Republic of Indonesia

Reforms on The Move, Stability Intact

March 2018
Investor Relations Unit (IRU) of the Republic of Indonesia has been established as a joint effort between Coordinating Ministry of Economic Affairs, Ministry of Finance and Bank Indonesia since 2005. The main objective of IRU is to actively communicate Indonesian economic policy and to address concerns of investors, especially financial market investors.

As an important part of its communication measures, IRU maintains a website under Bank Indonesia website which is administered by International Department of Bank Indonesia. However, day-to-day activities of IRU are supported by all relevant government agencies, among others: Bank Indonesia, Ministry of Finance, Coordinating Ministry for Economic Affairs, Investment Coordinating Board, Ministry of Trade, Ministry of State Owned Enterprises, Ministry of Energy and Mineral Resources and Financial Services Authority.

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

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Website: http://www.bi.go.id/en/iru/default.aspx

Contact: Wiwit Widyastuti (International Department - Bank Indonesia, Phone: +6221 2981 8279)
Bhayu Purnomo (Fiscal Policy Office - Ministry of Finance, Phone: +6221 345 0012)
I Gede Yuddy Hendranata (Directorate General of Budget Financing and Risk Management - Ministry of Finance,
Phone: +62213510714)
E-mail: contactIRU-DL@bi.go.id

This Presentation Book also can be downloaded from: http://www.bi.go.id/en/iru/presentation/red/Default.aspx
Overview

1. Institutional and Governance Effectiveness: Accelerated Reforms Agenda with Institutional Improvement
2. Economic Factor: Strong and Stable Growth Prospects Remain Intact
3. External Factor: Improved External Resilience
5. Monetary and Financial Factor: Credible Monetary Policy Track Record and Favourable Financial Sector
6. Progressive Infrastructure Development: Strong Commitment on Acceleration of Infrastructure Provision
Section 1

Institutional and Government Effectiveness: Accelerated Reforms Agenda with Institutional Improvement
Improving Global Perception...with recent improvements on global competitiveness and governance indicator

**Global Competitiveness Index**

Higher rank is better

**Ease of Doing Business**

Higher rank is better (rankings at the time of annual report publication)

**World Governance Indicators**

Higher rank is better

**Corruption Perception Index**

Higher score is better

### Improving Global Perception

Indonesia has improved its competitiveness among ASEAN members....

Indonesia is inching its way up the competitiveness ladder, moving ahead 5 places

<table>
<thead>
<tr>
<th>Rank</th>
<th>Countries</th>
<th>GCI Rank</th>
<th>Change in Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Singapore</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Malaysia</td>
<td>23</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Thailand</td>
<td>32</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Indonesia</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Brunei Darussalam</td>
<td>46</td>
<td>12</td>
</tr>
<tr>
<td>6</td>
<td>Vietnam</td>
<td>55</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Philippines</td>
<td>56</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>Cambodia</td>
<td>94</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>Lao PDR</td>
<td>98</td>
<td>5</td>
</tr>
</tbody>
</table>

Indonesia’s transport infrastructure continues to improve supported by massive infrastructure projects

<table>
<thead>
<tr>
<th>Rank</th>
<th>Countries</th>
<th>Transport Infrastructure Index</th>
<th>Change in Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Singapore</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Malaysia</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Indonesia</td>
<td>30</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>Thailand</td>
<td>34</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Brunei Darussalam</td>
<td>63</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Vietnam</td>
<td>64</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>Philippines</td>
<td>90</td>
<td>-2</td>
</tr>
<tr>
<td>8</td>
<td>Cambodia</td>
<td>108</td>
<td>6</td>
</tr>
<tr>
<td>9</td>
<td>Lao PDR</td>
<td>109</td>
<td>1</td>
</tr>
</tbody>
</table>

We changed the outlook on Indonesia’s sovereign rating to positive from stable to reflect emerging signs of a reduction in structural constraints, including its level of external vulnerability and the strength of its institutions.

May 2017, BBB-, Rating Upgraded

“We raised the long-term sovereign credit to BBB- as the Indonesian authorities have taken effective expenditure and revenue measures to stabilize the public finances despite the terms of trade shock.”

Feb 2017, Baa3, Outlook Revised to Positive

“We changed the outlook on Indonesia’s sovereign rating to positive from stable to reflect emerging signs of a reduction in structural constraints, including its level of external vulnerability and the strength of its institutions.”

March 2018, Rating Upgraded to BBB, Outlook Revised to Stable

“Indonesia’s economy continues its strong performance, with inflation remaining low and stable. Fiscal deficits have been reined in, and government debt is low. The economy is becoming more resilient to external shocks, reflecting small current account deficits and ample foreign reserves.”

February 2018, Rating Upgraded to BBB, Outlook Revised to Stable

“...the government led by President Joko Widodo has been pressing ahead with structural reforms aimed to promote sustainable growth. First, the investment climate has significantly improved... Second, infrastructure development has been gaining momentum... Third, the external debt owed by the private sector has been curbed since 2016... Taking those into consideration, JCR has upgraded its ratings by one notch and changed the outlook to Stable.”
## Indonesia Remains the Investment Destination of Choice

### The Economist: Indonesia rounds out the top five of Asian economies that can look forward to increased investment spending. (January 2018)\(^1\)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Investment / GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>32.90</td>
</tr>
<tr>
<td>India</td>
<td>34.17</td>
</tr>
<tr>
<td>Vietnam</td>
<td>25.11</td>
</tr>
<tr>
<td>Singapore</td>
<td>21.21</td>
</tr>
<tr>
<td>Australia</td>
<td>22.25</td>
</tr>
</tbody>
</table>

### Indonesia Enjoys Large Investments Relative to Peers within the Region\(^2\)

![Bar chart showing total investment to GDP of various countries]

### UNCTAD: Indonesia is listed as the top 5 prospective investment destination in the world (June 2017)\(^3\)

<table>
<thead>
<tr>
<th>Country</th>
<th>% of surveyed who consider each country has promising prospects</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (1)</td>
<td>45.7</td>
</tr>
<tr>
<td>China (2)</td>
<td>43.9</td>
</tr>
<tr>
<td>India (3)</td>
<td>38.1</td>
</tr>
<tr>
<td>Vietnam (4)</td>
<td>33.1</td>
</tr>
<tr>
<td>Thailand (5)</td>
<td>26.1</td>
</tr>
</tbody>
</table>

### JBIC: Among ASEAN countries, Indonesia is one of the most preferred place for business investment (November 2017)\(^4\)

<table>
<thead>
<tr>
<th>Country</th>
<th>% of executives responding (x) = 2016 ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (1)</td>
<td>40</td>
</tr>
<tr>
<td>China (2)</td>
<td>36</td>
</tr>
<tr>
<td>India (3)</td>
<td>20</td>
</tr>
<tr>
<td>Vietnam (4)</td>
<td>11</td>
</tr>
<tr>
<td>Thailand (5)</td>
<td>11</td>
</tr>
</tbody>
</table>

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1. Source: The Economist – Asia Business Outlook Survey 2018
2. Source: IMF World Economic Outlook, Database October 2017
National Strategic Development Plan (Nawa Cita)

The 3 Dimensions on Economic Development

**Human Development**
- Education
- Health
- Housing
- Character

**Priority Sector Development**
- Food Security
- Energy & Electrical Security
- Maritime & Marine
- Tourism & Industry
- Water Security, Basic Infrastructure & Connectivity

**Equitable Development**
- Inter- Income Group
- Inter-Region:
  - (1) Rural Area,
  - (2) Periphery,
  - (3) Outside Java,
  - (4) Eastern Area.

**Necessary Condition**
- Legal Certainty & Law Enforcement
- Security & Order
- Politic & Democracy
- Governance
Economic Equality Policies

to support sustainable public welfare...

<table>
<thead>
<tr>
<th>Economic Equality Policies</th>
<th>Agrarian Reform</th>
<th>Agriculture (Landless Farmer)</th>
<th>Plantation</th>
<th>Urban Poor &amp; Affordable Housing</th>
<th>Fishermen &amp; Seaweed Cultivation</th>
<th>Fair Tax System</th>
<th>Manufacture and ICT</th>
<th>Retail and Market</th>
<th>Financing &amp; Government Budget</th>
<th>Vocational, Entrepreneurship &amp; Labor Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>• Build a fair land distribution scheme&lt;br&gt;• Build a priority scale of <em>Tanah Objek Reforma Agraria</em> (TORA) recipient based on land gini ratio, poverty, &amp; land demand&lt;br&gt;• Developing an agricultural industry by agglomeration or cluster method</td>
<td>• Define <em>Lahan Pertanian Pangan Berkelanjutan</em> LP2B to prevent land usage for non-agriculture purposes&lt;br&gt;• Land consolidation for agriculture&lt;br&gt;• Improve research on seeds and agriculture method, off-farm infrastructure, integrated logistic system, build seeds market, tools and machinery</td>
<td>• Data collection &amp; law enforcement on palm oil land area, including land bank data collection&lt;br&gt;• Building a database and arranging policy on planting non-agriculture commodities&lt;br&gt;• Improve cooperative performance by encouraging SOEs and private sectors involvement&lt;br&gt;• Research support, market synergies, off-takers, and supply chain on downstream business</td>
<td>• Social Housing&lt;br&gt;• House financing&lt;br&gt;• Land banks and affordable land prices&lt;br&gt;• Law enforcement on spatial policies</td>
<td>• Integrating fishing and seaweeds sectors&lt;br&gt;• Improve and support aquaculture industry and fishery sector value chain&lt;br&gt;• Encourage Private sector investment on seaweed sector (process and off-taker)</td>
<td>• Develop and improve progressive tax, capital gain tax and tax on unutilized asset&lt;br&gt;• supporting fiscal spending</td>
<td>• Developing natural resources industries and value chains&lt;br&gt;• Minimize interest gap between large companies and small companies&lt;br&gt;• Protect market share from integrated businesses and strong capital</td>
<td>• Regulate and build a database on traditional/modern market, traditional and modern shops&lt;br&gt;• Regulate the distances, location, and zone of the market and modern stores&lt;br&gt;• Compulsory mandates to maximize the usage of Local products&lt;br&gt;• Fair access to the logistic system</td>
<td>• Improving <em>Kredit Usaha Rakyat</em> (KUR) scheme to support non-bankable SME&lt;br&gt;• Improving procurement scheme to support SME accessibility to finance</td>
<td>• Identified and built priority scale on sectors, sub-sectors of leading industries and profession&lt;br&gt;• Improving link and match scheme between industries and vocation&lt;br&gt;• Early childhood education&lt;br&gt;• Encourage education system to be more skill, collaborative, flexibility and impact oriented instead of degree consideration</td>
</tr>
</tbody>
</table>

Source: Coordinating Ministry for Economic Affairs
The Economic Policy Packages

“To improve national industry competitiveness, export and investment to generate significant economic growth”

<table>
<thead>
<tr>
<th>Harmonizing Regulations</th>
<th>Simplifying Bureaucratic Process</th>
<th>Ensuring Law Enforceability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase I (9 Sept ’15)</td>
<td></td>
<td>Phase VIII (21 Dec ’15)</td>
</tr>
<tr>
<td>Improving national industry competitiveness</td>
<td>Resolving land acquisition disputes, intensifying domestic oil production, stimulating domestic parts and aviation industries</td>
<td></td>
</tr>
<tr>
<td>Phase II (29 Sept ’15)</td>
<td></td>
<td>Phase IX (27 Jan ’16)</td>
</tr>
<tr>
<td>Easing permit requirement and simplifying export proceeds requirement</td>
<td>Accelerating electricity generation, stabilizing meat prices and improving rural-urban logistics sector</td>
<td></td>
</tr>
<tr>
<td>Phase III (7 Oct ’15)</td>
<td></td>
<td>Phase X (11 Feb ’16)</td>
</tr>
<tr>
<td>Financial services facilitation, export financing and elimination of business unnecessary burden</td>
<td>Revising the Negative investment List and improving protection for SMEs</td>
<td></td>
</tr>
<tr>
<td>Phase IV (15 Oct ’15)</td>
<td></td>
<td>Phase XI (29 Mar ’16)</td>
</tr>
<tr>
<td>Social safety net and betterment of people welfare</td>
<td>Stimulating national economy through facilitation to SMEs and industries</td>
<td></td>
</tr>
<tr>
<td>Phase V (22 Oct ’15)</td>
<td></td>
<td>Phase XII (28 Apr’16)</td>
</tr>
<tr>
<td>Improving industry and investment climate through tax incentives and deregulation on sharia banking</td>
<td>Improving Indonesia’s rank on Ease of Doing Business (EODB)</td>
<td></td>
</tr>
<tr>
<td>Phase VI (5 Nov ’15)</td>
<td></td>
<td>Phase XIII (24 Aug ’16)</td>
</tr>
<tr>
<td>Stimulating economic activities in border areas and facilitating strategic commodities availability</td>
<td>Low Cost Housing for Low-Income Communities</td>
<td></td>
</tr>
<tr>
<td>Phase VII (7 Dec ’15)</td>
<td></td>
<td>Phase XIV (10 Nov ’16)</td>
</tr>
<tr>
<td>Stimulating business activities in labor-intensive industries nation-wide through incentives in the form of accelerating land certification process for individuals</td>
<td>Roadmap for E-commerce</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Phase XV (15 Jun ’17)</td>
</tr>
</tbody>
</table>

In addition to the 15 Policy Packages, on August 31, 2017 the Government has issued a Presidential Regulation No.91/2017 for enhancing business license service standard.

Source: Coordinating Ministry for Economic Affairs
Boosting the Competitiveness through Logistical Efficiency
The 15th Economic Policy Package has been launched

**Policy Goals**

1. Strengthen the Institution of the Indonesia National Single Window (INSW)
2. Increase Competitiveness of Logistic Service Providers
3. Provide Market Opportunities for Shipping Companies, Marine Insurance, and National Ship Maintenance Businesses

**Policy Targets**

1. Import duty for 115 types of ship’s spare parts and components: 0%
2. Opportunities for national shipping to serve export and import transportation of around USD 600 million/year
3. 70-100 units of new ships worth USD 700 million
4. New employment opportunity of 2,000 sailors
5. Improve the Regional Government’s role in development of Regional Logistics System to control inflation and reduce post-harvest product damage up to 30%

Source: Coordinating Ministry for Economic Affairs
Enhancing Business License Service Standard
Presidential Regulation to Accelerate Ease of Doing Business has been launched

**Policy Goals**

1. Improve efficient, streamlined, & integrated business license service standards
2. Provide business licensing process assurance in terms of the costs and lead times
3. Accelerate the business licensing process
4. Increase coordination & synergy between central & regional government
5. Overcome the barriers to doing business in Indonesia
6. Implement integrated licensing process (single submission)

**Main Policy**

**1st Phase**
- Forming a Task Force to identify & overcome the end-to-end licensing barriers
- Implementing a licensing checklist for Special Economic Zones (KEK), Free Trade Zones (FTZ), Industrial Zones & Tourist Zones
- Utilizing data sharing

**2nd Phase**
- Business license regulatory reforms
- Implementation of the Single Submission system

Source: Coordinating Ministry for Economic Affairs
Progress of the Economic Policy Packages*

<table>
<thead>
<tr>
<th>Category</th>
<th>Initial Regulations</th>
<th>Revoked Regulations</th>
<th>Total Regulations</th>
<th>Set</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presidential Level</td>
<td>50</td>
<td></td>
<td>234</td>
<td>219</td>
<td>97%</td>
</tr>
<tr>
<td>Ministerial/Institutional Level</td>
<td>169</td>
<td></td>
<td>223</td>
<td></td>
<td>97%</td>
</tr>
<tr>
<td>On Going Discussion</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>234</strong></td>
<td><strong>11</strong></td>
<td><strong>223</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Initially, there are 234 regulations which need to be deregulated.

