



THE REPUBLIC OF INDONESIA

# Recent Economic Developments

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# Table of Content

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## **Executive Summary**

Improved International Perception and Rising Investment

Preserved Macroeconomic Stability to Support Further Growth

Prudent Fiscal Management

Improved Government Debt Position

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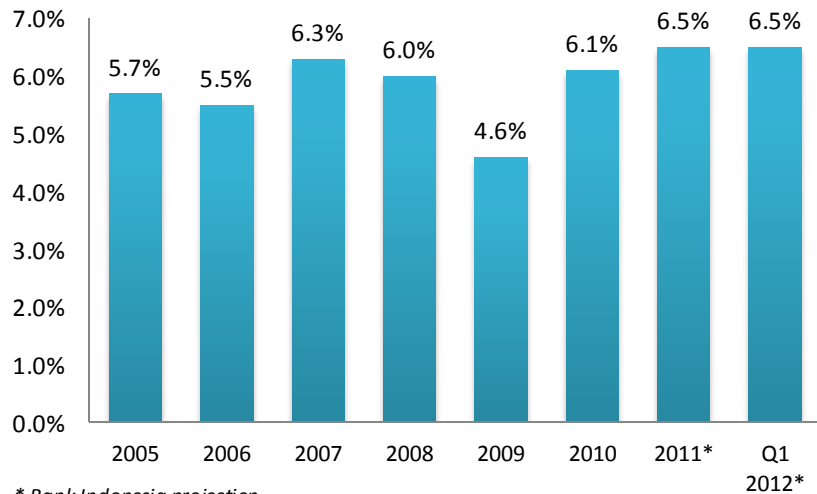


# Executive Summary

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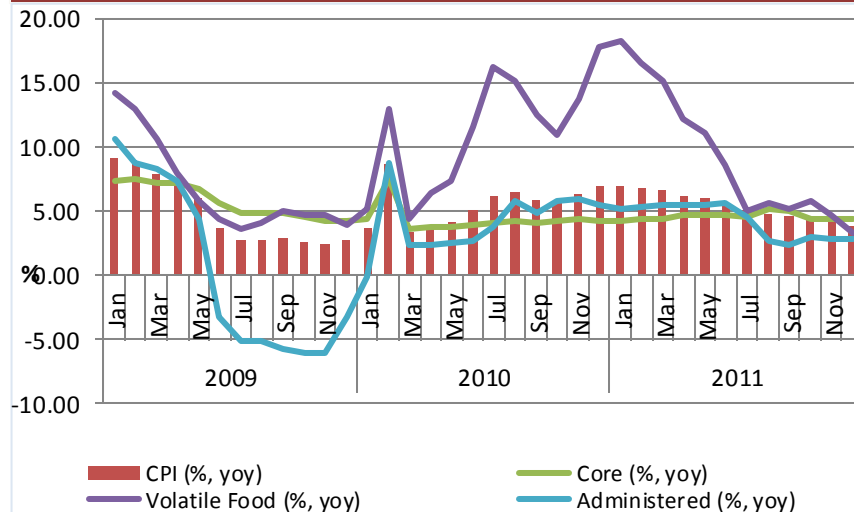
# Macroeconomic Overview

## GDP Growth

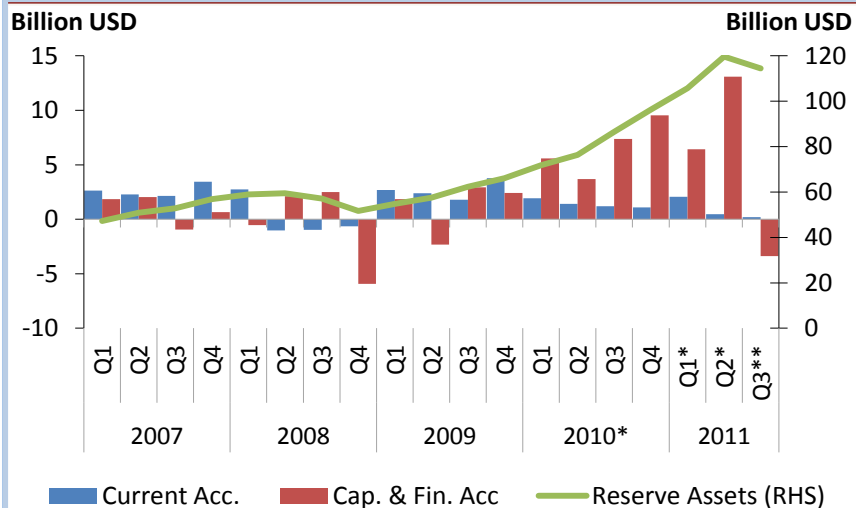


\* Bank Indonesia projection

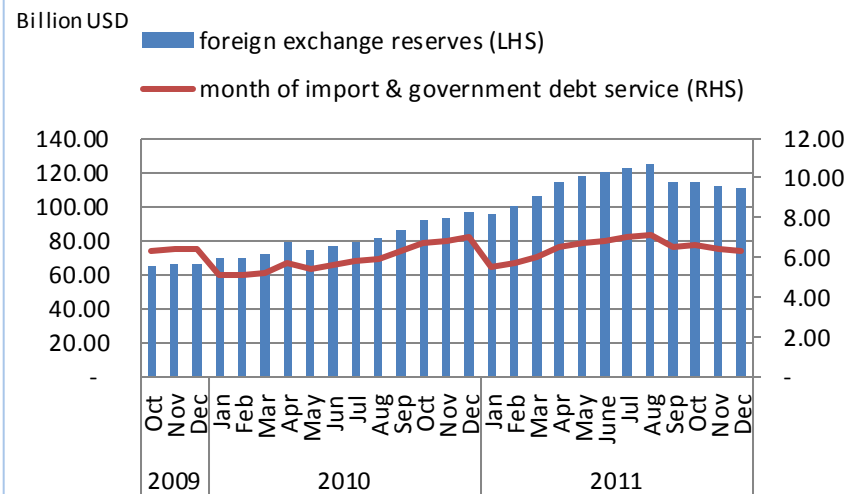
## Inflation



## Balance of Payments



## Foreign Exchange Reserves



# Executive Summary

- **The Indonesian economic growth in 2011 remains strong supported by well-maintained macroeconomic and financial system stability.** The economy is predicted to grow by 6.5% in 2011, higher than that in the previous year at 6.1%. This growth is bolstered by strong private consumption and investment along with good export performance.
- **Investment realization up to the 3<sup>rd</sup> quarter of 2011 spurred optimism that the full year target of Rp240 trillion is achievable.** The investment realization on the 3<sup>rd</sup> 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 realization and Rp 129.0 trillion from foreign direct investment realization.
- **Indonesia balance of payments in 2011 is forecasted to record a considerable surplus despite facing pressures on the second half of 2011.** The pressure was mainly occurred in the capital and financial transactions in line with the increasing uncertainty of financial markets and the global economy. The International reserves at the end of December reached 110.1 billion U.S. dollars, equivalent to 6.3 months of imports and external debt services of the Government.
- **The Inflation in 2011 was recorded at 3,79%, decreased sharply from inflation in 2010 (6,96%) and slightly lower than inflation target at 5%±1% (yoy).** The CPI in December 2011 recorded at 0.57% (mtm) or 3.79% (yoy). Low inflation pressures was associated with a relatively stable core inflation, low volatile food prices inflation, and minimum administered prices inflation. Combined policies taken by the central bank and government had helped inflation to ease.
- **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 well maintained** as indicated by the Financial Stability Index, which were below the threshold of 2 (1.63 on December 2011). Supported by various policies implemented by Bank Indonesia, banking industry has been more resilient, as indicated by secure level of capital adequacy ratio (CAR) above the minimum level of 8% (16.6% end of November 2011) and gross non-performing loans (NPLs) managed at comfortably safe level below 5% (3.0% end of November 2011).
- **In the Board of Governors' Meeting convened on January 12th, 2012, Bank Indonesia decided to keep BI Rate unchanged at 6.0%.** Board of Governors views that current BI Rate is still consistent with inflation targets, financial system stability, and remains conducive to propel domestic economic expansion amidst global economic uncertainty. In 2011, Indonesian economy showed strong performance with low inflation, higher economic growth, stable exchange rate, and stable financial system. Going forward, Bank Indonesia will 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

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# Indonesia Story: as 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.**

