REPUBLIC OF INDONESIA

Recent Economic Developments

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1. Macroeconomic Highlights

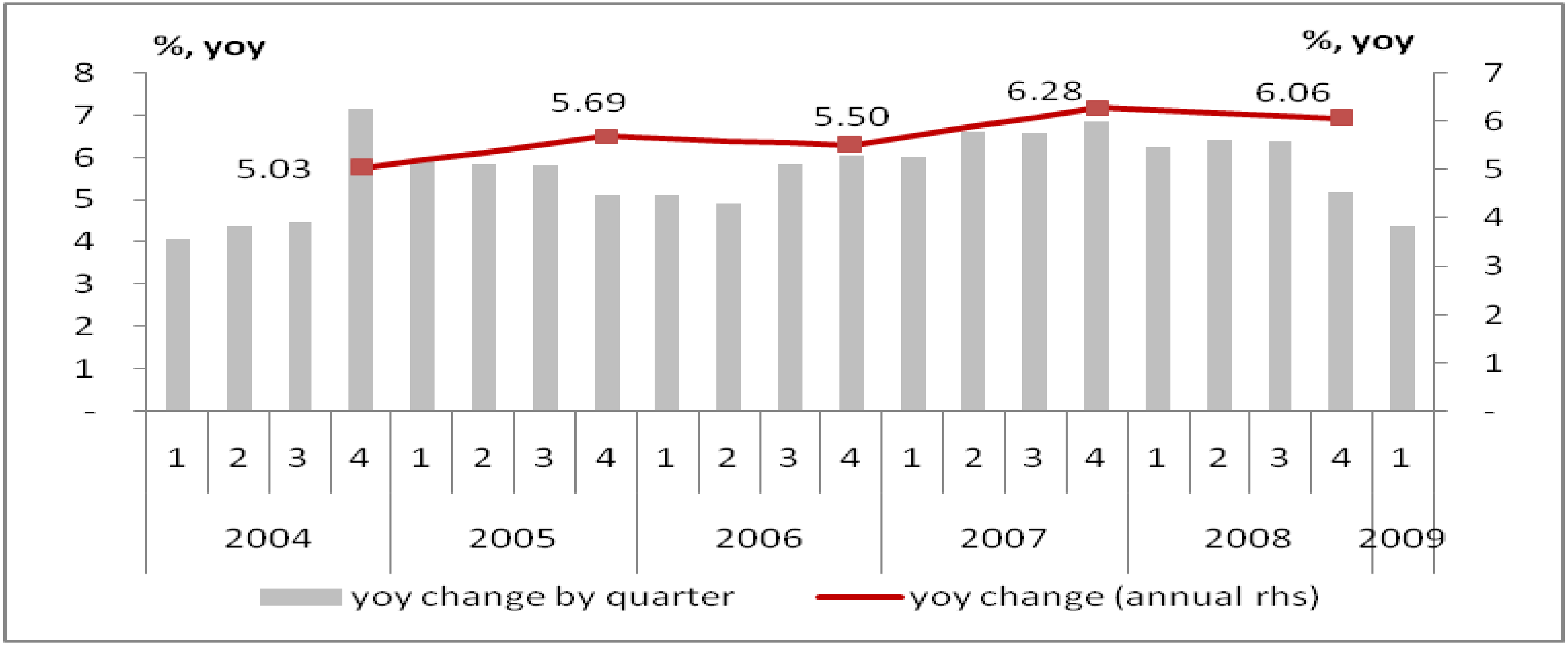
Macroeconomic Highlights

- Resilient growth over the last 2 years, despite the global economic slowdown
- Banking industry remain sound with high level of CAR (17.6%) and NPL at a subdued level of less than 5%.
- Balance of Payments remains sound amid current global turbulence, however lower exports due to slowing global demand have gradually put pressure on the current account.
- International reserves position strengthened to USD 57.9 billion as of end of May 2009
- The improvement in the global economic outlook and developments has met with positive response in various financial indicators and has led to the appreciation in the Rupiah, easing the pressure on Rupiah exchange rate experienced since Q4 2008.
- Falling prices for domestic non-subsidized gasoline and various commodities have eased domestic inflationary pressure. Inflation has been trending down since October 2008, and in May 2009 experienced a 0.04% (m-t-m) inflation which amounted 7.31% (y-o-y) inflation at the end of May 2009.
- Measures are taken to ensure sustainability of the 2009 Budget
- At June 2009 Board of Governors meeting, the Central Bank (BI) Rate was lowered by 25 bps to 7.00% (seventh consecutive rate decreases since December 2008)
- Going forward, global financial uncertainties pose significant challenges to the economy

Economic Growth Sustained

- The global economic recession has relatively limited effects on Indonesian economy. In the recent past, although export sharply dropped in Q-4 2008, economic growth declined only moderately, from 6.3 % in 2007 to 6,1% in 2008.
- However, the economic landscape was subsequently reshaped by the intensifying downturn in the global financial market on the last quarter of 2008.

Strong Growth in the Last Two Years



Source: Bank Indonesia, BPS.