Based on the further assessment, 11 regulations has been revoked from deregulation process.

Total regulation subject to be deregulated: 223 regulations.

As of January 18th, 2018, deregulation of 219 regulations are finished (97%), comprising 50 regulations at Presidential level and 169 regulations at Ministerial/Institutional level.

Unfinished regulations: Proposed Policy on Development of Business and competitiveness of National Logistics Service Providers

*as of March 2018

Source: Coordinating Ministry for Economic Affairs
Other Progress on Economic Policy Packages

Fair, Simplified & Projectable Wage System

29 Provinces have set 2016 Minimum Wage System in accordance to the Government Regulation (GR) No. 78/2015

Development of Special Economic Zone (SEZ)

Investment commitments in SEZ up to 2017 reach 41 T, with 3 hour licenses already applied in 4 SEZ’s Administrators in 2017

Industrial Zone

- The Provinces of Central Java proposed 3 IZ’s: Kendal, Demak, and Ungaran
- Pharmaceutical IZ in Bitung (North Sulawesi) in 2017

Deregulation on Logistics Sector

52 Bonded Logistic Center has been launched to support various industries
Improving Investment Climate

...implement 3-hour investment licensing service to complement the One Stop Service (OSS)

 Requirement for utilizing 3-hour Investment Licensing Service:

1. Minimum investment of IDR 100 billion (USD 8 million) and/or employing 1,000 local workers.
2. Application must be submitted directly by at least one candidate of the proposed company stakeholder

- Arrive at OSS at BKPM directly from the airport
- Consult with Director of Investment Service
- Submit the required documents & data

Wait at the lounge while documents are processed by BKPM, in-house notary, ministries, & other government institutions

Obtain eight documents & letter of land availability within three hours to start the business

9 documents obtained

Certainty to start a business
- Investment license
- Certificate of incorporation
- NPWP/Tax Registration Number
- TDP/Company Registration

Certainty to import capital goods
- APIP/Import identification
- NIK/Customs registration

Certainty to work
- RPTKA/Employment plan
- IMTA/Working permit

Accurate land information
- Letter of land availability

Flowchart of business activities workflow

- Containing workflow from raw material production to the finished products

2 documents needed

Investor identity as the prospective shareholders
- ID Card
- And/or Deed of Establishment (Indonesian company) or Article of Association (Foreign company)

From Jan – December 2017, 191 projects have utilized the “3 hours services”

Source: Investment Coordinating Board (BKPM)
Improving Investment Climate
...implement 3-hour investment licensing service for Energy and Mineral Resources Sector

1. Director arrives at central OSS, then submit required documents*
2. Waiting in priority lounge, while the documents processed
3. Applicant receive the requested licensing products

Note *: ESDM3J service is given if the company has fulfilled the checklist of administrative & technical requirements as regulated on MEMR Ministerial Decree No.15 of 2016

From Jan – December 2017, 48 projects have utilized the 3 hours services for EMR Sector

Source: Investment Coordinating Board (BKPM)

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of Licensing</th>
<th>Duration for regular service (work days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Temporary Business License for Electricity</td>
<td>20</td>
</tr>
<tr>
<td>2</td>
<td>Temporary Business License for Oil/Fuel/LPG storage</td>
<td>32</td>
</tr>
<tr>
<td>3</td>
<td>Temporary Business License for Storage of Processed Products/Compressed Natural Gass (CNG)</td>
<td>32/40</td>
</tr>
<tr>
<td>4</td>
<td>Temporary Business License for Liquefied Natural Gas (LNG) Storage</td>
<td>32</td>
</tr>
<tr>
<td>5</td>
<td>Temporary Business License for Oil Refinery</td>
<td>32</td>
</tr>
<tr>
<td>6</td>
<td>Temporary Business License for Processing Oil Residue Industry</td>
<td>32</td>
</tr>
<tr>
<td>7</td>
<td>Temporary Business License for Natural Gas Processing</td>
<td>32</td>
</tr>
<tr>
<td>8</td>
<td>Temporary Business License for General Trade of Oil/Fuel</td>
<td>40</td>
</tr>
<tr>
<td>9</td>
<td>Temporary Business License for General Trade of Processed Product</td>
<td>40</td>
</tr>
</tbody>
</table>

Note: ESDM3J service is given if the company has fulfilled the checklist of administrative & technical requirements as regulated on MEMR Ministerial Decree No.15 of 2016.
Improving Investment Climate
...implement Direct Construction Permit to attract investment in Industrial Estates

**Priority Investment Service**

**Direct Construction (KLIK)**
Investors can directly start their project construction before obtaining construction permits. This service is supported by both Central and Regional Governments which become the first step to synergize between central and local licensing.

**No Requirements**
- No minimum investments or workers is required.
- Available for 32 selected industrial estates.
- Construction permits can be obtained in parallel with construction process.

**Obtain** investment licence at OSS at national or regional level.

**Survey** a land within selected industrial estates.
**Acquire** the land for your industry.

**Start the construction** of your project. No other permits are required.
**Apply** for building construction permit & environmental permit, in parallel with construction process.

**Until January 2018, 115 projects have utilized the “KLIK services”**

Source: Investment Coordinating Board (BKPM)
Improving Investment Climate

Direct Construction Permit is expanded to 32 Industrial Estates (IE) throughout Indonesia.

North Sumatera
- Medan Industrial Estate/KIM (100 ha)

Banten
- Modern Cikande Industrial Estate/MCIE (1,800 ha)
- Wilmar Integrated Industrial Park/WIIP (800 ha)
- Krakatau Industrial Estate Cilegon/KIEC (570 ha)

Central Java
- Kendal Industrial Park/KIP (700 ha)
- Bukit Semarang Baru/BSB (40 ha)
- Wijayakusuma Industrial Estate/KIW (100 ha)

East Java
- IE Maspion (151 ha)
- IE Tuban (190 ha)

South Sulawesi
- Bantaeng Industrial Park/BIP (3,000 ha)

Riau Island
- Batamindo Industrial Park (61.4 ha)
- Bintang Industrial Park II (20 ha)
- Kabil Integrated Industrial Estate (142.5 ha)
- Bintan Inti Industrial Park (229.6 ha)
- West Point Maritim Industrial Park (102.5 ha)

Central Java
- IE Demak (285.7 ha)

East Java
- KI Java Integrated Industrial and Port Estate/JIIPE (1,761 ha)

West Java
- Artha Industrial Hill (315.1 ha)
- Greenland International Industrial Center (GlIC)/Deltamas (400 ha)
- Jababeka Tahap III (45 ha)
- Kota Bukit Indah City (510 ha)
- Indotaisei Kota Bukit Indah (300 ha)
- Marunda Center (300 ha)

East Kalimantan
- IE Kariangau (133.8 ha)

Source: Investment Coordinating Board (BKPM)
(Pusat Logistik Berikat/PLB) is a facility provided by Ministry of Finance as part of the implementation of the 1st Economic Policy Package.

PLB facility aims to improve efficiency and reduce the cost of transportation and logistics in Indonesia; support the growth of the domestic industry, including small and medium industries; increase investment; and to make Indonesia to become a logistics hub in Asia Pacific.

To date, 52 Bonded Logistic Center has been launched to support various industries.
Improving Investment Climate
...revising the Negative Investment List

Key Reforms in Negative Foreign Investment List

- Revision of "Partnership" category to refer to partnership with Micro, Small and Medium Enterprises (MSMEs)
- Grandfather Law: If a particular sector is tightened in future, existing foreign investor does not need to comply with tighter stake
- Strengthen implementation of negative investment law through active roles from ministries, agencies and regional governments

Introduction of New Foreign Ownership Regulation for Strategic Sectors

1 For total project value of IDR10bn and above

Source: Investment Coordinating Board (BKPM)
Continuous Improvement of Investment Climate
...another leap on Indonesia’s Rank on Ease of Doing Business (EODB)*

<table>
<thead>
<tr>
<th>Service</th>
<th>EODB 2018 Rank</th>
<th>EODB 2017 Rank</th>
<th>Change in Rank</th>
<th>EODB 2018 Points</th>
<th>EODB 2017 Points</th>
<th>Change in Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>72</td>
<td>91</td>
<td>19</td>
<td>66.47</td>
<td>61.52</td>
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<td>116</td>
<td>8</td>
<td>66.08</td>
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<tr>
<td>Getting Electricity</td>
<td>38</td>
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<td>11</td>
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<td>2.95</td>
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<td>Registering Property</td>
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<td>Protecting Minority Investors</td>
<td>43</td>
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<td>47.23</td>
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<td>Resolving Insolvency</td>
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<td>76</td>
<td>38</td>
<td>67.61</td>
<td>46.46</td>
<td>21.15</td>
</tr>
</tbody>
</table>

* Higher rank is better, EoDB 2018 was published in October 2017
- Government efforts to boost business growth through deregulations and de-bureaucratization have been recognized by the improvement of EODB
- Structural reforms will continue including in the budget and real sectors

Source: World Bank
Improving Investment Realization (Q4-2017)

Rising Direct Investments

<table>
<thead>
<tr>
<th>Year</th>
<th>IDR tn</th>
<th>FDI</th>
<th>DD1</th>
<th>TOTAL</th>
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<tr>
<td>2013</td>
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<td></td>
<td></td>
<td>120.0</td>
</tr>
<tr>
<td>2014</td>
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<td></td>
<td>179.6</td>
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<tr>
<td>2015</td>
<td>179.6</td>
<td></td>
<td></td>
<td>359.2</td>
</tr>
<tr>
<td>2016</td>
<td>67.6</td>
<td></td>
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<td>147.2</td>
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<tr>
<td>2017</td>
<td>112.0</td>
<td></td>
<td></td>
<td>224.0</td>
</tr>
</tbody>
</table>

FDI Realization by Sectors

- **Non Metallic Mineral Industry**: US$165 mn, 17.8%
- **Leather Goods and Footwear Industry**: US$110 mn, 824.4%
- **Textile Industry**: US$128.6 mn, 189.6%
- **Rubber and Plastic Industry**: US$112.5 mn, 56.6%
- **Metal, Machinery & Electronic Industry**: US$645.6 mn, 40.0%
- **Trade & Reparation**: US$265.4 mn, 45.8%
- **Transportation, Warehouse, and Telecommunication**: US$1,208.3 mn, 432.0%

Source: Investment Coordinating Board (BKPM), compared to Q4-2016 period
Section 2

Economic Factor: Strong and Stable Growth Prospects Remain Intact
Conducive Environment
Underpinning Strong Growth Fundamentals

Largest Economy in South East Asia
4th Most Populous country in the World; 64% in productive age
Manageable Inflation Rate
Rising Middle Class and Affluent Customers

Manageable Inflation Rate
Rising Middle Class and Affluent Customers

Large and Stable Economy
Consistent Budget Reform
Reform-Oriented Administration
New Economic Structure
High Infrastructure Investments

Budget reform as a part of larger economic reform initiative
Tax base to be broadened from one reduce dependency on commodities
Fuel subsidies significantly reduced and spending redirected to more productive allocation
Prudent debt management

From commodity-based to manufacturing and service sectors via infrastructure development
From consumption-led to investment-led growth via a stronger manufacturing sector and more investment initiatives
Policies to maintain purchasing power to stimulate domestic economy in the midst of weakening macroeconomic conditions

Three main sources of financing for investment needs: State and regional budget, State Owned Enterprises and PPP
Continuing from 2015 policy, infrastructure will be higher than fuel subsidy
Infrastructure spending focused on basic infrastructure projects
Fiscal and non-fiscal incentives to attract infrastructure investment and promote PPP
Indonesia’s Strong GDP

GDP growth hit 5.19% (yoy) in the fourth quarter of 2017, up from 5.06% (yoy) in the previous period, indicating maintained domestic economic recovery momentum. Solid economic growth is supported by a stronger structure, with investment and exports as the main drivers.

A relatively high investment growth reached 7.27% (yoy), pushed by building investment for infrastructure development as well as non-building investment.

Meanwhile, the global economic recovery and rising international commodity prices stimulated export growth reaching 8.5% (yoy).

1. Source: Central Bureau of Statistics of Indonesia (BPS); ** Including non-profit household consumption
2. Source: World Economic Outlook Database – October 2017; * indicates estimated figure
## GDP Growth Breakdown

### GDP Growth Based on Expenditures (% YoY)

<table>
<thead>
<tr>
<th>By expenditure</th>
<th>2014</th>
<th></th>
<th></th>
<th></th>
<th>2015</th>
<th></th>
<th></th>
<th></th>
<th>2016</th>
<th></th>
<th></th>
<th>2017</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Tot.</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Tot.</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Tot.</td>
<td>Q1</td>
<td>Q2</td>
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<tr>
<td>HH. consumption</td>
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<td>5.1</td>
<td>5.1</td>
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</tr>
<tr>
<td>Non profit HH. consumption</td>
<td>23.2</td>
<td>22.4</td>
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<td>(0.5)</td>
<td>12.2</td>
<td>(8.1)</td>
<td>(8.0)</td>
<td>6.6</td>
<td>8.3</td>
<td>(0.6)</td>
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<td>6.7</td>
<td>6.7</td>
<td>6.7</td>
<td>6.6</td>
<td>8.1</td>
<td>8.5</td>
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<td>Government consumption</td>
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<td>1.2</td>
<td>2.9</td>
<td>2.6</td>
<td>7.1</td>
<td>7.1</td>
<td>5.3</td>
<td>3.4</td>
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<td>(4.0)</td>
<td>(0.1)</td>
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<td>(1.9)</td>
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<td>5.0</td>
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</tr>
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</table>

1. Source: Central Bureau of Statistics of Indonesia (BPS), ** Including non-profit household consumption

### GDP Growth by Sector (% YoY)

<table>
<thead>
<tr>
<th>By sectors</th>
<th>2014</th>
<th></th>
<th></th>
<th></th>
<th>2015</th>
<th></th>
<th></th>
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<th>2017</th>
<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Tot.</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Tot.</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Tot.</td>
<td>Q1</td>
<td>Q2</td>
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<td>Agriculture, forestry, and fishery</td>
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<td>4.9</td>
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<td>3.7</td>
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<td>2.9</td>
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<td>5.5</td>
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<td>3.5</td>
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<td>7.6</td>
<td>7.4</td>
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<td>6.5</td>
<td>4.8</td>
<td>5.5</td>
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<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: Central Bureau of Statistics of Indonesia (BPS)

*Other services consist of 10 sectors (according to Standard National 2008)
Regional Growth Remains Positive
Java still contributes meaningfully, while other regions’ growth vary due to regional characteristics

Source: Central Bureau of Statistics of Indonesia (BPS)
Section 3

External Factor: Improved External Resilience
Structurally-Stronger Current Account Deficit

Strong Balance of Payments

Source: Bank Indonesia

Annual Trade Balance Surplus Continues

Source: Bank Indonesia

Supported by Substantial FX Reserves to Mitigate External Challenges

Source: Bank Indonesia

Improving Current Account Deficit

Source: Bank Indonesia

FX Reserves as of February 2018: US$128.06 bn
(Equivalent to 7.9 months of imports + servicing of government debt)

Source: Bank Indonesia
The rupiah depreciated by an average of 1.65% to Rp13,603/USD in February 2018. The hawkish statement by The Fed Chairman led the market to predict an accelerated FFR hike. This drives capital reversal as well as depreciation in various global currencies, including in Indonesia.