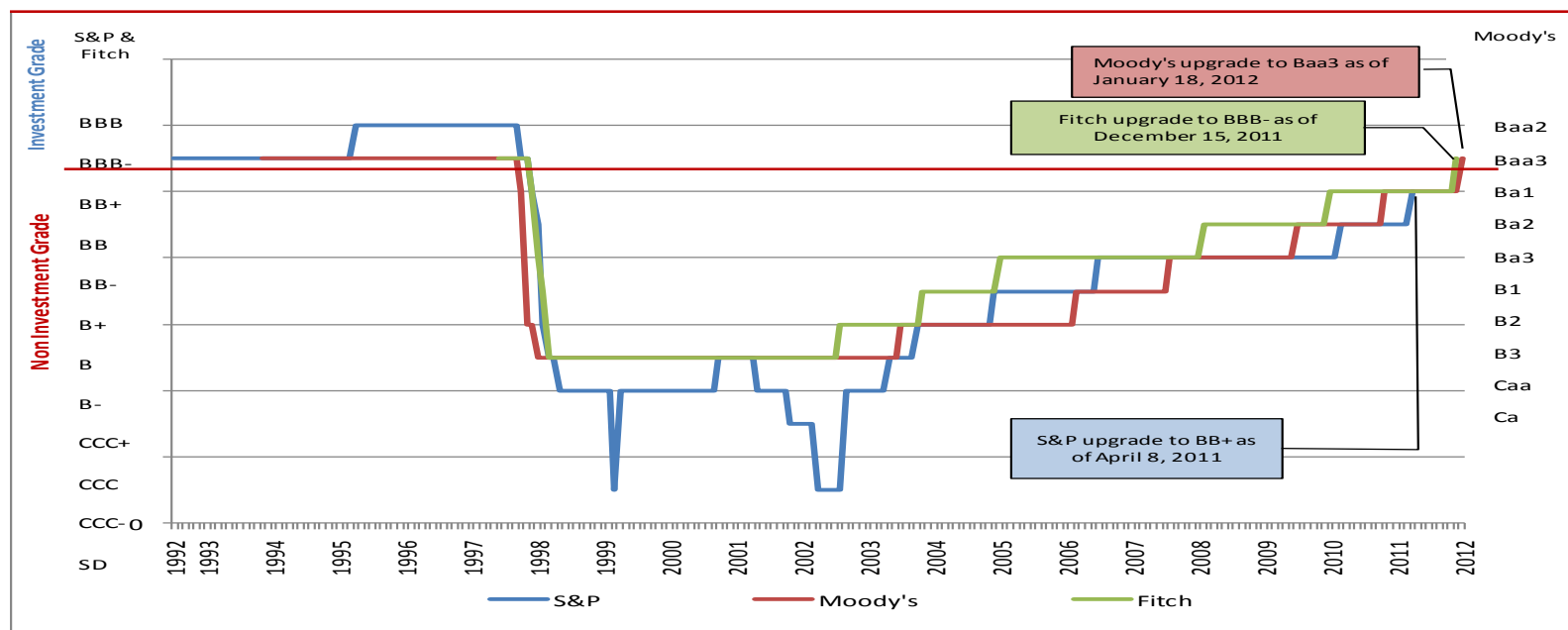
- **Moody's Investors Service (January 18, 2012): upgraded Republic of Indonesia's foreign and local-currency bond ratings to Baa3 with stable outlook.** Moody's stated the key factors supporting this action were (1) Moody's anticipation that government financial metrics will remain in line with Baa peers (2) The demonstrated resilience of Indonesia's economic growth to large external shocks (3) The presence of policy buffers and tools that address financial vulnerabilities and (4) A healthier banking system capable of withstanding stress.
- **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.



# Sovereign Rating History

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

## Rating history



## Rating agencies comments

**Moody's – 18 January 2012**

**Baa3/ Stable**

"Indonesia's cyclical resilience to large external shocks points to sustainably high trend growth over the medium term. A more favorable assessment of Indonesia's economic strength is underpinned by gains in investment spending, improved prospects for infrastructure development following key policy reforms, and a well-managed financial system."

**S&P – 08 Apr 2011**

**BB+ / Positive**

"The rating upgrade reflects continuing improvements in the government's balance sheet and external liquidity, against a backdrop of a resilient economic performance and cautious fiscal management."

**Fitch – 15 December 2011**

**BBB- / Stable**

"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."

# Improving International Perception: Significant Raise in Perception Indices

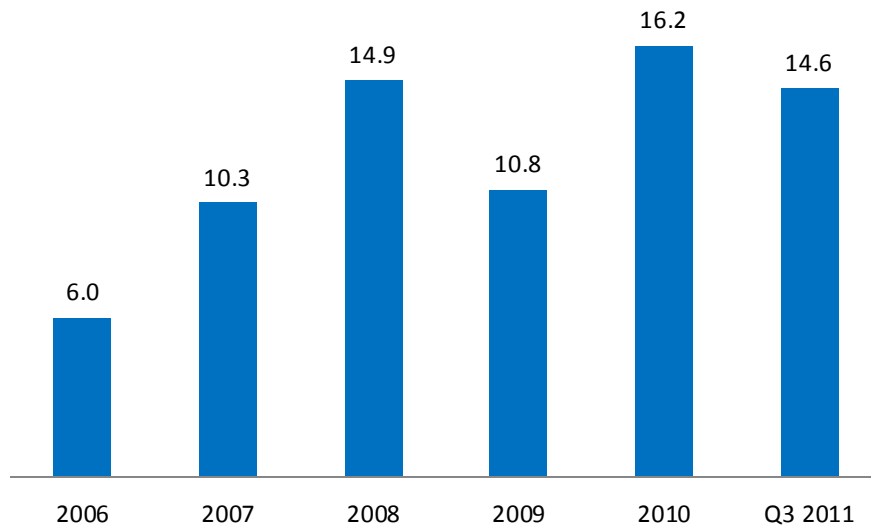
## Conducive business climate improvement to support optimism in FDI inflows

- **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.
- **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.
- **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.
- **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.
- **The IMD Competitive Center (May 19, 2010) reports a major improvement in Indonesia's global competitiveness, with Indonesia moving up from 42<sup>nd</sup> to 35<sup>nd</sup> 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.

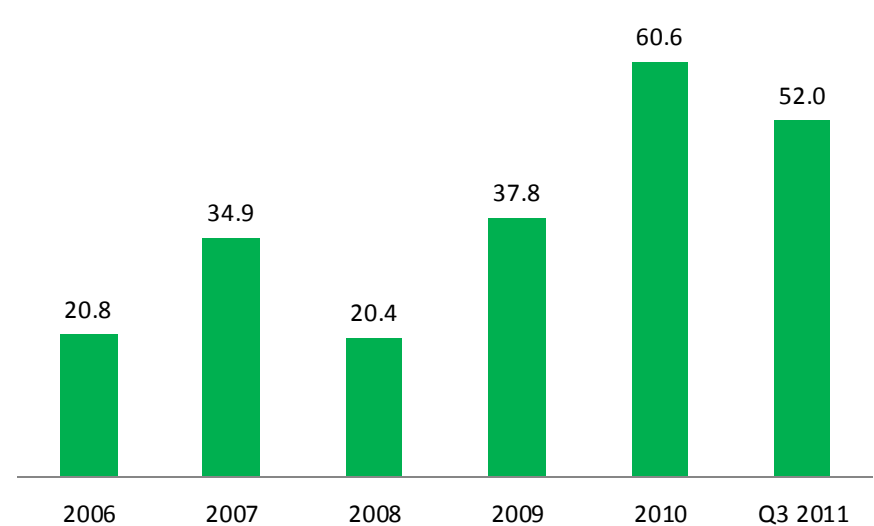
# Strong investment underpinned by competitiveness and stability

- The investment realization on the 3<sup>rd</sup> 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 realization and Rp 129.0 trillion from foreign direct investment realization.
- The distribution of project location in the 3<sup>rd</sup> 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)**