Domestic Demand was the main source of growth

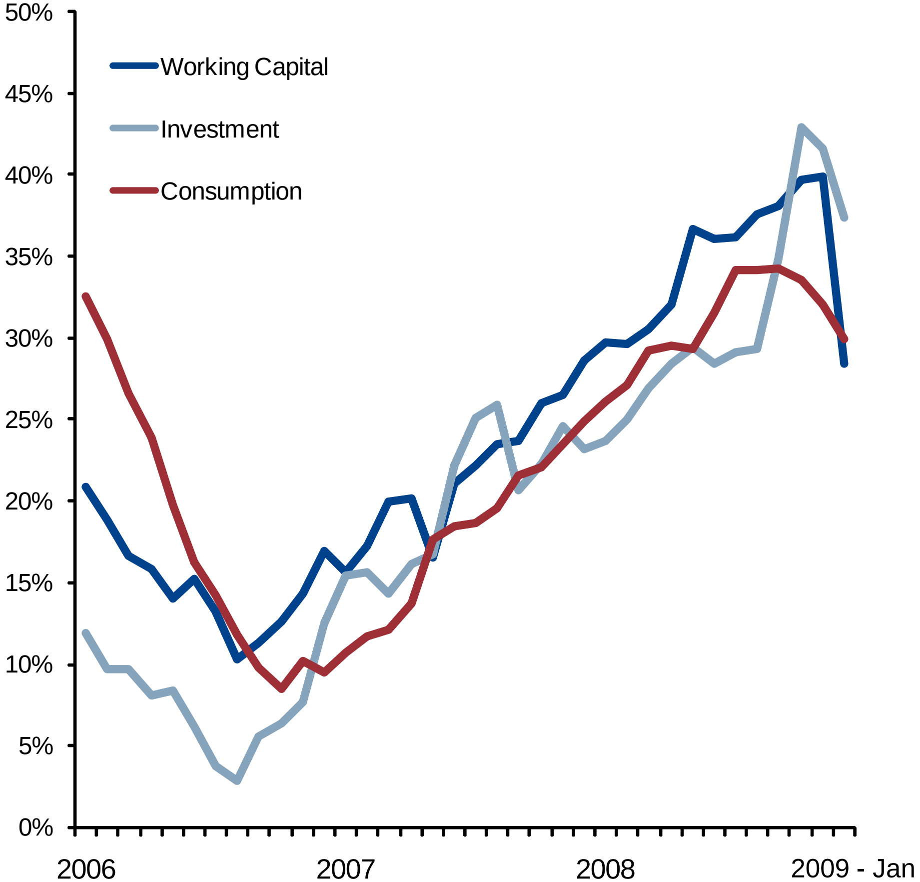
Indonesian Economy	Unit	2007	2008					
			Q1	Q2	Q3	Q4	Total	Share (%)
Total	**% yoy**	**6.3**	**6.2**	**6.4**	**6.4**	**5.2**	**6.1**	**100.0**
By Expenditure								
Private Consumption	% yoy	5.0	5.7	5.5	5.3	4.8	5.3	57.2
Government Consumption	% yoy	3.9	3.6	5.3	14.1	16.4	10.4	8.1
Total Consumption	% yoy	4.9	5.5	5.5	6.3	6.4	5.9	65.3
Invesment	% yoy	9.4	13.7	12.0	12.2	9.1	11.7	23.7
Domestic Demand	% yoy	4.1	8.7	6.8	7.2	7.9	7.7	89.0
Exports of Goods and Services	% yoy	8.5	13.6	12.4	10.6	1.8	9.5	49.6
Imports of Goods and Services	% yoy	9.0	18.0	16.1	11.0	-3.5	10.0	-40.0

- Domestic demand is the main source of growth in 2008, mainly supported by the growth of consumption (5.9%) and investment (11.7%)
- Export declined significantly in the 4th quarter of 2008. Falling commodity prices on international markets alongside weakening demand for export from emerging nations, such as China and India resulted in a pronounced drop in export growth during Q4-2008

Banking Sector Remains Robust

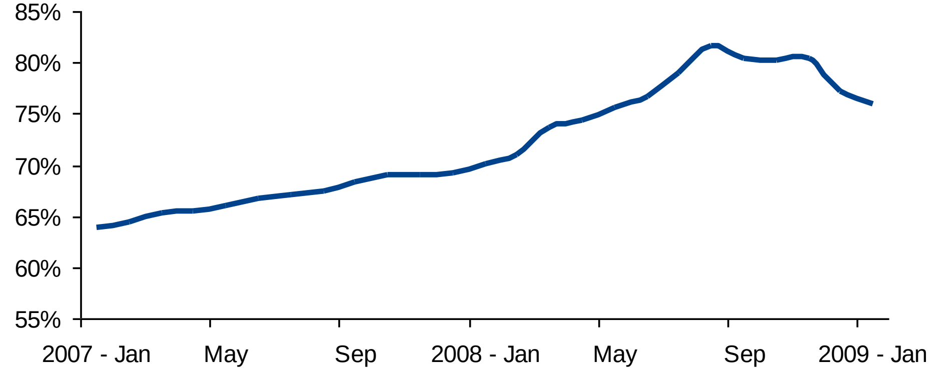
- Banking industry robust with high CAR level of 17.6% and gross NPL 4.6%/ net 2%.

Rapid Bank Credit Growth Despite Global Liquidity Crunch

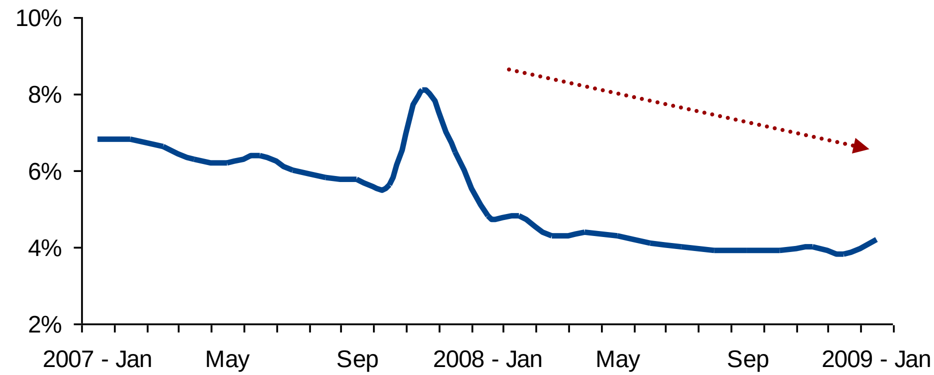


Source: Bank Indonesia.