### Rupiah Exchange Rate Fared Relatively Well Compared to Peers

<table>
<thead>
<tr>
<th>Currency</th>
<th>YTD 2018 vs 2017</th>
<th>Feb 2018 vs Jan 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRY</td>
<td>-0.43</td>
<td>-0.355</td>
</tr>
<tr>
<td>PHP</td>
<td>-1.47</td>
<td>0.00</td>
</tr>
<tr>
<td>BRL</td>
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<td>-0.31</td>
</tr>
<tr>
<td>IDR</td>
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<tr>
<td>INR</td>
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<tr>
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<tr>
<td>EUR</td>
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<td>7.00</td>
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<tr>
<td>MYR</td>
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<td>5.69</td>
</tr>
<tr>
<td>ZAR</td>
<td>-9.29</td>
<td>10.78</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia
## Ample Lines of Defense Against External Shocks

**Ample Reserves**

| FX Reserve | • Ample level of FX reserves to buffer against external shock
|            | • FX Reserves as of February 2018: US$128.06 billion |

**Swap Arrangement**

<table>
<thead>
<tr>
<th>Bilateral</th>
<th>South Korea</th>
<th>Australia</th>
</tr>
</thead>
</table>
| Japan     | • US$22.76 billion swap line with Japan currently in place
|           | • The size of the swap line was increased from US$12 bn in December 2013
| South Korea | • Renewed a 3 year KRW/IDR swap arrangement with the size of up to 10.7 tn KRW/IDR115 tn in March 2017
| Australia | • Established a 3 year A$/IDR swap arrangement with the size of up to A$10 bn or IDR100 tn in Dec. 2015 |

<table>
<thead>
<tr>
<th>Regional</th>
<th>Chiang Mai Initiative Multilateralization (CMIM) Agreement</th>
</tr>
</thead>
</table>
|          | • Entitled to a maximum swap amount of US$ 22.76 bn under the ASEAN+3 (Japan, China, and Korea) FX reserves pool created under the agreement
|          | • Came into effect in 2010 with a pool of US$120 bn
|          | • Doubled to US$240 bn effective July 2014 |

<table>
<thead>
<tr>
<th>Global</th>
<th>IMF Global Financial Safety Net - GSFN</th>
</tr>
</thead>
</table>
|        | • Indonesia is entitled to access IMF facilities for crisis prevention to address potential (actual) BOP problem
|        | • Such facilities include Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL) |

Source: Bank Indonesia
Solid Policy Coordination
In Managing Financial Markets Volatility

The enactment of Law No. 9/2016 regarding Prevention and Mitigation of Financial System Crises as a legal foundation for the government to serve at the time of financial crisis in the form of Financial System Stability Committee (KSSK)

KSSK members: the Ministry of Finance, Bank Indonesia, the Financial Services Authority, and the Deposit Insurance Corporation

Most important provisions stipulated in the Law:
- Financial system stability monitoring and maintenance by KSSK members based on crisis management protocol of each member;
- Prevention of financial system crisis, including the mitigation of systemically important bank’s liquidity and solvency problems;
- Recovery Plan for Systemically Important Banks;
- Bank Restructuring Program

Gov’t Securities Crisis Management Protocol (CMP)

- Indicators:
  - Yield of benchmark series;
  - Exchange rate;
  - Jakarta Composite Index;
  - Foreign ownership in government securities
- Policies to address the crisis at every level:
  - Repurchase the government securities at secondary market
  - Postpone or stop the issuance

Gov’t Securities CMP Level

First Line of Defense

<table>
<thead>
<tr>
<th>State’s Budget</th>
<th>Buyback fund at DG of Budget Financing and Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Owned Enterprises (BUMN)’s Budget</td>
<td>Investment fund at Public Service Agency (BLU) (min. level Aware)</td>
</tr>
<tr>
<td>Social Security Organizing Agency (BPJS)’s Budget</td>
<td>Related SOEs (min. level Aware)</td>
</tr>
</tbody>
</table>

Second Line of Defense

<table>
<thead>
<tr>
<th>State’s Budget</th>
<th>State General Treasury Account (Rekening KUN) (min. level Alert)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Owned Enterprises (BUMN)’s Budget</td>
<td>Accumulated cash surplus (SAL) (min. Level Crisis)</td>
</tr>
<tr>
<td>Social Security Organizing Agency (BPJS)’s Budget</td>
<td>Related BUMNs (min. level Alert)</td>
</tr>
</tbody>
</table>

Bond Stabilization Framework

Source: Ministry of Finance
**Strengthened Private External Debt Risk Management**

Debt Burden Indicator (External Debt/GDP) Remains Comparable to Peers Rating

![Bar chart showing Debt Burden Indicator for different countries.]

**Encouraging Corporates Compliance on Hedging Ratio & Liquidity Ratio**

**Hedging Ratio**

- **≤ 3 months**
  - Compliance: 2,353 (89.8%)
  - Non-compliance: 268 (10.2%)
- **> 3 – 6 months**
  - Compliance: 2,454 (93.6%)
  - Non-compliance: 167 (6.4%)

**Liquidity Ratio**

- Compliance: 324 (12.4%)
- Non-compliance: 2,297 (87.6%)

---

**Regulation on Prudential Principle in Managing External Debt**

<table>
<thead>
<tr>
<th>Regulation Key Points</th>
<th>Phase 1 Jan 1, 2015 - Dec 31, 2015</th>
<th>Phase 2 Jan 1, 2016 - Dec 31, 2016</th>
<th>Phase 3 Jan 1, 2017 &amp; beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Object of Regulation</strong></td>
<td>Governs all Foreign Currency Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Hedging Ratio</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>≤ 3 months</td>
<td>20%*</td>
<td>25%**</td>
<td></td>
</tr>
<tr>
<td>&gt; 3 – 6 months</td>
<td>20%*</td>
<td>25%**</td>
<td></td>
</tr>
<tr>
<td><strong>Liquidity Ratio (≤ 3 months)</strong></td>
<td>50%</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td><strong>Credit Rating</strong></td>
<td>Not applicable</td>
<td>Minimum rating of BB-</td>
<td></td>
</tr>
<tr>
<td><strong>Hedging transaction to meet hedge ratio</strong></td>
<td>Not necessarily be done with a bank in Indonesia</td>
<td>Must be done with a bank in Indonesia</td>
<td></td>
</tr>
<tr>
<td><strong>Sanction</strong></td>
<td>As of Q IV-2015</td>
<td>Applied</td>
<td></td>
</tr>
</tbody>
</table>

*Data as of Q3 2017, with total population 2.621 corporates

Source: Moody’s Statistical Handbook, November 2017

Source: Bank Indonesia
Healthy External Debt Composition

**Private External Debt Remains Manageable**

<table>
<thead>
<tr>
<th>Year</th>
<th>Public</th>
<th>Private</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2012</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2015</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2018</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
</tbody>
</table>

**The Structure of External Debt is Dominated by Long-Term Debt**

<table>
<thead>
<tr>
<th>Year</th>
<th>Short Term</th>
<th>Long Term</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2012</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2015</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2018</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
</tbody>
</table>

**Public External Debt Structure**

<table>
<thead>
<tr>
<th>Year</th>
<th>Short Term Public Debt</th>
<th>Long Term Public Debt</th>
<th>Total Public External Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2012</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2015</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2018</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
</tbody>
</table>

**Private External Debt Structure**

<table>
<thead>
<tr>
<th>Year</th>
<th>Short Term Private Debt</th>
<th>Long Term Private Debt</th>
<th>Total Private External Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2012</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2015</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
<tr>
<td>2018</td>
<td>54.3</td>
<td>126.7</td>
<td>183.4</td>
</tr>
</tbody>
</table>

* Provisional Figures  ** Very Provisional Figures
Source: Bank Indonesia, External Debt Statistics of Indonesia, March 2018
Manageable External Debt Profile
short term non-bank corporate debt (non affiliation) represents only 9% of total private external debt

- **External Debt Position as of January 2018**
  - **Private**
    - **Public**
      - US$183.4bn or 51.3% of Total Ext. Debt
    - **Long Term ¹**
      - US$126.7bn or 72.8% of Private Ext. Debt
    - **Private Bank**
      - US$19.1bn or 11% of Private Ext. Debt
    - **Non-Bank**
      - US$15.6bn or 9% of Private Ext. Debt

¹ Based on remaining maturity

**Source:** External Debt Statistics of Indonesia, March 2018
Section 4

Fiscal Performance and Flexibility: More Fiscal Stimulus with Prudent Fiscal Policy
Integrated Reform to Provide Higher Quality of Economic Growth
Structural reforms to enhance potential growth and navigate through challenges

- Fair State Budget that declines poverty and income inequality
- Efficient, competitive, and innovative real sectors
- Job-creation
- Trade and investment policies that support growth, efficiency, and stability
- Monetary policy to support macroeconomic stability
- Price stability and sustainable current account deficit
- Efficient and credible financial sector

Source: Ministry of Finance
### Key Drivers

- **Consumption** remains robust among others supported by benign inflation
- **Investment** grows stably supported by infrastructure acceleration, business climate improvement, rating upgrades, economic packages
- **Export and Import** keeps improving driven by increasing demand and improving prices
- Support from **several important events** such as Asian Games, Regional Elections, and IMF-WB annual meeting

### Strategies to Encourage Growth

- **Maintaining purchasing power, boosting domestic demand and supporting business activity.**
  - Improve distribution channels
  - Increased shopping events, creative industries and festivals in tourism areas
  - Incentives for manufacture
  - Developing e-commerce industry
- **Encouraging private sector’s role in investment**
  - Strengthening and deepening financial markets
  - Making a stable investment climate through political stability
- **Expand services sector, especially tourism**
  - Increasing foreign tourists arrival through cooperation with other countries by increasing the direct flight schedule
  - Encouraging national creative industry growth

### Risks & Challenges

**Global economic uncertainties**: China economic rebalancing and its financial vulnerability, advanced countries policy normalization, geopolitic, and climate change
More Credible and Realistic Budget
...providing more certainty to all stakeholders

## Macroeconomic Assumption for 2018 Budget

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-Budget</td>
<td>Realization</td>
<td>Budget</td>
<td></td>
</tr>
<tr>
<td>Economic growth (%)</td>
<td>5.2</td>
<td>5.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>4.3</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>3-Month Treasury Bill (SPN) (%)</td>
<td>5.2</td>
<td>5.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Exchange Rate (Average, IDR/USD)</td>
<td>13,400</td>
<td>13,384</td>
<td>13,400</td>
</tr>
<tr>
<td>ICP (USD/barrel)</td>
<td>48</td>
<td>51.2</td>
<td>48</td>
</tr>
<tr>
<td>Oil Production (thousand barrel/day)</td>
<td>815</td>
<td>804</td>
<td>800</td>
</tr>
<tr>
<td>Gas Production (millions of barrels/day)</td>
<td>1.15</td>
<td>1.14</td>
<td>1.20</td>
</tr>
</tbody>
</table>

- **Credible and realistic** 2018 budget, given that the 2016 and 2017 full year realization is relatively accurate with the budget.
- 2017 realization is considerably accurate with the revised budget. This goes along with accurate macroeconomic indicators relative to the budget.
- The House of Representatives has approved the 2018 budget with substantial increase in Revenues, mainly contributed by 20.4% tax revenue increase compared to 2017 realization.
- 2018 budget deficit to be set at 2.19% of GDP, much lower compared to 2017 realization.

<table>
<thead>
<tr>
<th>Description (IDR Trillion)</th>
<th>2016 Audited Realization</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R-Budget</td>
<td>Realization</td>
<td>% Realization to R-Budget</td>
</tr>
<tr>
<td>A. Revenues and Grants</td>
<td>1,555.9</td>
<td>1,736.1</td>
<td>1,665.2</td>
</tr>
<tr>
<td>I. Domestic Revenue</td>
<td>1,546.9</td>
<td>1,733.0</td>
<td>1,655.5</td>
</tr>
<tr>
<td>1. Tax Revenue</td>
<td>1,285.0</td>
<td>1,472.7</td>
<td>1,343.6</td>
</tr>
<tr>
<td>2. Non Tax Revenue</td>
<td>262.0</td>
<td>260.2</td>
<td>311.9</td>
</tr>
<tr>
<td>II. Grants</td>
<td>9.0</td>
<td>3.1</td>
<td>31.29</td>
</tr>
<tr>
<td>B. Expenditure</td>
<td>1,864.3</td>
<td>2,133.3</td>
<td>2,001.6</td>
</tr>
<tr>
<td>I. Central Government Expenditure</td>
<td>1,154.0</td>
<td>1,367.0</td>
<td>1,259.6</td>
</tr>
<tr>
<td>1. Ministerial Spending</td>
<td>684.2</td>
<td>766.3</td>
<td>742.0</td>
</tr>
<tr>
<td>2. Non Ministerial Spending</td>
<td>469.8</td>
<td>706.3</td>
<td>682.2</td>
</tr>
<tr>
<td>II. Transfer to Region and Village Fund</td>
<td>710.3</td>
<td>60.0</td>
<td>59.8</td>
</tr>
<tr>
<td>C. Primary Balance</td>
<td>-125.6</td>
<td>-178.0</td>
<td>-119.8</td>
</tr>
<tr>
<td>D. Surplus (Deficit)</td>
<td>-308.3</td>
<td>-397.2</td>
<td>-336.4</td>
</tr>
<tr>
<td>% of GDP</td>
<td>-2.49</td>
<td>-2.92</td>
<td>-2.5</td>
</tr>
<tr>
<td>E. Financing</td>
<td>334.5</td>
<td>397.2</td>
<td>361.9</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance
1. Audited
2. Unaudited
Commitment to Continue Strengthening Productive Spending
Allocating budget to a more productive spending

Central Government Spending

2015 Rp1,183.3 T
2016 Rp1,154.0 T
2017 Rp1,259.6 T
2018 Rp1,454.5 T

Line Ministries Rp.847.4 T
- Improving planning with performance based, and integrated with development priority
- Operational spending efficiency
- Monitoring and evaluation
- Early procurement process

Non Line Ministries Rp.607.1 T

Energy Subsidy
Better targeting
- Subsidy for the poorest family and there is no plan to eliminate the subsidy, rather making it well-targeted.
- Targeted for the poor. Electricity subsidy is targeted to the subscribers of 450 VA and 900 VA
- Database improvement
- Inflation management

Non Energy Subsidy
Integration with energy subsidy
- Synergy with social assistance programs and transfer to regions
- Staple good price management
- Improving agriculture productivity

Interest payment
Cost efficiency
- Controlling cost of financing
- Deepening government bond market
- Controlling debt burden

Source: Ministry of Finance
Increasing Tax Revenue Over The Years
Future policies will be directed at expanding the tax base and increasing compliance.

Tax Revenue (in IDR trillion)
Tax revenue increased by 20.4% in 2018 compared to 2017.