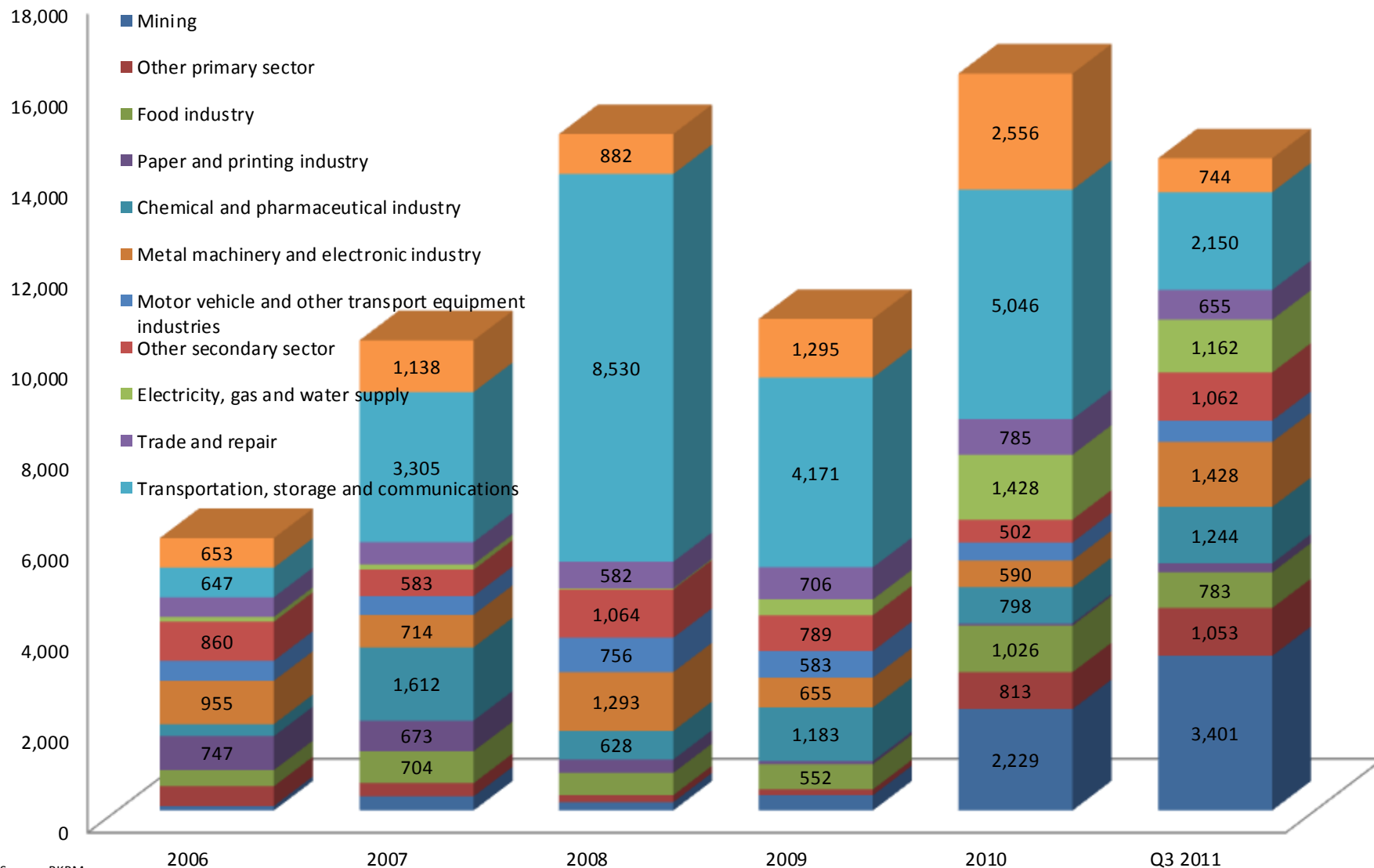


Source: BKPM

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

# Strong investment underpinned by competitiveness and stability

FDI – By Sector (USD million)





# Preserved Macroeconomic Stability

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# Robust and Stable Economy Continues to Chart Strong Growth

- **The Indonesian economic growth in 2011 remains strong along with well-maintained macroeconomic and financial system stability.** In the 4<sup>th</sup> 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 strong private consumption and investment along with good export performance.

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

\* Bank Indonesia Projection

Economic Growth - Supply Side												
Sector	2010	2011				2011*	2012*				2013*	
		I	II	III	IV*		I*	Total*				
Agriculture	2,9	3,7	3,9	2,7	2,0	3,1	2,9	3,1	-	3,5	3,0	- 3,4
Mining and Quarrying	3,5	4,2	0,8	0,3	0,4	1,4	0,8	0,8	-	1,2	0,8	- 1,2
Manufacturing	4,5	5,0	6,1	6,6	6,4	6,1	5,8	5,6	-	6,0	5,6	- 6,0
Electricity, Gas, and Water Supply	5,3	4,3	3,9	5,2	5,1	4,6	4,4	4,6	-	5,0	4,9	- 5,3
Construction	7,0	5,3	7,6	6,4	6,5	6,4	6,4	8,2	-	8,6	9,5	- 9,9
Trade, Hotels, and Water Supply	8,7	8,0	9,6	10,1	9,9	9,4	9,9	9,3	-	9,7	9,3	- 9,7
Transportation and Communication	13,5	13,7	10,7	9,5	10,2	10,9	10,4	9,9	-	10,3	9,9	- 10,3
Financial, Rental, and Business Services	5,7	7,3	6,9	7,0	7,0	7,0	7,5	6,8	-	7,2	6,9	- 7,3
Services	6,0	7,0	5,7	7,8	7,0	6,9	6,8	6,5	-	6,9	6,1	- 6,5
GDP	6,1	6,5	6,5	6,5	6,5	6,5	6,5	6,3	-	6,7	6,4	- 6,8

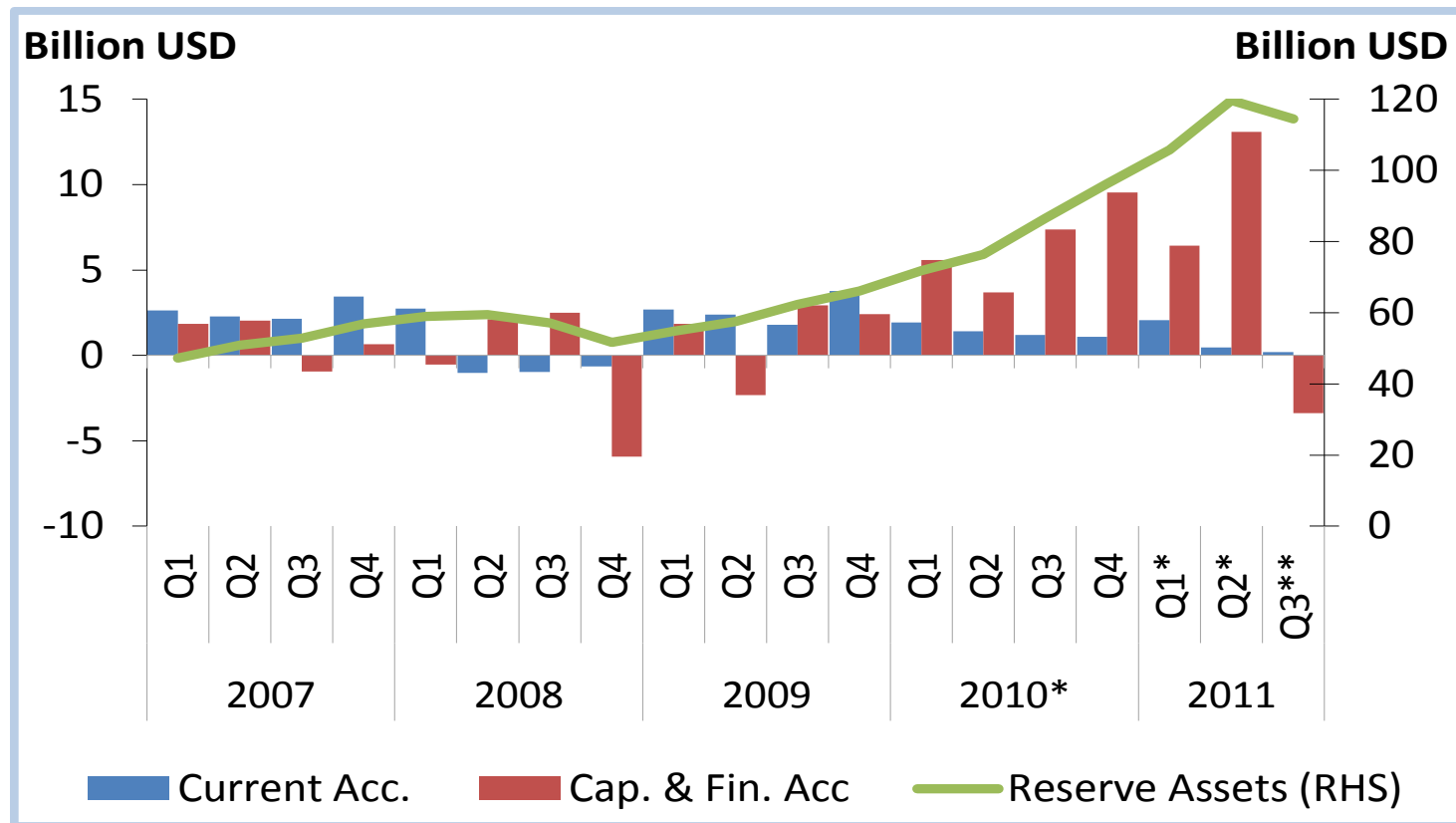
\* Bank Indonesia Projection

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 December 2011 reached US\$110.1, sufficient for 6.3 months of imports and official external debt service payments.

