

The Republic of Indonesia

# Recent Economic Developments



April 2013

# About Investor Relations Unit (IRU)



## ABOUT THE REPUBLIC OF INDONESIA INVESTOR RELATIONS UNIT

The Republic of Indonesia Investor Relations Unit (IRU) has been established as the joint effort between the Coordinating Ministry of Economic Affairs, Ministry of Finance and Bank Indonesia in 2005. The main objective of IRU is to actively communicate Indonesian economic policy and address concerns of investors, especially financial market investors. IRU is expected to serve as a single point of contact for the financial market participants.

As an important part of its communication measures IRU maintains a website under Bank Indonesia website which is being administered by the International Department of Bank Indonesia. However, investor relations activities involve coordinated efforts which are supported by all relevant government agencies, namely Bank Indonesia, the Ministry of Finance, the Coordinating Ministry for Economic Affairs, Investment Coordinating Board, Ministry of Trade, Ministry of Industry, State Ministry of State Owned Enterprises, Asset of State Management Company and the Central Bureau of Statistics.

IRU also holds an investor conference call on a quarterly basis, answers questions through email, telephone and may arrange direct visits of banks/financial institutions to Bank Indonesia and other relevant government offices.

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## Executive Summary

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# Executive Summary

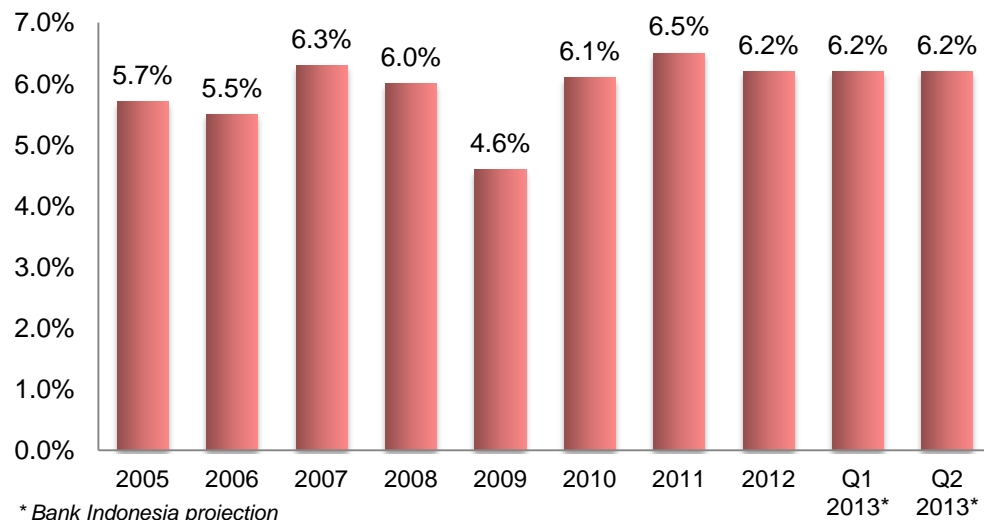


- **Indonesia's economy in Q2-2013 is forecasted to reach 6.2%, relatively equal to previous quarter.** Consumption grows quite strong as consumer confidence and purchasing power improved. Economic growth is forecasted to arrive at 6.2% -6.6% in 2013.
- **Investment realization in the 1<sup>st</sup> quarter (January - March 2013) still solid** for both Domestic Direct Investment (DDI) and Foreign Direct Investment (FDI), reflecting Indonesia's solid fundamentals and positive sentiment from investors part. The distribution of investment activities outside Java island was also increased, which create more added values of domestic goods/services in order to accelerate the quality of national economic growth.
- **Indonesia's external balances improved in Q4/2012. During the quarter, the balance of payments booked a US\$3.2 billion surplus, higher than previous quarter surplus of US\$0.8 billion.** The improvement in the balance of payments performance resulted from increase in the capital and financial account surplus that surpassed mounting current account deficit. In response, international reserves at the end of February 2013 reached US\$105.2 billion, equivalent to 5.7 months of imports and government's external debt services.
- **Inflation in March 2013 recorded at 0.63% (mtm) and 5.9%(yoy).** Supported by a sound policy mix, together with increasingly close coordination with the government, inflation in 2013 is expected to remain controlled within its target corridor of 4.5%±1%.
- **On the fiscal front, Indonesia continues to perform prudent fiscal management in 2012** 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. 2012 budget deficit realization is maintained at a safe level of 1.77% of GDP (unaudited).
- **Financial system stability remained solid with improved intermediation function within prudential manner** as indicated by secure level of capital adequacy ratio (CAR) is well above minimum level of 8% and gross non-performing loan (NPL) below 5%. In February 2013, credit growth charted 23.4% (yoy). Considering the type of loan, investment loan recorded the highest growth of 25.4% (yoy), in line with the increase in investment.
- **In the Board of Governors' Meeting convened on 11 April 2013, Bank Indonesia decided to hold the BI rate steady at 5.75%** in which considered consistent with low inflation forecast and contained within its target range of 4.5%±1% in 2013 and 2014. Bank Indonesia believes that the implementation of policy mix together with strengthen coordination with the Government will be able to maintain macroeconomic stability and sustainable economic growth.

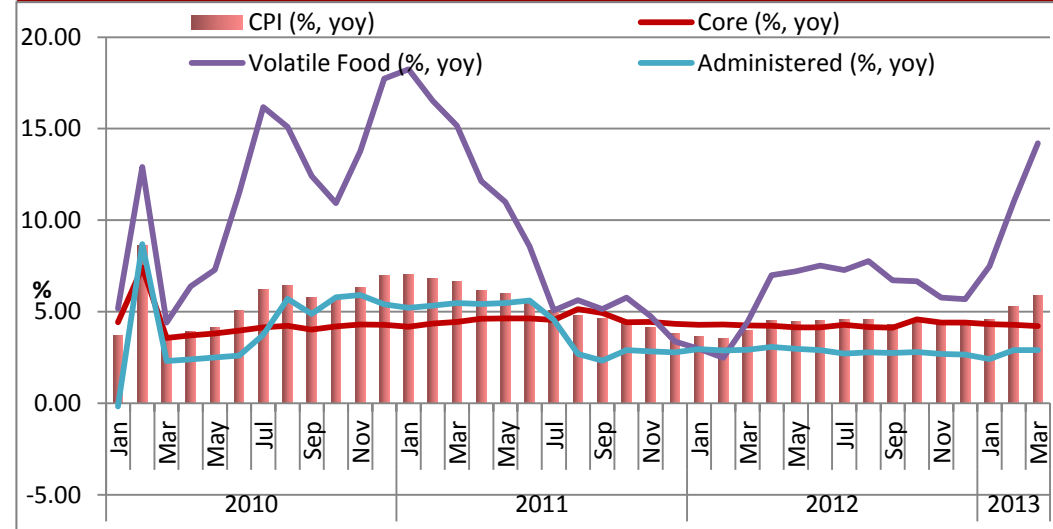
# Executive Summary



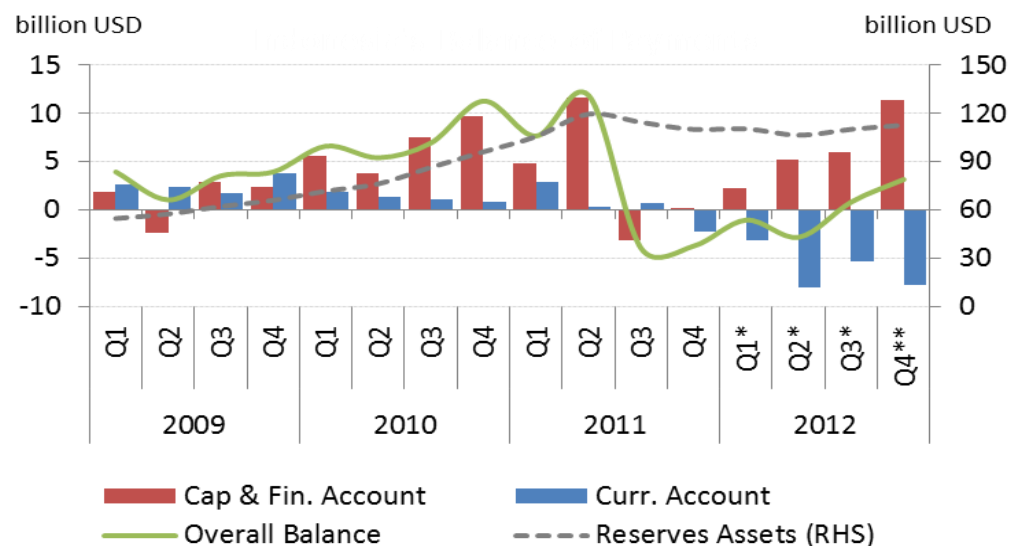
## GDP Growth



## Inflation



## Balance of Payments



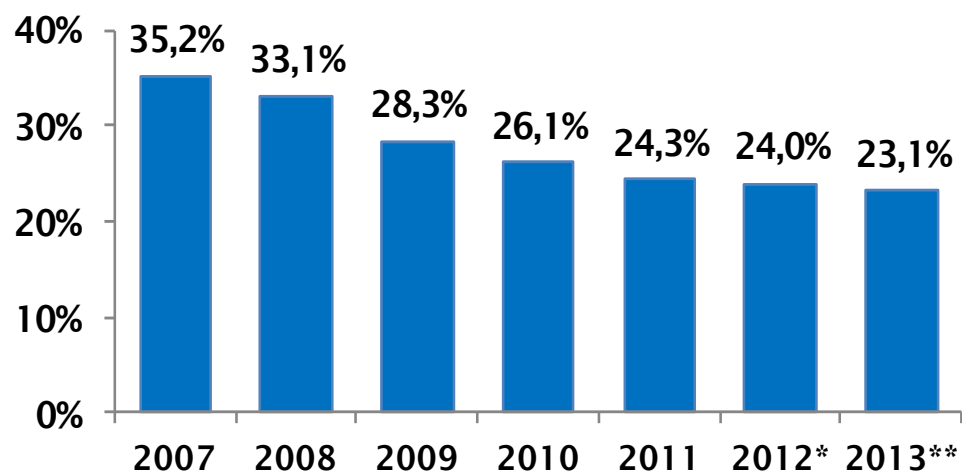
## Foreign Exchange Reserves



# Executive Summary



Debt to GDP Ratio (% of GDP)



Debt Composition

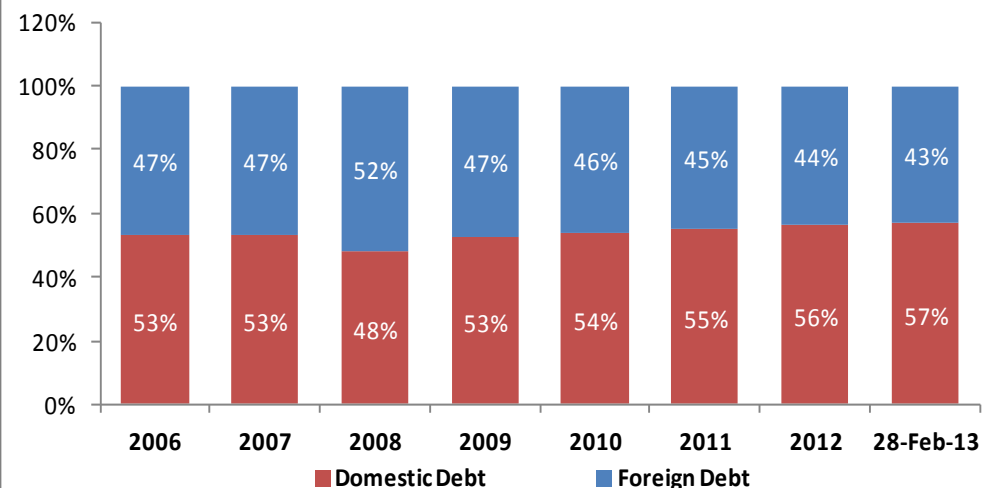


Table of Debt to GDP Ratio

	End of Year						
	2006	2007	2008	2009	2010	2011	2012
GDP	3.339.217,0	3.950.894,0	4.948.689,0	5.603.870,8	6.422.918,2	7.427.086,1	8.241.864,3
Debt Outstanding (billion IDR)	1.302.159,0	1.389.415,0	1.636.740,7	1.590.386,0	1.676.852,1	1.808.946,8	1.975.421,8
- Domestic Debt (Loan+Securities)	693.118,0	737.125,5	783.855,1	836.318,0	902.599,8	993.038,2	1.097.993,2
- Foreign Debt (Loan+Securities)	609.041,0	652.289,5	852.885,6	754.068,0	774.252,4	815.908,6	877.428,6
Debt to GDP Ratio	39,0%	35,2%	33,1%	28,4%	26,1%	24,4%	24,0%
- Domestic Debt to GDP Ratio	20,8%	18,7%	15,8%	14,9%	14,1%	13,4%	13,3%
- Foreign Debt to GDP Ratio	18,2%	16,5%	17,2%	13,5%	12,1%	11,0%	10,6%

\*: Realization December 2012 (unaudited)

\*\* : Budget 2013

Source: Ministry of Finance

# 2013 Policy Summary



## Government coordinates policy tools to maximize growth with macroeconomic management

### Revenue and tax policy

- An Increase of non-taxable income threshold by 54%, from Rp15.8 million to Rp24.3 million.
- Extend and widen tax base through tax extensification.
- VAT tariff adjustment for a number of luxury goods.
- Improve monitoring and service in custom & excise.
- Excise tax extensification and intensification.
- Fiscal incentives provision for strategic economic activities i.e. Hybrid and low carbon emission motor vehicles.

### Expenditure policy

- Prioritize capital expenditure allocation to support infrastructure development.
- Reallocate consumptive spending to more productive activities.
- Increase infrastructure spending to support energy and food security, domestic connectivity, and tourism.
- Redesign subsidy policy from price subsidy to targeted subsidy.
- Improve budget disbursement

### Monetary policy

- Keep policy rate unchanged at 5.75% since March 2012, this level considered to be consistent with inflation target
- Maintain IDR exchange rate stability
- Strengthen monetary policy by implementing monetary and macroprudential policy mix
- Deepening of the foreign exchange market

### Financing and debt management policy

- Prioritize funding from domestic market and financial institutions
- Debt instruments development
- Active government bonds portfolio management
- Selective external loan only for priority projects/needs
- Implementation of the Crisis Management Protocol and the establishment of Financial System Stability Coordination Forum (FKSSK)





## **Improved International Perception and Rising Investment**

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# Improving International Perception: Acknowledged by Rating Agencies



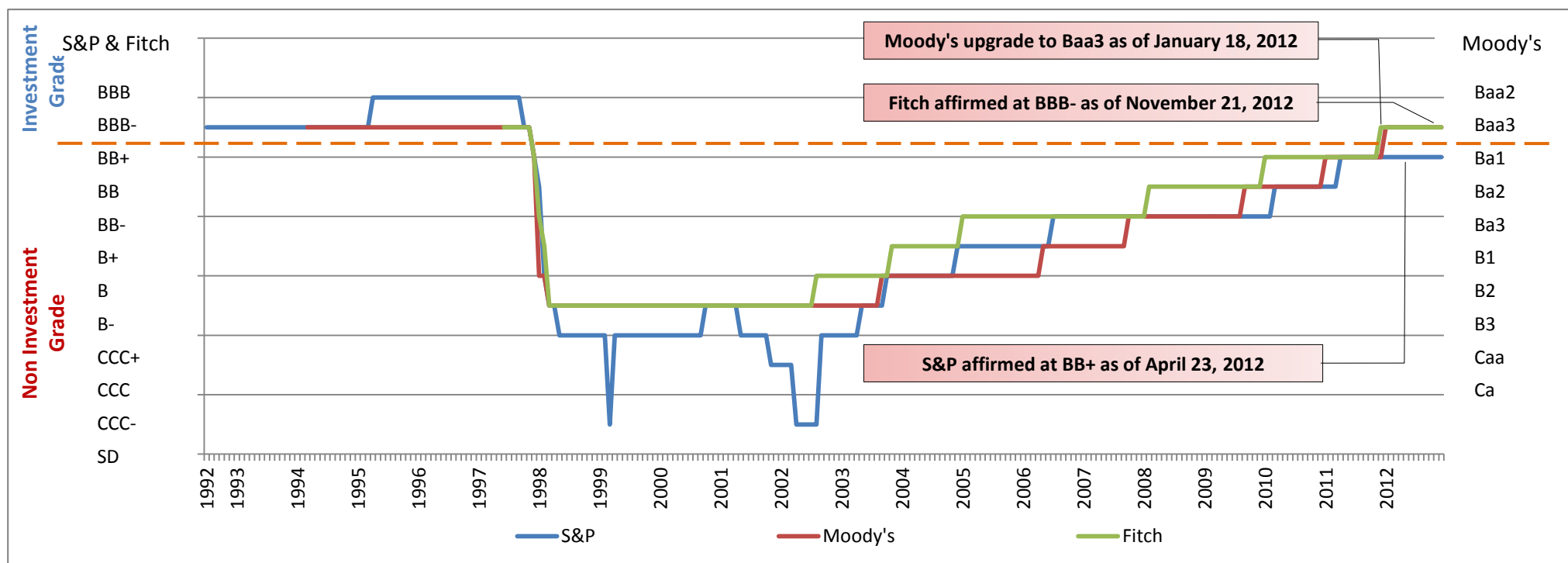
Resilient economy, which impressively navigates through the global crisis and continued confidence in economic outlook, the Republic continued to receive good reviews.

- **Fitch Ratings (November 21, 2012): affirmed Indonesia's sovereign credit rating at BBB- level with stable outlook.** The key factors supporting the decision of affirming Indonesia's sovereign credit rating are the relatively high economic growth that is resilient to the declining global condition, high investment rate, low and declining public debt ratios and the strong overall macroeconomic policy framework.
- **Japan Credit Rating Agency, Ltd (November 13, 2012): 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 key factors supporting the decision of affirmation the sovereign credit rating of Indonesia (1) the country's sustainable economic growth outlook underpinned by solid domestic demand, (2) low level of public debt burden brought by prudent fiscal management, (3) reinforced resilience to external shocks by its accumulated foreign exchange reserves.
- **Rating and Investment Information, Inc (October 18, 2012): upgraded Sovereign Credit Rating of the Republic of Indonesia to BBB-/stable outlook.** R&I stated key factors supporting the decision of upgrading the sovereign credit rating of Indonesia: (1) Indonesian economic resilience in achieving high growth amid the global economic downturn (2) conservative fiscal management (3) Government's debt burden is kept low and (4) financial system has become more stable.
- **S&P (April 23, 2012): affirmed Indonesia's sovereign credit rating, at BB+ level for long-term and B level for short-term with positive outlook.** S&P stated that the rating on Indonesia balances institutional and economic constraints with a moderately strong fiscal, external, and monetary profile. The positive outlook signals the potential for an upgrade if the country's growth prospects improve further and financial markets deepen with steadier policy implementation.
- **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.