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Revenue (in IDR trillion)</th>
<th>Oil &amp; Gas Income</th>
<th>Non-Oil &amp; Gas Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,146.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>1,240.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>1,285.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>1,343.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>1,618.1</td>
<td>38.1</td>
<td>1,385.9</td>
</tr>
</tbody>
</table>

Ratio to GDP (%) - RHS

- 2014: 13.1%
- 2015: 11.6%
- 2016: 10.9%
- 2017: 10.7%
- 2018: 11.6%

Tax Improvement Efforts

Automatic Exchange of Information (AEoI)
- Expanding tax base
- Prevent tax evasion (Base Erosion Profit Shifting)

Data and Information System of Tax
Up to date and integrated (e-filing, e-form and e-faktur).

Tax Compliance
Sustainable compliance through e-service, mobile tax unit, Small/Micro Tax Office, and outbound call.

Tax Incentive
- Tax holiday and tax allowance
- Review on tax exemption

Human Resource and Regulation
Improving services and organization effectiveness

In Trillion Rupiah

2018 Allocation: 1,618.1
2017 Realization: 1,343.6

Tax revenue increased by 20.4% in 2018 compared to 2017.

a Tax ratio derived from tax revenue + revenue from natural resources/GDP
Source: Ministry of Finance
Non-Tax Revenue Efficiency and Effectiveness on Natural Resources Management and Public Service Improvement

Non-Tax Revenue (in IDR trillion)

Improving Regulation
- Revise Non-Tax Revenue Law and Government Regulation on Non-Tax types and tariff.

Improving Monitoring on Management
- Deposit revenue as its record
- Collection of Accounts Receivable
- Follow up the audit results

Non-Tax Revenue Optimization
- Improve efficiency and effectivity of natural resource administration
- Improve SOEs performance
- Improve efficiency of Non-Tax Revenue operation
- Revise contracts → cost recovery efficiency
- Discover new potentials

Improving Public Services
- Transparency and easing
- IT Utilization
- Improvement on non-tax revenue administration

Source: Ministry of Finance

---

Non-Tax Revenue 2018 Breakdown (in IDR trillion)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (in IDR trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Non-Tax Revenue</td>
<td>43.3</td>
</tr>
<tr>
<td>Oil and Gas Revenue</td>
<td>44.7</td>
</tr>
<tr>
<td>State Asset Revenue</td>
<td>80.3</td>
</tr>
<tr>
<td>Public Service Agencies Revenue</td>
<td>83.8</td>
</tr>
<tr>
<td>Non-Oil and Gas Revenue</td>
<td>42.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>275.4</td>
</tr>
</tbody>
</table>

2018 Allocation: 275.4
2017 Realization: 311.9

Non-Tax Revenue 2018 : 275.4

---

Improving Regulation

- Revise Non-Tax Revenue Law and Government Regulation on Non-Tax types and tariff.

Improving Monitoring on Management

- Deposit revenue as its record
- Collection of Accounts Receivable
- Follow up the audit results

Non-Tax Revenue Optimization

- Improve efficiency and effectivity of natural resource administration
- Improve SOEs performance
- Improve efficiency of Non-Tax Revenue operation
- Revise contracts → cost recovery efficiency
- Discover new potentials

Improving Public Services

- Transparency and easing
- IT Utilization
- Improvement on non-tax revenue administration

---

Source: Ministry of Finance
### Increasing Quality of Spending
Reinforcing Allocation, Distribution, and Stabilization functions

<table>
<thead>
<tr>
<th>Poverty and Gap</th>
<th>Infrastructure</th>
<th>Priority Sector</th>
<th>State Apparatus and Community Services</th>
<th>Defense of Security &amp; Democracy</th>
</tr>
</thead>
</table>
| **Social protection program (PKH)** | **Road Construction** 865 km | **Agriculture**  
- Increased food production and construction of infrastructure facilities  
- Development of horticulture | **Improved bureaucratic reform** for better quality of public services |
| 2018: 10,0 mio families Rp17,3 T  
2017: 6,0 mio families Rp12,7 T | **Irrigation Construction** 781 km | **Tourism**  
- Development of 10 tourist destinations  
- Increased tourists  
- Tourism promotion | **Prosperity of the apparatus and pensioners** |
| **Expansion of Non-Cash Food Assistance (BPNT)** | **Electrification Ratio** 95,15 % | **Fishery**  
- Increased competitiveness of processed fishery products  
- Fishing boats support 1048 units  
- Environmental sustainability | **Increase budget for the food allowance of military / police forces**  
Rp5 mio from Rp55,000 tp  
Rp60,000/person/day |
| 2018: 10,0 mio families Rp13,5 T  
2017: 1,4 mio families Rp1,6 T | **Building Flats** 13.405 unit | | **Improved system and retirement benefits of state employee** |
| **Health services → PBI** | | **Defense of Security**  
The achievement of MEF phase 2 and the development of defense industry | |
| 2018: 92,4 mio people Rp25,5T  
2017: 92,4 mio people Rp25,5T | | **Security**  
Maintenance of security, order, and criminal investigation | |
| **Education Smart Indonesia Program** | | | **Democracy**  
Regional elections 2018, and preparations for national elections 2019 |
| 2018: 19,7 thousand students Rp10,8 T  
2017: 19,7 thousand students Rp10,7 T  
Bidik Misi: 401,5 thousand students Rp4,1 T | **Fishery**  
- Increased competitiveness of processed fishery products  
- Fishing boats support 1048 units  
- Environmental sustainability | **Defense of Security & Democracy**  
2018: 19,7 thousand students Rp10,8 T  
2017: 339,4 thousand students Rp3,5 T |
| 2017: 339,4 thousand students Rp3,5 T | | **Fishery**  
- Increased competitiveness of processed fishery products  
- Fishing boats support 1048 units  
- Environmental sustainability | |

1) Include Village Fund (Dana Desa) and subsidy (exclude tax subsidy)  
2) Temporary number  
3) Ministerial allocations; KKP and Ministry of Tourism  
4) Including pensioners and local govt apparatus  
5) Ministry of Defense allocation, National Police, Election Commission, and Election Supervisory Board  

Source: Ministry of Finance
Investments in human capital has been ramped up. 20% of national budget is allocated for education and another 5% for health.

**Budget for Education Program**

<table>
<thead>
<tr>
<th>Year</th>
<th>IDR tn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Real</td>
<td>353.4</td>
</tr>
<tr>
<td>2015 Real</td>
<td>390.1</td>
</tr>
<tr>
<td>2016 Real</td>
<td>370.4</td>
</tr>
<tr>
<td>2017 Outlook</td>
<td>419.8</td>
</tr>
<tr>
<td>2018 Budget</td>
<td>444.1</td>
</tr>
</tbody>
</table>

**Budget for Health Program**

<table>
<thead>
<tr>
<th>Year</th>
<th>IDR tn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Real</td>
<td>59.7</td>
</tr>
<tr>
<td>2015 Real</td>
<td>65.9</td>
</tr>
<tr>
<td>2016 Real</td>
<td>92.3</td>
</tr>
<tr>
<td>2017 Outlook</td>
<td>104.9</td>
</tr>
<tr>
<td>2018 Budget</td>
<td>111.0</td>
</tr>
</tbody>
</table>

**Targets of Education Program in 2018**

- **Indonesia Smart Program**
  - 19.7 million students

- **Bidikmisi Scholarship**
  - 401.5 thousand college students

- **School Rehabilitation**
  - 61.2 thousand rooms

- **School Operational Assistance (BOS)**
  - 56 million students

- **Teacher Allowance**
  - Non Civil Servants: 435.9 thousand teachers
  - Civil Servants: 257.2 thousand teachers
  - Local Civil Servants: 1.2 million teachers

**Targets of Health Program in 2018**

- **Immunization**
  - Basic & complete immunization for 92.5% of 0-11 months old infants
  - 2.4 million people

- **Indonesia Healthy Program**
  - 92.4 million people

- **Provision of Health Facilities**
  - 49 hospitals/health centers

- **Drug and Food Certification**
  - 74 thousand certifications

- **Family Plan Program (KB)**
  - 1.8 million people
Improved Budget Allocation Towards Local Government
...promoting better allocation of budget spending to local government

2018 Transfer to Regions and Village Funds (Budget)

<table>
<thead>
<tr>
<th>Special Autonomy &amp; DJ Yogyakarta - DIY (IDR21.1 tn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Incentive Fund (IDR8.5 tn)</td>
</tr>
<tr>
<td>Incentive Fund allocation has been increased to enhance local government performance and public service delivery</td>
</tr>
<tr>
<td>Special Transfer Fund (IDR185.9 tn)</td>
</tr>
<tr>
<td>Special Transfer Fund allocation is based on each regions’ proposal and national priorities</td>
</tr>
<tr>
<td>General Transfer Fund (IDR490.7 tn)</td>
</tr>
<tr>
<td>Minimum of 25% (IDR122.7 tn) earmarked for public service facility development acceleration. It provides revenue sharing fund to promote equal opportunity for natural resource producers &amp; high tax earners</td>
</tr>
<tr>
<td>Village Fund (IDR60.0 tn)</td>
</tr>
<tr>
<td>Reformulated to (1) Give more weight on the poor population. (2) Improving inequality between villages</td>
</tr>
</tbody>
</table>

Transfer to Regions/Village Funds

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer to Region</td>
<td>513.3</td>
<td>573.7</td>
<td>602.4</td>
<td>663.6</td>
<td>682.2</td>
<td>706.2</td>
<td></td>
</tr>
<tr>
<td>Village Fund</td>
<td>-</td>
<td>-</td>
<td>20.8</td>
<td>46.7</td>
<td>59.8</td>
<td>60.0</td>
<td></td>
</tr>
<tr>
<td>Total Regional Transfer</td>
<td>513.3</td>
<td>573.7</td>
<td>623.2</td>
<td>710.3</td>
<td>766.3</td>
<td>766.2</td>
<td></td>
</tr>
</tbody>
</table>

- Indonesia continues its improvement of regional transfer, esp. village fund, to spur growth throughout regions
- Allocation for both Transfer to Region and Village Fund has been increasing substantially
- The increased allocation indicates the Government’s commitment to support development in regions
- A minimum 25% of general transfer fund must be earmarked for public service infrastructure

Source: Ministry of Finance
# 2017 Achievements of State Budget

## Value creation on various projects and country development

<table>
<thead>
<tr>
<th>15.5%</th>
<th>101.7%</th>
<th>118.5%</th>
<th>7.4%</th>
<th>23.0%</th>
<th>27.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tax revenue growth vs. 2016 (excluding Tax Amnesty and Asset Revaluation)</td>
<td>• Revenue of customs and excise over 2017 revised Budget, a 7.4% increase vs. 2016</td>
<td>• Non-tax revenue over 2017 revised Budget, a growth of 17.7% vs 2016</td>
<td>• Growth of realized government spending vs. 2016</td>
<td>• Capital expenditure growth vs. 2016, a 92.8% over 2017 revised Budget.</td>
<td>• Growth of transfer to village vs. 2016, 99.6% over 2017 revised Budget</td>
</tr>
</tbody>
</table>

## Local Government Achievements

- **Roads**: 1,033 km in development, 1,503 km maintenance, 9,789 km improvement

- **Medical**: Improved facilities in 347 hospitals and 3,873 clinics

- **Bridges**: 3,749 m bridge in development, 291 m maintenance, and 2,916 m improvement

- **Tuition**: Reduced tuition costs for 46.6 million students and 5.6 million kindergarten-aged children

- **Classroom**: 1,351 new classrooms, 11,006 rehabilitation, 11,758 rural library collection

- **Welfare**: Increased welfare and work ethics of 1.7 million civil teachers in rural areas and compensated 41,000 teachers in special regions

- **Rural**: 107.9 village roads, 89,200 health clinics, 178,800 toilets, and 107,700 connected clean water and 25,903 Ha irrigated lands

## Central Government Milestones

- **Infrastructure**:  
  - 794 km road development  
  - 9,072 m bridge development  
  - 3 airports completed  
  - 618.3 km railways

- **Education**:  
  - Distributed Indonesian Smart Card to 19.8 million students  
  - School Operational Benefit for 8.0 million  
  - Scholarship for 364.4 students

- **Healthcare and Social Security**:  
  - Distribution of Indonesian Health Card to 92.1 million people

Source: Ministry of Finance
Indonesia’s Tax Amnesty Program – A Success Story
With more than 965,900 taxpayers participating in the program

Tax Amnesty Result (as of the end of March 31st, 2017)

Revenue
IDR 134.8tn (~1.1% GDP)

Redemption Money
85%

Preliminary Evidence Payment
1%

Tax Arrears Payment
14%

114.2
18.8
1.7

1,036
3,698
147.1

Onshore Declaration
76%

Offshore Declaration
21%

Repatriation
3%

Onshore

Asset Declared
IDR 4,881tn (~39.4% of GDP)

Composition of Participants
Based on Asset Declared

Individuals
68%

Companies
12%

Individual SMEs
18%

SMEs
2%

Revenue
IDR 134.8tn (~1.1% GDP)

Source: Ministry of Finance
Financing Policy 2018: General Objective & Policy

To support the development of deep, active, and liquid market

To enhance public accountability as part of transparent Government debt management

To meet financing needs at efficient cost and tolerable risk

General Policy

Cost control and debt risk

Optimizing public participation in financing

Optimization of domestic debt while maintaining the debt maturity profile

To achieve cost complementarity

To manage debt-to-GDP ratio at safety level

To strengthen the function of Investor Relations Unit

Increased fiscal coordination within the ALM framework

Utilization of debt for productive activities

Optimization of cash flows to increase flexibility

Source: Ministry of Finance
2018 Financing Needs
Fulfilled from Government Securities IDR 737.4 tn (93%) and Loan IDR55.8 tn (7%)

Deficit Rp325.9 T
Investment Financing Rp65.7T
Government Guarantee Obligation Rp1.1T
Lending Rp6.7T
Debt matures Rp394.1 T (include Rp10.1 T of Private Placement)
Other financing (Rp0.2T)

Financing Needs IDR793.3 tn

Domestic Debt IDR596.7 tn (75%)
Foreign Debt IDR196.6 tn (25%)
Foreign Denominated Bonds (JPY, EUR, USD) IDR145.3 tn
Foreign Loan (Program & Project) IDR51.3 tn

Domestic Loan IDR4.5 tn

Source: Ministry of Finance
Indicative Financing Plan for 2018
Creating prudent and sustainable fiscal management

Government Securities to Meet State Budget Financing

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Indicative Budget Target*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IDR tn</td>
</tr>
<tr>
<td>Budget Deficit (2.19%)</td>
<td>325.9</td>
</tr>
<tr>
<td>Government Securities (Net)</td>
<td>414.5</td>
</tr>
<tr>
<td>Government Securities (Gross)</td>
<td>856.5</td>
</tr>
</tbody>
</table>

Composition

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Bond</td>
<td>80 - 83%</td>
</tr>
<tr>
<td>International Bond</td>
<td>17 - 20%</td>
</tr>
</tbody>
</table>

Issuance Targets for Government Debt Securities and Sukuk

- Government Debt Securities
- 70.0% - 75.0%
- 25.0% - 30.0%

Domestic Bonds

- Weekly auction:
  - Conventional securities: 24-25x
  - Islamic securities: 24-25x
- Non-Auction
  - Retail bonds (Indonesian Retail Government Bond, Retail Sukuk, Online Retail Bonds)
- Private Placement: Based on request
- Target avg. tenor maturity for Government Securities (SBN) Issuance: 7-8 years