Loan-to-Deposit Ratio Rising to Post Crisis Record



Non-Performing Loans Ratio is Trending Down

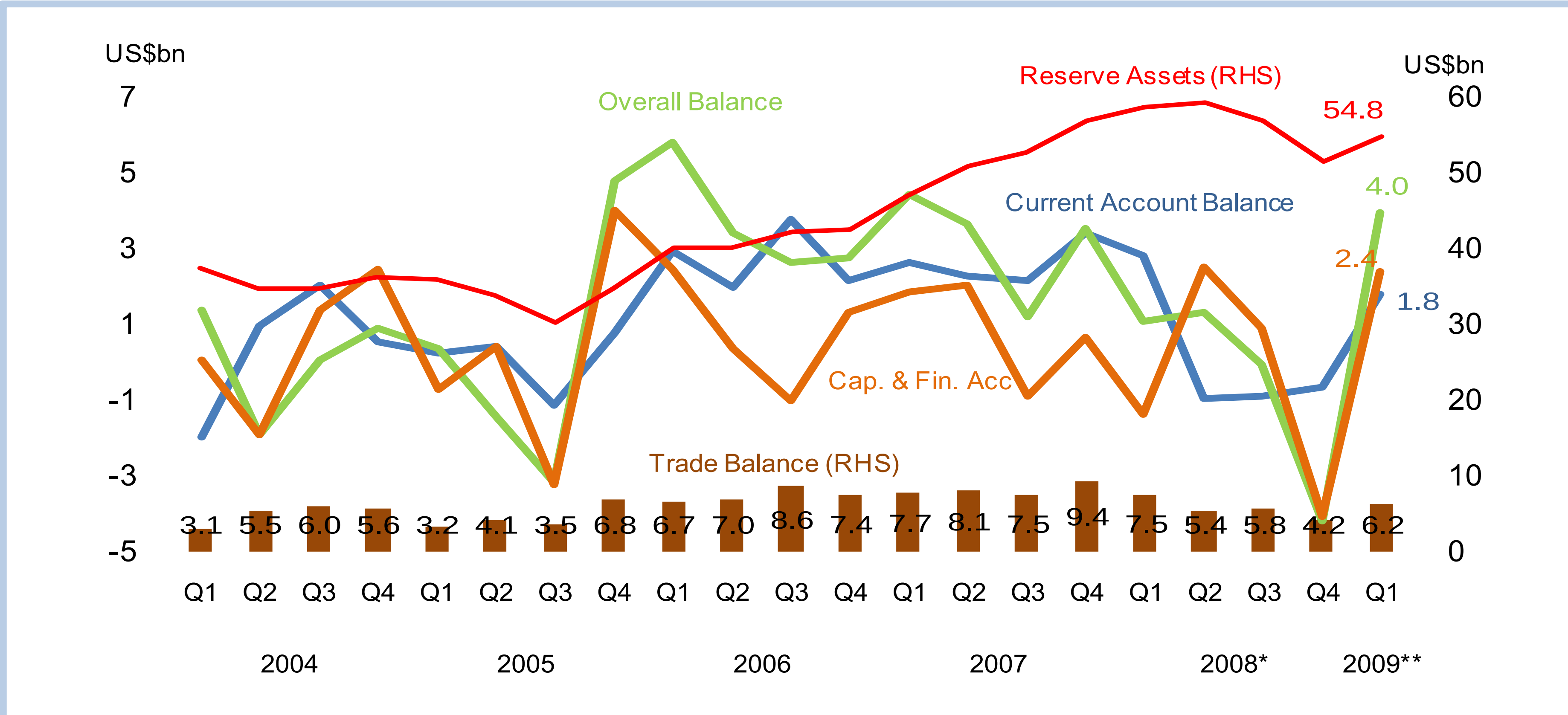


Source: Bank Indonesia.

Balance of Payments: Improved Significantly in Q1 - 2009

After sustaining considerable deficit pressure during Q4-2008, Indonesia's balance of payments improved significantly in Q1-2009 to post a US$4.0 billion surplus on the strength of performance in the current account and the capital and financial account. In accordance, international reserves increased to US$54.8 billion at end-March 2009, equivalent to 6.1 months of imports and official external debt service payments.