# Sovereign Rating History



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



**Baa3/ Stable**

**Moody's – 18 January 2012**

*"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."*

**BB+ / Positive**

**S&P – 23 April 2012**

*"The rating on Indonesia balances institutional and economic constraints with a moderately strong fiscal, external, and monetary profile. The positive outlook signals the potential for an upgrade if the country's growth prospects improve further and financial markets deepen with steadier policy implementation."*

**BBB- / Stable**

**Fitch – 21 November 2012**

*"The key factors supporting the decision of affirming Indonesia's sovereign credit rating are the relatively high economic growth that is resilient to the declining global condition, high investment rate, low and declining public debt ratios and the strong overall macroeconomic policy framework."*

**Rating agencies comments**

# Positive Perceptions from International Institutions



## ▪ **McKinsey Report (The Archipelago Economy: Unleashing Indonesia's Potential), September 2012**

- Indonesia will be the 7th largest economy in the world in 2030, and additional 90 million Indonesians could join the global consuming class (individuals with net income of more than US\$ 3,600 per annum in PPP).
- Over the past decade, compared with any advanced countries in OECD and BRIC plus South Africa, Indonesia has had the lowest volatility in economic growth, fallen debt to GDP ratio (5th lowest), and third strongest economic growth after China and India.
- To achieve growth target, Indonesia needs to push labor productivity, address social gap issue and manage increasing demand.

## ▪ **IMF (Article IV Consultation), September 2012**

- Indonesian economic growth will remain solid, at 6 percent in 2012, but strong domestic demand may push inflation to 5 percent by end year.
- The main risks to the outlook stem from a sharper-than-envisaged slowdown in external demand and risk aversion spikes, stemming either from an intensification of the Euro area crisis or a hard landing in China.
- Overall, though, the economy's strong fundamentals and ample fiscal and reserve buffers should enable Indonesia to manage these risks.
- Fiscal reforms must become a priority by speed up budget implementation, and replace energy subsidies with direct cash assistance, to create infrastructure, health and education improvement.

## ▪ **OECD Economic Survey Indonesia, September 2012**

- The real GDP is projected to grow at 6,0% in 2012 and 6,2% in 2013, while the current account is projected to contract 0,8% in 2012 due to the imports growth especially for capital goods.
- The main risks to the short-term outlook are external. Increased global risk aversion, could reverse the capital inflows of the past few years, endangering the financing conditions for government and banks alike and cutting growth.
- The key challenges to achieving growth targets is raising infrastructure fund, social spending and tax revenue, also lowering energy subsidies. Further institutional and policy reform would boost productivity growth and help the government reach its objective of becoming one of the 10 largest economies in the world by 2025.



## Preserved Macroeconomic Stability

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# Robust and Stable Economy Continues to Chart Strong Growth



- Indonesia's economy in Q2-2013 is forecasted to reach 6.2%, relatively equal to previous quarter, mainly supported by strong domestic demand. Consumption grows quite strong as consumer confidence and purchasing power improved.
- Economic growth is forecasted toward the lower range of 6.2% -6.6% in 2013.

Forecast of Economic Growth - Demand Side											
Sector	2011	2012				2012	2013		2013*		2014*
		I	II	III	IV		I*	II*			
Private Consumption	4.7	4.9	5.2	5.6	5.4	5.3	5.4	5.5	5.6 - 6.0		5.9 - 6.3
Government Consumption	3.2	6.4	8.6	-2.8	-3.3	1.2	-4.1	2.6	5.1 - 5.5		7.2 - 7.6
Gross Fixed Capital Formation	8.8	10.0	12.5	9.8	7.3	9.8	6.4	7.5	9.8 - 10.2		10.8 - 11.2
Exports of Goods and Services	13.6	8.2	2.6	-2.6	0.5	2.0	3.8	4.2	5.3 - 5.7		8.6 - 9.0
Imports of Goods and Services	13.3	8.9	11.3	-0.2	6.8	6.6	6.8	6.9	9.0 - 9.4		10.1 - 10.5
<b>GDP</b>	<b>6.5</b>	<b>6.3</b>	<b>6.4</b>	<b>6.2</b>	<b>6.1</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2 - 6.6</b>		<b>6.6 - 7.0</b>
Forecast of Economic Growth - Supply Side											
Sector	2011	2012				2012	2013		2013*		2014*
		I	II	III	IV		I*	II*			
Agriculture	3.4	4.3	4.0	5.3	2.0	4.0	2.9	3.4	3.7 - 4.1		3.8 - 4.2
Mining and Quarrying	1.4	2.5	3.3	-0.3	0.5	1.5	0.7	0.1	0.8 - 1.2		1.3 - 1.7
Manufacturing	6.1	5.5	5.2	5.9	6.2	5.7	6.4	6.4	6.2 - 6.6		6.4 - 6.8
Electricity, Gas, and Water Supply	4.8	5.7	6.5	6.1	7.3	6.4	7.0	6.5	6.3 - 6.7		6.3 - 6.7
Construction	6.6	7.2	7.3	7.6	7.8	7.5	7.7	7.8	7.6 - 8.0		7.9 - 8.3
Trade, Hotels, and Water Supply	9.2	8.7	8.7	7.2	7.8	8.1	7.9	8.0	8.0 - 8.4		8.3 - 8.7
Transportation and Communication	10.7	10.0	9.9	10.4	9.6	10.0	9.5	9.4	9.3 - 9.7		9.5 - 9.9
Financial, Rental, and Business Services	6.8	6.4	7.1	7.5	7.7	7.1	7.6	7.3	7.2 - 7.6		7.5 - 7.9
Services	6.7	5.5	5.8	4.5	5.3	5.2	5.1	5.4	5.5 - 5.9		6.3 - 6.7
<b>GDP</b>	<b>6.5</b>	<b>6.3</b>	<b>6.4</b>	<b>6.2</b>	<b>6.1</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2 - 6.6</b>		<b>6.6 - 7.0</b>

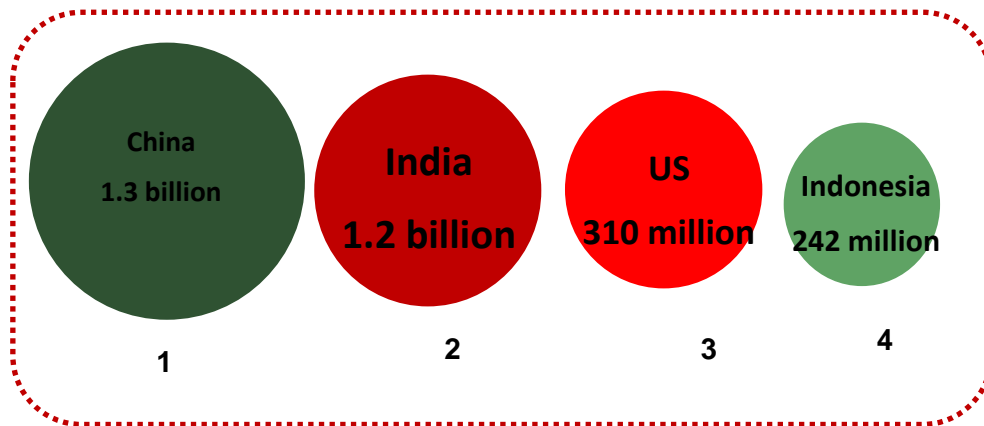
Source: Bank Indonesia

# Young and Dynamic Population

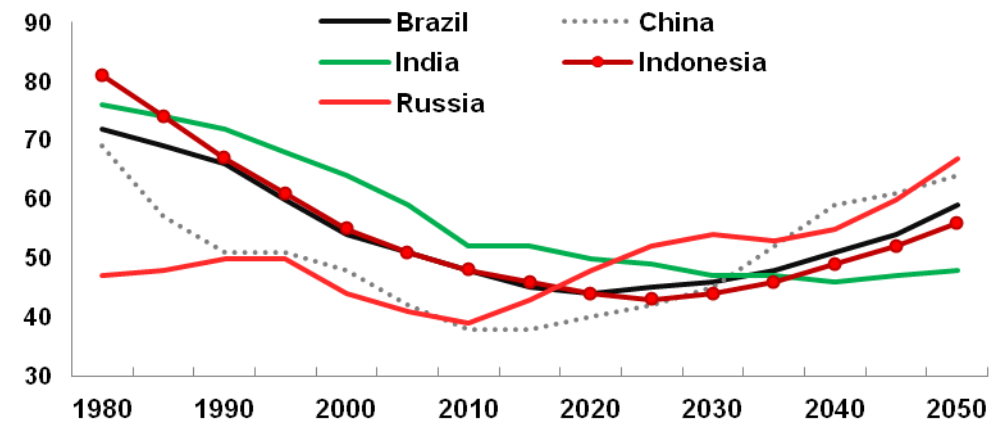


- Rising young and dynamic population marked by decreasing dependency ratio that will continue on until 2025.
- Rising income per capita and growing ranks of the 'middle income class'.
- Labor force participation rate is nearly 70% and open unemployment rate only 6.3% (February 2012), -0.5% yoy.

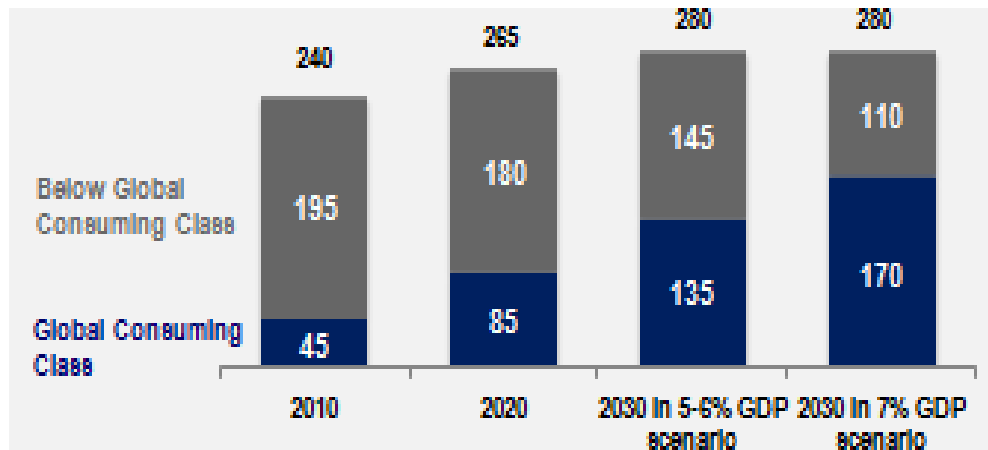
Fourth Largest Population in the World



Dependency Ratio Keeps Falling Until 2025

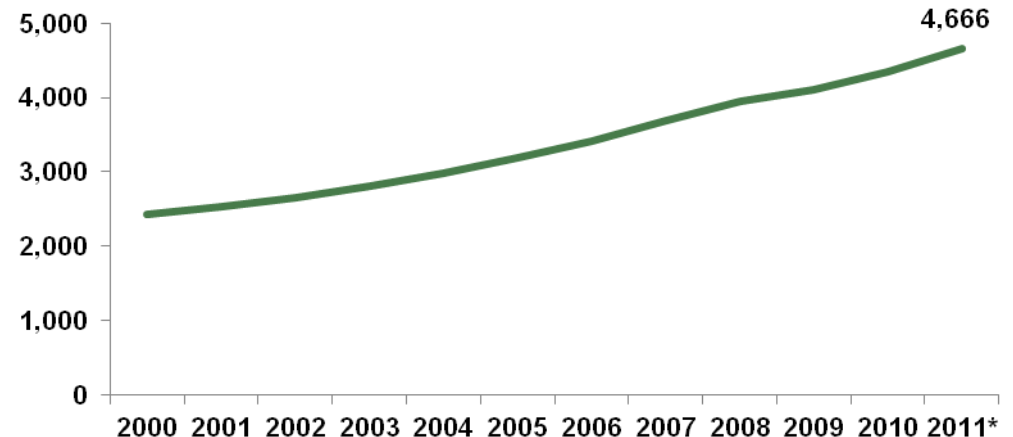


Increasing Middle Income Class Population



Source: BPS, Bappenas, UNPP, McKinsey

Rising GDP per capita (USD)



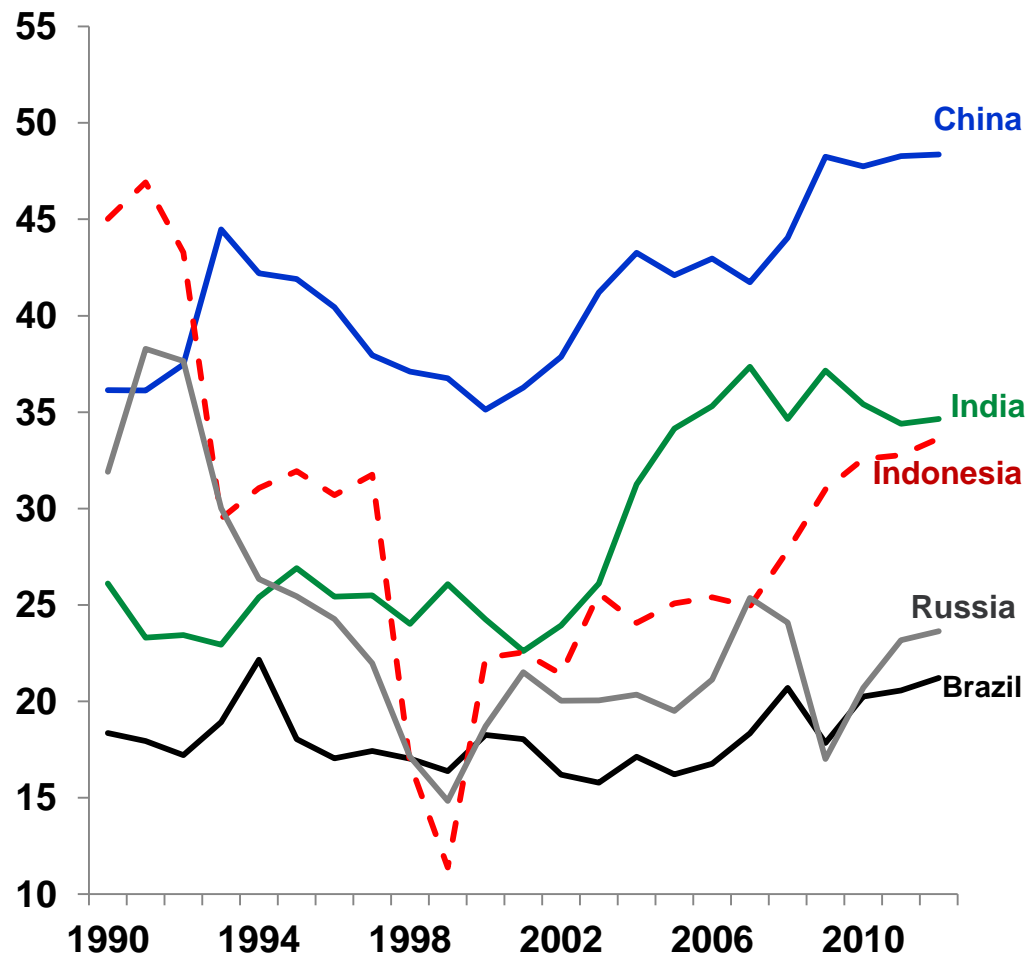
Notes: Based on purchasing power parity per capita GDP, \* Estimate

# Investment is Becoming the New Engine of Growth

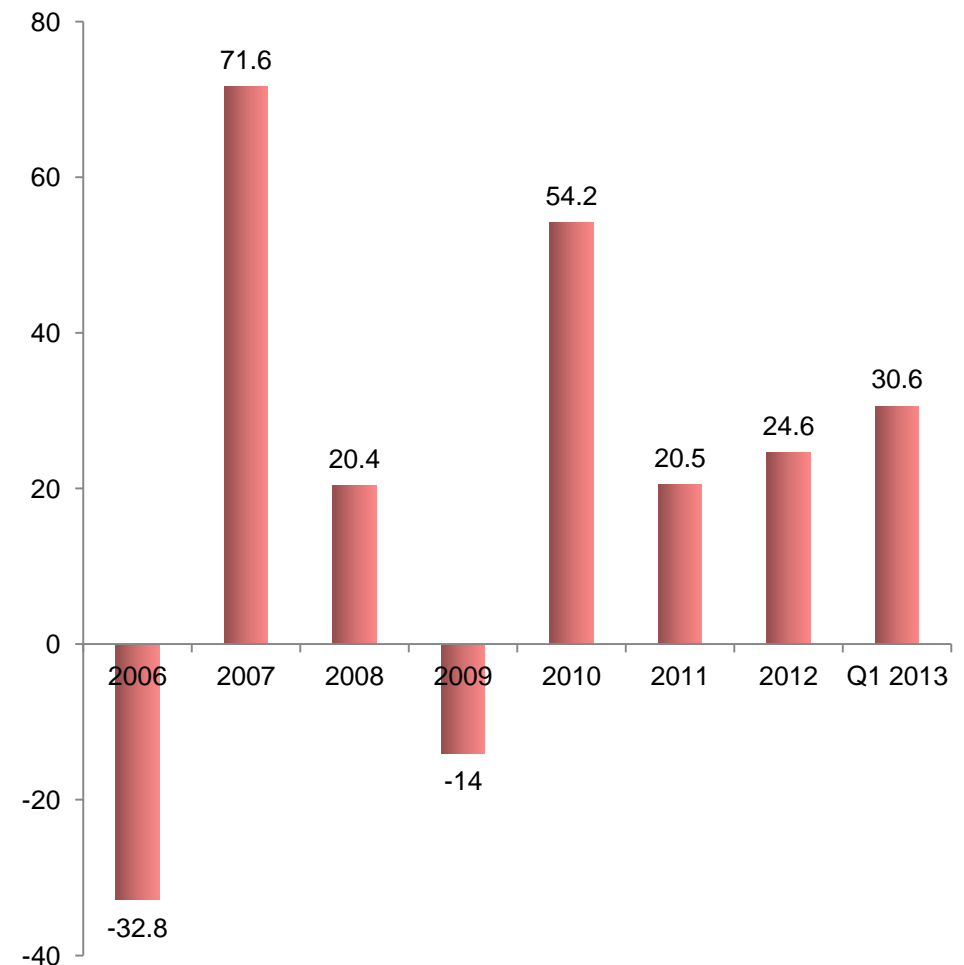


Investment both by domestic and foreign direct investors continues on the expanding trend, supporting economic growth at a time of slowing down exports