International Bonds (USD, Sukuk USD EUR, JPY-denominated)

- Avoid crowding out in domestic market
- Provide benchmarks for corporate bonds
- Investor base diversification

Front Loading Issuance for 2018 Budget Financing

- Faster access to liquidity
- Anticipate developments in global environment

*exchange rate assumption in 2018 budget: IDR13,400/USD

Source: Ministry of Finance
Sound Government Debt Portfolio Management

Portfolio management characterized by stable debt/GDP ratio and well-diversified debt

Stable Debt to GDP Ratio Over the Years

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt / GDP (%)</td>
<td>23.0%</td>
<td>24.9%</td>
<td>24.7%</td>
<td>27.4%</td>
<td>28.3%</td>
<td>29.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans (LHS)</td>
<td>68.8%</td>
<td>70.0%</td>
<td>74.1%</td>
<td>76.2%</td>
<td>79.1%</td>
<td>81.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities (LHS)</td>
<td>31.2%</td>
<td>30.0%</td>
<td>25.9%</td>
<td>23.8%</td>
<td>20.9%</td>
<td>19.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt Debt / GDP (%) (RHS)</td>
<td>23.0%</td>
<td>24.9%</td>
<td>24.7%</td>
<td>27.4%</td>
<td>28.3%</td>
<td>29.2%</td>
</tr>
</tbody>
</table>

Deficit Productivity**

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Growth</th>
<th>Fiscal Deficit (% GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>(0.4)</td>
<td>6.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>(6.1)</td>
<td>1.2</td>
</tr>
<tr>
<td>Japan</td>
<td>(5.8)</td>
<td>2.1</td>
</tr>
<tr>
<td>UK</td>
<td>(5.3)</td>
<td>2.1</td>
</tr>
<tr>
<td>USA</td>
<td>(4.8)</td>
<td>1.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>(3.7)</td>
<td>5.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>(3.3)</td>
<td>2.7</td>
</tr>
<tr>
<td>Australia</td>
<td>(2.9)</td>
<td>5.3</td>
</tr>
<tr>
<td>Italy</td>
<td>(2.8)</td>
<td>3.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>(2.2)</td>
<td>3.4</td>
</tr>
<tr>
<td>Turkey</td>
<td>(1.6)</td>
<td>(0.2)</td>
</tr>
</tbody>
</table>

Well Diversified Across Different Currencies

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans (LHS)</td>
<td>14%</td>
<td>24%</td>
<td>56%</td>
<td>56%</td>
<td>56%</td>
<td>56%</td>
</tr>
<tr>
<td>Securities (LHS)</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Govt Debt / GDP (%) (RHS)</td>
<td>91%</td>
<td>91%</td>
<td>91%</td>
<td>91%</td>
<td>91%</td>
<td>91%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDR</td>
<td>14%</td>
<td>12%</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>USD</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>JPY</td>
<td>29%</td>
<td>29%</td>
<td>29%</td>
<td>32%</td>
<td>31%</td>
<td>29%</td>
</tr>
<tr>
<td>EUR</td>
<td>3%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Others***</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
<td>10%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

*As of end of 2017, **GDP growth and fiscal deficit numbers are average of 2012-2016 (5 years), ***SDR, AUD, and other.
Well Balanced Maturity Profile With Strong Resilience Against External Shocks

Declining Interest Rate Risks

- Variable rate ratio [%] \(^1\)
- Refixing rate [%] \(^2\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Variable rate</th>
<th>Refixing rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>16.0%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>23.2%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>21.0%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>17.5%</td>
<td></td>
</tr>
<tr>
<td>2017 (Jan 18)</td>
<td>19.5%</td>
<td></td>
</tr>
<tr>
<td>Jan 18</td>
<td>17.4%</td>
<td></td>
</tr>
</tbody>
</table>

Debt Maturity Profile

- IDR-Denominated
- Other Currencies

Declining Exchange Rate Risks

- FX Debt to GDP ratio [%]
- FX Debt to total debt ratio [%]

<table>
<thead>
<tr>
<th>Year</th>
<th>FX Debt to GDP</th>
<th>FX Debt to total debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>11.7%</td>
<td>46.7%</td>
</tr>
<tr>
<td>2014</td>
<td>10.7%</td>
<td>43.4%</td>
</tr>
<tr>
<td>2015</td>
<td>12.2%</td>
<td>44.5%</td>
</tr>
<tr>
<td>2016</td>
<td>12.1%</td>
<td>42.6%</td>
</tr>
<tr>
<td>2017 (Jan 18)</td>
<td>11.7%</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

Upcoming Maturities (Next 5 Years)

- % in < 1 year
- % in < 3 year
- % in < 5 year

Source: Ministry of Finance

---

\(^1\) Variable Rate Ratio is defined as ratio between debt instruments with variable rate divided by total debt instruments (variable + fixed rates)

\(^2\) Refixing Rate ratio is defined as ratio between debt instruments with variable rate + debt instruments with fixed rate maturing in 1 year divided by total debt instruments (variable + fixed rates)

* Preliminary figure
Profile of Total Central Government Debt
More Balance Ownership In Terms of Holders and Tenors

Holders of Tradable Gov’t Domestic Debt Securities

Foreign Ownership of Government Securities at Longer Tenors

Source: Ministry of Finance
## Ownership of IDR Tradable Central Government Securities

<table>
<thead>
<tr>
<th>Description</th>
<th>Dec-14</th>
<th>Dec-15</th>
<th>Dec-16</th>
<th>Dec-17</th>
<th>Feb-18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Govt Institutions (Bank Indonesia</strong>)**</td>
<td>41.63</td>
<td>3.44%</td>
<td>148.91</td>
<td>10.19%</td>
<td>134.25</td>
</tr>
<tr>
<td>Bank Indonesia (gross)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GS used for Monetary Operation</td>
<td>23.63</td>
<td>1.33%</td>
<td>38.01</td>
<td>1.81%</td>
<td>129.16</td>
</tr>
<tr>
<td><strong>Non-Banks</strong></td>
<td>792.78</td>
<td>65.52%</td>
<td>962.86</td>
<td>65.87%</td>
<td>1,239.57</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>45.79</td>
<td>3.78%</td>
<td>61.60</td>
<td>4.21%</td>
<td>85.66</td>
</tr>
<tr>
<td>Insurance Company and Pension Fund</td>
<td>193.90</td>
<td>16.03%</td>
<td>221.45</td>
<td>15.15%</td>
<td>325.52</td>
</tr>
<tr>
<td><strong>Foreign Holders</strong></td>
<td>461.35</td>
<td>38.13%</td>
<td>558.52</td>
<td>38.21%</td>
<td>665.81</td>
</tr>
<tr>
<td>Foreign Govt’s &amp; Central Banks</td>
<td>103.42</td>
<td>8.55%</td>
<td>110.32</td>
<td>7.55%</td>
<td>120.84</td>
</tr>
<tr>
<td>Individual</td>
<td>30.41</td>
<td>2.51%</td>
<td>42.53</td>
<td>2.91%</td>
<td>57.75</td>
</tr>
<tr>
<td>Others</td>
<td>60.51</td>
<td>5.00%</td>
<td>78.50</td>
<td>5.37%</td>
<td>104.84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,209.96</td>
<td>100%</td>
<td>1,461.85</td>
<td>100%</td>
<td>1,773.28</td>
</tr>
</tbody>
</table>

1) Non Resident consists of Private Bank, Fund/Asset Manager, Securities Company, Insurance Company and Pension Fund.
2) Others such as Securities Company, Corporation, and Foundation.
*) Including the Government Securities used in monetary operation with Bank Indonesia.
**) net, excluding Government Securities used in monetary operation with Banks.

Source: Ministry of Finance
Positive Response of Government Securities Issuance in 2017

- The average incoming bids in 2017 is IDR27.99 tn/auction, higher than 2016 (IDR19.05 tn/auction)
- The average awarded bids in 2017 is IDR11.74 tn/auction, higher than 2016 (IDR9.37 tn/auction)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenure</td>
<td>5 yr 10yr</td>
<td>3 yr 5 yr 7 yr</td>
<td>10 yr 30 yr 7 yr</td>
<td>5 yr 10 yr 30 yr</td>
</tr>
<tr>
<td>Coupon Rate</td>
<td>3.40% 4.15%</td>
<td>0.65% 0.89% 104%</td>
<td>3.85% 4.75% 2.15%</td>
<td>2.95% 3.50% 4.35%</td>
</tr>
<tr>
<td>Yield</td>
<td>3.40% 4.15%</td>
<td>0.65% 0.89% 104%</td>
<td>3.90% 4.80% 2.178%</td>
<td>3.00% 3.55% 4.40%</td>
</tr>
<tr>
<td>Incoming Bid</td>
<td>US$10.8 bn</td>
<td>JPY100 bn</td>
<td>US$7.3 bn</td>
<td>EUR4.3 bn</td>
</tr>
</tbody>
</table>

**Increasing Incoming Bids in 2016’s Government Securities Issuance**

Source: Ministry of Finance
Section 5

Monetary and Financial Factor: Credible Monetary Policy Track Record and Favourable Financial Sector
Bank Indonesia’s Policy Mix 2018
To Maintain Macroeconomic and Financial System Stability

1. Monetary Policy:
   a. Accelerate interest rate reduction, especially on bank lending
   b. Stabilize exchange rate consistent with fundamental
   c. Accelerate implementation of reserve requirement averaging

2. Macroprudential Policy:
   a. Introducing Macroprudential Intermediation Ratio (MIR)
   b. Introducing Macroprudential Liquidity Buffer (MLB)

3. Financial Market Deepening:
   a. Developing market instruments for financing infrastructure
   b. Developing financial market infrastructures, eg. market operators & centralized counterparty (CCP).

4. Payment System Policy:
   a. National Payment Gateway (NPG)
   b. Electronification: Social program, e-payment for government
   c. Financial technology

5. Coordination with other Authorities:
   a. Controlling inflation: TPIP, TPID
   b. Structural reforms: Government
   c. Financial deepening & stability: KSSK, OJK
The BI Board of Governors agreed on 21st and 22nd March 2018 to hold the BI 7-days Reverse Repo Rate at 4.25%, while maintaining the Deposit Facility and Lending Facility rates at 3.50% and 5.00% respectively, effective 23rd March 2018.

- Holds the BI 7-day Repo Rate at 4.25%
- Remains vigilant of the risks, including external risks such as growing global financial market uncertainty and several countries’ tendency to implement inward-oriented trade policy, as well as the domestic risks linked to inflation.
- Projects the Indonesia’s economy to grow in the 5.1-5.5% (yoy) range in 2018.
- Continues to monitor the risk of global financial market uncertainty, while taking exchange rate stabilisation measures to safeguard the currency’s fundamental value and maintain market mechanisms.
- Continues to strengthen policy coordination between Bank Indonesia and the Government to control inflation, primarily in anticipation of potential pressures on volatile foods.
- Predicts credit and deposit growth to accelerate in 2018 in the 10-12% and 9-11% ranges respectively, congruent with the current economic improvements and progress in terms of corporate and banking sector consolidation.
Considerations for the Average Reserve Requirement Ratios Improvement

- Improvement in average reserve requirement is a follow up to the monetary policy operational framework reform implemented by Bank Indonesia since 2016.

- Monetary policy operational framework reform started in August 2016 as BI7DRR replaced BI Rate as policy rate. This was then strengthened in 1st July 2017, by the implementation of the average reserve requirement in rupiah for conventional commercial banks at 1.5% out of the total 6.5% of GDP reserve requirement in Rupiah. The reformulation is also backed by various efforts in financial market deepening.

- The current improvement aims to elevate flexibility in banking liquidity management, enhance banking intermediation function, and support efforts in financial market deepening. This multiple targets will in turn improve the effectiveness of monetary policy transmission in maintaining economic stability.

<table>
<thead>
<tr>
<th>Substance</th>
<th>Old</th>
<th>New</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Additional rupiah average reserve requirement for conventional commercial banks</td>
<td>Fixed RR: 5% Average RR: 1.5% RR: 6.5%</td>
<td>Fixed RR: 4.5% Average RR: 2% RR: 6.5%</td>
<td>16th July 2018</td>
</tr>
<tr>
<td>b. Annulment of demand deposit renumeration</td>
<td>2.5% (from 1.5% RR)</td>
<td>0%</td>
<td>16th July 2018</td>
</tr>
<tr>
<td>c. Implementation of foreign exchange average reserve requirement for conventional commercial banks</td>
<td>Fixed RR: 8% Average RR: 0% RR: 8%</td>
<td>Fixed RR: 6% Average RR: 2% RR: 8%*</td>
<td>1st October 2018</td>
</tr>
<tr>
<td>d. Implementation of average reserve requirement for Islamic banks</td>
<td>Fixed RR: 5% Average RR: 0% RR: 5%</td>
<td>Fixed RR: 3% Average RR: 2% RR: 5%*</td>
<td>1st October 2018</td>
</tr>
</tbody>
</table>

* Complemented by harmonisation feature to align with the average reserve requirement in rupiah feature for conventional commercial banks (e.g. Calculation period, lag period, and Maintenance period of 2 weeks)
Financial sector behavior, especially in the banking sector, tends to be procyclical with the rise and fall of the economy. When the economy is doing well, banks will expand and increase risk-taking behavior. On the contrary, when the economy is slowing, banks tend to hold back from expanding by withholding credit disbursement. On the other hand, banking liquidity ratio tends to decrease during economic expansion and is at the lowest just prior to a crisis.

Banks procyclical behavior can potentially disrupt the balanced, good quality intermediation function in the financial system. Moreover, liquidity risk can amplify other risks into becoming systemic risks.

Bank Indonesia enhances its macroprudential policy by implementing the Macroprudential Intermediation Ratio and the Macroprudential Liquidity Buffer to prevent and reduce risk and procyclical behavior of banks. The policy is expected to promote banking intermediation function to the real sector in line with the economic capacity and growth target while also maintaining prudential principles, and addressing liquidity procyclicality issues.

The policy is also applied to shari’a banks to strengthen intermediation and improve banking resilience.