Balance of Payments

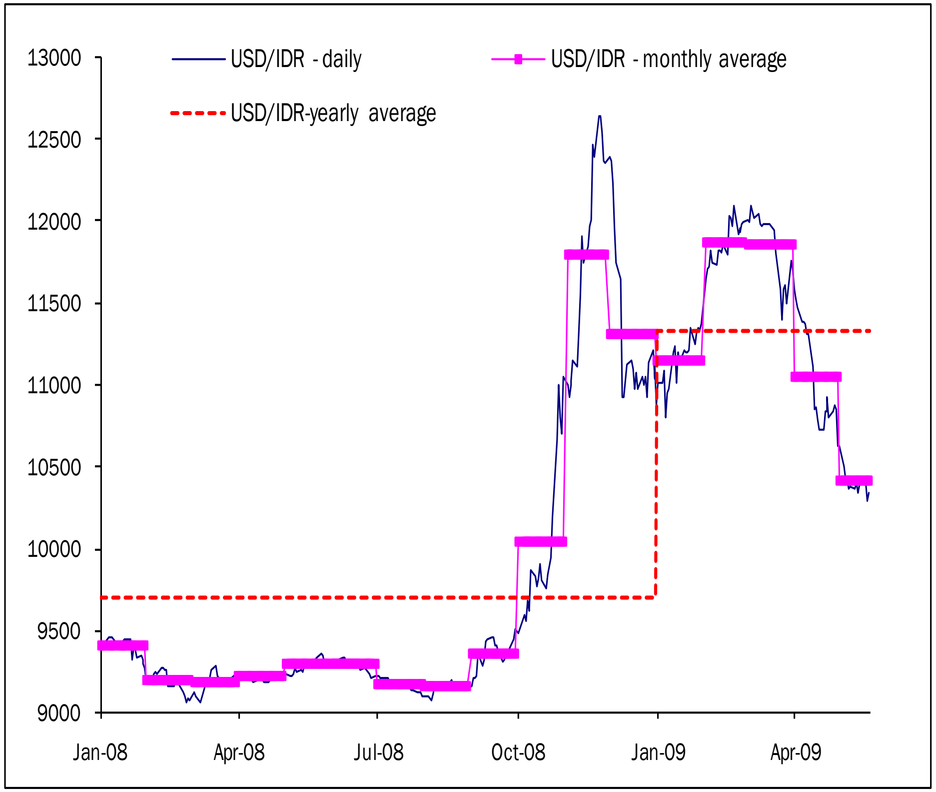


Source: Bank Indonesia

Exchange rate: Strengthened and more stable through 2009

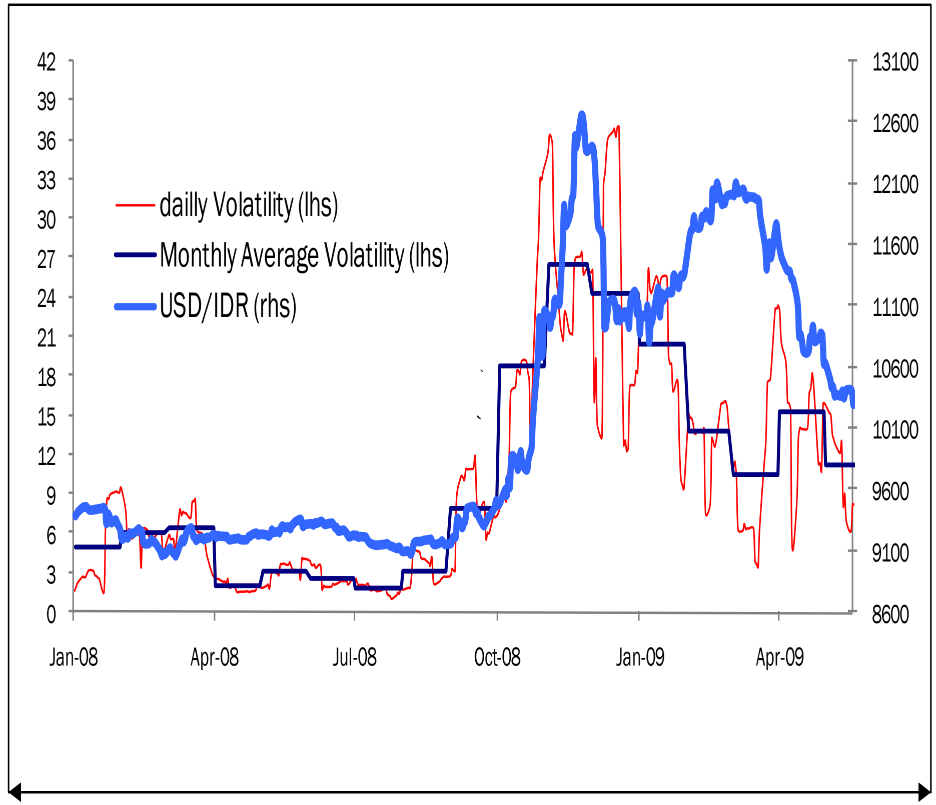
- Rupiah was significantly appreciated and more stable in 2009 as foreign investors purchased the rupiah assets such as SBI, government bond (SUN), and stock which supported IDR price asset increase.
- Rupiah strengthened 7.18% (ytd) to Rp10,375 per USD on May 29, 2009. This performance was reasonably better than other Asian currencies.

Rupiah Exchange Rate



Source: Bank Indonesia.