Investment of GDP (%)



Direct investment growth (% yoy)

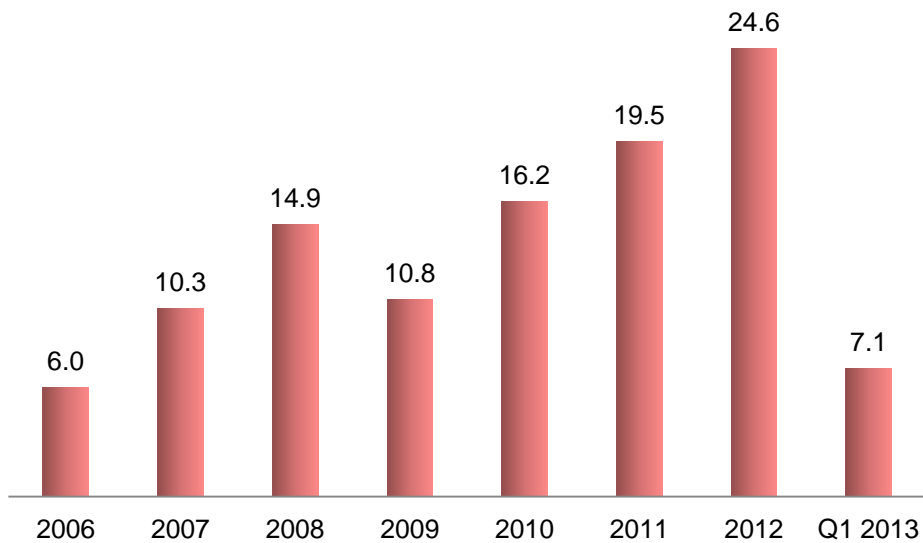


# Strong investment underpinned by competitiveness and stability



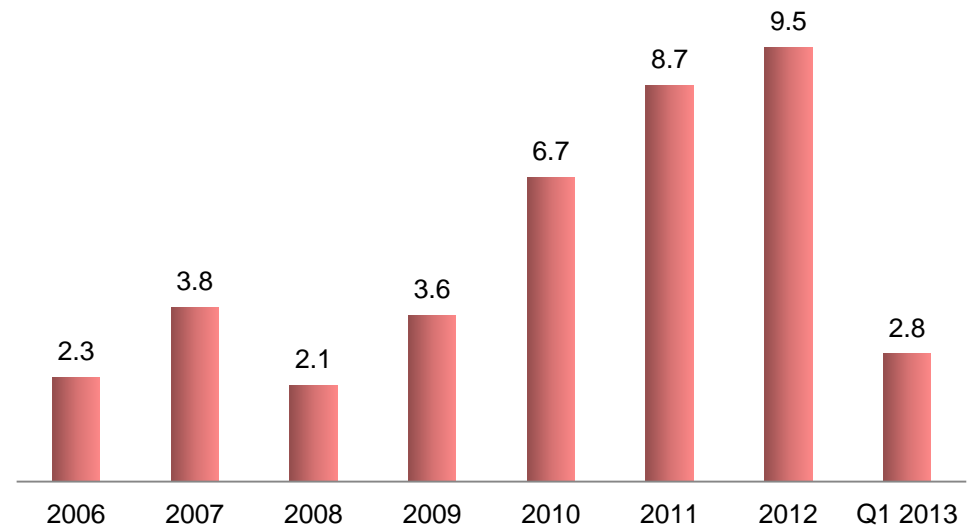
- The investment realization on Q1-2013 is Rp 93.0 trillion consisted of Rp 27.5 trillion of Domestic Direct Investment (DDI) and Rp 65.5 trillion of Foreign Direct Investment (FDI). It increases 30.6% compared to the same period in 2012.
- The distribution of project location from January to March 2013 outside of Java is Rp 44.4 trillion or 47.7% from total investment realization. Compared to the same period in 2012 it increases around 32.1%.

Realized Foreign Direct Investment (USD billion)



Source: BKPM

Realized Domestic Direct Investment (USD billion)

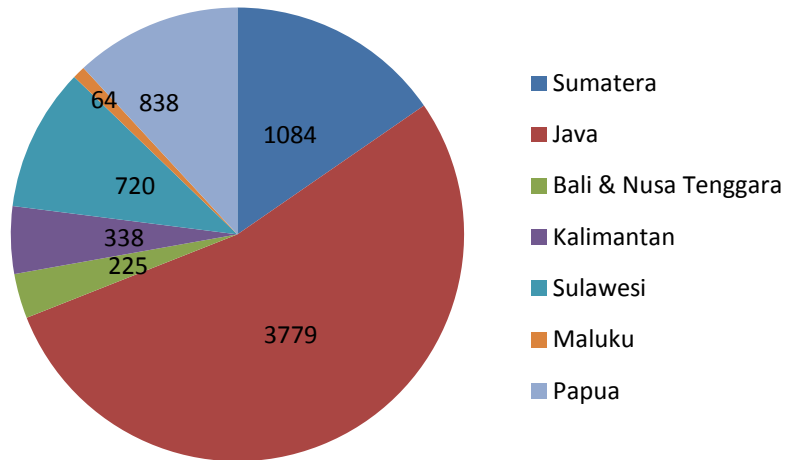


Source: BKPM

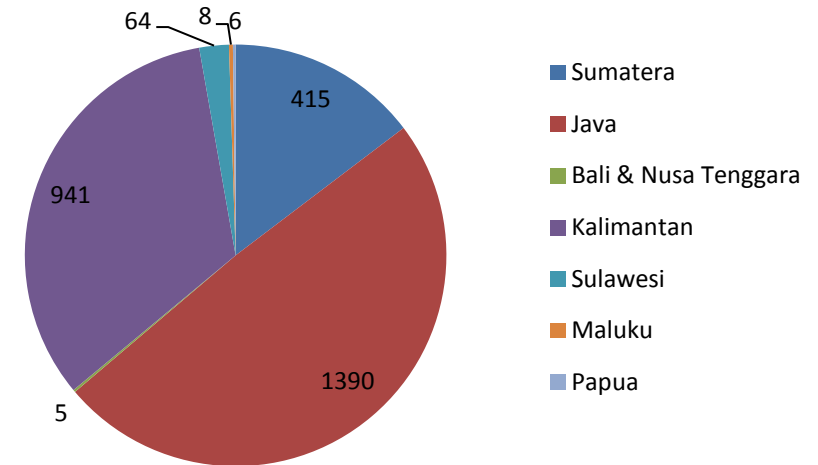
# Strong investment underpinned by competitiveness and stability



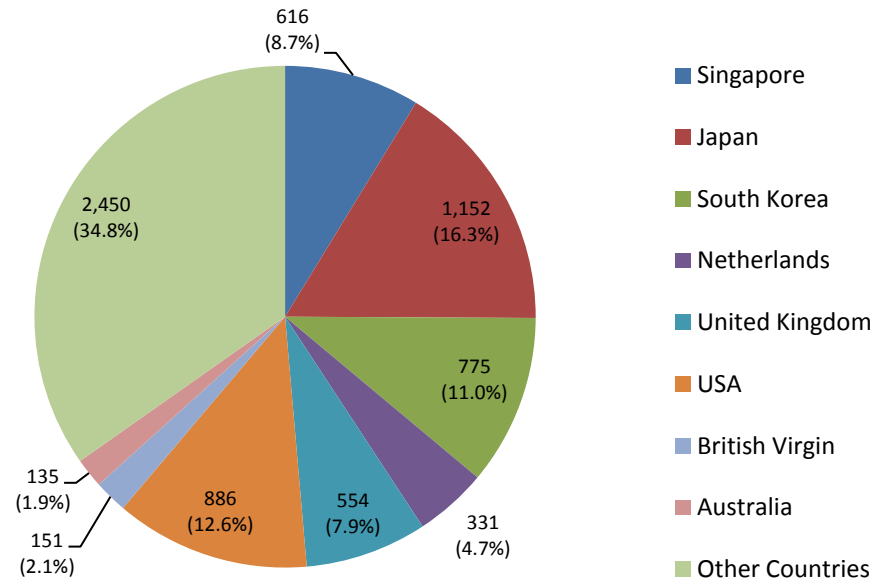
FDI Realization by Location Q1 2013 (USD Million)



DDI Realization by Location Q1 2013 (USD Million)



FDI by Countries Q1 2013 (USD Million)

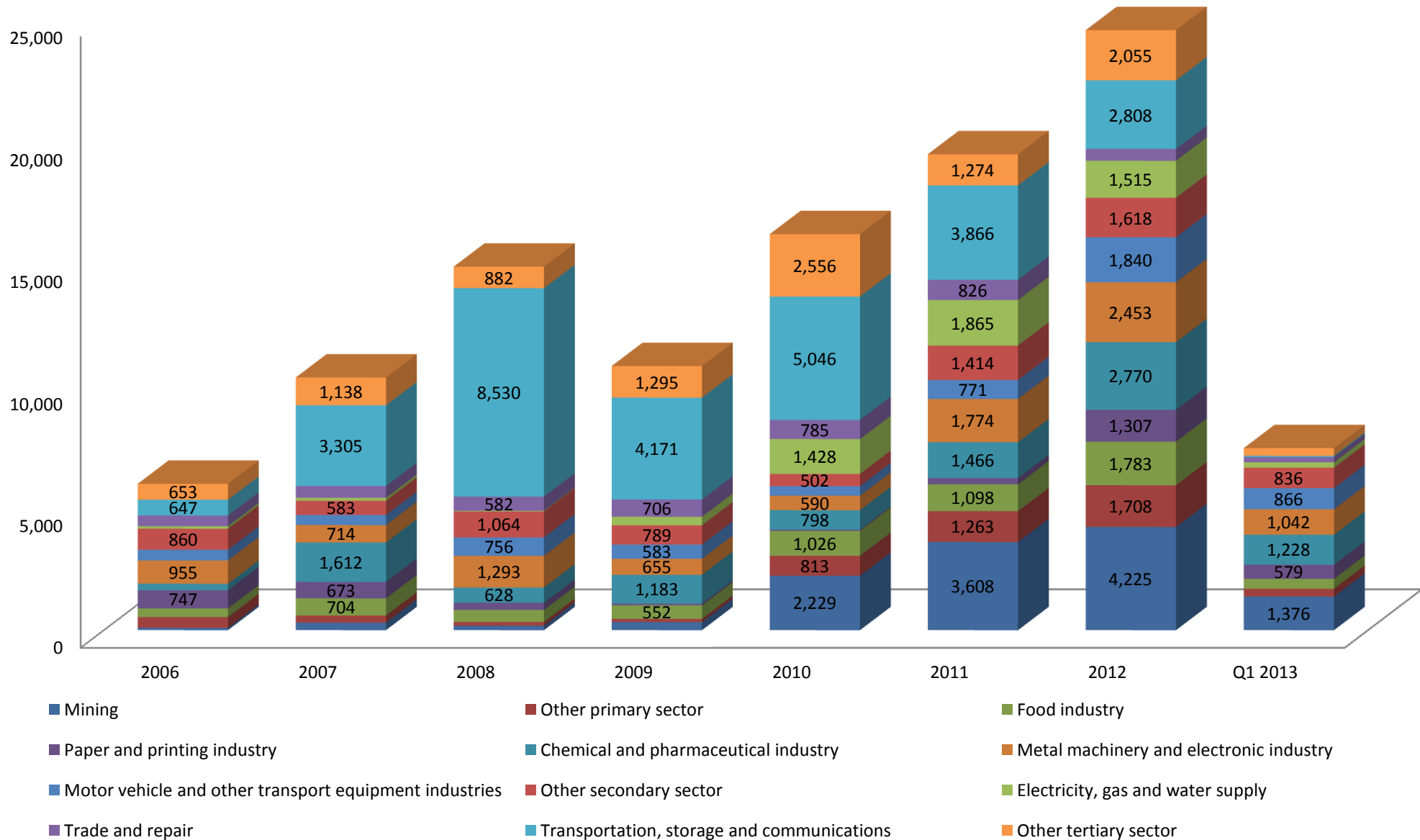




# Strong investment underpinned by competitiveness and stability



FDI – By Sector (USD million)

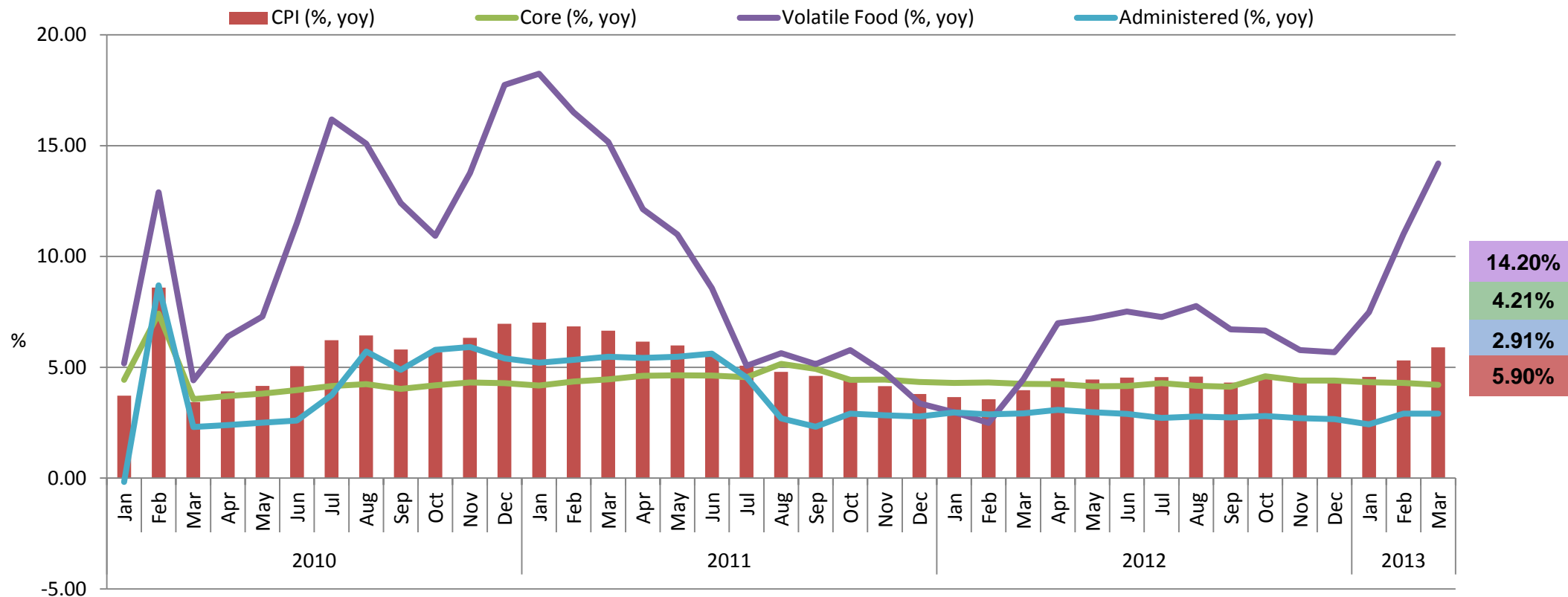


# The Inflation Remains Under Control



- Inflation has fallen sharply, reaching a single digit in last decade. Core inflation has been fairly stable in the last 3 years at around 4%.
- Going forward, supported by a sound policy mix, together with increasingly close coordination with the government, inflation in 2013 is expected to remain controlled within its target corridor.

Inflation – by component

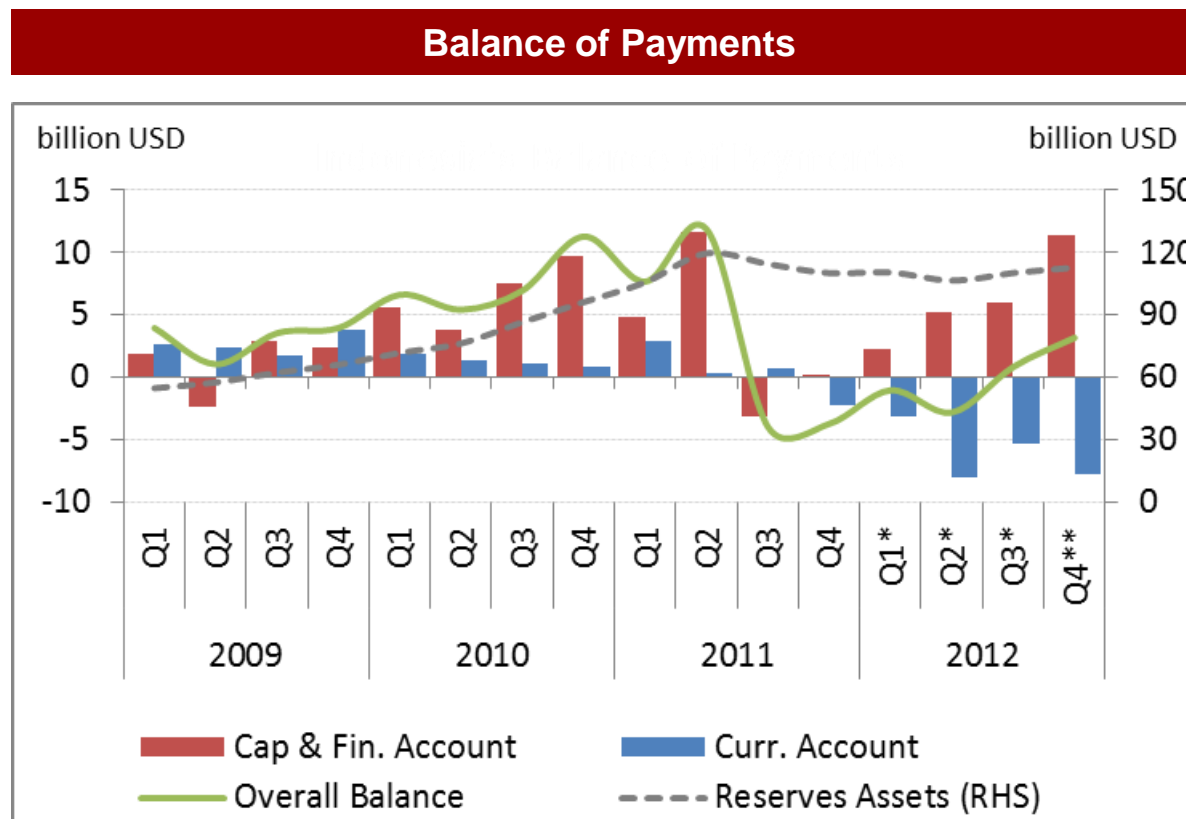


Source: Bank Indonesia

# Balance of Payments Q4/2012



The balance of payments surplus increased from US\$0.8 billion to US\$3.2 billion in Q4/2012, primarily due to significant increase in the capital and financial account surplus amidst a downward pressure in the current account. Accordingly, international reserves at the end of February 2013 reached US\$105.2 billion, equivalent to 5.7 months of imports and government's external debt services.