This macroprudential instrument is procyclical in nature and can be adjusted in line with the economic and financial cycle.
**Principles of Macroprudential Intermediation Ratio (MIR) and Macroprudential Liquidity Buffer (MLB)**

### a. Macroprudential Intermediation Ratio (MIR)

<table>
<thead>
<tr>
<th>Formula Calculation</th>
<th>RR-loan to funding ratio (RR-LFR)/additional RR linked to financing to deposits ratio</th>
<th>MIR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For Conventional Banks (RR-LFR): Credit Deposits + Securities issued</td>
<td>Conventional Commercial Banks</td>
</tr>
</tbody>
</table>
|                     | For Shari’a Banks and Business Units: (Additional RR linked to the financing to deposits ratio):  
  Financing Deposits | Shari’a Conventional Banks and Business Units                                      |
|                     |                                                                                      | Credit + Securities held Deposits + Securities issued |
|                     |                                                                                      | Credit + Shari’a Securities held Deposits + Shari’a Securities issued |
| Magnitude           |                                                                                      | Lower bound 80% and upper bound 92%     |
| Effective Date      |                                                                                      | 16th July 2018                          |
|                     |                                                                                      | 1st October 2018                        |

### b. Macroprudential Liquidity Buffer (MLB)

<table>
<thead>
<tr>
<th>Secondary RR</th>
<th>MLB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conventional Commercial Banks</td>
</tr>
<tr>
<td></td>
<td>Shari’a Banks</td>
</tr>
</tbody>
</table>
| Formula Calculation           | Percentage of rupiah securities held by conventional commercial banks to rupiah deposits that can be used in open market operations, among others include BI Certificate, BI Deposit Certificate, and Tradeable Government Securities  
  No existing Secondary RR for shari’a banks and business units  
  For conventional commercial banks with a shari’a business unit, securities of and deposits held by the shari’a business units will be calculated in the MLB | Percentage of rupiah securities held by shari’a banks to its rupiah deposits that can be used in open market operations, among others include BI Certificate, BI Deposit Certificate, and Tradeable Government Securities |
| Magnitude                     | 4% of rupiah deposits                                               |
| Flexibility                   | No flexibility                                                      |
| Effective Date                | 16th July 2018                                                      |
|                               | 1st October 2018                                                    |
**Bank Indonesia Policy Mix: Maintaining Stability, Supporting Growth**

### 1. Monetary Policy
- **Policy Rate**
  - BI Rate cut of 25bps (Feb)
  - Policy Rate cuts of 150bps
  - Moving from BI Rate (12 month) to BI 7-day Reverse Repo Rate (Aug)
  - BI 7-day RR Rate cut of 25bps to 4.50% (Aug)
  - Further BI 7-day RR Rate cut of 25bps to 4.25% (Sept)
  - Obligation to use IDR in domestic transaction (March)
  - Non-cash movement (GNNT)
  - Policy Rate cuts of 65bps
  - BI Rate cut of 25bps (Feb)

### 2. Exchange Rate Policy
- **Exchange Rate**
  - Market-based exchange rate stability consistent with fundamental
  - Dual intervention in the FX market and purchases of government bonds from secondary market in time of distress (capital reversal) or large mis-alignment

### 3. Macroprudential Policy
- **Macroprudential Policy**
  - Relaxation of LTV for property and automotive loans (June)
  - Further relaxation of LTV for property loans (Sept)
  - Strengthening systemic surveillance & Crisis Management Protocol (April)
  - Implementation of RR Averaging (Aug): RR fixed 5%; RR Averaging 1.5%

### 4. Payment System Policy
- **Payment System Policy**
  - Obligation to use IDR in domestic transaction (March)
  - Non-cash movement (GNNT)
  - E-money for social transfer (Nov)
  - Financial Technology (FinTech) Office (Nov)
  - New Rupiah issuance (Dec)

### Monetary Transmission
- **Policy Rate**
  - Down 200 bps (Jan’16 – Sept’17)
- **RR**
  - Down 150 bps (Dec’15 – Mar’16)

- **Lending Rate**
  - Down 156 bps (11.27%) (Jan’16 – Feb’18)

- **Deposit Rate**
  - Down 203 bps (5.91%) (Jan’16 – Feb’18)

- **Lending**
  - Total ↑ Rp354 T (8.22% yoy)

- **Deposit**
  - Total ↑ Rp409 T (8.44% yoy)
Stable Monetary Environment Despite Challenges

Well Maintained Inflation Ensured Price Stability

Rupiah Exchange Rate Remains Comparable to Peers

Strengthened Monetary Policy Framework

Moderate Credit Growth is Expected to Pick Up

Source: Bank Indonesia
On January 22nd, 2018 the National Inflation Control Coordination Center has agreed on five strategic measures to control inflation in 2018 within the target corridor of 3.5±1%, while also setting the inflation targets at 3.5±1% for 2019 and 3±1% for 2020 and 2021.

1. Ensuring food production
2. Strengthening the government’s food stock
3. Improving production management through corporate/cooperative farming
4. Improving rice milling yield & rice quality
5. Distributing subsidised rice for low-income households & non cash food assistance in time
6. Developing an accurate database on rice production
7. Synergizing between farmers & downstream industries

Source: Bank Indonesia
Improving the Effectiveness of Monetary Policy Transmission

Bank Indonesia has instituted a Reformulation of Monetary Policy Operations Framework which consists of 3 pillars; 
(1) implementation of BI 7day Reverse Repo Rate; 
(2) implementation of reserve requirement averaging; and 
(3) continue to implement money market deepening program.

Source: Bank Indonesia
Enhancement of Monetary Operations Framework

1. STRENGTHENED THE ROLE OF JIBOR AS REFERENCE RATE by regulatory enhancement.

2. ACCELERATED MARKET REPO TRANSACTIONS by promoting GMRA

3. REDUCED SEGMENTATION AND IMPROVE THE CAPACITY OF MARKET TRANSACTIONS by encouraging banks to open more access to counterparties

4. MOVING FROM FIXED RATE TENDER (FRT) TO VARIABLE RATE TENDER (VRT)

PREVIOUS JIBOR
- Can be traded among contributor banks for 10 minutes.
- Up to the amount of Rp10 billion.
- Up to 1-month tenor.

CURRENT JIBOR (as per June 1st, 2016)
- Can be traded among contributor banks for 20 minutes.
- Up to a total of Rp20 billion.
- Up to 3-month tenor.

Source: Bank Indonesia
Intermediation Expected to Further Expand in 2018

The intermediation growth is still at a moderate level in line with consolidations in the real sector as well as in bank loans. Intermediation is projected to improve in 2018 (10-12%). In the domestic capital markets, capital raising by corporations (particularly right issues and corporate bond issuance) remains strong.

The growth of bank lending was 7.40% (yoy) as of Jan-18

While financing distributed by multifinance companies grew by 6.92% (yoy)

Capital raising through rights issues and corporate bond issuance remained strong in Jan-Feb 2018

Gross premium revenue in the domestic insurance industry was also continuously growing

Source: Financial Service Authority (OJK)
Financial Institutions Remain Robust

Domestic financial institutions exhibit a generally robust condition. Capital adequacy is maintained well above the minimum requirements. Profitability and leverage are maintained at a sufficient level. Further, gearing (debt-to-equity) ratio of multifinance companies provides ample room for future growth.

CAR of the banking sector remains at a high level. As of Jan-18, CAR & Tier-1 Capital was 23.43% & 21.77%, respectively.

Risk-based capital (RBC) of the insurance industry also remained high, well above the minimum threshold (120%).

Gearing ratio of multifinance companies was at 2.94 times (well below the maximum requirement of 10 times), providing ample room for future growth.

Source: Financial Service Authority (OJK)
Adequate Liquidity, Manageable Credit Risks

Banks are equipped with sufficient liquid assets. Insurance industry also demonstrates an enhanced level of investment adequacy ratio. The non-performing loan/financing (NPL/NPF) ratio is maintained below the threshold in line with loan consolidation in the banking sector.

The ratio of liquid assets to deposits in the banking sector was well maintained at a high level.

As of Jan-18, the gross & net NPL ratios of the banking sector were 2.86% & 1.23% respectively, maintained below the threshold.

Investment adequacy ratio in the insurance industry was maintained above 100%.

NPF ratio of the multifinance industry was 3.09% as of Jan-18, maintained well below the 5% threshold.

Source: Financial Service Authority (OJK)

*The spike in this ratio was due a change in calculation methods.
Market risks in the financial sector are generally manageable. Net open position of the banking sector remains low, while the investment value of domestic institutional investors (mutual funds, insurers, and pension funds) continues to grow.

Net open position in the banking sector was kept far below the maximum limit (20%).

The investment value of insurers & pension funds continued an increasing trend.

Mutual funds’ net asset value (NAV) continued to grow with a low level of volatility.

Multifinance companies’ exposures to foreign debt have generally been mitigated through hedging measures.

Source: Financial Service Authority (OJK)
Amidst recent unfavorable development in the global economy and financial markets, the domestic capital markets are relatively stable with a low level of volatility.

Amidst pressures triggered by external factors, the IDX Composite Index was relatively stable.

Recent outflows in the stock & bond markets were relatively moderate.

Both the stock & bond markets demonstrated a low level of volatility.

Government bond yields recorded a moderate increase.

Source: Bloomberg, IBPA, Indonesia Stock Exchange, Ministry of Finance
Strategic Policies in Financial Sector

**Supporting infrastructure financing and deepening the capital market**

**Enhancing variability of financing instruments**
- Perpetual bonds, green bonds, municipal bonds
- Investment products for mortgage

**Simplification of issuance process in the capital market**
- Simplifying issuance process of debt securities and sukuk for professional investors

**Expanding the investor base**
- Expanding the access of domestic retail investors to the capital market
- Promoting the participation of local financial institutions through the establishment of local securities companies

**Strengthening the role of NBFIs in infrastructure development**
- The provision of credit guarantee products by credit guarantee companies & insurers

**Supporting innovations in digital finance**

**Issuing the guiding principles for the providers of digital financial services, including for registering, licensing, and the crowdfunding scheme**

**Directing financial institutions to synergize with the fintech sector or to establish a fintech business line**

**Promoting the role of fintech lending in supporting government programs, including in online retail sales of government debt securities**

Source: Financial Service Authority (OJK)
OJK has also built a strong foundation for financial inclusion programs, to ensure access to financial products & services by Indonesians of all social classes. Such initiatives also include the enhancement of financial literacy and financial consumer protection.

Developing financial education models utilizing various delivery channels

Enhancing the role of the “Investment Alert Taskforce”

Developing micro-credit products with additional business support (“KUR Klaster”)

Promoting the establishment of Islamic microfinance institutions (“Bank Wakaf Mikro”)

Strengthening the role of Financial Access Acceleration Taskforce (TPAKD) in local areas

The result of OJK’s 2016 national survey demonstrated an improvement in financial literacy & inclusion among Indonesians compared to that of 2013, but there is still room for further improvement.

Financial Literacy

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>21.8%</td>
</tr>
<tr>
<td>2016</td>
<td>29.7%</td>
</tr>
</tbody>
</table>

Financial Inclusion

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>59.7%</td>
</tr>
<tr>
<td>2016</td>
<td>67.8%</td>
</tr>
</tbody>
</table>

Source: Financial Service Authority (OJK), June 2017
A Comprehensive Financial Deepening Program

...strategy to tackle challenges in deepening Indonesia’s financial markets

In Apr-2016, the Minister of Finance, the Governor of Bank Indonesia, and the Chairman of the Board of Commissioners of the Financial Services Authority launched a Coordination Forum for Development Financing through Financial Market (FK-PPPK). The three authorities have agreed to formulate “The National Strategy of Financial Market Development”

In Apr-2016, the Minister of Finance, the Governor of Bank Indonesia, and the Chairman of the Board of Commissioners of the Financial Services Authority launched a Coordination Forum for Development Financing through Financial Market (FK-PPPK). The three authorities have agreed to formulate “The National Strategy of Financial Market Development”

Vision:
To Establish Deep, Liquid, Efficient, Inclusive, and Safe Financial Market

Mission: Financial Market as Sources of National Development Financing

1. ECONOMIC FUNDING & RISK MANAGEMENT
   - Money Market
   - FX Market
   - Fund
   - Instrument
   - Intermediaries

2. MARKET INFRASTRUCTURE DEVELOPMENT
   - Bond Market
   - Stock Market
   - Benchmark Rate & Standardization

3. POLICY COORDINATION, HARMONIZATION & EDUCATION
   - Syariah Market
   - Regulatory Framework
   - Coordination & Education

Target
Key Performance Indicator
Strategic Action Plan

3 Pilars
6 Markets
7 Elements of Financial Market Ecosystem

Source: Bank Indonesia
Continuous Program on Capital Market Deepening
...continuously strengthened, including through capital market deepening initiatives

Enhancing the supply-side
- Simplification of public-offering requirements and procedures
- Development of debt market
- Development of mutual fund industry
- Development of other products, including those to support infrastructure development (private equity funds, REITs, ABS)
- Development of Islamic capital market
- Development of municipal bonds

Strengthening market infrastructure
- Expansion of Single Investor Identification (SID) coverage
- Development of electronic trading platform (ETP) in the debt market
- Development of Integrated Investment Management System (S-INVEST)
- Enhancing the clearing and settlement process
- Enhancement of capital market data warehouse
- Development of Extensible Business Reporting Language (XBRL) for issuers

Enhancing the demand-side
- Enhancing the role of the domestic institutional investors (insurers & pension funds) in capital markets
- Development of the domestic investor base (conducting investor education programs)
- Expansion of distribution channels of market products

Strengthening governance
- Development of market players’ capacity
- Enhancement of GCG for publicly-listed companies
- Development of repo regulations and infrastructure

Source: Financial Service Authority (OJK)
BI’s Roles in Supporting Distribution of Non-Cash Social Assistance (NCSA)

BI supports government’s program of shifting social assistance to targeted non-cash social assistance disbursement through the electronic payment system. In the future, electronic mechanism disbursement will be also applied to LPG subsidy.

**NCSA Programs**

- Family Hope Program (Program Keluarga Harapan - PKH)
- Smart Indonesia Program (Program Indonesia Pintar - PIP)
- Non Cash Food Assistance (Bantuan Pangan Non Tunai – BPNT)
- LPG Subsidy

**Timeline**

- **2016-2020**
  - Pilot Project
  - Gradual Implementation
  - Full Implementation
  - Interconnected & interoperable payment system
Progress of NCSA Programs

**Family Hope Program**
(Program Keluarga Harapan - PKH)

- The Family Hope Program (PKH) is a program that provides cash to very poor households. Rp 1,89 million /year will be granted for each household. PKH will be granted every February, May, August, and November.

- As of December 2017, PKH is distributed to 6,0 million households on non-cash basis.

- PKH will be expanded to 10 million households in 514 regencies/cities in 2018.

**Non Cash Food Assistance**
(Bantuan Pangan Non Tunai - BPNT)

- BPNT is a poverty alleviation and social protection program that is managed by the central government. It provides subsidized rice and eggs to low-income households. Rp 110 thousand/month will be granted for each household as BPNT that can be used in certain stores which called e-warong.

- As of December 2017, BPNT was distributed to 1,2 million households in 44 cities.

- BPNT will be expanded to 10 million households in 217 regencies/cities on the 25th of each month in 2018.
Stronger Fundamentals Facing the Headwinds

**Inflation Rate (%)**
Inflation controlled within the target range

- **1998**: 8.24%
- **2008**: 12.1%
- **February '18**: 3.18% (yoy)

**IDR Movement (%)**
IDR slightly depreciated in February 2018

- **1998**: -19.7%
- **2008**: -3.5%
- **Feb-18**: -1.29% (ytd)

**Foreign Reserves (USD bn)**
Significantly higher than 1998 & 2008, ample to cover 7.9 months of import and external debt repayment

- **1998**: 17.4
- **2008**: 50.2
- **February '18**: 128.06

**Non-Performing Loan/NPL (%)**
NPL level (gross) is below the maximum threshold of 5%

- **1998**: 30%
- **2008**: 3.8%
- **January '18**: 2.9%

**More Liquid Market (%)**
Overnight interbank money market rate is relatively lower

- **1998**: 62%
- **2008**: 10.5%
- **Dec’17**: 3.87%

**External Debt (Public & Private) to FX Reserve Ratio**
Significantly lower than 1998 crisis

- **1998**: 8.6x
- **2008**: 3.1x
- **2017**: 2.7x

**Government Debt/GDP**
Consistently well-maintained below 30%

- **1998**: 100.0%
- **2008**: 27.4%
- **2017**: 29.2%

**External Debt/GDP**
Slightly higher than 2008, but significantly lower than 1998

- **1998**: 116.8%
- **2008**: 33.2%
- **2017**: 34.82%
Outlook of Domestic Economy Remains Robust
...domestic economic growth is predicted to be higher in 2018

2018 Economic Outlook

- Economic growth in 2018 is projected in the 5.1-5.5% range, buoyed by investment in ongoing infrastructure projects coupled with increasing non-building investment, including private investment, specifically machinery and equipment as well as solid export growth as the global economy continues to recover and international commodity prices remain high.
- Inflation is predicted to remain within the target range for 2018, namely 3.5±1%, with the current account deficit is expected to remain under control and within a safe threshold at 2.0-2.5% of GDP in line with domestic economic improvements.
- Credit growth is predicted to grow in the 10.0-12.0% range, in line with the expected economic recovery and progress in terms of corporate and banking sector consolidation.