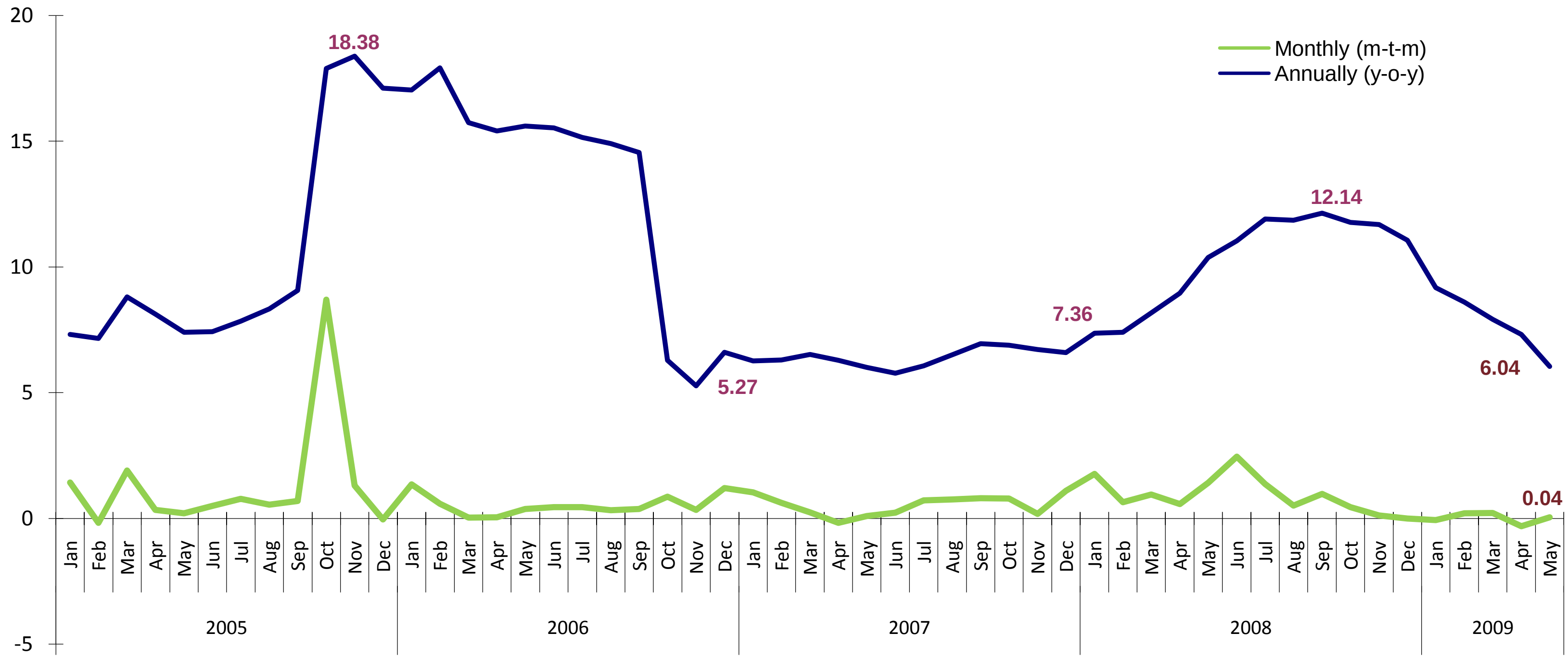
Exchange Rate Volatilities



Inflation has Been Trending Downward

- The downward trend in inflation is set to continue. Monthly inflation maintained a downward trend primarily form the first round and second round effect of the cut in fuel prices.
- In monthly CPI movement, May 2009 recorded 0.04% inflation (mtm). Measured annually, April CPI inflation reached 6.04% (yoy).
- Low annual inflationary pressure continues to ease in response to appreciation in the Rupiah and subdued price movements for staple goods.

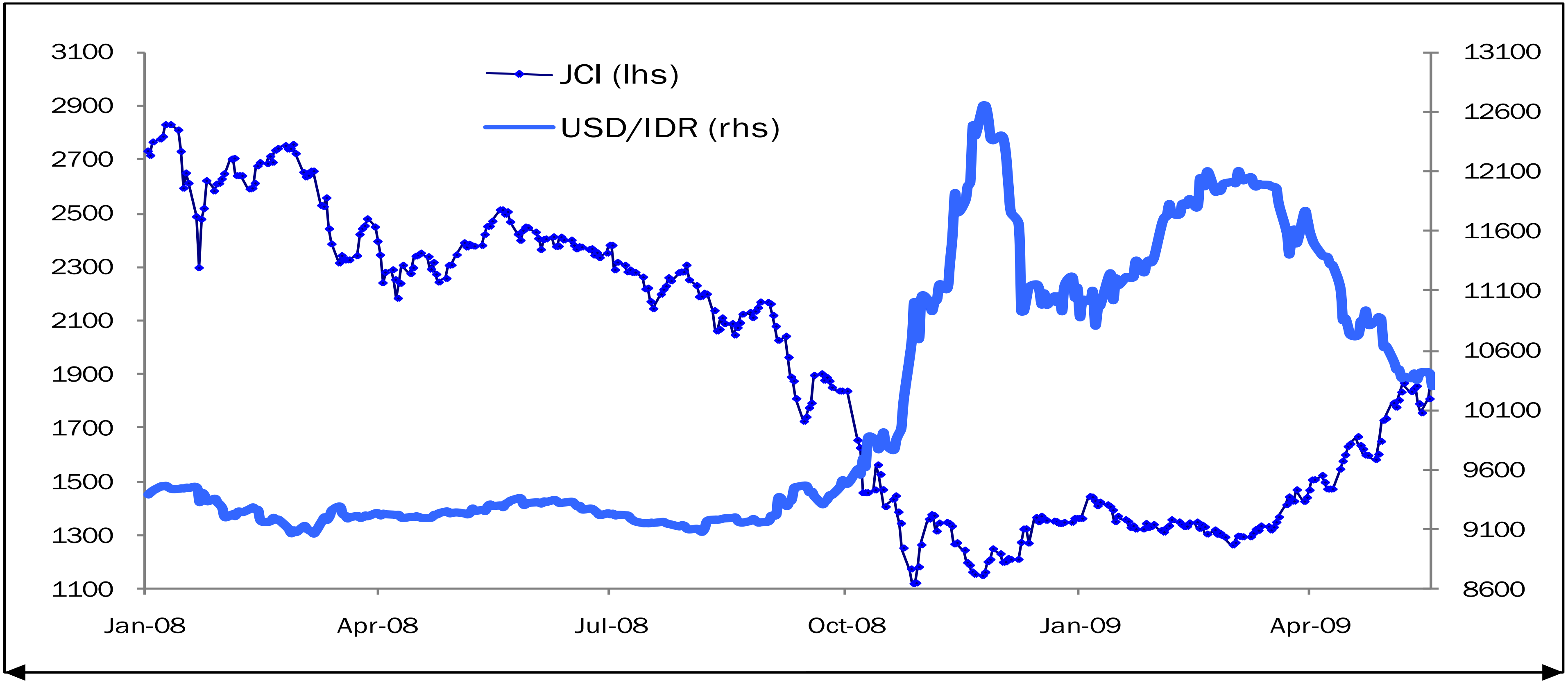
Headline Inflation Trending Down from Peak



Equity market is running well this year

- In line with the strengthening of rupiah, and the Indonesia stock market index (JCI) also rebounds.
- The stock index rose 39% from 1355 at the end of 2008 to 1886 at May 20, 2009, one of the best performing equity index in the region this year.

Exchange Rate and Equity Markets



Source: Ministry of Finance, Bank Indonesia, Bloomberg.

Dramatic slow in world economy pose significant challenges to the economy in 2009

2009 Forecast	Main Factors Behind The Forecast
GDP Growth is forecasted at about 3%-4%	• Economic growth for 2009 is estimated to moderate as external demand falls, but resilience in domestic demand could moderate the adverse effect of external demand. • With world economic growth in reverse, performance in tradable sectors are set for further decline.
Private Consumption is expected to weaken	• Weakening the external sector will diminish household earning through the income effect. • Precautionary saving as increasing uncertainty on future conditions and worker layoffs.
Private Consumption Growth is expected to still grow by around 2.8%-3.7%	• The subsequent round of activities for the election of the president will generate a further round of multiplier effects on household incomes • Rising civil servants' salary • Government policies: tax cut, reduction in corporate dividend, and increasing social expenditure: National Program for Community Empowerment, direct cash transfer.