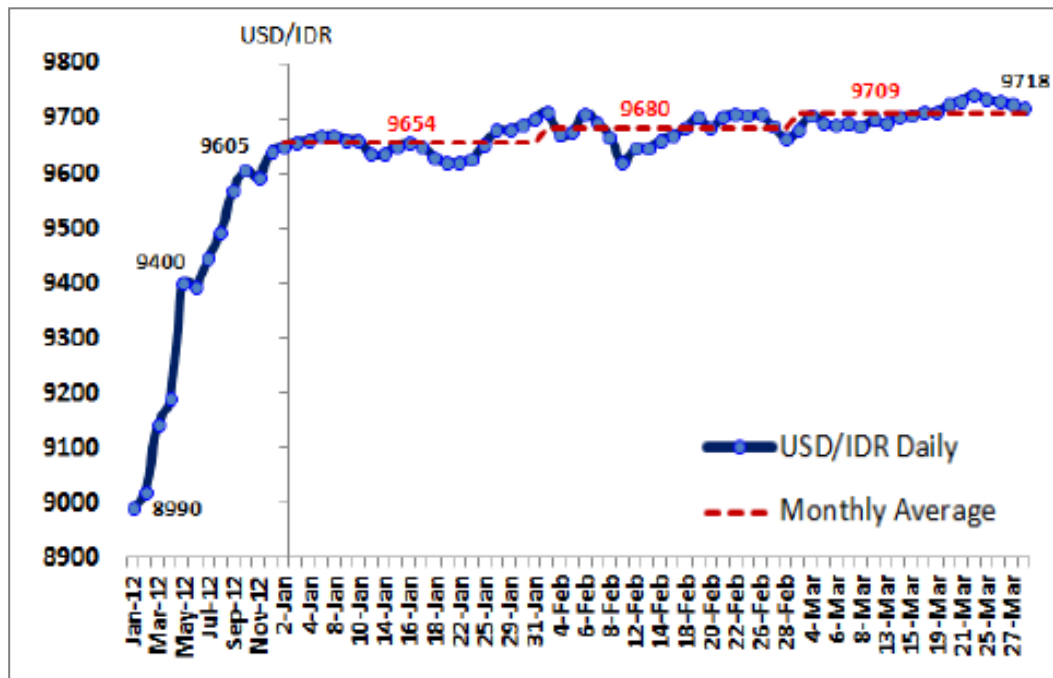


# Exchange Rate

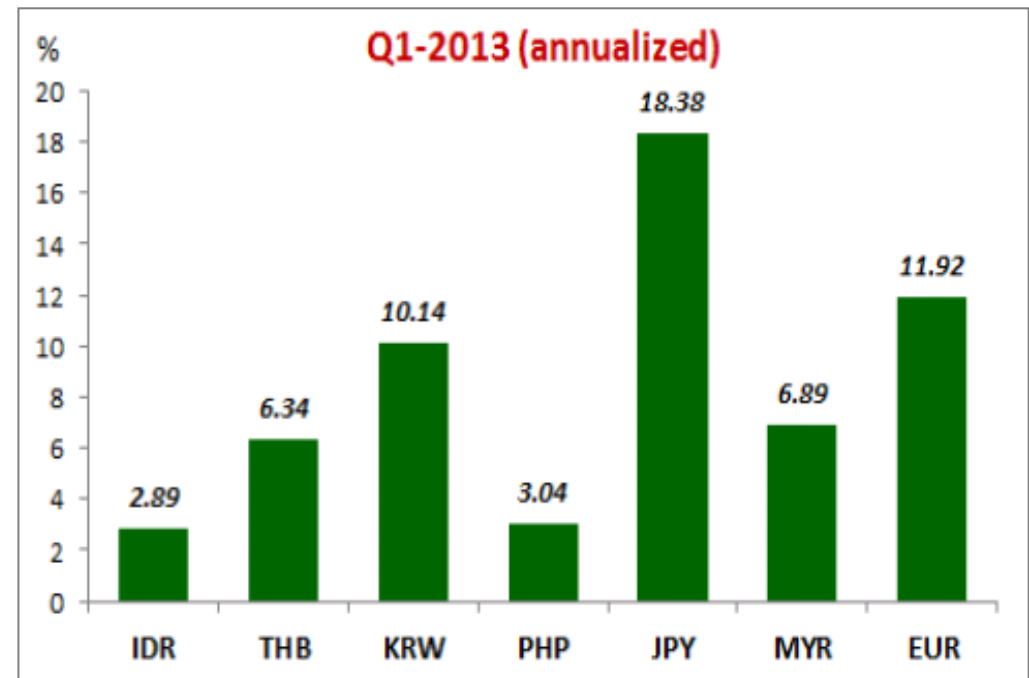


- In Q1-2013, by average Rupiah depreciated by 0.7% (qtq) to Rp9.680 per USD from the previous quarter which was recorded at Rp9.613 per USD.
- In the future, Bank Indonesia will continue to maintain the stability of Rupiah exchange rate consistent with its economic fundamentals. Furthermore, Bank Indonesia will support the formation of a reference to Rupiah exchange rate in the domestic spot market. This reference is expected to promote foreign exchange market efficiency, deepening the domestic financial market.

Rupiah Exchange Rate



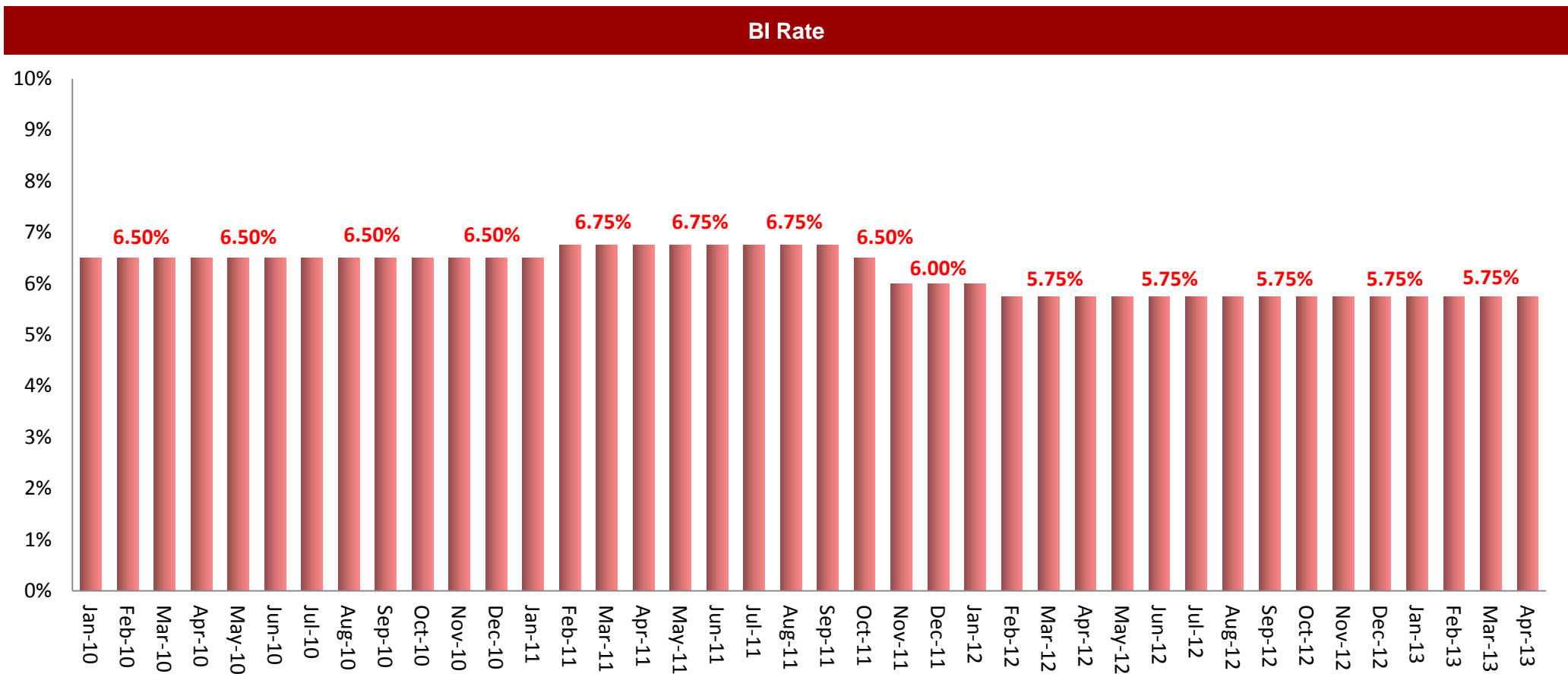
Monthly Appre/Depr.



# Monetary Policy Stance



- In the Board of Governors' Meeting convened on 11 April 2013, Bank Indonesia decided to hold the BI rate steady at 5.75%.
- The current policy rate is considered consistent with inflation forecast, which is expected to remain low and contained within its target range of 4.5%±1% in 2013 and 2014.
- Going forward, Bank Indonesia remains vigilant on some risk factors from the global economy, and will strengthen policies to manage external balance to a sustainable level while also providing support for economic growth.



Source: Bank Indonesia

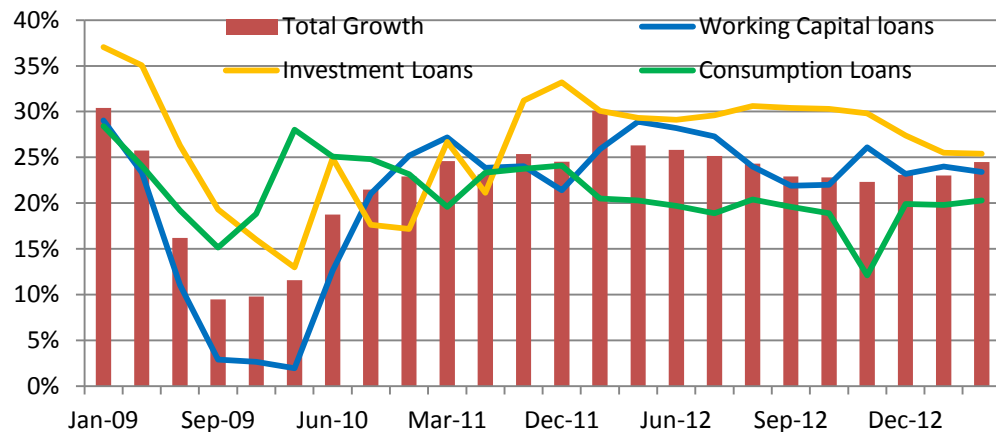


# Sound Financial Sector

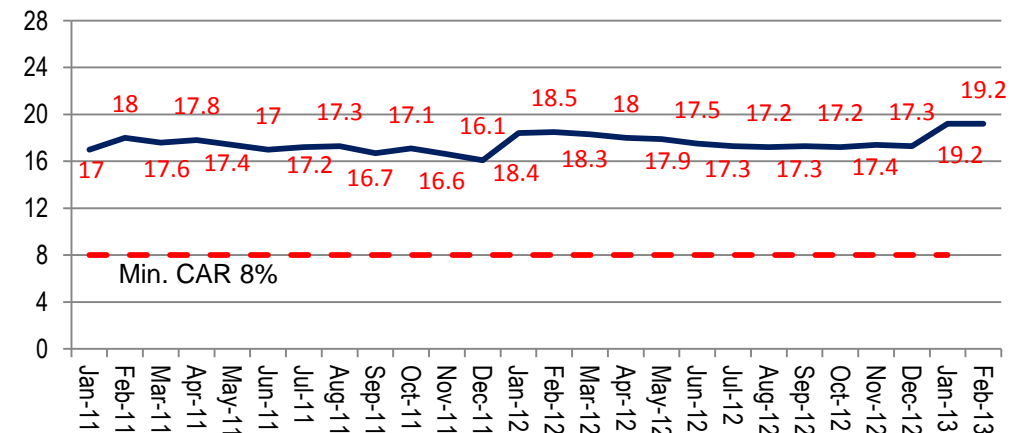


- Supported by various policies implemented by Bank Indonesia, banking industry has been more resilient, as indicated by secure level of CAR above the minimum level of 8% (19.2% at the end of February 2013) and gross NPLs managed at comfortably safe level below 5% (2.0% at the end of February 2013).
- Further improvement in banking intermediation is also reflected in progressively improving credit growth, recorded in February 2013 at 23.4% (yoy), in which investment credit, working capital credit, and consumption credit grew by 25.4% (yoy), 24.5% (yoy), and 20.3% (yoy), respectively.

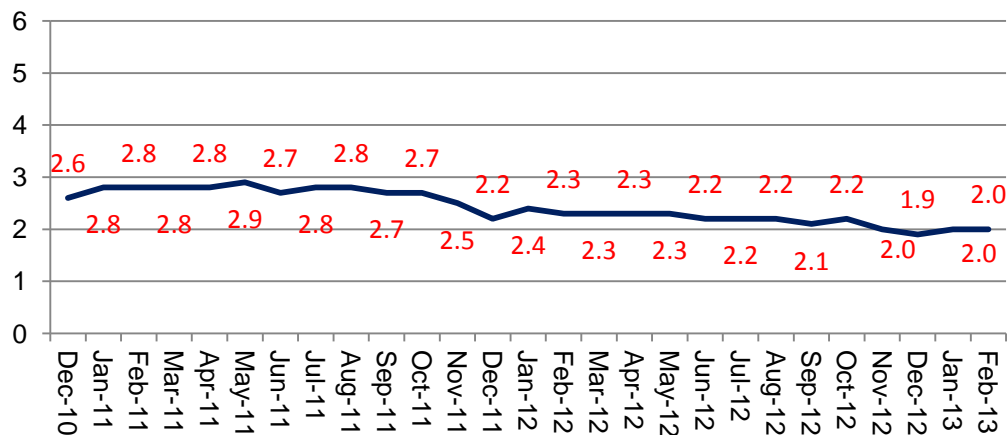
## Steady Loan Growth



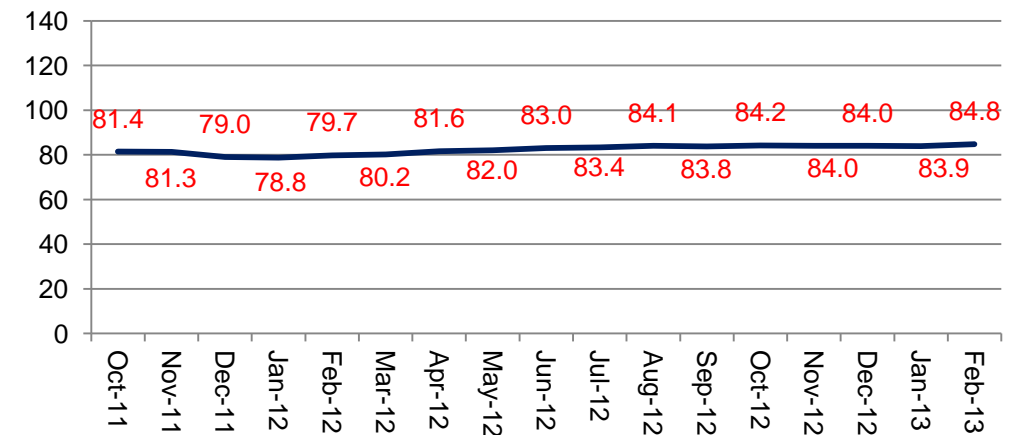
## Capital Adequacy Ratio (CAR) Comfortably High



## NPL (gross) Historically Low



## Steady Loan-to-Deposit Ratio





# Prudent Fiscal Management

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# Summary of Macroeconomic Assumptions 2012-2013



Items	2011	2012		2013
	Realization	Revised Budget	Realization	State Budget
Economic growth (%)	6.5	6.5	6.3*	6.8
Exchange rate (IDR/US\$)	8779	9000	9384	9300
Inflation (%)	3.8	6.8	4.3	4.9
SBI/SPN 3 months (%)	4.8	5.0	3.2	5.0
ICP (US\$/barrel)	111.5	105	112.7	100
Oil lifting (thousands barrel/day)	898	930	860	900
Gas lifting (thousands barrel oil equivalent/day)	-	-	-	1360

\*) up to Q3 realization

## Development Target

Indikator	Revised Budget (APBN-P) 2012	State Budget (APBN) 2013
<b>Economic Growth (%)</b>	6.5	6.8 – 7.2
<b>Unemployment Rate (%)</b>	6.4 – 6.6	5.8 – 6.1
<b>Poverty Rate (%)</b>	10.5 – 11.5	9.5 – 10.5



## 2013 Government Work Plan (RKP) Theme

**Strengthening Domestic Economy for Social Welfare Improvement and Extension**

### 4 Pillars of Development

***Pro Growth***

***Pro Job***

***Pro Poor***

***Pro Environment***

### Fiscal Policy Direction

**Encouraging Sustainable Economic Growth through Fiscal Restructuring**

**Optimize  
State Revenue**

**Improve spending  
quality**

**Control budget  
deficit**

**Reduce Debt Ratio  
to GDP**

# 2012-2013 State Budget Summary



Item	2012			2013
	Revised Budget (APBNP)	Realization (unaudited)	Percentage	State Budget (APBN)
<b>A. Total Revenues and Grants</b>	1,358.2	1,335.7	98.3%	1,529.7
I. Domestic Revenue	1,357.4	1,331.7	98.1%	1,525.2
1 Tax Revenue	1,016.2	980.1	96.4%	1,193.0
Domestic Taxes	968.3	930.5	96.1%	1,134.3
i. Income Tax	513.7	464.7	90.5%	584.9
ii. Value Added Tax	336.1	337.6	100.5%	423.7
2 Non Tax Revenue	341.1	351.6	103.1%	332.2
Natural Resources	217.2	226.5	104.3%	197.2
i. Oil and Gas	198.3	205.8	103.8%	174.9
ii. Non Oil and Gas	18.8	20.6	109.3%	22.3
II. Grants	0.8	4.0	484.8%	4.5
<b>B. Expenditures</b>	1,548.3	1,481.7	95.7%	1,683.0
I Central Government Expenditures	1,069.5	1,001.3	93.6%	1,154.4
1 Personnel Expenditure	212.3	197.7	93.1%	241.1
2 Material Expenditure	162.0	129.8	80.1%	167.0
3 Capital Expenditure	176.1	139.7	79.3%	216.1
4 Interest Payments	117.8	100.5	85.3%	113.2
5 Subsidy	245.1	346.4	141.3%	317.2
a. Energy Subsidy	202.4	306.5	151.5%	274.7
b. Non Energy Subsidy	42.7	39.9	93.4%	42.5
6 Grants	1.8	0.1	5.6%	3.6
7 Social Assistance	86.0	75.3	87.6%	63.4
8 Other Expenditure	68.5	3.9	5.7%	20.0
II. Transfer to Region	478.8	480.4	100.3%	528.6
<b>C. Primary Balance</b>	(72.3)	(45.5)	62.9%	(40.1)
<b>D. Surplus/(Deficit)</b>	(190.1)	(146.0)	76.8%	(153.3)
<b>% Deficit to GDP</b>	(2.23)	(1.77)	79.4%	(1.65)
<b>E. Financing</b>	190.1	180.0	94.7%	153.3
I. Domestic Financing	194.5	199.2	102.4%	172.8
II. Foreign Financing	(4.4)	(19.1)	431.6%	(19.5)
<b>SURPLUS/(DEFICIT) FINANCING</b>	0.0	34.0	-	-