<table>
<thead>
<tr>
<th>2017 Realization</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth</td>
<td>5.07%</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.61%</td>
</tr>
<tr>
<td>CAD (% of GDP)</td>
<td>1.7%</td>
</tr>
<tr>
<td>Credit Growth</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia
Section 6

Progressive Infrastructure Development: Strong Commitment on Acceleration of Infrastructure Provision
The Government has Enacted Various Reforms to Accelerate Infrastructure Provision

<table>
<thead>
<tr>
<th>Fiscal Reforms</th>
<th>Institutional Reforms</th>
<th>Regulatory Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Viability Gap Funding (VGF)</strong></td>
<td><strong>KPPiP</strong>&lt;br&gt;KPPiP is actively involved in accelerating delivery of priority infrastructure projects</td>
<td><strong>Direct Lending</strong>&lt;br&gt;Issuance of Presidential Reg. No. 82/2015.&lt;br&gt;Allow guarantee for direct lending to SOE to accelerate financial close process for infrastructure projects</td>
</tr>
<tr>
<td>Issuance of MoF Reg. No. 223/2012.&lt;br&gt;To increase project financial feasibility by contributing up to 49% of the construction cost</td>
<td><strong>PT. Sarana Multi Infrastruktur</strong>&lt;br&gt;Merging between PT. SMI and Gov’t Investment Center (PIP) to become an infrastructure funding company</td>
<td><strong>Land Acquisition</strong>&lt;br&gt;Issuance of Presidential Reg. No. 148/2015.&lt;br&gt;To stipulate land acquisition acceleration based on Law No. 2/2012</td>
</tr>
<tr>
<td><strong>Availability Payment</strong>&lt;br&gt;Issuance of regulatory framework for annuity payment scheme by the Government (MoF Reg. No. 190/2015 for Central Gov’r and MoHA Reg. No. 96/2016 for Regional Gov’t.) during the concession period after the project operational by private sector in order to make the project bankable</td>
<td><strong>Indonesia Infras. Guarantee Fund (IIGF)</strong>&lt;br&gt;IIGF has the potential to provide project guarantee for non-PPP projects</td>
<td><strong>Economy Packages</strong>&lt;br&gt;Conduct deregulation for issues hindering infrastructure delivery and develop a task force under CMEA to ensure the effectiveness of economic packages implementation</td>
</tr>
<tr>
<td><strong>Land Revolving Fund</strong>&lt;br&gt;Issuance of MoF Reg. No. 220/2010 A revolving-fund sourced from State Budget, to accelerate land acquisition</td>
<td><strong>PPP Unit</strong>&lt;br&gt;Provide facilities to help GCA on preparing PPP project (PDF/TA)</td>
<td></td>
</tr>
<tr>
<td><strong>Risk-sharing Guidelines</strong>&lt;br&gt;IIGF has issues risk allocation and mitigation guidelines for PPP project</td>
<td><strong>BLU LMAN</strong>&lt;br&gt;BLU LMAN is mandated to provide land fund for National Strategic Projects to ensure timely land acquisition process</td>
<td></td>
</tr>
</tbody>
</table>

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPiP)
Reforms Along the Project’s Life Cycle
...to encourage and accelerate infrastructure project using PPP scheme

<table>
<thead>
<tr>
<th>Government of Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Development Facility (PDF)</td>
</tr>
<tr>
<td>Viability Funding Gap (VGF)</td>
</tr>
<tr>
<td>Guarantee Fund</td>
</tr>
<tr>
<td>Tax Facilities</td>
</tr>
<tr>
<td>Availability Payment</td>
</tr>
<tr>
<td>Land Acquisition</td>
</tr>
</tbody>
</table>

**Preparation**
- Project development facility contributing to assist GCA on PPP project preparation (PDF&TA)
  - Managing entity: KPPIP, PT SMI PT IIF, and Ministry of Finance
  - Gov’t commitment: 49% max. Per project cost

**Bidding Process**
- A facility with contribution to construction cost to increase project financial viability
  - Managing Entity: Ministry of Finance based on GCA proposal
  - Gov’t commitment: 49% max. Per project cost

- Guaranteeing Govt. contractual obligations under infrastructure concession agreements and MoF Regulation No 130/PMK. 08/2016 re: Govt guarantee for electricity project acceleration
  - Managing entity: IIGF and MoF
  - Govt’s commitment: US$ 450 mn

- MoF Reg. No. 159/PMK. 010/2015 re: tax holiday for pioneer sector, such as base metal, oil refinery, basic petrochemical, machinery, renewable energy, & telco equipment industries. Sector will be further expanded
  - Managing entity: Ministry of Finance & MoF

- A scheme in which concessionaires receive sum of money periodically from central or regional government after the completion of an asset.
  - MoF Regulation, and MoHA Regulation on Availability Payment has been ratified.
  - Managing entity: Ministry of Finance & Ministry of Home Affairs

**Construction**
- A facility to support land acquisition for infrastructure projects particularly projects that involve private sector
  - Managing entity: Ministry of Finance, Ministry of Agrarian and Land Spatial/BPN and BLU-LMAN
  - Gov’t commitment: US$ 12 mn (2016)

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)
Efforts to Accelerate Infrastructure Provision

Regulation improvement to accelerate land procurement process

- The Government of Indonesia issued Law No. 2 of 2012 on Land Acquisition for Public Interest, with a purpose to provide certainty about the land acquisition duration for the Government Contracting Agencies and the Investors. The Law sets an estimated 583 days maximum time to complete the land acquisition process.

- For its implementation, the Law No. 2 of 2012 was supported by the Presidential Regulation No. 71 of 2012 on Land Acquisition Implementation for Developing Public Facilities, which has been revised into the Presidential Regulation No. 30 of 2015. The Amendment to the Regulation allows a Business Entity to allocate funding for a land acquisition which can be reimbursed by the Government following the completion of land acquisition process. With this Regulation, the land acquisition process is expected not to be delayed by the unallocated budget or the delay on the budget disbursement.

Law No. 2/2012 was successfully applied in:
1. Palembang – Indralaya section of the Trans Sumatera Toll Road Project
2. Java North Line Double Track Rail Project

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)
Government has established State Asset Management Unit (LMAN) as a solution to accelerate the land acquisition through the provision of land acquisition fund.

**LMAN at a Glance**

1. LMAN was established in December 2015 through the issuance of MoF Reg. 219/2015 concerning State Assets Management.
2. In 2016, BLU LMAN was mandated to provide land acquisition fund as a support to Ministry of Public Works due to US$ 1,081 Mio shortage of fund to acquire land for priority toll roads.
3. The scope of support is broaden for all National Strategic Projects through the issuance of MoF Reg. 21/2017 concerning land acquisition financing guideline for PSN.
4. In January 2018, LMAN has disbursed up to US$ 881.48 Million (IDR 11.9 Trillion) through bridging finance scheme for 27 toll road projects, and planned to start the implementation of direct payment scheme.

**Land Acquisition Budgeting Scheme**

1. Unutilized fund can be allocated for the following year.
2. Non-project-specific land acquisition fund allocation. Unused allocated fund can flexibly be made available for the other project.
3. Land acquisition fund for PSN projects is managed under one agency.

This LMAN initiative provides better flexibility, coordination and management of land acquisition fund provision for National Strategic Projects (PSN).

Source: Ministry of Finance
New Fundamental Regulations Have Been Initiated in 2017 to accelerate infrastructure projects delivery

1. **Government Reg. No. 13/2017 on National Spatial Plan (RTRWN)**
   The issuance of RTRWN can resolve spatial planning mismatch in the implementation of infrastructure projects listed in the annex of Government Reg. No. 13/2017. A number of breakthroughs were developed, and one of them is that the Minister of Agrarian and Spatial can issue a recommendation of spatial utilization; so that the process of obtaining project permission can be done.

2. **MoF No. 60/2017 on Procedures for the Provision of Central Government Guarantee for the Acceleration of the National Strategic Projects Implementation**
   The supporting regulation for Presidential Reg. No. 3/2016 on the Acceleration of the National Strategic Projects Implementation. This regulation regulates the scope and general requirements and procedures to propose and grant guarantees, as well as allocate state budget obligation on government guarantees to all PSN. The guarantee provision is expected to increase the feasibility and trust of investors to participate in the implementation of PSN.

3. **Presidential Reg. No. 56/2017 on Social Impact Handling in Land Acquisition Process for PSN**
   This Presidential Reg. allows the Executing Agency to pay land acquisition compensation to the impacted community who does not have official rights over the land required for PSN. This regulation helps to solve the land acquisition problem due to community objection over the land use.

4. **MoF No. 21/2017 on Procedures for Land Acquisition for National Strategic Projects and Asset Management of Land Acquisition by State Asset Management Agency**
   The implementing regulation of Presidential Reg. No.102/2016 on Financing of Land Acquisition for the Development of Public Interest in the Framework of the National Strategic Implementation. This regulation becomes the legal basis for the financing of the procurement of National Strategic and Priority Projects by BLU LMAN

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)
Under Presidential Reg. No.3/2016 j.o. the Presidential Reg. No.58/2017, 245 projects and 2 programs are listed as PSN.

PSN includes 15 sectors at project level and 2 sectors at program level.

Note: The investment value is based on the updates per October 2017. The data on investment value is under verification process with The Executive Office of President (KSP) and Indonesia’s National Government Internal Auditor (BPKP).

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPPI)
PSN may receive privileges as stipulated in the Presidential Reg. No. 3/2016 j.o. the Presidential Reg. No. 58/2017

- Determination of National Strategic Projects
- Permit & Non-permit Completion
- Spatial Planning
- Land clearing acceleration
- Local Content Utilization
- Government Guarantee Provision
- Projects Monitoring via KPPIP IT System
- Additional Facilities
- Existing Facilities

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)
Progress on 245 National Strategic Projects

The Estimated Investment Cost of National Strategic Projects

- **Total Investment Value**: US$ 327.2 Billion
- **State Budget**: US$ 40.6 Bn
- **SOEs/RSOEs**: US$ 92.9 Bn
- **Private**: US$ 193.7 Bn

1. Exclude 12 projects which investment value are still unknown
2. Exchange rate: US$ 1 = IDR 13,500

5 Sectors with Highest Investment Value

- **Energy**: 12 Projects, US$ 93 Bn
- **Electricity**: 1 Program, US$ 76.7 Bn
- **Road**: 74 Projects, US$ 52.2 Bn
- **Train**: 23 Projects, US$ 46.2 Bn
- **SEZs and IEs**: 30 Projects, US$ 28.7 Bn

Progress of National Strategic Projects + 2 Programs (per January 2018)

- 8 projects are completed
- 157 projects & 1 program are in construction
- 7 projects are in transaction
- 73 projects & 1 program are in preparation

1. Electricity Program in construction category

*Note*: This data will be verified with The Executive Office of President (KSP) and Indonesia’s National Government Internal Auditor (BPKP)

1. Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPiP)
Progress on 37 Priority Projects

From the revised National Strategic Projects, the Government has selected a list of 37 Priority Project to be the focus of infrastructure provision.

1. Balikpapan-Samarinda Toll Road
2. Manado-Bitung Toll Road
3. Panimbang-Serang Toll Road
4. 15 Segments of Trans – Sumatera Toll Road
5. Probolinggo – Banyuwangi Toll Road
6. Yogyakarta – Bawean Toll Road
7. SHIA Express Railway
8. MRT Jakarta South-North Line
9. Makassar-Parepare Railway
10. Light Rail Transit (LRT) of Jakarta-Depok-Bogor-Bekasi
11. LRT of South Sumatera
12. East Kalimantan Railway
13. LRT of DKI Jakarta
14. Kuala Tanjung International Hub Seaport
15. Bitung International Hub Seaport
16. Patimban Port
17. Inland Waterways Cikarang-Bekasi-Laut (CBL)
18. Palapa Ring Broadband
20. Central – West Java Transmission Line 500 kV
21. Indramayu Coal-fired Power Plant
22. Sumatera 500 kV Transmission (4 Provinces)
23. Mulut Tambang Coal-fired Power Plant (6 Provinces)
24. PLTGU (16 Provinces)
25. Bontang Oil Refinery
26. Tuban Oil Refinery
27. RDMP/Revitalization of the Existing Refineries (Balikpapan, Cilacap, Balongan, Dumai, Plaju)
28. Abadi WK Masela Field
29. Utilization Field Has Jambaran-Tiung Biru
30. Indonesian Deepwater Development (IDD)
31. Tangguh LNG Train 3 Development
32. West Semarang Drinking Water Supply System
33. Jakarta Sewerage System
34. National Capital Integrated Coastal Development (NCICD) Phase A
35. Jatiluhur Drinking Water Supply
36. Lampung Drinking Water Supply
37. Waste to Energy Program in 8 cities

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPiP)
Progress on 37 Priority Projects

**Progress of 37 Priority Projects (per January 2018)**

- 20 projects are in construction (54%)
- 5 projects are in transaction (32%)
- 12 projects are in preparation (14%)

**Funding Scheme of 37 Priority Projects**

- **Total Investment Value**
  - US$181.6 Billion
- - US$92.4 billion from Private/PPP (51%)
- - US$71.8 billion from SOE/Regional SOE (39%)
- - US$17.5 billion State/Regional Budget (including G-to-G loan) (10%)

Exchange rate : US$ 1 = IDR 13,500

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)

**Recent Milestones**

1. **Yogyakarta – Bawen Toll Road**
   - Outline Business Case has been completed by the end of December 2017.

2. **Patimban Port**
   - Loan Agreement has been signed on 15 November 2017.

3. **Bitung International Hub Port**
   - Outline Business Case has been completed by the end of December 2017.

4. **Mass Rapid Transit (MRT) Jakarta South-North**
   - Allocation of repayment liability on additional loan for Phase I and Phase II has been decided in the KPPIP Ministerial meeting – 49% will be borne by Central Government and 51% will be borne Provincial Government of DKI Jakarta.

5. **Refinery Development Master Plan Cilacap**
   - Environmental Permit has been issued by LHK Ministry – letters of recommendation for spatial aspects and rerouting of road have also been issued.
Average economic growth of 6.7% requires 7,000 MW / year or 35,000 MW / 5 years (Kepmen ESDM No. 0074/2015 on RUPTL 2015-2024)

Debottlenecking through regulation:
1. Regulation No.1/2015 concerning electricity supply cooperation & joint utilization of the electrical network among license holders.

