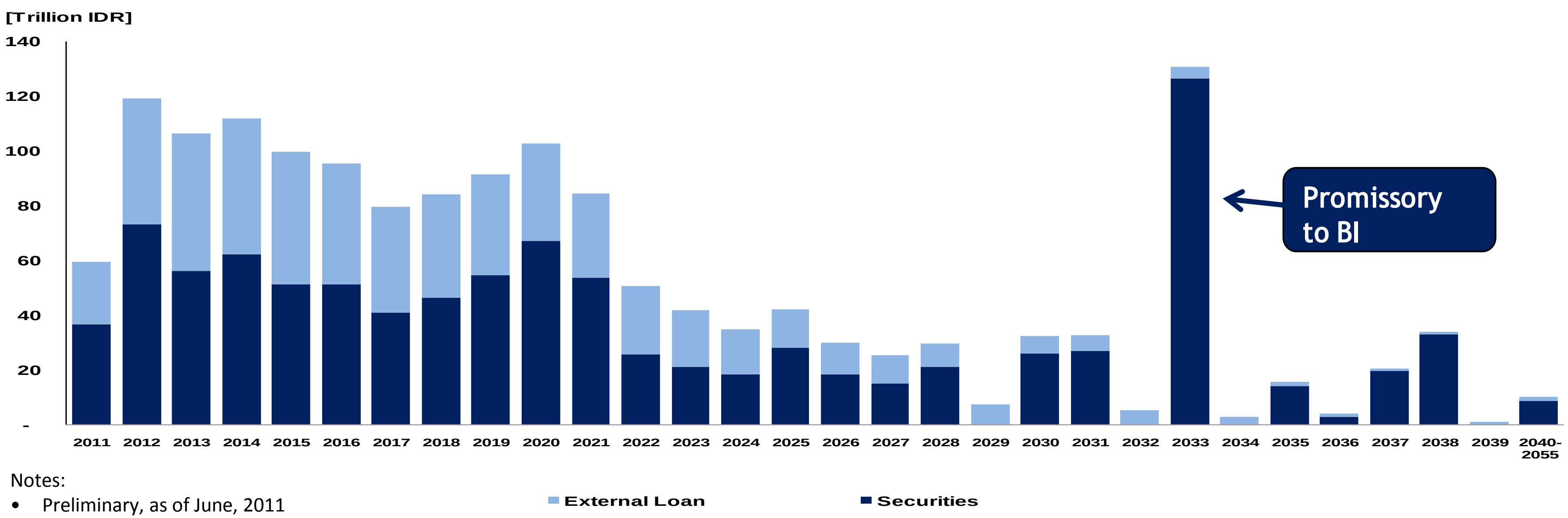
2011 Gross borrowing requirements (% GDP)[1]



Source: Individual Fitch Reports; Ministry of Finance; *Indonesia IMF GDP

[1] Calculations include debt servicing

Debt maturity profile



Notes:

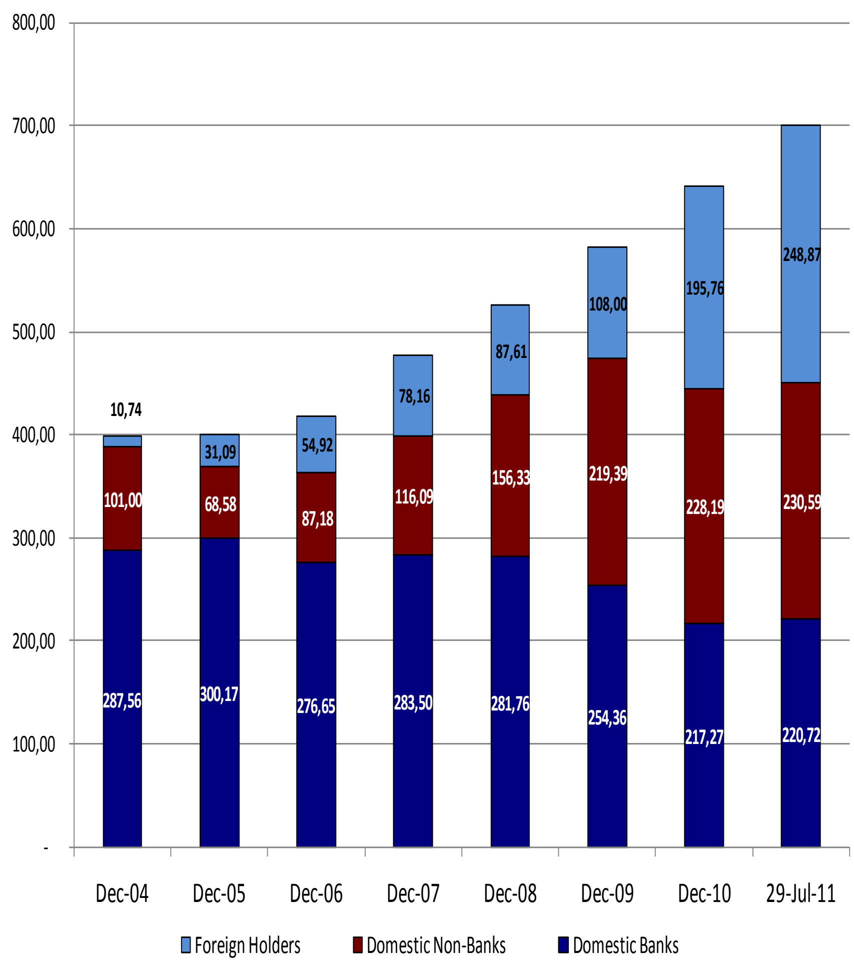
- Preliminary, as of June, 2011
- Excluding amortization of Non Tradable Securities (SUN-002, SU-004, and SU-007)