# Revenue and expenditure policies

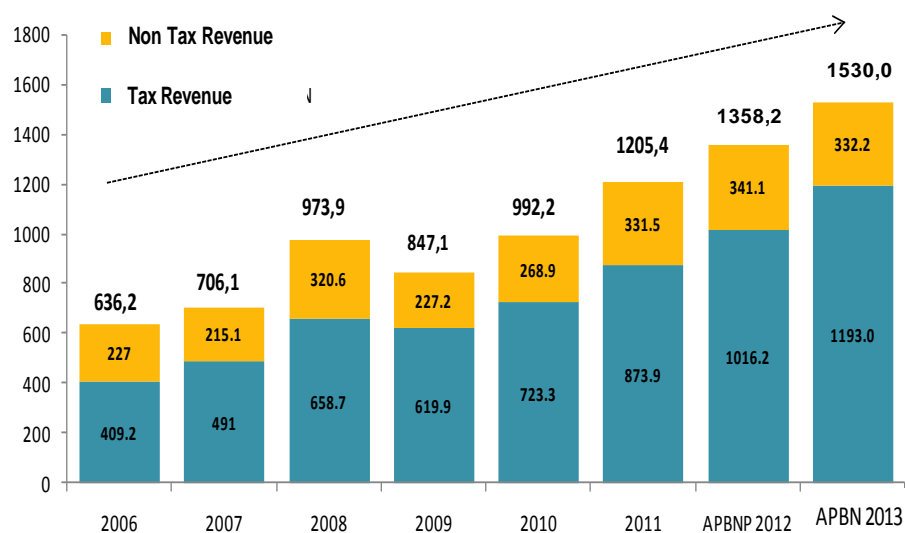


## Broad yet fair taxation

### 2013 Fiscal revenue policy highlights

- An Increase of non-taxable income threshold by 54%, from Rp15.8 million to Rp24.3 million.
- Extend and widen tax base through tax extensification.
- VAT tariff adjustment for a number of luxury goods.
- Improve monitoring and service in custom & excise.
- Excise tax extensification and intensification.
- Fiscal incentives provision for strategic economic activities i.e. Hybrid and low carbon emission motor vehicles.

### Fiscal Revenues 2006 – 2013 (Rp Tn)

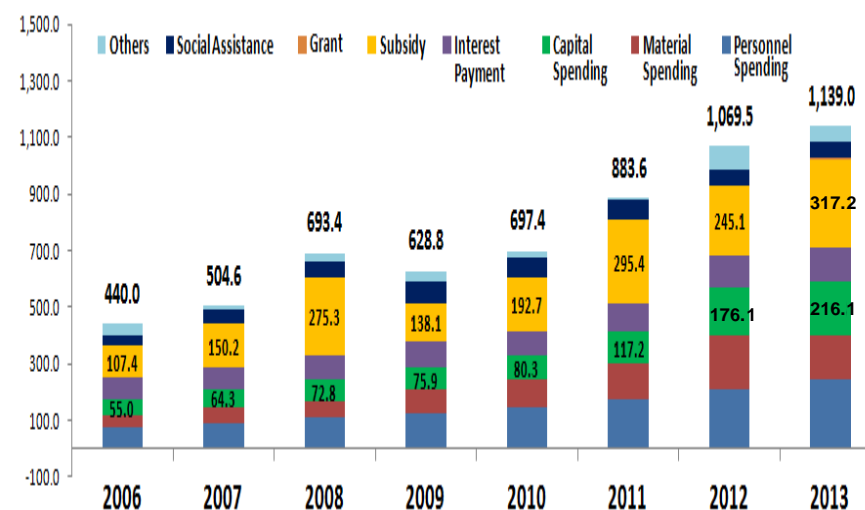


## Efficient 'quality' spending

### 2013 Fiscal expenditure policy highlights

- Prioritize capital expenditure allocation to support infrastructure development.
- Reallocate consumptive spending to more productive activities.
- Increase infrastructure spending to support energy and food security, domestic connectivity, and tourism.
- Redesign subsidy policy from price subsidy to targeted subsidy.
- Improve budget disbursement

### Central Gov't Expenditures 2006 – 2013 (Rp Tn)

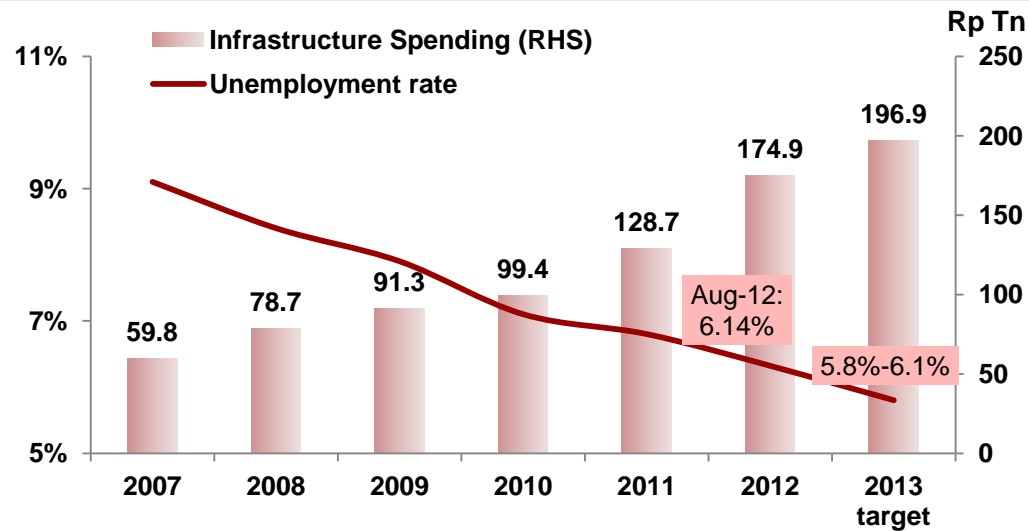


# 2013 Budget...

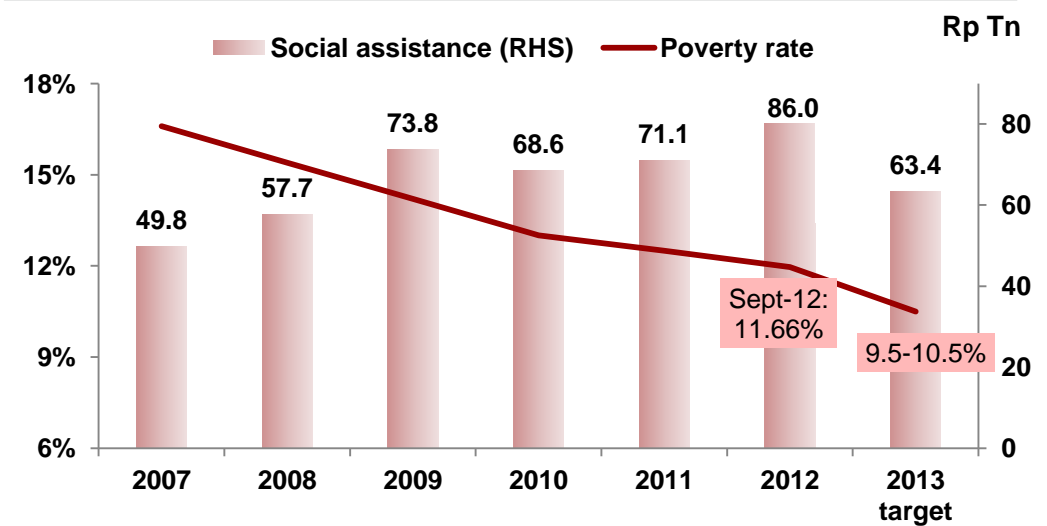
... matches well balanced revenues with increasing capital spending



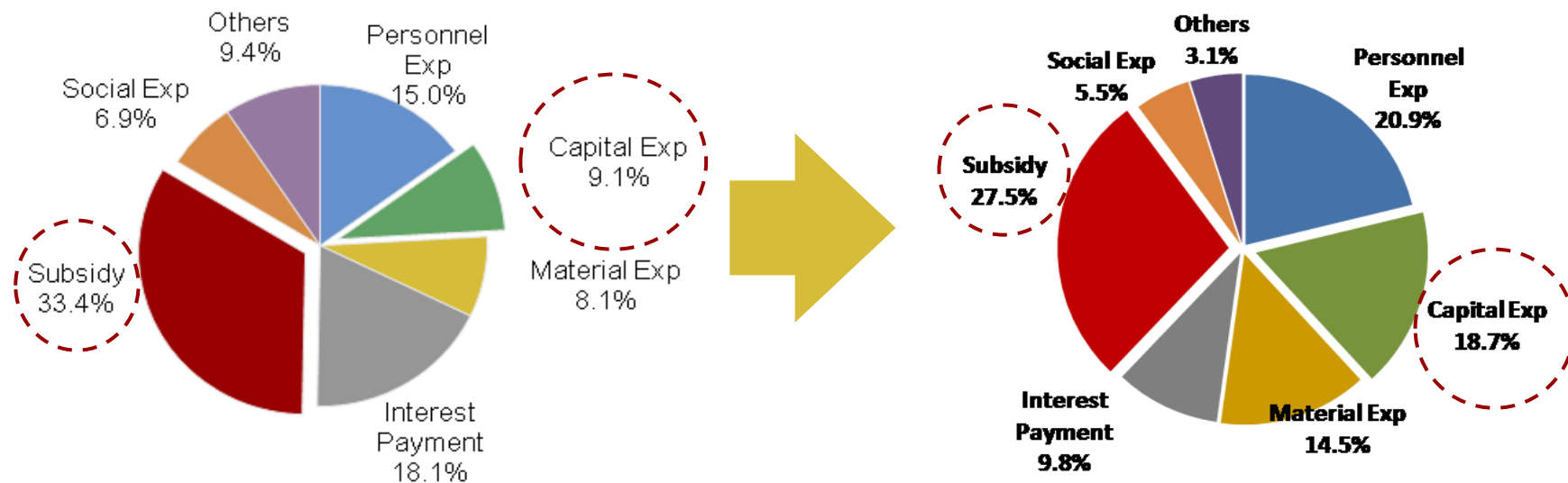
## Infrastructure spending helps lower the unemployment rate



## State budget directed to reduce poverty level



## Increased allocation of central government expenditure towards more productive uses (2005-2013)

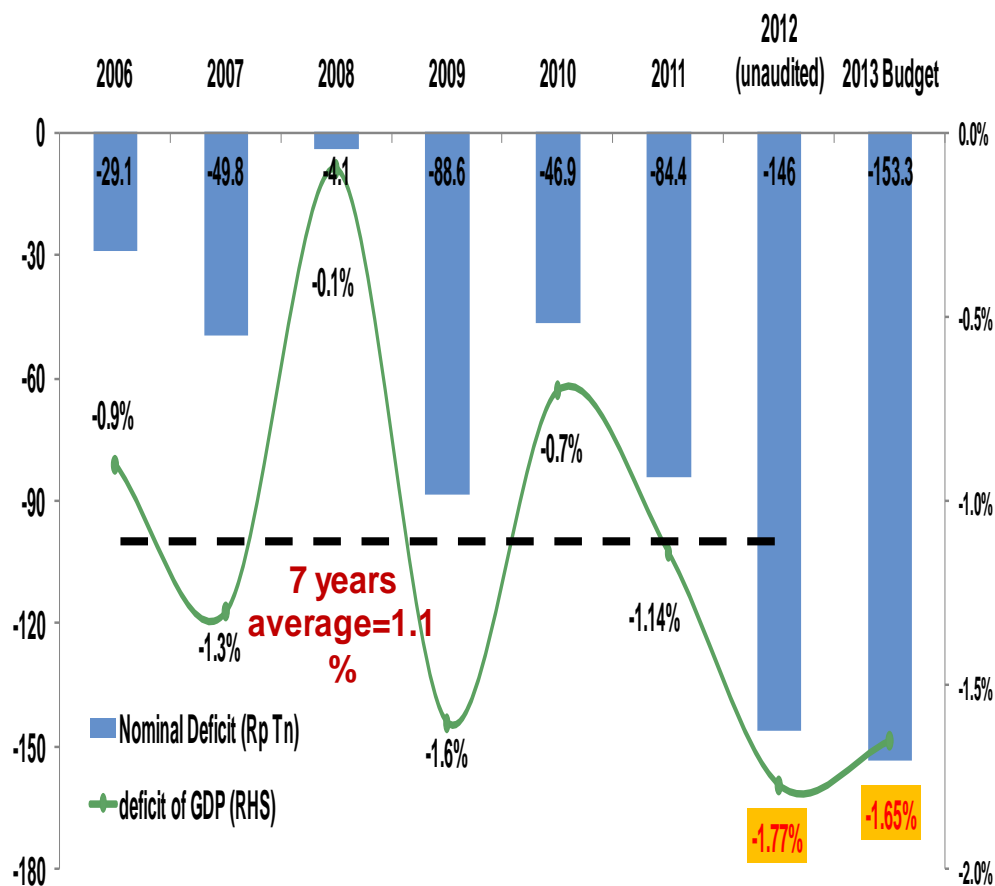


Source: Ministry of Finance

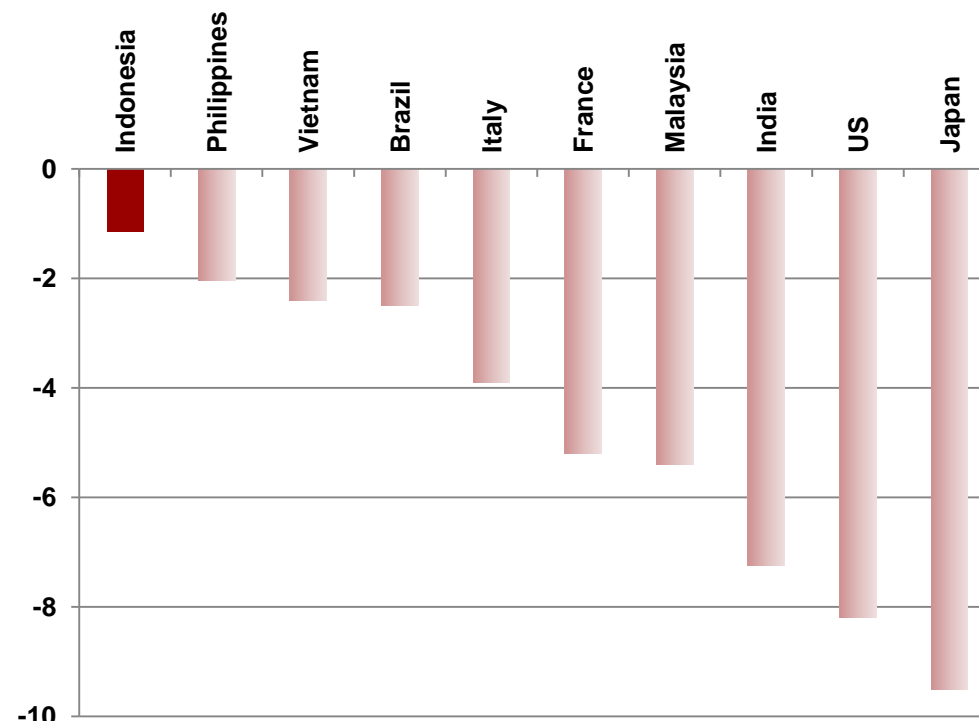
# Favorable current macro conditions is supported by prudent fiscal management..



Indonesia Fiscal Deficit



2011 Fiscal Balance (% of GDP)



- Continue reduction in Indonesia's debt to GDP ratio compared to other Asian economies, and Indonesia's low budget deficit compared to developing Asia and developed economies are beneficial as buffers against potential vulnerabilities.
- In the last 7 years, Indonesia budget deficit averaged at 1.1 %.