## Balance of Payments

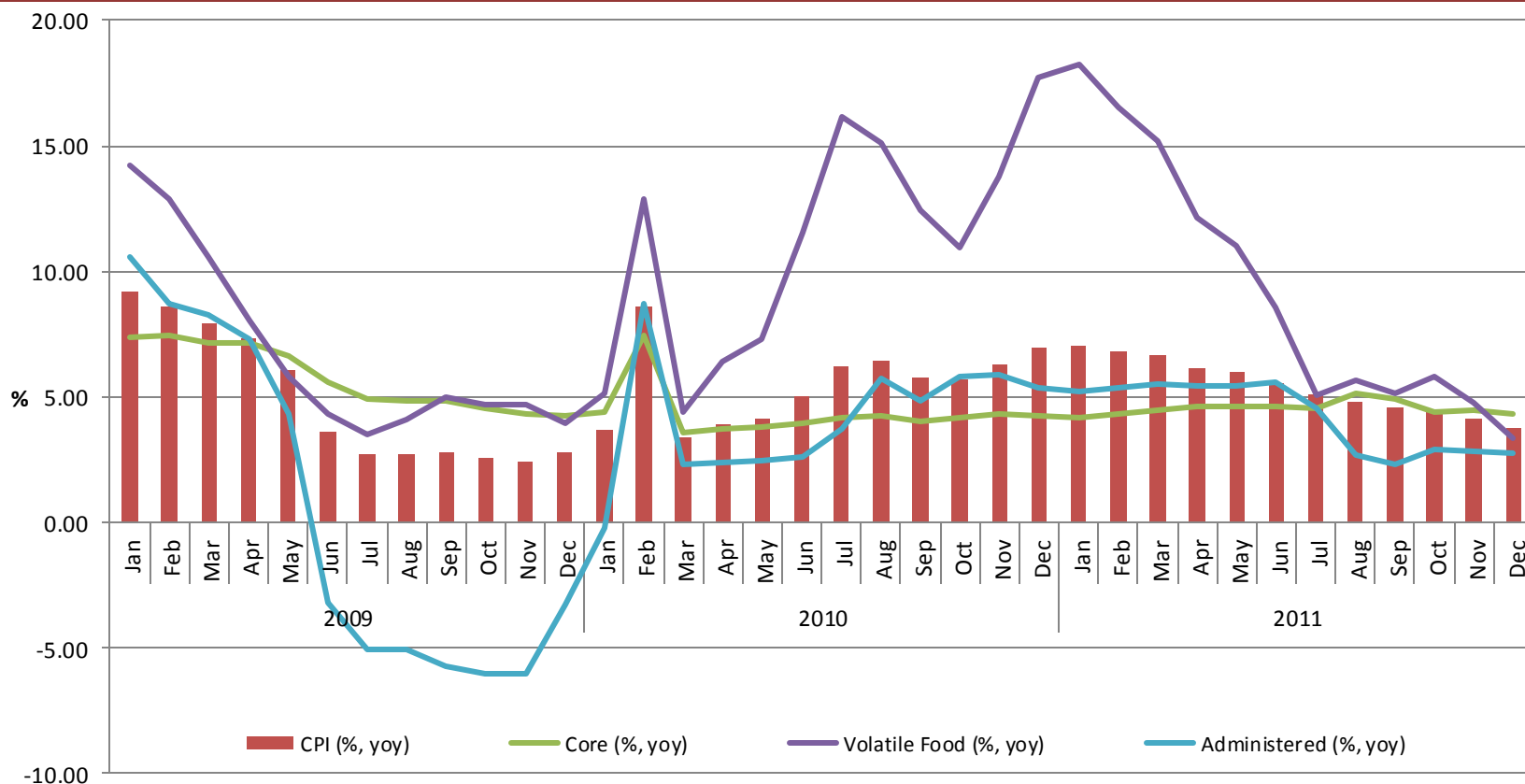


Source: Bank Indonesia

# The Inflation Pressures Tend To Decline

- **The Inflation in 2011 was recorded at 3,79%, %, decreased sharply from inflation in 2010 (6,96%) and slightly lower than inflation target at 5%±1% (yoy).** The CPI in December 2011 recorded at 0.57% (mtm) or 3.79% (yoy). The key factors for low inflation are relatively stable core inflation, low volatile food prices inflation, and minimum administered prices inflation. Stable core inflation was supported by monetary and exchange rate policy in managing demands, imported inflation, and expected inflation. On the other hand, low inflation of volatile food prices was supported by government policy in securing adequate supply and distribution, as well as food prices stabilization. Meanwhile, fiscal policy on energy subsidy resulted in low administered prices inflation. The collaboration between Bank Indonesia and the government in controlling inflation is also supported by a better coordination, among others, through inflation taskforce at national and regional level.

Inflation – by component



Source: Bank Indonesia



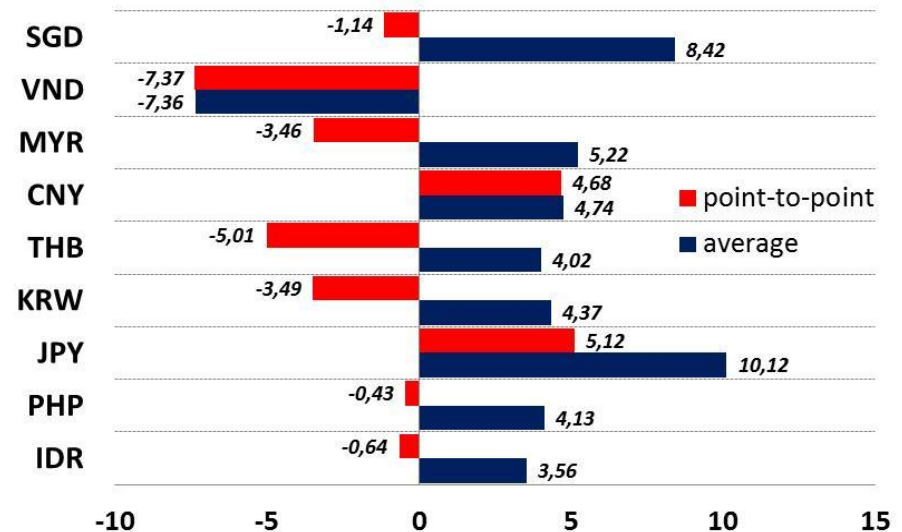
# Exchange Rate

**For the whole year 2011, the average of rupiah exchange rate appreciated by 3.56% compared to the average in 2010.** Depreciation pressures in the second half of 2011 were mainly driven by worsening market sentiments due to debt crisis in Europe. In addition, high demand of foreign exchange for domestic needs, among others due to increased imports, also put pressures on Rupiah in the second half of 2011. Bank Indonesia has implemented a number of policies (i.e foreign exchange intervention) to mitigate the pressures on Rupiah exchange rate that it remains in line with fundamentals and exchange rate competitiveness of other currencies in the region. To maintain the stability of domestic markets, Bank Indonesia continues to monitoring the developments of Rupiah and ensures the adequacy of Rupiah and foreign exchange liquidity.