Global Financial Uncertainties Pose Significant Challenges to the Economy (Cont'd)

2009 Forecast	Main Factors Behind The Forecast
Investment is expected to grow lower in the range of 3.4%-6%	• Downturn in exports and weakening public purchasing power • Complicated regulatory issues, technical problem in the fields, and limited source of financing
Export is expected to decline at -6.8% to -4.6%	• Further deteriorate in advanced nations such as the United States, Europe, and Japan. • The downward trend in prices for Indonesia's commodity exports • Constraint on trade financing
Balance of Payments will remain under pressure	• Falling non-oil and gas export • Surging private capital outflow as global liquidity remain tight. • Deleveraging process continue • Recent moderate contraction of economic indicators in major economies give an expectation that the crisis might be leveling-off and will potentially increase inflows and demand of export commodities.

Measures Taken to Ensure Sustainability of the 2009 Budget

Indonesia is Moving from a Defensive to Offensive Stance While Maintaining Fiscal Sustainability

Defensive Measures (Existing)

- Earmark expenditure on lower priority projects and imports
- Cutting tax rate by 2% for Corporate and Individual income tax
- Redefine "emergency situation" in State Budget Law 2009 (Article 23) to create stimulus package and contingencies deficit financing
- Increase fiscal risk provision in response to possible economic slow down
- Shift financing sources from marketable securities to contingencies financing facilities
- Prepare crisis protocol through the implementation of the "Financial System Stability Committee"

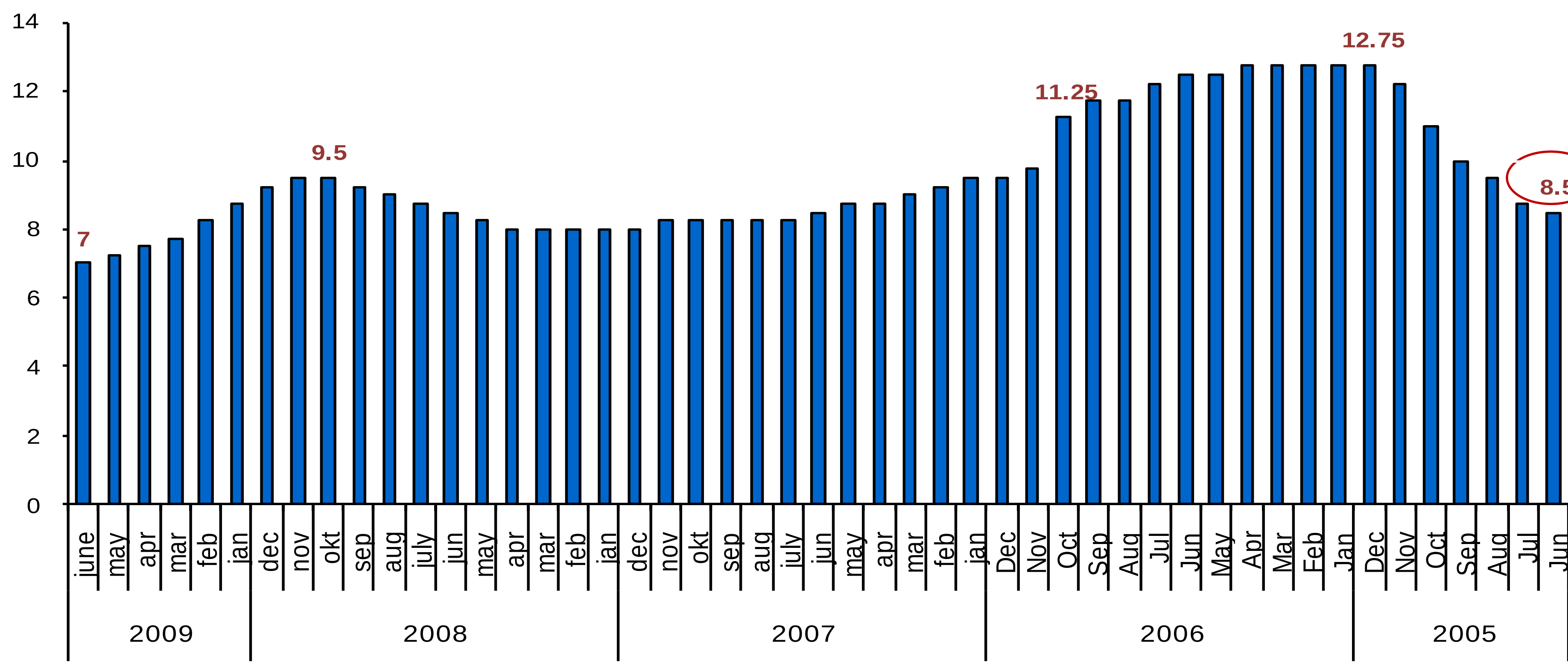
Offensive (Counter-Cyclical) Measures (New Initiatives)

- Provide more direct subsidy for medium and low income households
- Additional expenditure on infrastructure projects which have greater impact on employment creation and poverty reduction
- Introduce Tax Saving measures for Business through:
  - Additional 5% tariff reduction for >= 40% listed companies
  - Introduce tax incentives for selected sectors and regions
  - Reduce tariffs for selected sectors e.g. crude palm oil
  - Tax Subsidy on various product & Sectors/industry
- Provide discount on electricity peak-hour charge for industries and reduction of diesel fuel price
- Upsizing budget financing from bilateral and multilateral organisations