# Indonesia's Fiscal Policy in Mitigating Global Crisis



- Extremely prudent with fiscal deficits and debt ratios among lowest in the world
- Addresses growth and social needs through capital spending and subsidies while lowering debt to GDP
- Aims for quality spending with capital expenditures increasing
- Crisis mitigation measures in place

## Crisis Prevention & Mitigation:

1

**Coordination Forum for  
Financial System Stability**

2

**Crisis Management Protocol**

3

**Bond Stabilization Framework**

4

**Flexibility in State Budget Law  
for Crisis Mitigation Action**

5

**Deferred Drawdown Option**

6

**Chiang Mai Initiatives  
Multilateralization/CMI-M**



## Improved Government Debt Position

---

# Budget Financing Realization, 2012-2013



FINANCING, 2012-2013 (billion of rupiah)				
Description	2012			2013
	Budget	Budget	% to GDP	Budget
<b>A. Domestic Financing</b>	<b>194.531,0</b>	<b>199.167,8</b>	<b>102,4</b>	<b>172.792,1</b>
<b>I. Domestic Bank Financing</b>	<b>60.561,6</b>	<b>62.581,5</b>	<b>103,3</b>	<b>14.306,6</b>
1. Revenue Amortization of Subsidiary Loan Agreement	4.387,9	6.411,5	146,1	4.306,6
2. Financing Surplus	56.173,7	56.170,0	100,0	10.000,0
<b>II. Non Bank Financing</b>	<b>133.969,4</b>	<b>136.586,3</b>	<b>102,0</b>	<b>158.485,5</b>
1. Privatization (netto)	0,0	138,3	0,0	0,0
2. Asset Management	280,0	1.139,2	406,9	475,0
3. Government Securities (net)	159.596,7	159.704,3	100,1	180.439,9
4. Domestic Loan	991,2	1.467,2	148,0	500,0
- Domestic Loan Disbursement (gross)	1.132,5	1.537,8	135,8	750,0
- Domestic Installment Payment	(141,3)	(70,6)	50,0	(250,0)
5. Govt Infrastructure Fund & GCP	(19.265,1)	(18.862,614)	97,9	(12.223,4)
a. Govt. Investment	(3.299,6)	(3.299,6)	100,0	(1.000,0)
b. Govt Capital Participation (GCP)	(8.922,1)	(8.519,6)	95,5	(6.387,6)
c. Revolving Fund	(7.043,4)	(7.043,4)	100,0	(4.835,8)
6. National Education Development Fund	(7.000,0)	(7.000,0)	100,0	(5.000,0)
7. Guarantee Liabilities	(633,3)	-	0,0	(706,0)
8. PT. PLN's Borrowing	0,0	-	0,0	0,0
9. Reserve Fund	0,0	-	0,0	(5.000,0)
<b>B. Foreign Financing (Nett)</b>	<b>(4.425,7)</b>	<b>(19.147,6)</b>	<b>432,6</b>	<b>(19.454,2)</b>
<b>I. Gross Drawing</b>	<b>53.731,1</b>	<b>34.170,9</b>	<b>63,6</b>	<b>45.919,1</b>
1. Program Loan	15.603,9	15.003,5	96,2	6.510,0
2. Project Loan (Nett)	38.127,2	19.167,4	50,3	39.409,1
a. Central Government Project Loan	29.695,3	17.006,5	57,3	32.440,8
i. Line Ministries	27.977,0	17.006,5	60,8	29.217,9
ii. Non-Line Ministries	0,0	-	0,0	0,0
ii. On-granting	1.718,4	-	0,0	3.223,0
b. Proceed of Subsidiary Loan	8.431,8	2.160,9	25,6	6.968,3
<b>II. Subsidiary Loan</b>	<b>(8.431,8)</b>	<b>(2.160,9)</b>	<b>25,6</b>	<b>(6.968,3)</b>
<b>III. Amortization</b>	<b>(49.724,9)</b>	<b>(51.157,6)</b>	<b>102,9</b>	<b>(58.405,0)</b>
<b>TOTAL</b>	<b>190.105,3</b>	<b>180.020,2</b>	<b>94,7</b>	<b>153.338,0</b>

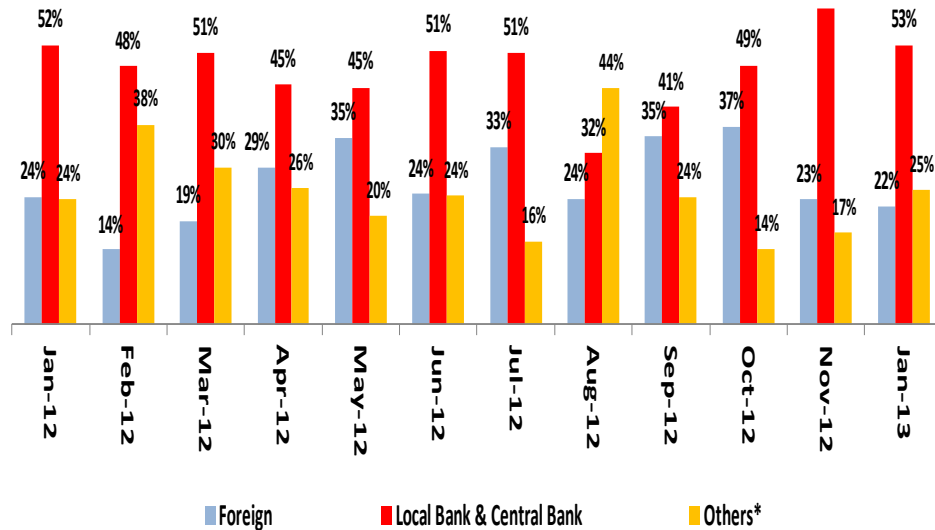


# Domestic Market is Arising



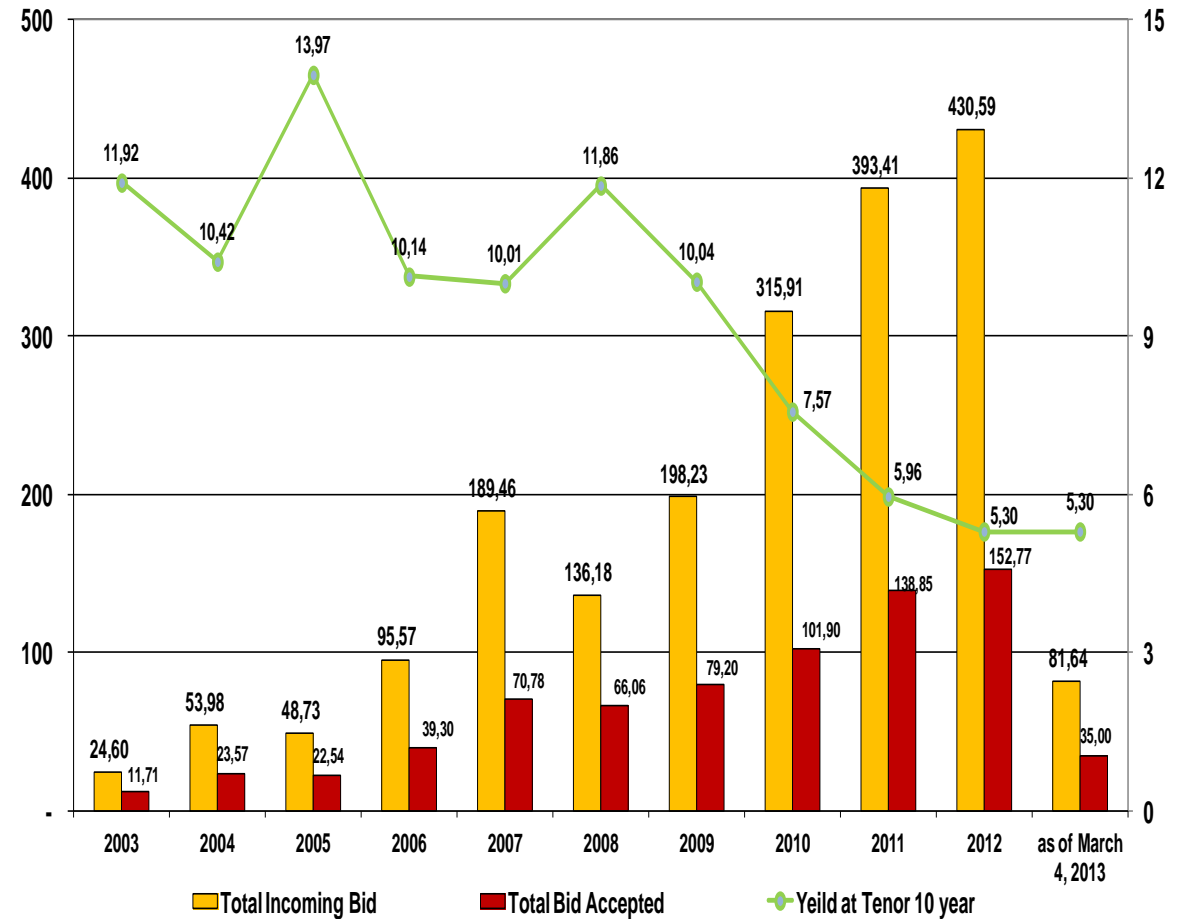
The amount of incoming bids for long tenor bonds from local banks remains high in recent auctions

**Incoming Bid - Long Tenor ( $\geq 10$  years)**



## Others\* :

Domestic pension funds, insurance companies and mutual funds

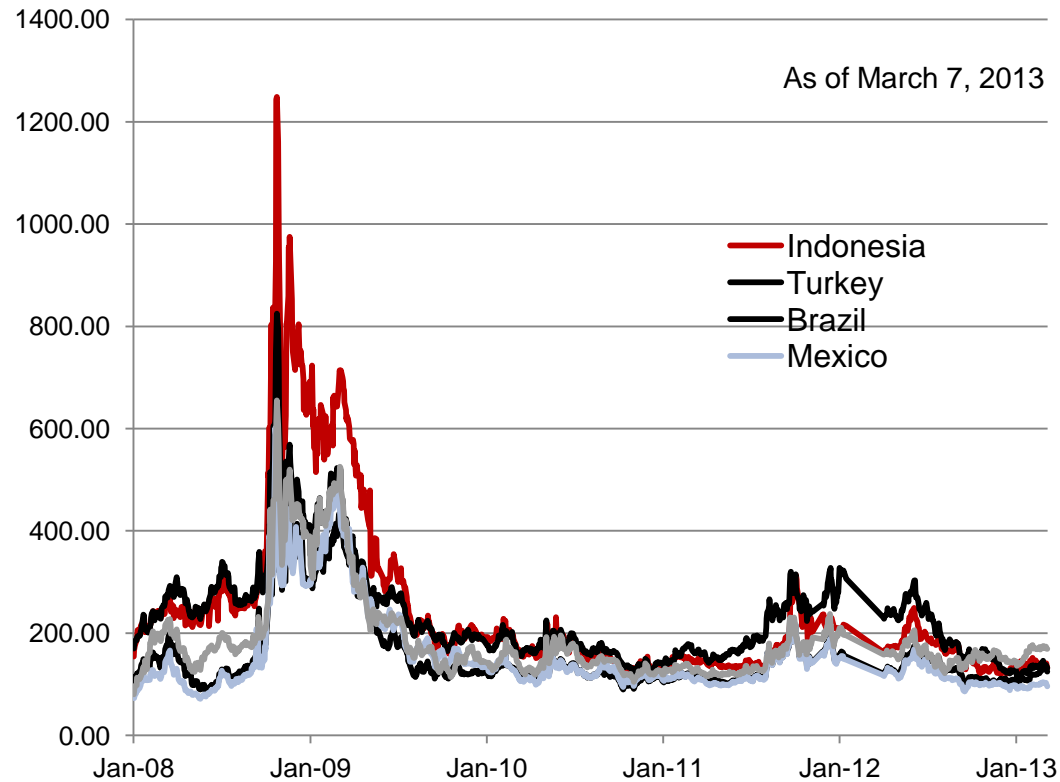


Increasing demand in domestic primary market align with downward trend in borrowing cost

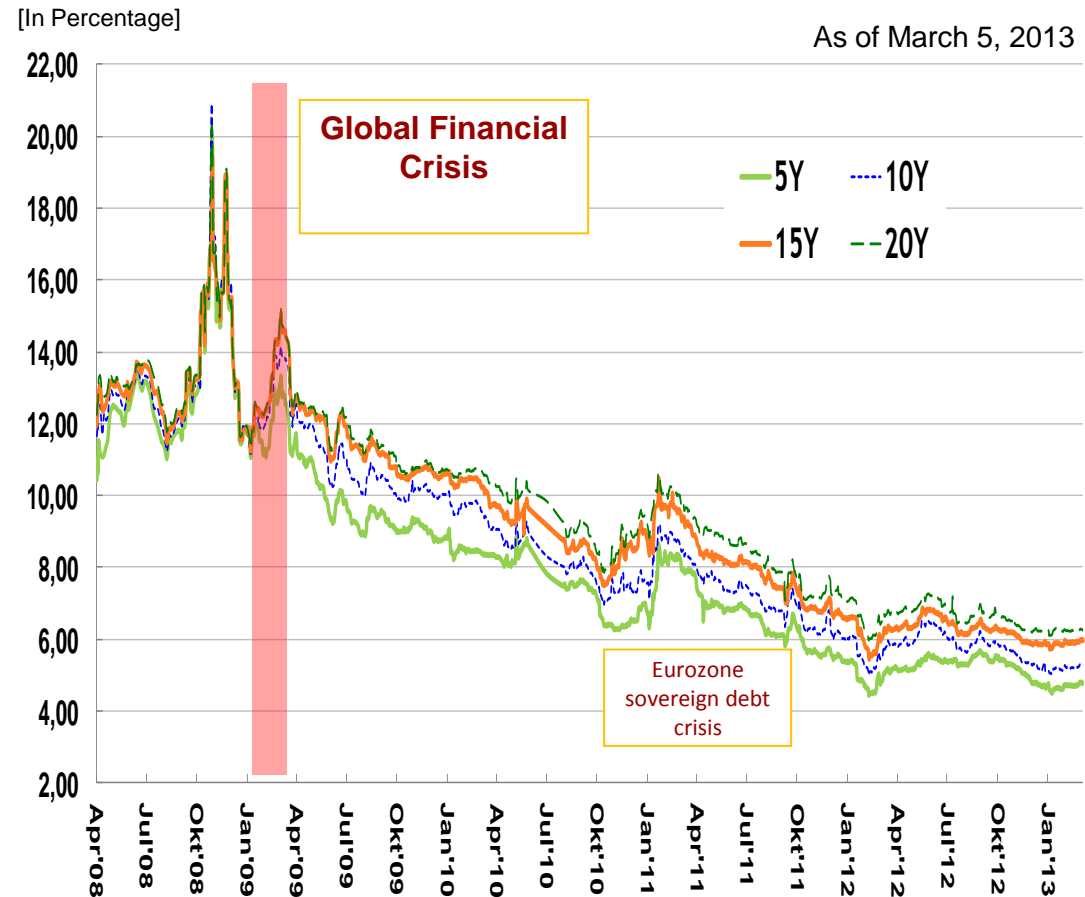
# Secondary Market Performance of Government Bonds



## INDO CDS 5Y to Peers Countries



## Yield of Benchmark Series



Compare to the peers countries, Indonesia CDS 5Y and yield on benchmark yield are steadily decreased

# Government Securities Realization

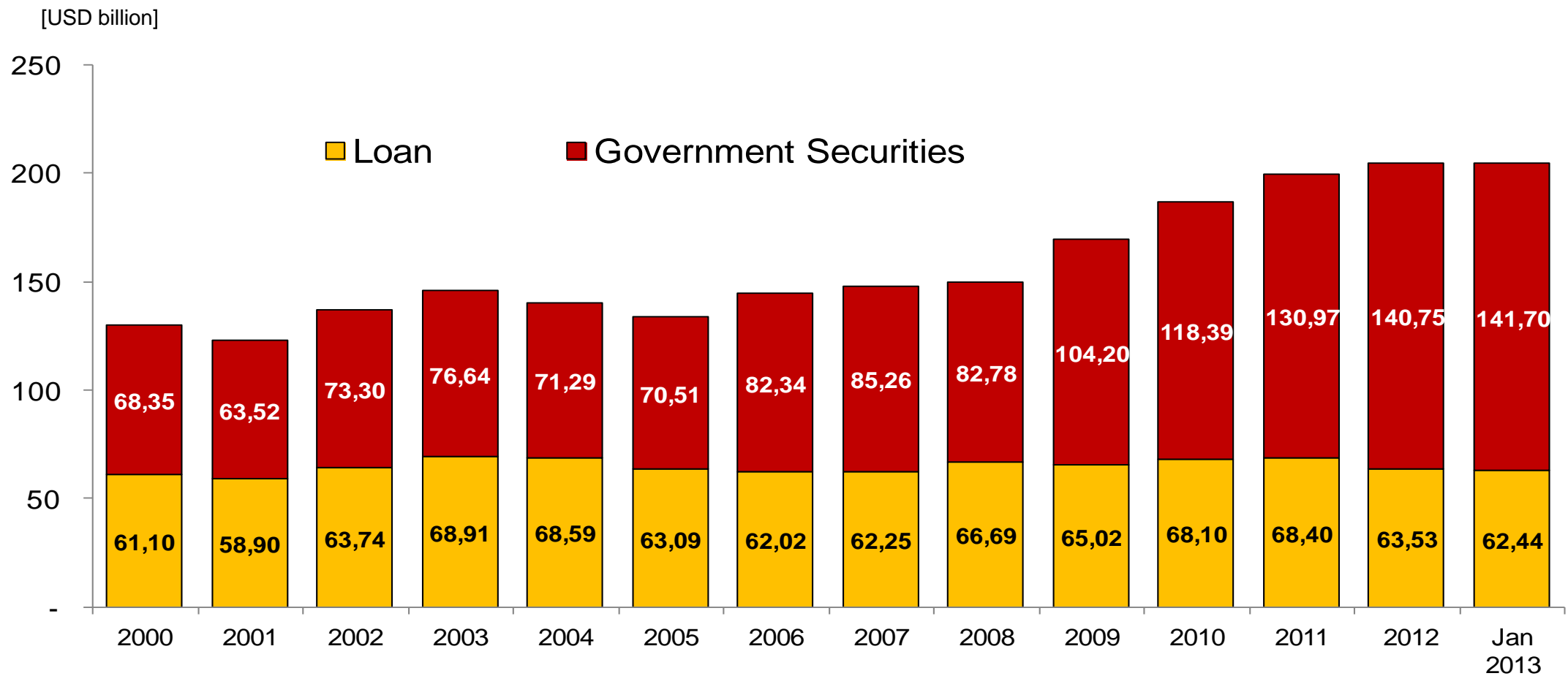


(Million IDR)

	Budget 2013	Realization (ao March 5, 2013)	% Realization
Government Securities Maturity 2013	85.620.835	18.334.112	21,41%
Government Securities Net	180.439.900	34.944.763	19,37%
Buyback	3.000.000	-	0,00%
Issuance Need 2012*	280.860.735	53.278.875	18,97%
<b>Government Debt Securities (GDS)</b>		<b>35.000.000</b>	
<b>Domestic GDS</b>		<b>35.000.000</b>	
- Coupon GDS		29.200.000	
- Conventional T-Bills		5.800.000	
- Retail Bonds			
<b>International Bonds</b>		<b>-</b>	
- USD Global Bonds			
- Samurai Bonds			
<b>Government Islamic Debt Securities</b>		<b>18.278.875</b>	
<b>Domestic Government Islamic Debt Securities</b>		<b>18.278.875</b>	
- IFR/PBS (Islamic Fixed Rated Bond/Proje		3.310.000	
- Islamic T-Bills			
- Retail Sukuk		14.968.875	
- SDHI			
<b>International Sukuk</b>			