Rupiah Exchange Rate



Yearly Appre/Depr 2011

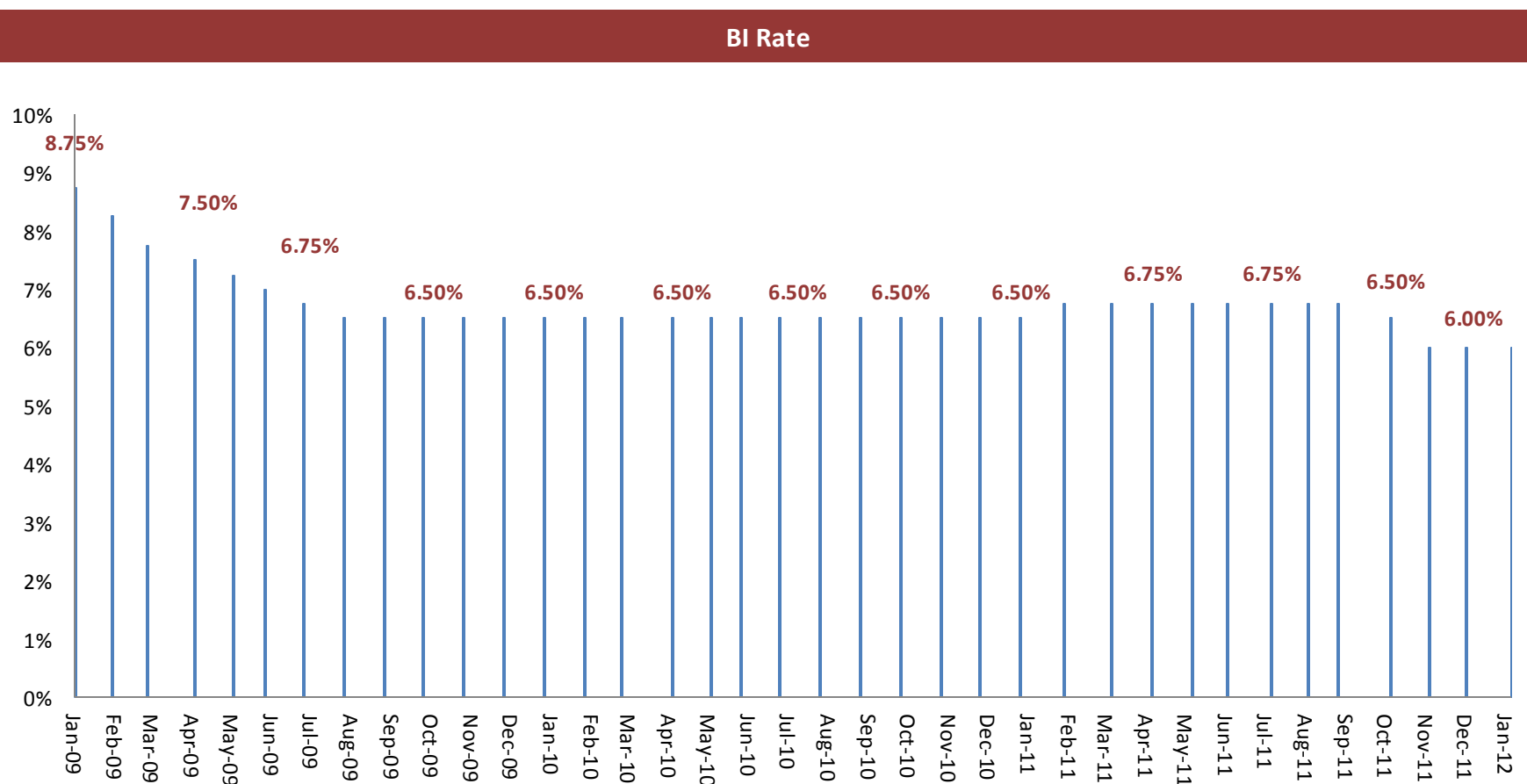


Source: Bank Indonesia.

# Monetary Policy Stance

- **In the Board of Governors' Meeting convened on January 12th, 2012, Bank Indonesia decided to keep BI Rate unchanged at 6.0%.**

Board of Governors views that current BI Rate is still consistent with inflation targets, financial system stability, and remains conducive to propel domestic economic expansion amidst global economic uncertainty. In 2011, Indonesian economy showed strong performance with low inflation, higher economic growth, stable exchange rate, and stable financial system. Going forward, Bank Indonesia will continue 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.



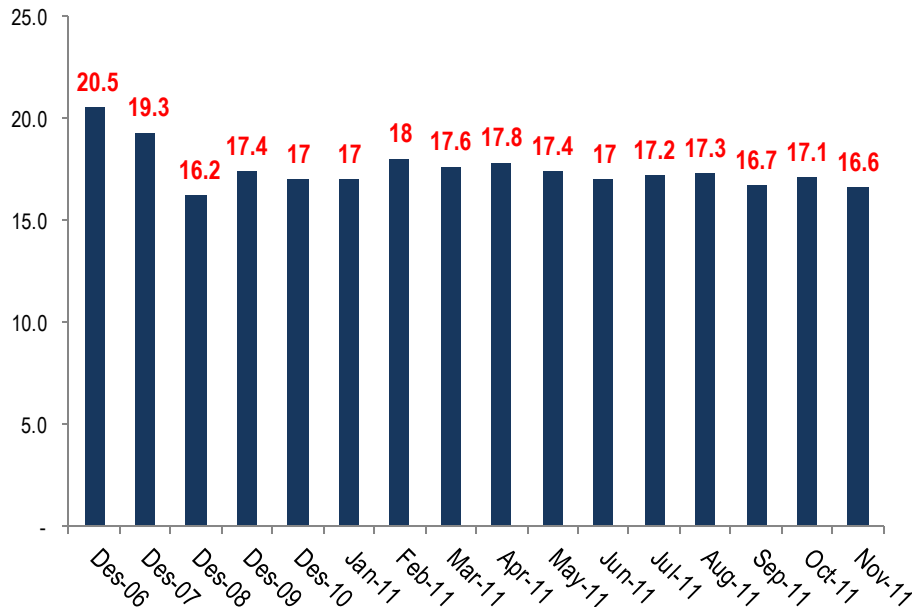
Source: Bank Indonesia.

# Sound Financial Sector

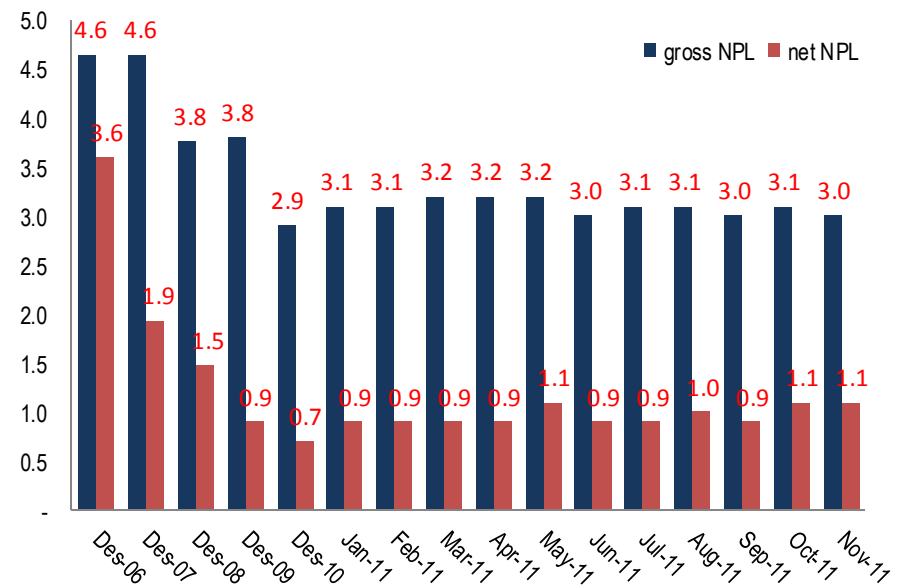
Stability in the banking system remains firm alongside steady improvement in credit growth

- Financial System Stability has been maintained as indicated by the **Financial Stability Index** which were well below the threshold of 2 (1.63 on December 2011).
- Supported by various policies implemented by Bank Indonesia, banking industry has been more resilient, as indicated by secure level of capital adequacy ratio (CAR) above the minimum level of 8% (16.6% end of November 2011) and gross non-performing loans (NPLs) managed at comfortably safe level below 5% (3.0% end of November 2011).