Source: Ministry of Finance and Bank Indonesia

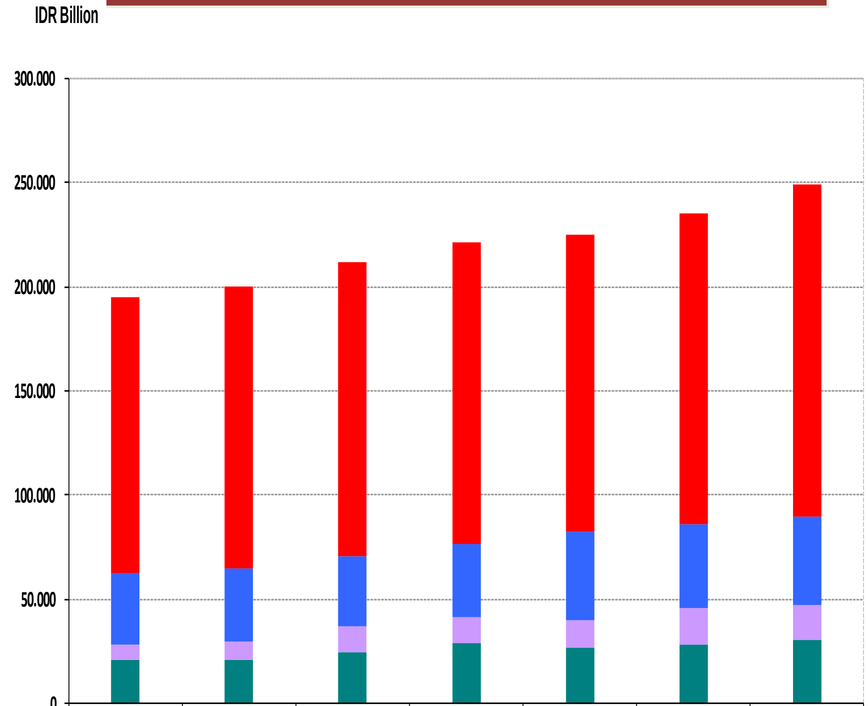
Robust domestic bond market

The domestic bond market plays an increasing role in financing the budget

More diversified government bond holders (IDR trillion)