\*Adjusted by changes in Cash Management & Debt Switch

# Outstanding of Total Central Government Debt



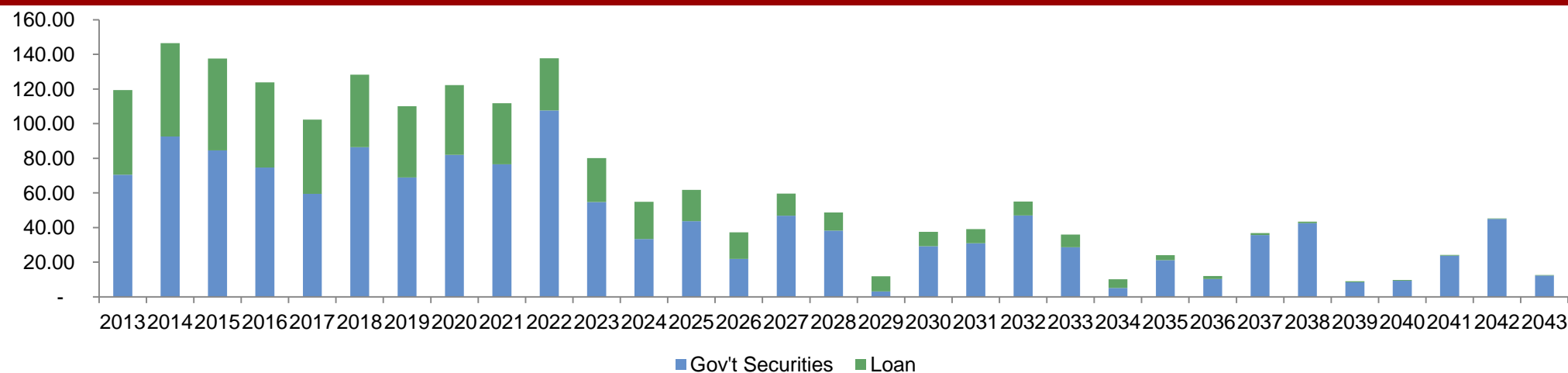
[in percentage]

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Jan 2013
Loan	47%	48%	47%	47%	49%	47%	43%	42%	45%	38%	37%	37%	31%	31%
Government Securities	53%	52%	53%	53%	51%	53%	57%	58%	55%	62%	63%	63%	69%	69%

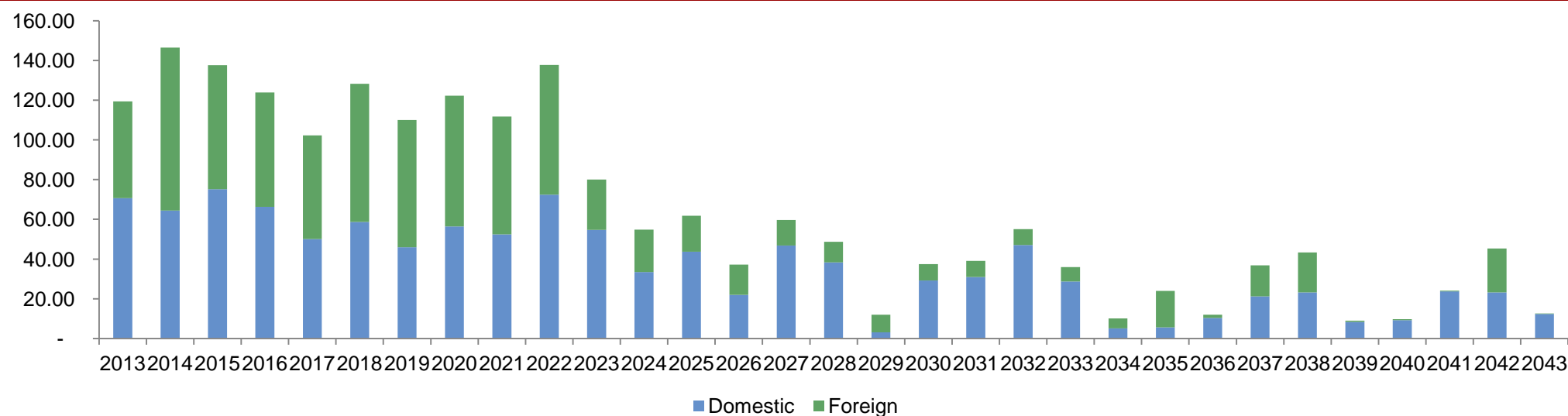
# Total Debt Maturity Profile as of February 2013



**Maturity Profile of Central Government by Instruments (in trillion IDR)**



**Maturity Profile of Central Government by Currencies (in trillion IDR)**



# Government Debt Securities Issuance Plan 2013



	2012 - Revised Budget		2013 - Budget	
	IDR (trillion)	\$ USD (billion)	IDR (trillion)	\$ USD (billion)
<b>Deficit</b>	<b>(190,1)</b>	<b>(19,63)</b>	<b>(153,3)</b>	<b>(15,83)</b>
<b>Amortization</b>	<b>(158,8)</b>	<b>(16,40)</b>	<b>(159,5)</b>	<b>(16,47)</b>
External Loan	(50)	(5)	(58)	(6)
Govt Securities (incl Buyback)	(109)	(11)	(100,9)	(10)
Domestic Loan	(0,14)	(0,01)	(0,25)	(0,03)
<b>Non Debt Financing Expenditures</b>	<b>(26,62)</b>	<b>(2,75)</b>	<b>(22,93)</b>	<b>(2,37)</b>
<b>Two Steps Loan</b>	<b>(8,4)</b>	<b>(0,87)</b>	<b>(7,0)</b>	<b>(0,72)</b>
<b>Financing Needs</b>	<b>(384,0)</b>	<b>(39,6)</b>	<b>(342,8)</b>	<b>(35,4)</b>
<b>Financing Sources</b>	<b>384,0</b>	<b>39,6</b>	<b>342,8</b>	<b>35,4</b>
<b>Non Debt (Gross)</b>	<b>60,6</b>	<b>6,25</b>	<b>14,8</b>	<b>1,53</b>
<b>Debt (Gross)</b>	<b>323,4</b>	<b>33,39</b>	<b>328,0</b>	<b>33,86</b>
Govt Securities	268,5	27,7	281,3	29,0
Program Loan	15,6	1,6	6,5	0,7
Project Loan (Bruto)	38,1	3,9	39,4	4,1
Domestic Loan	1,1	0,1	0,8	0,1

Item	2012 - Revised Budget (trillion IDR)	% of GDP	2013 - Budget (trillion IDR)	% of GDP
<b>Total Revenue &amp; Grants</b>	<b>1.358,2</b>	<b>15,9%</b>	<b>1.529,7</b>	<b>16,5%</b>
of which Tax Revenue	1.016,2	11,9%	1.192,99	12,9%
Non Tax Revenue	341,14	4,0%	332,20	3,6%
<b>Expenditure</b>	<b>1.548,3</b>	<b>18,1%</b>	<b>1.683,0</b>	<b>18,2%</b>
of which Interest payment	117,8	1,4%	113,2	1,2%
Subsidy	245,1	2,9%	317,2	3,4%
<b>Primary Balance</b>	<b>(72,3)</b>	<b>-0,8%</b>	<b>(40,1)</b>	<b>-0,4%</b>
<b>Overall Balance (deficit)</b>	<b>(190,1)</b>	<b>-2,2%</b>	<b>(153,3)</b>	<b>-1,7%</b>
<b>Financing</b>	<b>190,1</b>	<b>2,2%</b>	<b>153,3</b>	<b>1,7%</b>
Non Debt (Net)	33,9	0,4%	(8,1)	-0,1%
Debt	156,2	1,8%	161,5	1,7%
<b>Govt Securities (Net)</b>	<b>159,6</b>	<b>1,9%</b>	<b>180,4</b>	<b>1,9%</b>
Domestic Official Borrowing	1,0	0,0%	0,5	0,0%
External Official Borrowing (Net)	(4,4)	-0,1%	(19,5)	-0,2%
Disbursement	53,7	0,6%	45,9	0,5%
Program Loan	15,6	0,2%	6,5	0,1%
Project Loan (Bruto)	38,1	0,4%	39,4	0,4%
On lending	(8,4)	-0,1%	(7,0)	-0,1%
Repayment	(49,7)	-0,6%	(58,4)	-0,6%
<b>Assumptions:</b>				
GDP (trillion)	8.542,6		9.269,6	
Growth (%)	6,5		6,8	
Inflation (%)	6,8		4,9	
3-months SPN (% avg)	5,0		5,0	
Rp / USD (avg)	9.000,0		9.300,0	
Oil Price (USD/barrel)	105,0		100,0	
Oil Lifting (MBCD)	930,0		900,0	

Exchange Rate Assumption (IDR/USD 1) a.o March 6, 2013: IDR 9.686

Source: Ministry of Finance

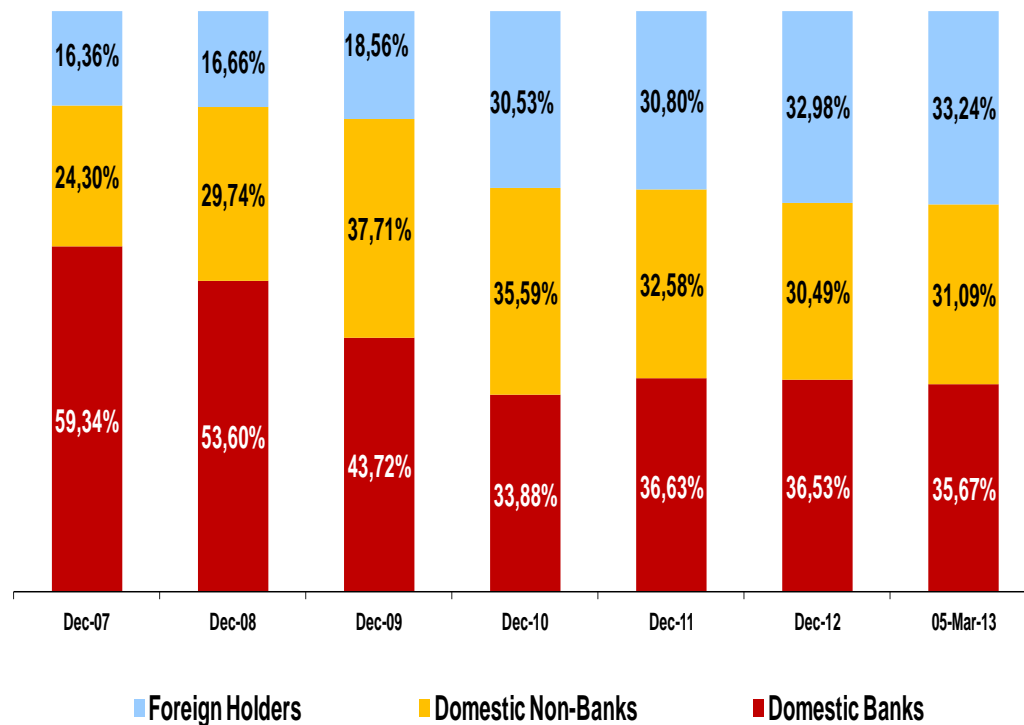


# Holders of Tradable Government Securities

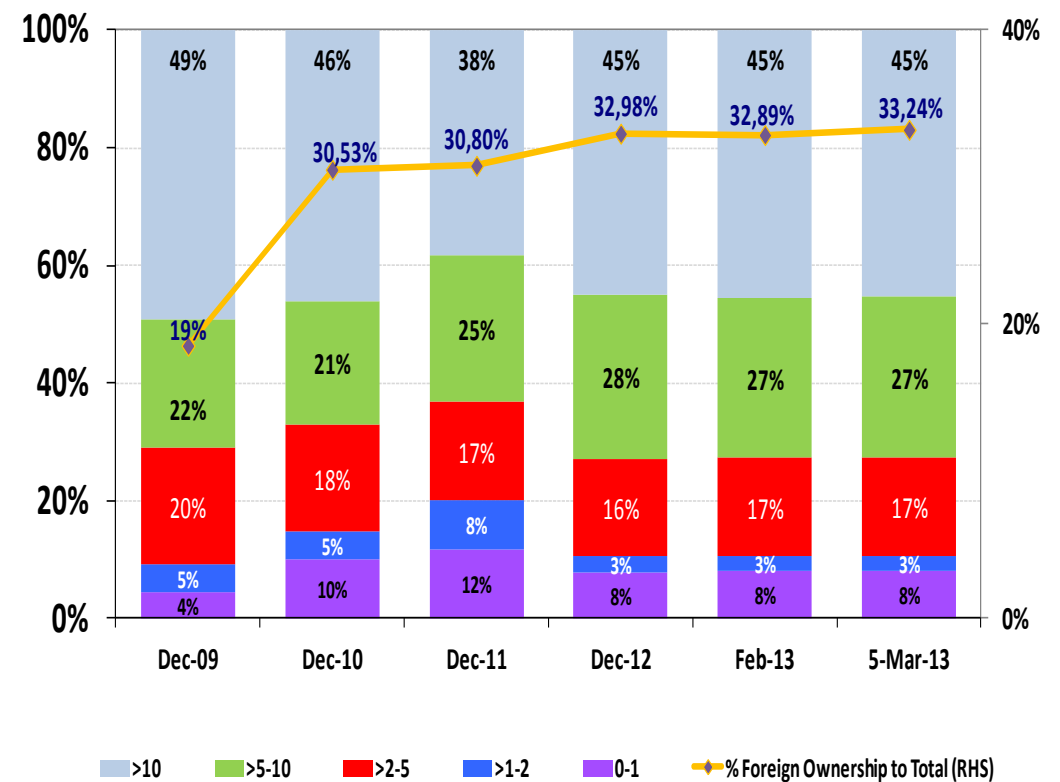


Continued Increasing proportion of foreign ownership of Indonesian Government securities.

Holders of Tradable Domestic Government Securities



Foreign Ownership of Gov't Domestic Debt Securities



# Profile of Government Debt Securities



GOVERNMENT DEBT SECURITIES (GDS)	Dec-09	Dec-10	Dec-11	Dec-12	Feb-13	5-Mar-13
1. Domestic Tradable GDS	IDR 570.215	IDR 615.498	IDR 684.618	IDR 757.231	IDR 783.868	IDR 783.168
a. Zero Coupon	IDR 33.386	IDR 32.307	IDR 32.412	IDR 24.083	IDR 21.520	IDR 20.820
1. Government Treasury Bills	IDR 24.700	IDR 29.795	IDR 29.900	IDR 22.820	IDR 21.520	IDR 20.820
2. Zero Coupon Bond	IDR 8.686	IDR 2.512	IDR 2.512	IDR 1.263	IDR -	IDR -
b. Government Domestic Bonds	IDR 536.829	IDR 583.191	IDR 652.206	IDR 733.148	IDR 762.348	IDR 762.348
1. Fixed Rate *) +)	IDR 393.543	IDR 440.396	IDR 517.142	IDR 610.393	IDR 639.593	IDR 639.593
2. Variable Rate *)	IDR 143.286	IDR 142.795	IDR 135.063	IDR 122.755	IDR 122.755	IDR 122.755
2. Promissory Notes to Bank Indonesia **) ***)	IDR 251.875	IDR 248.432	IDR 244.636	IDR 240.144	IDR 238.907	IDR 238.907
3. Total GDS (2+3)	IDR 822.090	IDR 863.930	IDR 929.254	IDR 997.376	IDR 1.022.776	IDR 1.022.076
4. Total Government International Bonds *)	USD 14.200	USD 16.200	USD 18.700	USD 22.950	USD 22.950	USD 22.950
	¥ 35.000	¥ 95.000	¥ 95.000	¥ 155.000	¥ 155.000	¥ 155.000
5. TOTAL GOV'T DEBT SECURITIES (3+(4*Exchange Rate Assumption))	IDR 959.130	IDR 1.020.062	IDR 1.109.922	IDR 1.236.658	IDR 1.260.846	IDR 1.260.888
GOVERNMENT ISLAMIC DEBT SECURITIES (GIDS)						
6. Domestic Tradable GIDS	IDR 11.533	IDR 25.717	IDR 38.988	IDR 63.035	IDR 72.520	IDR 72.520
a. Fixed Rate *)++)	IDR 11.533	IDR 25.717	IDR 37.668	IDR 62.840	IDR 71.625	IDR 71.625
b. Zero Coupon			IDR 1.320	IDR 195	IDR 895	IDR 895
7. Domestic Non Tradable GIDS	IDR 2.686	IDR 12.783	IDR 23.783	IDR 35.783	IDR 35.783	IDR 35.783
8. Government International Islamic Bonds						
1. Fixed Rate *)	USD 650	USD 650	USD 1.650	USD 2.650	USD 2.650	USD 2.650
9. TOTAL GOV'T DEBT SECURITIES (6+(8*Exchange Rate Assumption))	IDR 17.643	IDR 31.561	IDR 53.950	IDR 88.660	IDR 98.137	IDR 98.235
10. TOTAL GOVERNMENT SECURITIES	IDR 979.458	IDR 1.064.406	IDR 1.187.655	IDR 1.361.101	IDR 1.394.767	IDR 1.394.907

## Notes:

- Nominal in billion rupiah (domestic bonds), million USD & million JPY (international bonds)

- \*) Tradable

- \*\*) Non-Tradable

- +) Including ORI (IDR Billion))

- ++) Including Sukuk Ritel/SR (IDR Billion)

- Exchange Rate Assumption (IDR/USD1)

- Exchange Rate Assumption (IDR/JPY 1)

IDR 40.149	IDR 40.672	IDR 51.672	IDR 42.451	IDR 42.451	IDR 42.451
IDR 5.556	IDR 13.590	IDR 20.931	IDR 28.989	IDR 20.955	IDR 20.955
IDR 9.400	IDR 8.991	IDR 9.068	IDR 9.670	IDR 9.667	IDR 9.704
IDR 101,70	IDR 110,29	IDR 116,80	IDR 111,97	IDR 104,60	IDR 103,91

- Since October 2006, Government and Central Bank committed to replace interest payment of Promissory Notes to Bank Indonesia (SU-002 & SU-004) with new bond (SU-007) and omitted indexation of SU-002 & SU-004

# Debt Switch & Cash Buyback Program



- Debt Switch Program

[in billion IDR]

Auction Date	Auction Frequency	Source Bonds Tenor Series	Offer Received	Offer Awarded
2005	1	9 series	7.721	5.673
2006	12	7 s.d. 21 series	54.177	31.179
2007	9	12 s.d. 21 series	30.681	15.782
2008	2	21 s.d. 31 series	7.490	4.571
2009	6	24 s.d. 28 series	8.663	2.938
2010	6	11 s.d. 28 series	8.349	3.920
2011	4	22 s.d. 27 series	3.080	664
2012	4	10 s.d 20 series	23.126	11.859
2013	1	13 series	1.868	616
<b>Total</b>			<b>145.155</b>	<b>77.202</b>