Monetary Policy Stance

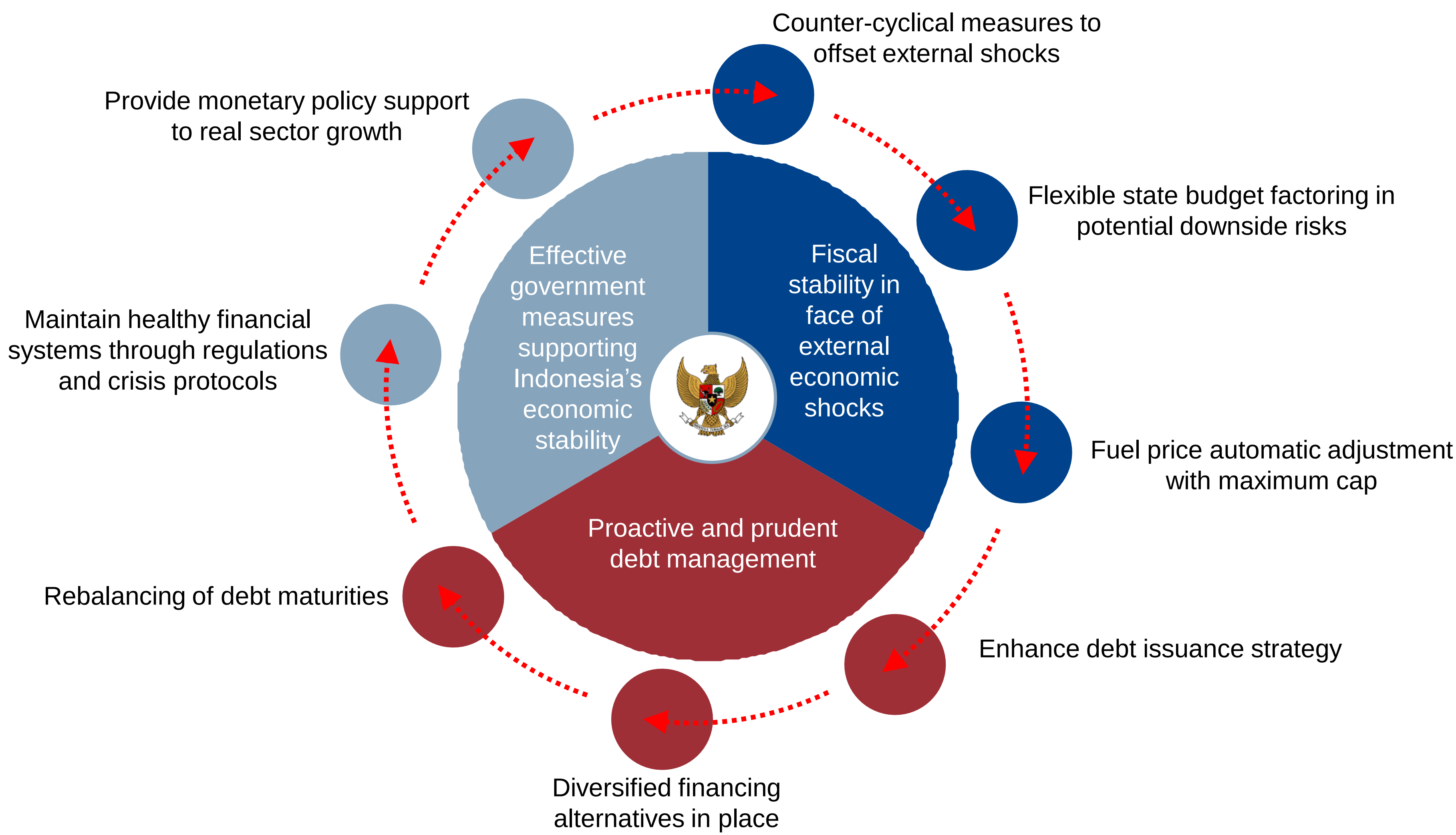
In the face of global crisis, Bank Indonesia has adopted an easing monetary policy stance to boost domestic demand in the midst of deteriorating export performance**.** Since December 2008, BI has slashed BI rate by 250 bps. Against the backdrop of downward trend of inflation and the significant slowdown of the economy going forward, the latest Board of Governors' Meeting convened in June 2009 decided to further lower the BI Rate by 25 bps to 7.00%.

BI Rate



2. Policy Agenda:
Indonesia's Response to Global Financial Crisis

Indonesia’s Policy Responses to Safeguard the Country’s Fundamentals Against the Global Financial Crisis



Crisis Management in the Financial Markets

Supporting the Banking and Capital Market Systems	• Place **government funds with state-owned banks** to increase liquidity in the banking system
	• Increase the amount of **deposits guaranteed** by the government in the banking system
	• **Strengthen the government's supervisory and enforcement capacity** over capital markets
	• Prepare **crisis protocol** (implementation of the Financial System Stability Committee)
Ensuring Foreign Exchange Stability	• **Manage state-owned enterprises' foreign exchange** transactions to reduce speculation
	• Maintain a **sufficient level of foreign exchange reserves** through trade financing facilities and prevention of illegal imports
	• **Requiring greater disclosure on large-sized purchases of foreign currency against IDR** to curb speculative pressure on IDR

Stimulating Real Sector Growth

- **Recognize the importance of monetary policy support**, as deemed appropriate for domestic conditions
  - Bank Indonesia lowered the policy rate to 8.75% in Jan-09, to 8.25% in Feb-09, to 7,75% in Mar-09, and to 7.50% in Apri-09
  - Indonesian banks have started cutting their lending rates in response to the central banks' rate cut to accelerate real sector growth

- **Accelerate the disbursement of projects** for government and state-owned enterprise

- **Implement fiscal stimulus and provide additional fiscal stimulus for household, business and job creation infrastructure projects**

- **Support for real sector and export promotion** such as government guarantees for trade financing

- Reduce fuel prices, apply an automatic premium gasoline price adjustment and provide diesel price incentives to **reduce manufacturing operational costs**

Addressing the Impact of Current Global Challenge: Bank Indonesia Policy

In response to the global crisis, Bank Indonesia enacted policies aiming to provide liquidity into the market. At the same time, BI also promulgated regulation to moderate excessive pressure on the rupiah exchange rate, and to mitigate foreign currency purchase for speculative purposes.