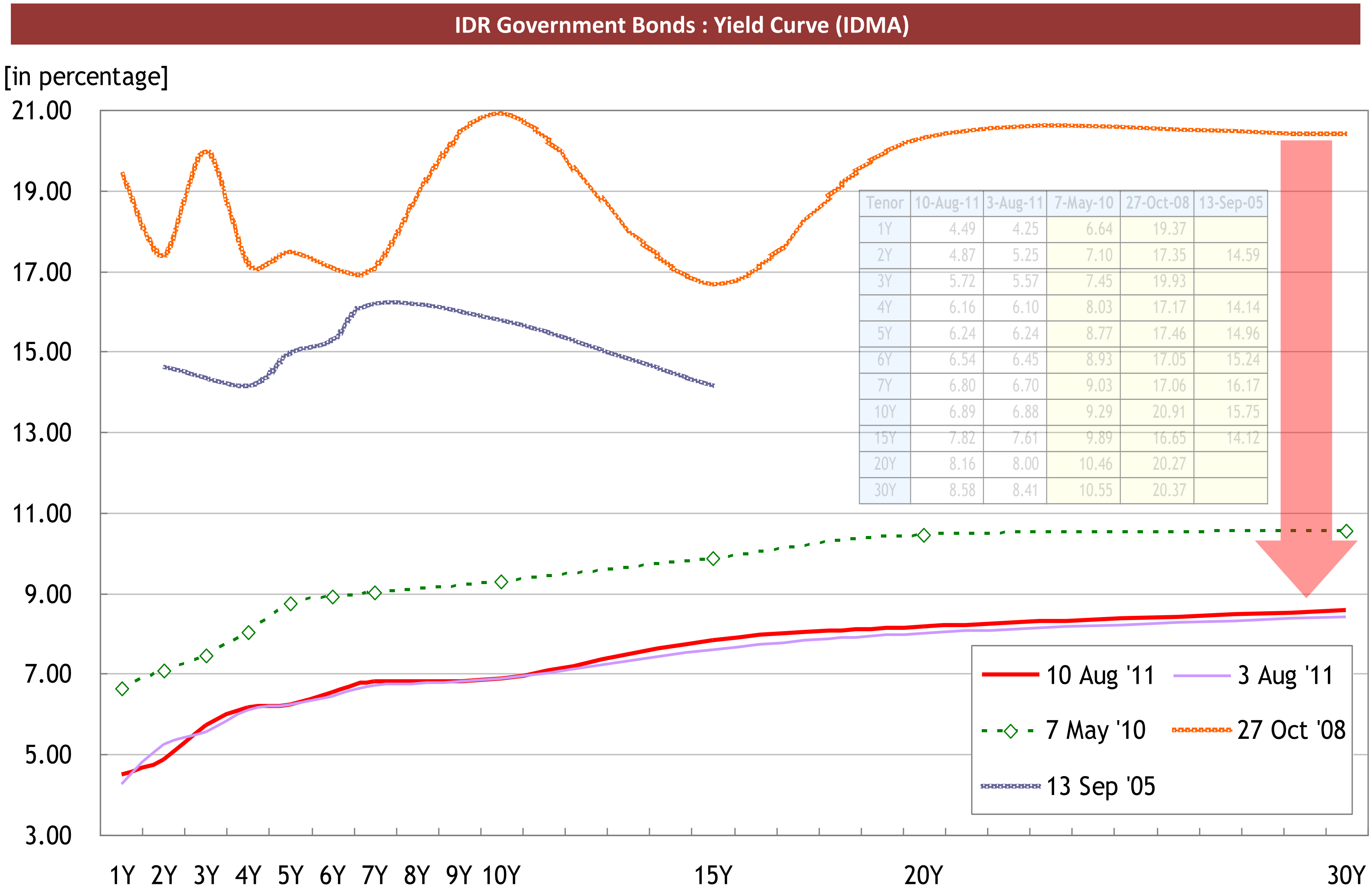
Foreign ownership on longer term securities is dominant



	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	29-Jul-11
Total	194.971	200.405	211.574	221.424	225.319	234.992	248.869
>5	132.550	135.846	140.767	145.158	143.260	148.742	159.348
>2-5	33.855	34.633	33.823	35.065	42.134	40.422	42.309
>1-2	7.736	8.858	12.039	12.454	13.227	17.510	16.747
0-1	20.829	21.069	24.945	28.746	26.698	28.318	30.465

Source: Ministry of Finance

Declining local borrowing rates



Tenor	10-Aug-11	3-Aug-11	7-May-10	27-Oct-08	13-Sep-05
1Y	4.49	4.25	6.64	19.37	
2Y	4.87	5.25	7.10	17.35	14.59
3Y	5.72	5.57	7.45	19.93	
4Y	6.16	6.10	8.03	17.17	14.14
5Y	6.24	6.24	8.77	17.46	14.96
6Y	6.54	6.45	8.93	17.05	15.24
7Y	6.80	6.70	9.03	17.06	16.17
10Y	6.89	6.88	9.29	20.91	15.75
15Y	7.82	7.61	9.89	16.65	14.12
20Y	8.16	8.00	10.46	20.27	
30Y	8.58	8.41	10.55	20.37	

Sources: IDMA, Bloomberg

Bond Stabilization Framework

BSF is strategies to anticipate the negative impact of sudden reversal

Short - Term Program

a

Buyback government securities by DMO from funds which is already budgeted

b

Purchase of government securities by SOEs in the secondary market at times of pre-cirisis or crisis period

c

Coordination with internal units in Ministry of Finance (Dit. Cash Mgt and Indonesia Investment Agency) to buy government securities in bearish conditions

d

Purchase of government securities by DMO using SAL funds

Medium - Term Program

e

Purchase of government securities by using Bond Stabilization Fund (BSF) 1)