Sufficient CAR (%)



Sound level of NPLs (%)



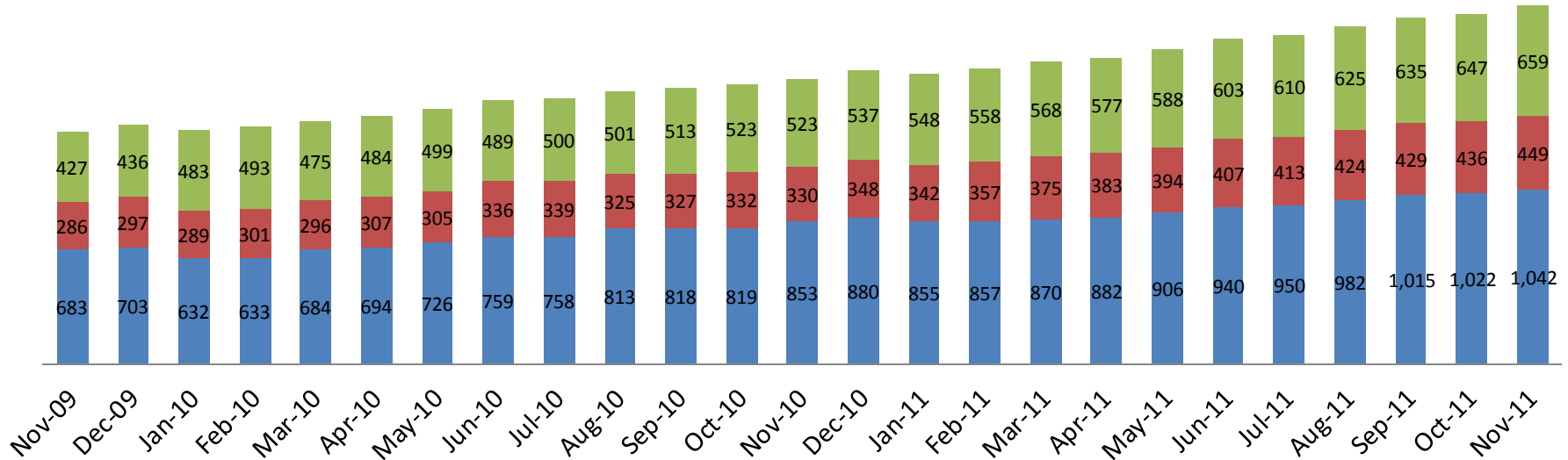
Source: Bank Indonesia

# Banking Intermediation

- Further improvement in banking intermediation is also reflected in progressively improving credit growth, recorded in November 2011 at 26.0% (yoy), in which investment credit, working capital credit, and consumption credit grew by 36.0% (yoy), 22.2% (yoy), and 26.0% (yoy), respectively.
- Bank Indonesia will keep monitoring banking sector condition and improve sector efficiency so that the intermediation function can be optimized.

## Steady loan growth

■ Working Capital loans ■ Investment Loans ■ Consumption Loans



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	Nov-11
<b>Total Asset (T Rp)</b>	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	3.569,9
<b>Deposits (T Rp)</b>	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	2.644,7
- 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	616,5
- 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	827,7
- 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	1.200,6
- 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	2.180,5
<b>Capital Adequacy Ratio (%)</b>	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	16,6
<b>NPL Gross (%)</b>	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	3,0
<b>NPL Gross (without channeling) (%)</b>	-	-	-	2,6	2,8	2,8	2,8	2,8	2,9	2,7	2,8	2,8	2,7	2,7	2,5
<b>Net Non Performing Loans (%)</b>	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	1,1
<b>Return on Assets (%)</b>	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	3,1
<b>Net Interest Margin (%)</b>	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	5,9
<b>Ops. Expense/Ops. Income (%)</b>	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	79,0
<b>Loan to Deposit Ratio (%)*</b>	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	81,3
<b>No. of Banks</b>	130	124	121	122	121	121	121	121	121	121	120	120	120	120	120

\*) w ithout channeling

Source: Bank Indonesia



# Prudent Fiscal Management

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# 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) bureaucracy 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

# The 2012 Budget Highlight

(trillion rupiah)

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



# Summary of Macroeconomic Assumptions

Macroeconomic Assumption	2011	2012	
	Revised Budget	Proposed Budget	Agreement with Budget Committee (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



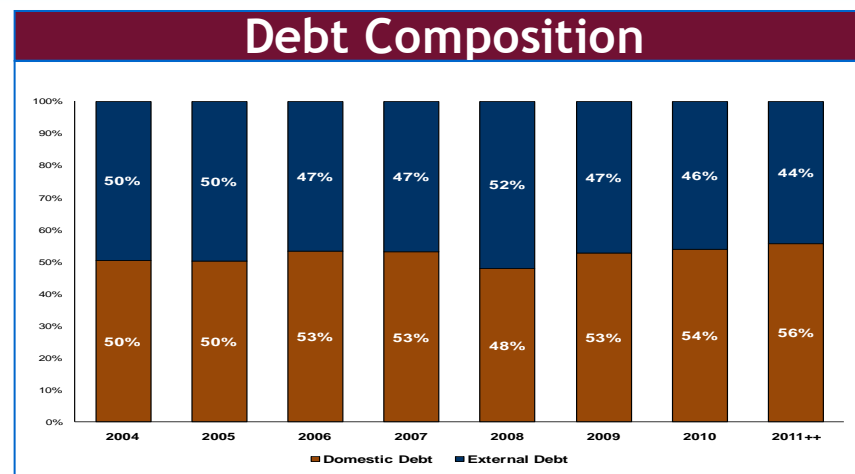
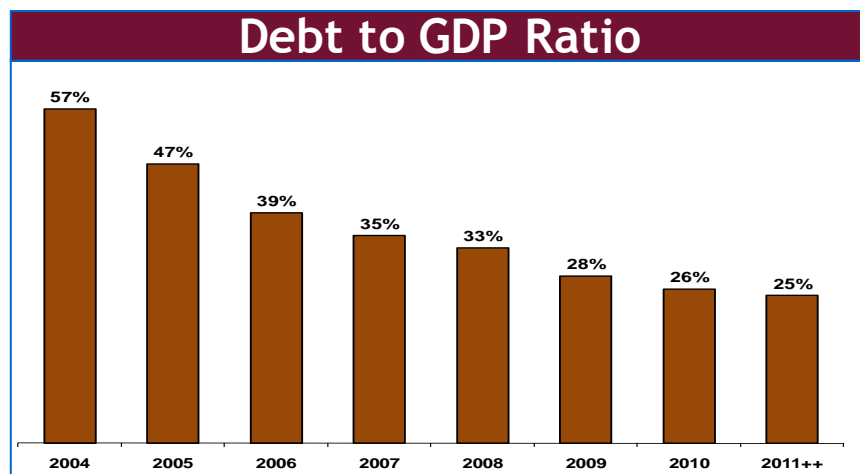
## **Improved Government Debt Position**

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# 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**