Cabinet Meeting
“There’s electricity crisis in Indonesia, requires construction of large capacity plant”

Launching 35,000 MW by the President in Goa Beach Sanden DIY

The progress so far:

<table>
<thead>
<tr>
<th>No</th>
<th>Phase</th>
<th>MW</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Operating</td>
<td>1,041</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Construction</td>
<td>16,642</td>
<td>46</td>
</tr>
<tr>
<td>3</td>
<td>Signed Power-purchase Agreement</td>
<td>12,776</td>
<td>36</td>
</tr>
<tr>
<td>4</td>
<td>Procurement</td>
<td>3,160</td>
<td>9</td>
</tr>
<tr>
<td>5</td>
<td>Planning</td>
<td>2,228</td>
<td>6</td>
</tr>
</tbody>
</table>

Note: Progress of 35,000 MW Electricity Program per December 2017

Note: This data is still going to be verified by The Executive Office of President (KSP) and Indonesia’s National Government Internal Auditor (BPKP)
The Government has issued Presidential Regulation No. 4/2016 on Electricity Infrastructure Acceleration to accelerate power projects.

**Government Support (outside Guarantee)**
- Provision of Primary Energy
- Provision of Renewable Energy
- Simplicity of Permits and non-Licensing
- Spatial Planning
- Land acquisition
- Resolution on Legal Matters

**Local Content**
- Obligation on the usage of local content through an open book system, price guideline, reverse engineering or other methods to maximise the local content.

**Strengthen PLN’s Balance Sheet**
- Refinancing
- Hedging
- Financial Asset Optimization

**Strengthen Equity**
- Loan from independent lenders
- Equity Injection by the Government
- PT PLN’s dividend allocation
- Bond issuance by PT PLN
- Asset Revaluation
- Direct Lending
- Company Tax Holiday
- Other types of funding

**Assignment**

1. EPC Powerplant and Transmission
2A. PLN Subsidiary (Joint Venture)
2B. Independent Power Producer

**Source:** Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)
Significant Progress on Infrastructure Projects

Improving Monitoring System on Infrastructure Projects

KPPIP developed an integrated IT System for monitoring of national strategic and priority projects, providing database on projects’ latest status which can be effectively utilized for monitoring and decision-making purposes.

**Database**
Project information such as map, track, existing study and latest project status.

**Platform**
Data outlook that is efficient and functional using a user-friendly framework.

An **integrated** IT system with monitoring capacity for stakeholders, so that they can have **real time data**.

Record decisions related to projects and **synchronize** the implementation schedule that can be utilized by stakeholders.

1. Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)
2. Not funded from National Budget

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**Roads**

- Trans-Sumatra Toll Road
- Merah Putih Bridge, Ambon

**Dams**

- Jatigede Dam (Operational)
- Umbulan Drinking Water Provision System, East Java

**Drinking Water Processing**

- Jatigede Dam (Operational)
- Umbulan Drinking Water Provision System, East Java

**Transportation**

- Jakarta MRT Project
- Terminal 3 Ultimate Soekarno-Hatta
- New Tanjung Priok Port Project
- Nop Goliat Dekai, Papua
Infrastructure Projects and Financing Schemes
Promotion of Infrastructure Development to Accelerate Economic Growth

Infrastructure Development is a Key Priority

- Infrastructure Development in order to:
  1. Accelerate growth particularly in rural areas
  2. Support industrial development and tourism
  3. Reduce unemployment and poverty
- Infrastructure fundraising needs: $345.1 (or equivalent to IDR4,600 tn)
- 37 priority infrastructure projects with an estimated cost of IDR 2,500 tn (USD 180 billion)
- Majority of 37 priority projects are expected to commence commercial operation by 2018 - 2022

Establishment of PPP Unit

<table>
<thead>
<tr>
<th>Broad Objective</th>
<th>Champion project preparation and acceleration of the PPP agenda in Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Mandates</td>
<td>Improve quality of project selection under KPPIP – OBC criteria</td>
</tr>
<tr>
<td></td>
<td>Support project preparation through PDF support and highly qualified transaction advisors</td>
</tr>
<tr>
<td></td>
<td>Act on behalf the Minister of Finance in providing government support and approvals for projects</td>
</tr>
<tr>
<td>Additional Mandates</td>
<td>Coordinate all public finance instruments</td>
</tr>
<tr>
<td></td>
<td>Provide input for PPP Policy program Development and Regulations</td>
</tr>
<tr>
<td></td>
<td>Implement capacity building for Govt. Contracting Agency (GCAs)</td>
</tr>
<tr>
<td></td>
<td>One stop shop for PPP promotion &amp; Information</td>
</tr>
</tbody>
</table>

Public Private Partnership

- Certain infrastructure projects to be funded and operated through a partnership between the Indonesian government and the private sector
  - Projects ready for auction under the PPP Scheme:
    - Toll roads projects such as Balikpapan-Samarinda and Manado-Bitung
    - Railway projects such as an express line into Soekarno-Hatta International Airport
    - Water supply projects such as the West Semarang Project
- Various government support for PPP:
  - Project Development Facility (PDF): Helps Government Contracting Agencies (GCAs) in project preparation and transaction
  - Viability Gap Fund: improves financial viability of PPP projects
  - Government Guarantees: Supports PPP projects’ bankability by providing sovereign guarantees
  - Infrastructure Financing Fund: Provided through PT SMI and IIGF

SOE & Private Sector

- Government to inject capital into SOEs: Intended multiplier effect to develop more infrastructure projects
- Key focus areas:
  - Infrastructure and maritime development
  - Transportation and connectivity
  - Food security
- Medium term infrastructure developments to focus on:
  - Water Supply
  - Airports
  - Seaports
  - Electricity and power plants
  - Housing
  - Mining

Note: OBC: Outline Business Case; PDF: Project Development Facility; GCA: Government Contracting Activity
Source: Ministry of Finance; Bappenas; KPPIP: "Komite Kebijakan Percepatan Penyediaan Infrastruktur" or National Committee for the Acceleration of Infrastructure Delivery
Government Guarantee For Basic Infrastructure Development
Reflects strong commitment to national development planning

<table>
<thead>
<tr>
<th>Government Guarantee Program</th>
<th>Central Government Guarantee for Infrastructure Programs</th>
<th>Exposure/Outstanding (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Guarantee</strong></td>
<td>Coal Power Plant 10,000 MW Fast Track Program (FTP 1)</td>
<td>2.94</td>
</tr>
<tr>
<td>Power (Electricity) - Full credit guarantee for PLN’s debt</td>
<td>Clean Water Supply Program</td>
<td>0.01</td>
</tr>
<tr>
<td>payment obligation under FTP 1 10,000 MW and 35GW</td>
<td>Direct Lending from International Financial Institution to SOEs</td>
<td>0.35</td>
</tr>
<tr>
<td>Celan Water - Guarantee for 70% of PDAM’s debt principal</td>
<td>Sumatra Toll Road Development (PT Hutama Karya’s)</td>
<td>0.48</td>
</tr>
<tr>
<td>payment obligations</td>
<td>Renewable energy, Coals &amp; Gas Power Plant 10,000 MW (FTP 2)</td>
<td>1.58</td>
</tr>
<tr>
<td>Infrastructure - Full credit guarantee on SOE’s borrowing</td>
<td>Obligation of government-related entities under PPP</td>
<td>1.06</td>
</tr>
<tr>
<td>from international financial institution &amp; guarantee for PT SMI’s local infrastructure financing</td>
<td>Local infrastructure financing through PT SMI</td>
<td>0.07</td>
</tr>
<tr>
<td>Toll road - Full credit guarantee for PT Hutama Karya’s debt</td>
<td>Total</td>
<td>6.49</td>
</tr>
<tr>
<td>payment obligation (Sumatra Toll Road Development)</td>
<td><strong>Total</strong></td>
<td><strong>6.49</strong></td>
</tr>
<tr>
<td>Public Transportation (Light Rail Transit) - Full credit</td>
<td><strong>Total</strong></td>
<td><strong>6.49</strong></td>
</tr>
<tr>
<td>guarantee for PT Kereta Api Indonesia’s debt payment obligations</td>
<td><strong>Total</strong></td>
<td><strong>6.49</strong></td>
</tr>
<tr>
<td>for the development of LRT Jabodebek</td>
<td><strong>Total</strong></td>
<td><strong>6.49</strong></td>
</tr>
</tbody>
</table>

**Contingent Liabilities from Government Guarantees**

- The Maximum Guarantee Limit for the period 2018 – 2021 is set at **6% of GDP** in anticipation of the project pipeline increase to IDR1,178.1 Trillion

*) MOF provides both credit guarantees and BVGs for 35GW program

Source: Ministry of Finance
Government Financial Facilities for PPP Projects

Financial Facilities to Attract More Private Participation

- Viability Gap Fund (VGF)
- Project Development Facility (PDF)
- Government Guarantees (directly by MoF or through IIGF)
- Availability Payment Schemes
- Financing from PT. SMI and PT. IIF

Those financial facilities were instrumental in supporting the execution of PPP projects, indicated by the signing of financial close of the following PPP projects:

Viability Gap Fund
Project Development Facility
Government Guarantees
Availability Payment Schemes
Financing from PT. SMI and PT. IIF

More Funding Schemes are on the Pipelines

LCS (Limited Concession Scheme)

- Asset is owned by public sector
- Operating asset, not greenfield project
- Records positive cash flow for the last several years
- Predicted revenue

PINA (Non-Government Budget Infrastructure Financing)

- Asset is owned by private sector
- Greenfield / brownfield / operating projects

Project Financing funded by the private sector through the granting of concessions for an operating asset owned by the Government/SOE (based on the policy of the Government) to the private sector to be operated & managed.

Scheme Characteristics

Project Financing funded by any source of funds other than Government’s budget, e.g. long term management funds (insurance, repatriated funds from tax amnesty, pension funds, etc.), private equity investors and infrastructure funds. Supported & facilitated by National Development Planning Ministry/Bappenas.

Scheme Characteristics

Source: Ministry of Finance
## Progress of PPP Infrastructure Projects

### Successful Projects Reaching Financial Close in 2016 and 2017

<table>
<thead>
<tr>
<th>No</th>
<th>Project Name</th>
<th>Project Cost (IDR tn)</th>
<th>Financial Facilities</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Java Power Plant</td>
<td>40</td>
<td>Guarantee (MoF &amp; IIGF)</td>
<td>FC on June 6\textsuperscript{th}, 2016; Construction 30%; COD Target: May 2020</td>
</tr>
<tr>
<td>2</td>
<td>Palapa Ring – West Package</td>
<td>1.28</td>
<td>PDF, IIGF Guarantee &amp; AP</td>
<td>FC on August 11\textsuperscript{th}, 2016; COD target: February 2018</td>
</tr>
<tr>
<td>3</td>
<td>Palapa Ring – Central Package</td>
<td>1.38</td>
<td>PDF, IIGF Guarantee &amp; AP</td>
<td>FC on September 29\textsuperscript{th}, 2016; COD target: March 2018</td>
</tr>
<tr>
<td>4</td>
<td>Palapa Ring – East Package</td>
<td>5.13</td>
<td>PDF, IIGF Guarantee &amp; AP</td>
<td>FC on March 29\textsuperscript{th}, 2017; COD target: September 2018</td>
</tr>
<tr>
<td>5</td>
<td>Umbulan Water</td>
<td>2.1</td>
<td>PDF, VGF &amp; IIGF Guarantee</td>
<td>FC on August 30\textsuperscript{th}, 2016; COD target: July 2019</td>
</tr>
</tbody>
</table>

### Signed PPP Projects in 2016 and 2017

<table>
<thead>
<tr>
<th>No</th>
<th>Project Name</th>
<th>Project Cost (IDR tn)</th>
<th>Financial Facilities</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Batang–Semarang Toll Road</td>
<td>11</td>
<td>IIGF Guarantee</td>
<td>PPP &amp; guarantee contracts signed on April 27\textsuperscript{th}, 2016</td>
</tr>
<tr>
<td>2</td>
<td>Manado–Bitung Toll Road</td>
<td>5.1</td>
<td>IIGF Guarantee</td>
<td>PPP &amp; guarantee contracts signed on June 8\textsuperscript{th}, 2016</td>
</tr>
<tr>
<td>3</td>
<td>Samarinda–Balikpapan Toll Road</td>
<td>9.9</td>
<td>IIGF Guarantee</td>
<td>PPP &amp; guarantee contracts signed on June 8\textsuperscript{th}, 2016</td>
</tr>
<tr>
<td>4</td>
<td>Pandaan–Malang Toll Road</td>
<td>5.9</td>
<td>IIGF Guarantee</td>
<td>PPP &amp; guarantee contracts signed on June 8\textsuperscript{th}, 2016</td>
</tr>
<tr>
<td>5</td>
<td>Serpong–Balaraja Toll Road</td>
<td>6.0</td>
<td>-</td>
<td>PPP contracts signed on June 8\textsuperscript{th}, 2016</td>
</tr>
<tr>
<td>6</td>
<td>Jakarta–Cikampek Elevated Toll Road</td>
<td>14.8</td>
<td>Co guarantee (MoF &amp; IIGF)</td>
<td>PPP &amp; guarantee contracts both signed on December 5\textsuperscript{th}, 2016 and February 22\textsuperscript{nd}, 2017</td>
</tr>
<tr>
<td>7</td>
<td>Krian–Legundi–Krian Toll Road</td>
<td>9.0</td>
<td>Co guarantee (MoF &amp; IIGF)</td>
<td>PPP &amp; guarantee contracts both signed on December 5\textsuperscript{th}, 2016 and February 22\textsuperscript{nd}, 2017</td>
</tr>
<tr>
<td>8</td>
<td>Serang–Panimbang Toll Road</td>
<td>5.3</td>
<td>Co guarantee (MoF &amp; IIGF)</td>
<td>PPP &amp; guarantee contracts signed on February 22\textsuperscript{nd}, 2017</td>
</tr>
<tr>
<td>9</td>
<td>Cileunyi–Sumedang-Dawuan Toll Road</td>
<td>8.2</td>
<td>Co guarantee (MoF &amp; IIGF)</td>
<td>PPP &amp; guarantee contracts signed on February 22\textsuperscript{nd}, 2017</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, as of July 2017
New Guarantee Schemes for Non-PPP Projects

Guarantee on SOE Direct Lending from International Financial Institutions (IFIs)

The Government had issued Presidential Regulation No 82/2015 and Ministry of Finance Regulation No 189/2015 to provide guarantee for SOE Direct Lending from IFIs for the Development of Infrastructure Projects.

The objective of this guarantee is **to provide credit enhancement in terms of low interest rate and long tenor financing**, with **3 main principles:**

- State finance soundness
- Fiscal sustainability
- Best practice of fiscal risk management

Guarantee for Regional Infrastructure Financing Provision

Based on Government Regulation No. 95/2015 and Ministry of Finance Regulation No. 232/2015, Minister of Finance assigns PT SMI (Sarana Multi Infrastruktur) to carry out functions in providing loan to local government, as previously carried out by PIP (Government Investment Center).

The Government had issued Ministry of Finance Regulation No 174 of 2016 to provide guarantee to PT SMI on the assignment of regional infrastructure financing provision, by loan to local governments that is transferred from PIP to PT SMI, and new loan channeled by PT SMI to the local government.

The objective is to **give stimulus to the acceleration of local infrastructure development** through the ease of access to infrastructure financing and to boost local economic growth, as well as to provide alternative financing schemes in order to meet local infrastructure development needs and to reduce reliance on state/local budget.