- Buyback Program

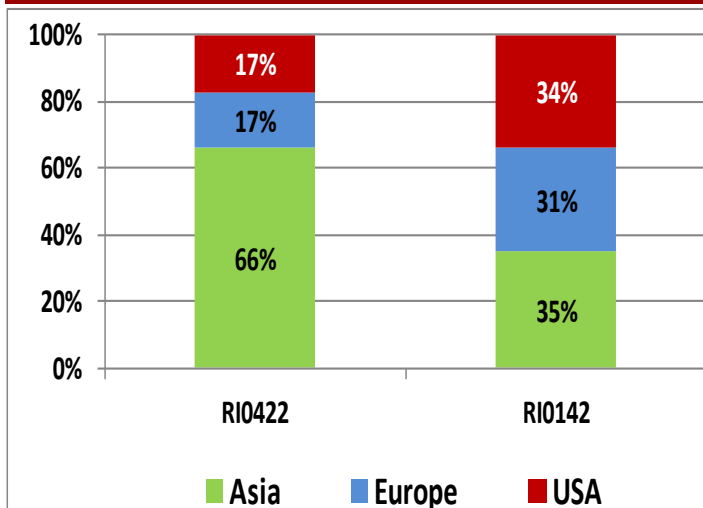
Year	Frequencies		Volume (IDR billion)
	Auctions	Direct Transactions	
2003	2	-	8.127
2004	1	-	1.962
2005	4	-	5.158
2007	2	-	2.859
2008	3	-	2.375
2009	1	1	8.528
2010	10	3	3.201
2011	2	8	3.500
2012	-	6	1.138
<b>GRAND TOTAL</b>			<b>36.848</b>

# Recent Global Bond Issuance

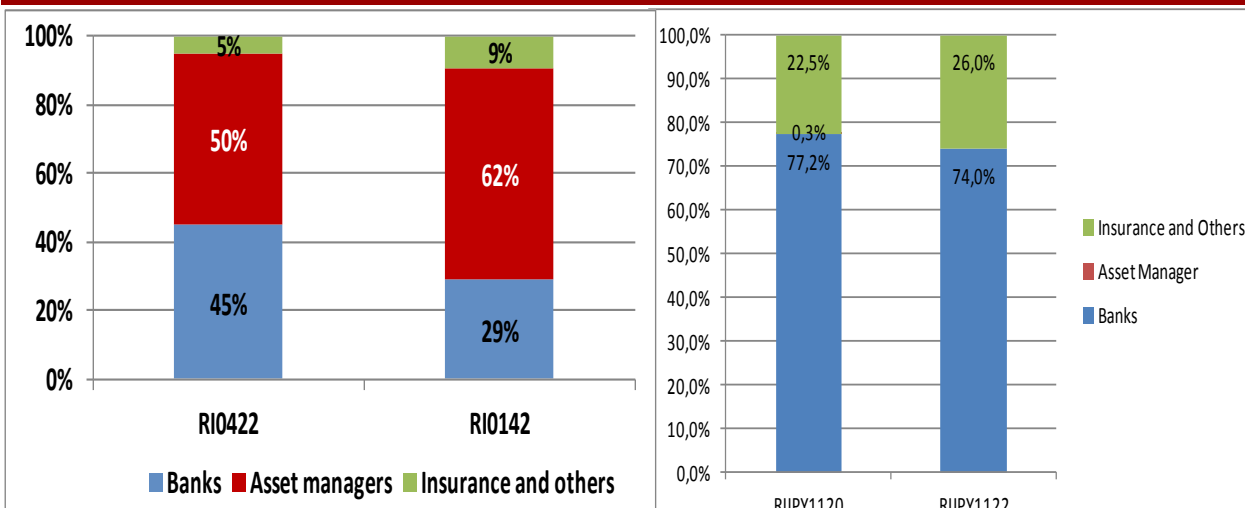


	RI0422	RI0142 (Reopening)	RIJPY1122
1 Rating (S&P   Moody's   Fitch)	BB+   Baa3   BBB-	BB+   Baa3   BBB-	
2 Size	USD 2.000.000.000	USD 500.000.000	JPY60 billion
3 Coupon	3.75% s.a.	5.25% s.a.	1.13% s.a.
4 Pricing date	17 April 2012	17 April 2012	06 Nopember 2012
5 Settlement Date	25 April 2012	25 April 2012	22 Nopember 2012
6 Maturity date	25 April 2022	17 Januari 2042	22 Nopember 2022
7 Yield when issued	0,0385	0,0495	0,0113
8 Price when issued	99,176%	104,636%	100%
9 Spread over US Treasury	184.8 bps	180.6 bps	
10 US Treasury Yield	2%	3,13%	

By Region

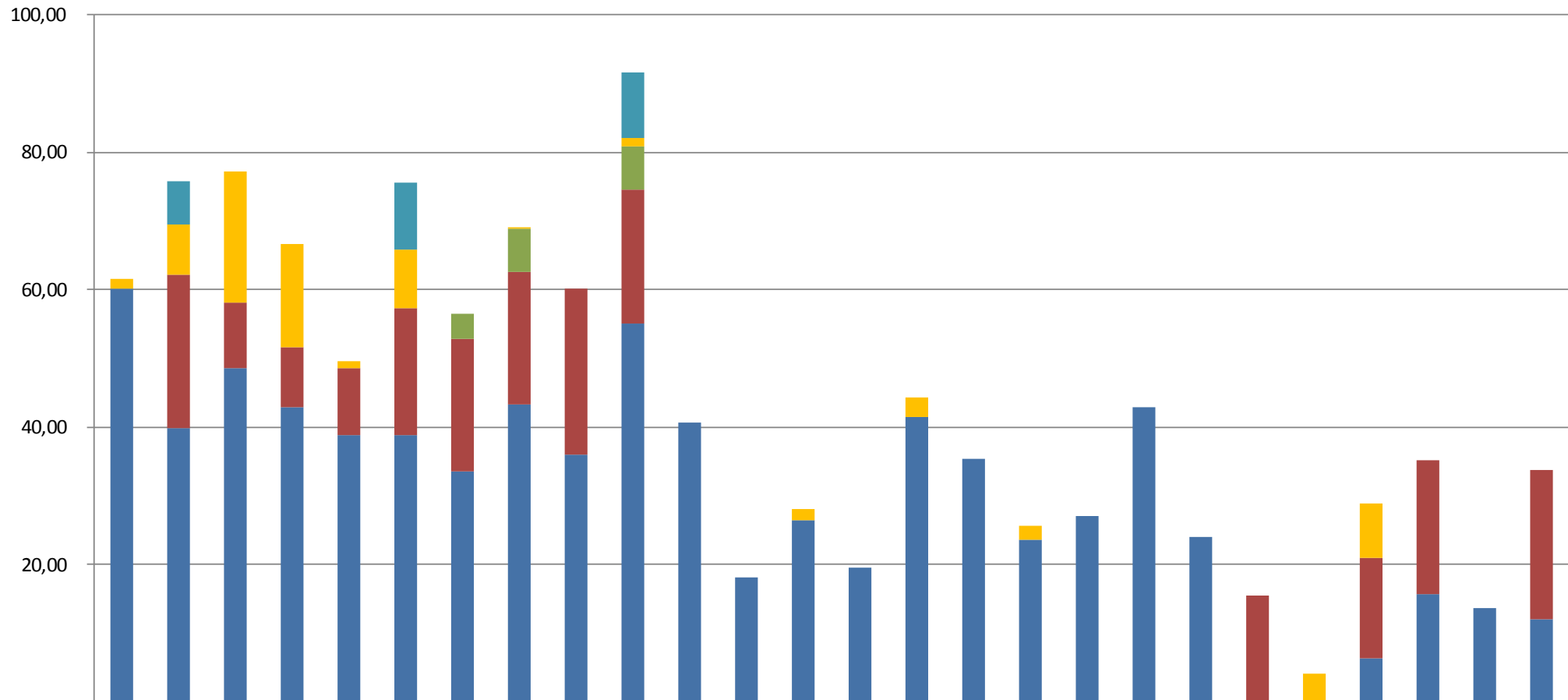


By Investor Type



# Maturity Profile of Tradable Government securities

as of March 4, 2013

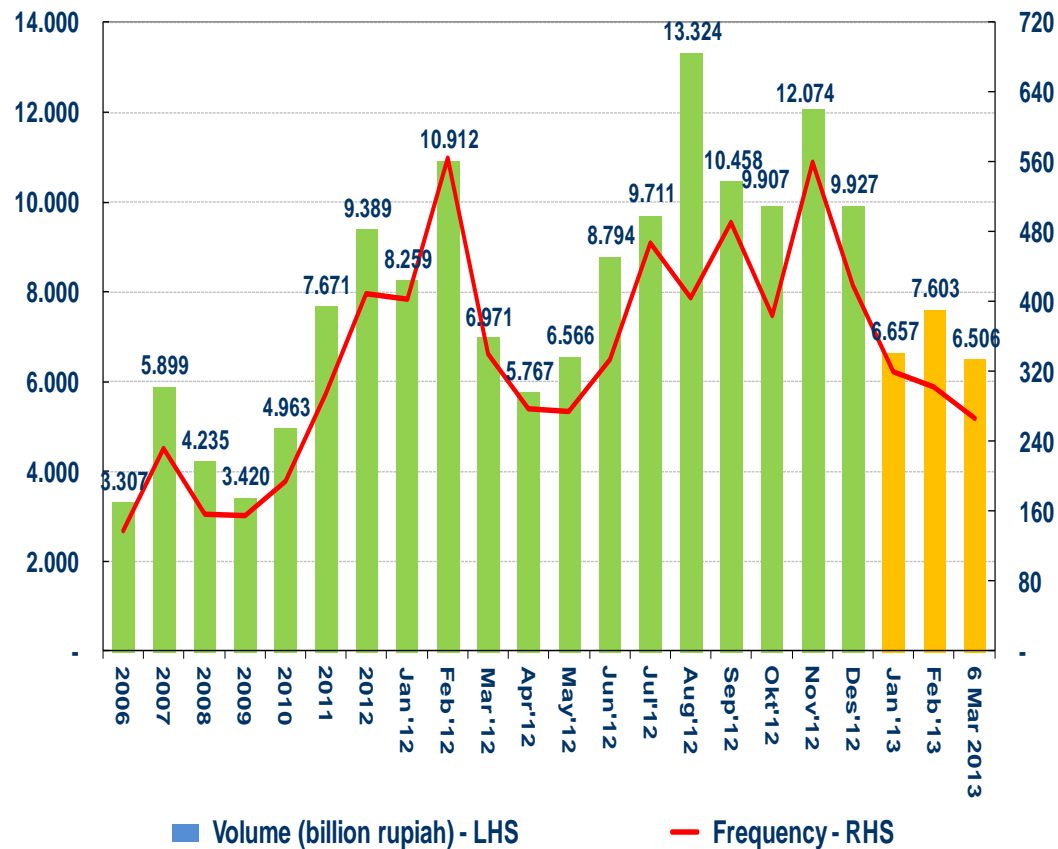


	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2030	2031	2032	2033	2035	2036	2037	2038	2041	2042
TOTAL	61,50	75,76	77,15	66,65	49,65	75,46	56,50	69,12	60,14	91,70	40,70	18,01	28,02	19,61	44,25	35,42	25,68	27,10	42,80	24,00	15,53	4,11	28,91	35,09	13,55	33,83
SUKUK USD	-	6,31	-	-	-	9,70	-	-	-	9,70	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUKUK IDR	1,45	7,34	18,96	14,97	1,17	8,55	-	0,25	-	1,21	-	-	1,55	-	2,85	-	2,18	-	-	-	-	4,11	7,95	-	-	-
SUN JPY	-	-	-	-	-	-	3,64	6,23	-	6,23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUN USD	-	22,32	9,70	8,73	9,70	18,44	19,41	19,41	24,26	19,41	-	-	-	-	-	-	-	-	-	-	15,53	-	14,56	19,41	-	21,83
SUN IDR	60,05	39,79	48,48	42,95	38,77	38,78	33,45	43,22	35,88	55,14	40,70	18,01	26,47	19,61	41,40	35,42	23,50	27,10	42,80	24,00	-	-	6,40	15,69	13,55	12,00

# Daily Transaction & Offshore Ownership

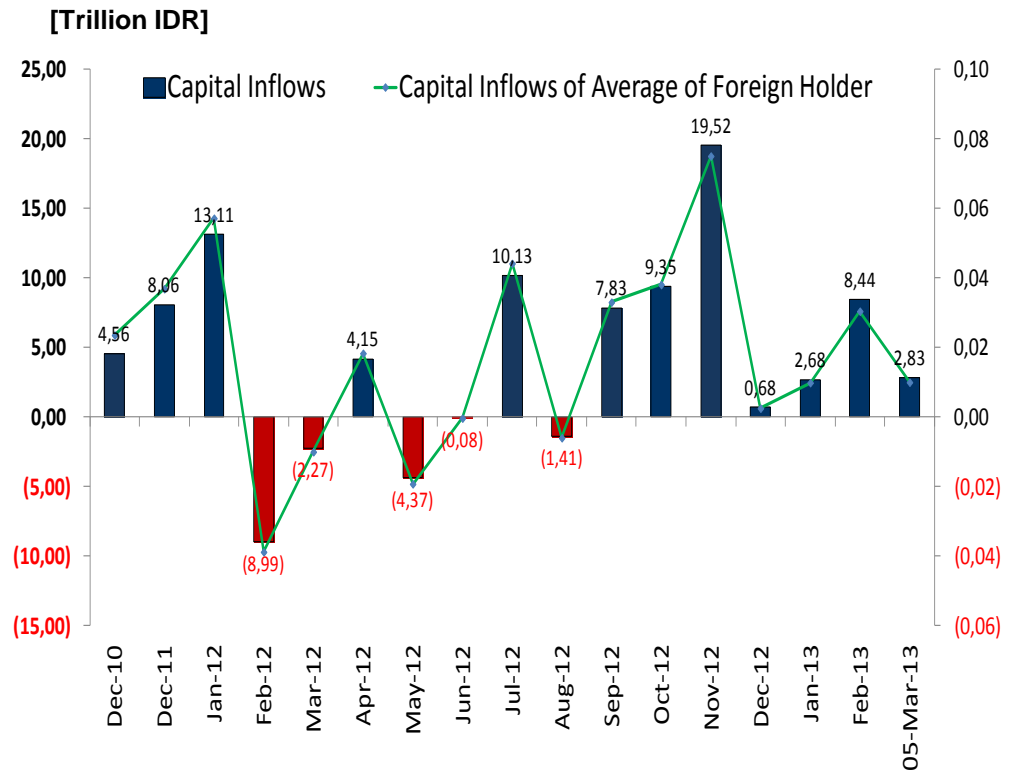


## Average Daily transaction Govt' Bonds



Source: Ministry of Finance

## Net Buyer (Seller) Non Resident





# Ownership of IDR Tradable Government Securities



(IDR Trillion)

	Des-08		Dec-09		Dec-10		Dec-11		Dec-12		28-Feb-13		04-Mar-13	
Banks	258,75	49,2%	254,36	43,72%	217,27	33,88%	265,03	36,63%	299,66	36,73%	309,93	36,19%	306,24	35,79%
Govt Institutions	23,01	4,4%	22,50	3,87%	17,42	2,72%	7,84	1,08%	3,07	0,37%	4,60	0,54%	6,00	0,70%
Non-Banks	243,93	46,4%	304,89	52,41%	406,53	63,40%	450,75	62,29%	517,53	63,09%	541,86	63,27%	543,44	63,51%
Mutual Funds	33,11	6,3%	45,22	7,77%	51,16	7,98%	47,22	6,53%	43,19	5,27%	43,04	5,03%	43,06	5,03%
Insurance Company	55,83	10,6%	72,58	12,48%	79,30	12,37%	93,09	12,86%	83,42	10,17%	117,44	13,71%	117,62	13,75%
Foreign Holders	87,61	16,7%	108,00	18,56%	195,76	30,53%	222,86	30,80%	270,52	32,98%	281,63	32,89%	284,14	33,21%
Insurance	0,03	0,0%	0,06	0,01%	1,35	0,21%	2,94	0,41%	3,59	0,44%	3,59	0,42%	3,59	0,42%
Pension Fund	0,17	0,0%	1,23	0,21%	2,31	0,36%	2,76	0,38%	4,40	0,54%	4,77	0,56%	4,77	0,56%
Corporate	0,69	0,1%	3,66	0,63%	5,71	0,89%	6,59	0,91%	10,78	1,31%	12,59	1,47%	13,77	1,61%
Fin. Institutions	83,38	15,9%	78,41	13,48%	126,69	19,76%	133,63	18,47%	159,09	19,39%	162,29	18,95%	163,52	19,11%
Individual	0,06	0,0%	0,06	0,01%	0,10	0,02%	0,09	0,01%	0,10	0,01%	0,09	0,01%	0,09	0,01%
Mutual Fund	0,49	0,1%	21,53	3,70%	53,53	8,35%	68,30	9,44%	70,09	8,55%	74,15	8,66%	74,20	8,67%
Securities	2,67	0,5%	2,65	0,45%	4,34	0,68%	4,88	0,67%	5,56	0,68%	4,93	0,58%	4,93	0,58%
Foundation					0,07	0,01%	0,06	0,01%	0,07	0,01%	0,06	0,01%	0,06	0,01%
Others	0,11	0,0%	0,39	0,07%	1,64	0,26%	3,60	0,50%	16,84	2,05%	19,18	2,24%	19,21	2,24%
Pension Fund	32,98	6,3%	37,50	6,45%	36,75	5,73%	34,39	4,75%	56,46	6,88%	27,55	3,22%	27,48	3,21%
Securities Company	0,53	0,1%	0,46	0,08%	0,13	0,02%	0,14	0,02%	0,30	0,04%	1,18	0,14%	0,76	0,09%
Individual											30,29	3,54%	29,34	3,43%
Others	33,87	6,4%	41,12	7,07%	43,43	6,77%	53,05	7,33%	63,64	7,76%	40,72	4,76%	41,04	4,80%
Total	525,69	100%	581,75	100%	641,21	100%	723,61	100%	820,27	100%	856,39	100%	855,69	100%

Source: Ministry of Finance

Notes:

- Foreign Holders (offshore) are non-resident Private Banking, Fund/Asset Mgmt, Securities Co, Insurance, Pension Fund, etc
- Others are Corporate, Foundations, etc.
- Private Banks – Recap and Non Recap Banks include foreign banks branches and subsidiaries