# Debt To GDP



#### Notes:

Based on debt outstanding as of June 2011

\* = Preliminary, GDP Number Based on Revised Budget 2011 Assumption

## Table of Debt to GDP Ratio

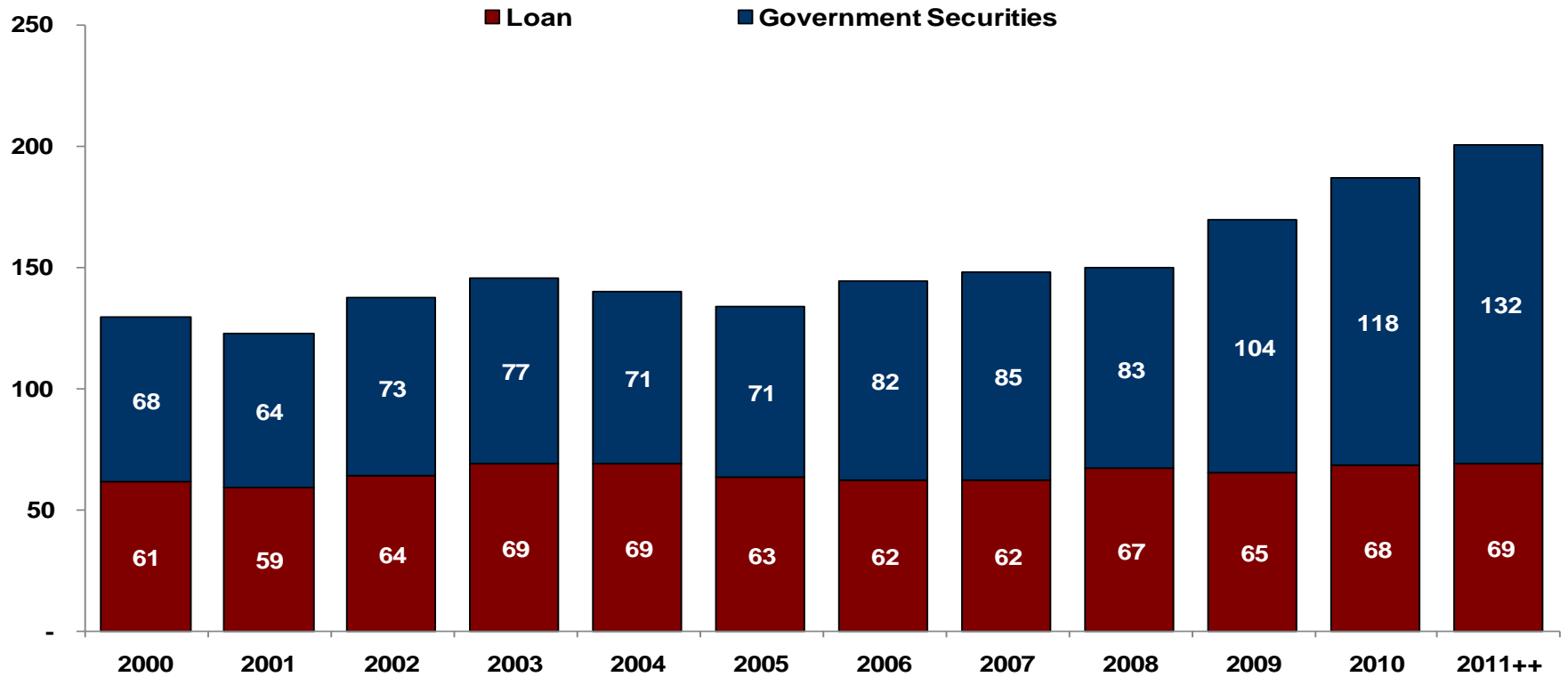
	End of Year							
	2004	2005	2006	2007	2008	2009	2010	2011++
<b>GDP</b>	<b>2.295.826,20</b>	<b>2.774.281,00</b>	<b>3.339.480,00</b>	<b>3.949.321,40</b>	<b>4.954.028,90</b>	<b>5.613.441,74</b>	<b>6.422.918,20</b>	<b>6.888.149,80</b>
Debt Outstanding (billion IDR)	1.299.504,02	1.313.294,73	1.302.158,97	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
<b>Debt to GDP Ratio</b>	<b>56,60%</b>	<b>47,34%</b>	<b>39%</b>	<b>35%</b>	<b>33%</b>	<b>28%</b>	<b>26%</b>	<b>25%</b>
- 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]

# Outstanding of Total Central Government Debt



[in percentage]

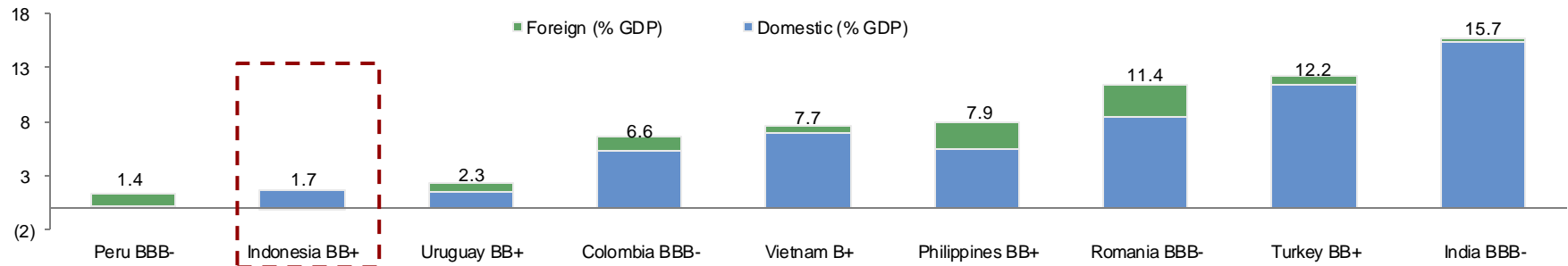
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011++
Loan	47%	48%	47%	47%	49%	47%	43%	42%	45%	38%	37%	34%
Government Securities	53%	52%	53%	53%	51%	53%	57%	58%	55%	62%	63%	66%
Total Central Government Debt	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

+ Preliminary numbers, as of June, 2011

# 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)<sup>1</sup>

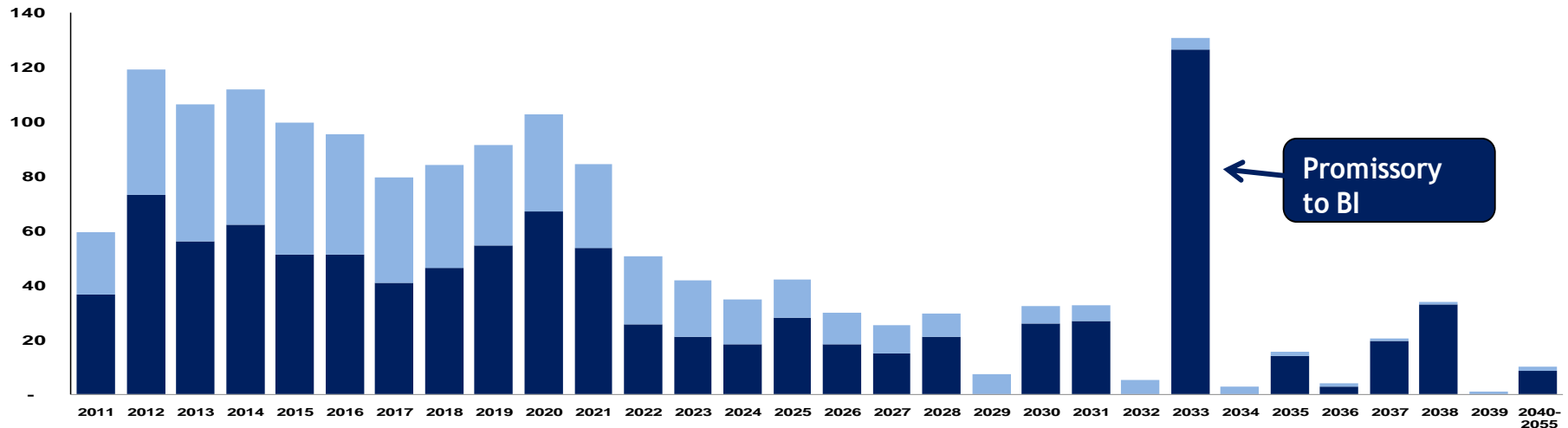


Source: Individual Fitch Reports; Ministry of Finance; \*Indonesia IMF GDP

<sup>1</sup> Calculations include debt servicing

## Debt maturity profile

[Trillion IDR]



Notes:

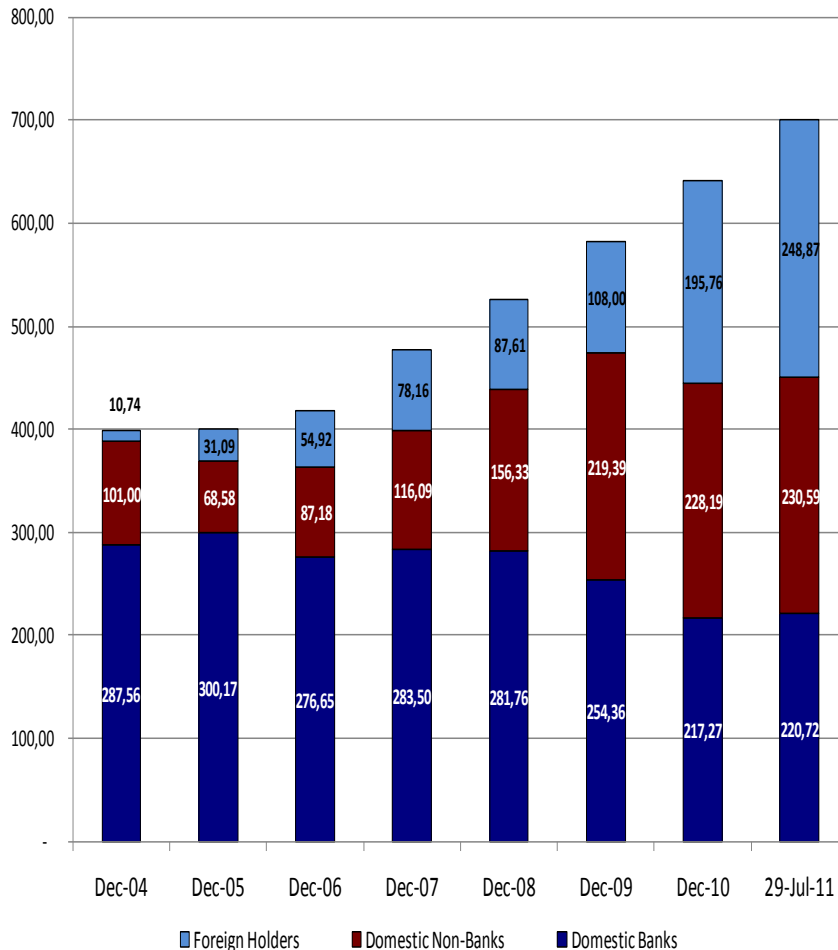
- Preliminary, as of June, 2011
- Excluding a mortization of Non Tradable Securities (SUN-002, SU-004, and SU-007)

Source: Ministry of Finance and Bank Indonesia

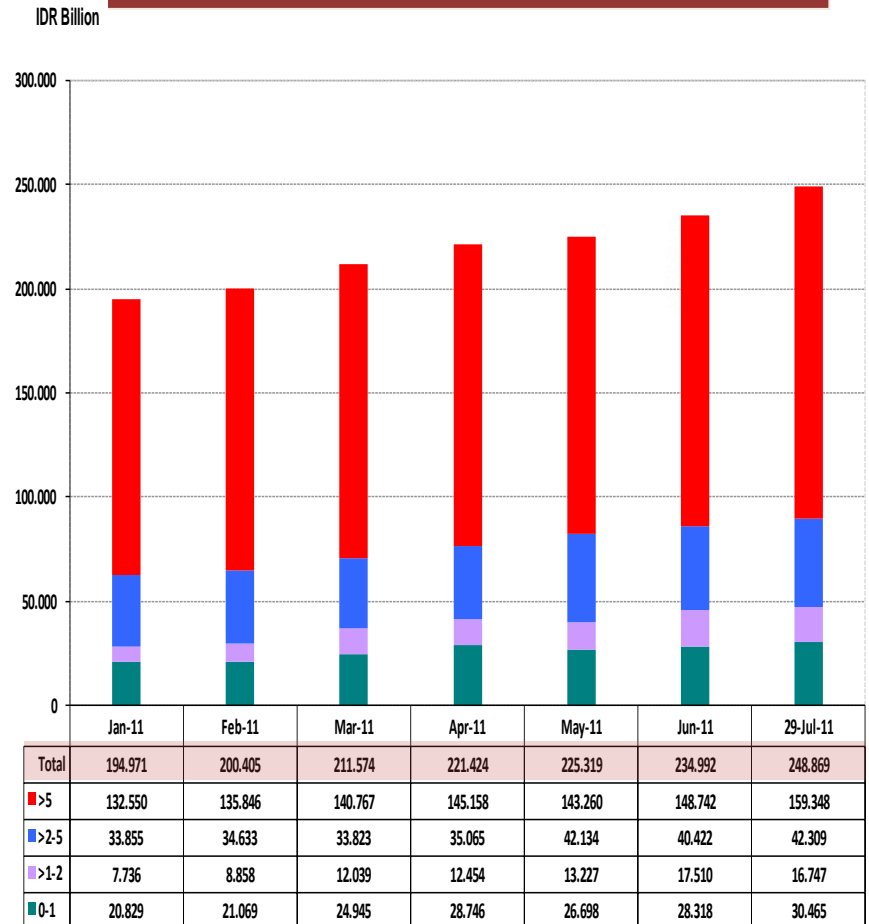
# Robust domestic bond market

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

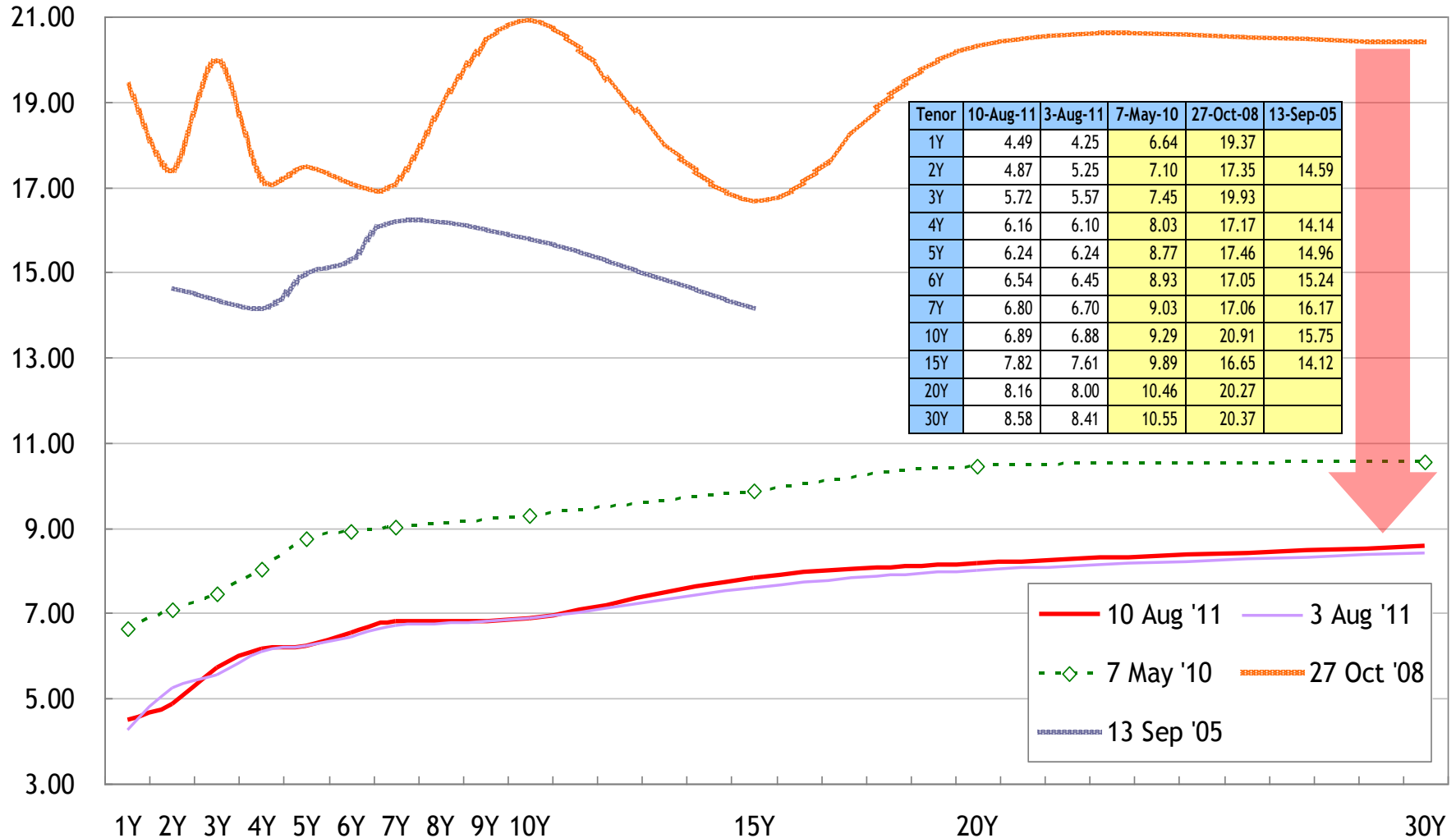


Source: Ministry of Finance

# Declining local borrowing rates

IDR Government Bonds : Yield Curve (IDMA)

[in percentage]



Sources: IDMA, Bloomberg



# Bond Stabilization Framework

BSF is strategies to anticipate the negative impact of sudden reversal

## Short - Term Program

## Medium - 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-crisis 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

e

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