- **Bank Indonesia took several policies aiming to provide liquidity into the market**
  - Simplification of Rupiah Reserve Requirement calculation to only 7.5% of Third Party Fund/Bank Deposit for more adequate rupiah liquidity in the banking system, which consists of 5% statutory reserves and 2.5% secondary reserves
  - Ratio declination of foreign reserve requirements for conventional commercial and Islamic banks from 3.0–1.0% with the objective of increasing USD liquidity availability to be used by banks in their transactions with customers
  - Extended FX Swap tenor from maximum of 7 days to a maximum of 1 month. This measure was taken in the effort of fulfilling the temporary demand of USD currency and in order to provide sufficient adjustment time for banks/market players before actually adjusting their portfolio composition
  - Provide foreign currency reserves through banks for domestic companies with the objective of enhancing assurance in fulfilling foreign currency demand by domestic companies
  - Daily balance position of short-term foreign loan by abolishing the limit of daily balance position. This measure is taken with the objective of decreasing pressures in USD purchase due to transfer of rupiah account to foreign currency account by foreign customers
  - Promulgate regulation governing the transaction of export draft using rediscount scheme.
  - Increases access to banks in utilizing BI's short-term Funding Facility (FPJP) for banks encountering liquidity problems

- **Bank Indonesia also promulgated regulation to moderate excessive pressure on rupiah exchange rate, and to mitigate foreign currency purchase for speculative purposes**
  - Regulation governing the purchase of foreign currency against the rupiah through banks in order to support the balance of supply and demand condition of foreign exchange in the domestic market

Source: Bank Indonesia.

2009 Debt Management: Providing Cushions

The 2009 budget is designed to give the Government enough room to adjust to any potential impact of the global credit crisis

In response to volatile market conditions, Indonesia has embarked on the following steps for 2009:

- Providing contingencies financing facilities from bilateral and multilateral organizations and other institutional investors
- Enhance debt issuance strategy:
  - Explore new fundraising methodology including establishing a Global Medium Term Note Program and issuance via private placements and syndicated offerings
  - Shortening portfolio duration
  - Instrument diversification

Source: Ministry of Finance.
* Still in discussion.

Policy in the Real Sector: Strong Commitment to Improve Investment Climate

The following actions have been taken as part of the government drive to improve the investment climate:

1) **To accelerate the clearance process for exported and imported merchandise**, improvements have been made to the quality of transportation access from industrial estates to the port area, such as the widening of a 2 km stretch of Jalan Raya Cibarusah and the 248.5 meter Cikarang Flyover construction

2) **To strengthen public services in support of foreign trade**, mandatory use of the NSW Import system was introduced on 23 December 2008 for all importers and shipping agents in the Tanjung Priok Port (Jakarta) and Tanjung Emas Port (Semarang). The NSW Import System has also been introduced on a limited basis for designated importers and shipping agents at Tanjung Perak Port (Surabaya), Belawan (Medan) and the Soekarno-Hatta Airport (Jakarta)

3) **To prevent illegal transhipment/circumvention**, 750,000 Certificates of Origin have been automatically issued to various countries

National Industrial Policy Promulgated

- On 7 May 2008, The Government Promulgated **Presidential Regulation No. 28 of 2008 on National Industrial Policy (NIP)**, with a vision that by year 2025 Indonesia will have a competitive, world class manufacturing sector of unabated growth that will be the prime mover of the economy
- The Regulation sets out the direction for "National Industrial Development up to year 2025" which is focused upon the establishment of two industrial basis for the nation
  1) **Manufacturing Industry Basis:** Petrochemical, steel, capital goods, textile, electronics, as well as certain small and medium scale industries
  2) **Potential Master Industries:** Agro-business, transportation, and internet communication & technology (ICT)
- Based on the NIP, highest priority will be given to export orientated industry, industry which provides job opportunities and/or significantly supporting infrastructure development, poverty alleviation, and enhance state defense industry
- The NIP set rules on the provision of fiscal or non-fiscal facilities to be extended to priority industries, pioneer industries, industries located in remote areas, innovative industries, industries carrying out infrastructure development, industries that are focused on technology transfers, and industries that open up job opportunities
- The NIP will guard a **fundamental change in the structure of the Indonesian economy** from traditional agriculture being the most significant contributor to a more diverse and high technology agro-business cluster. It will also shift in the country's major exports from textile and forest products to stainless steel, motors and motor vehicles, electronics, and basic chemicals
- The regulation also imposes the Minister of Industry the task of compiling the "Road Map to 2025"

New Regulation Concerning Mineral and Coal Mining

- **Law of the Republic of Indonesia No. 4 of 2009** concerning Mineral and Coal Mining ratified on January 12, 2009
- The Law provides a clearer and transparent process of investing through tender process
- The requirement to process raw materials domestically creates new business opportunities

Regulations Concerning Energy Resilience

In energy resilience, Government actions include the following:

1) **To strengthen investment in the oil, natural gas and mining sector**, revisions have been made to several regulations of the Minister of Energy and Natural Resources concerning Oil and Natural Gas Extraction. The published regulations are:
   a. Energy and Natural Resources Minister Regulation No. 2/2008 concerning Supply of Domestic Oil and Natural Gas Requirements by Production Sharing Contractors
   b. Energy and Natural Resources Minister Regulation No.22/2008 concerning Guidelines and Procedure for Consumer Protection in Downstream and Oil and Gas Business
   c. Energy and Natural Resources Minister Regulation No.19/2008 concerning Upstream Oil and Natural Gas Expenses Not Refundable to Contractors

2) **Concerning the programme for accelerated development of alternative energy sources**, the Energy Resources Technical Committee of the Directorate General of Electricity and Energy Utilisation has approved the Blue Print for National Energy Management for 2006-2025

Intensive Efforts to Address the Key Concerns of Investors

- **Strong commitment to fight corruption**
  - Indonesian's corruption score based on survey by Political & Economic Risk Consultancy (PERC) has improved to 7.98 from 8.03 last year. This new score has placed Indonesia ahead of the Philippines and Thailand
- **Improvement in business climate**
  - Indonesia moved up 10 places in the World Bank's Doing Business survey to 123rd in 2008 from 133rd in 2007. The largest improvements were seen in dealing with licenses, paying taxes and trading across borders
- **New Presidential Decree on Economic Focus Program (Presidential Decree No.5 of 2008)**
  - The Regulation has become effective since the day of its issue on the 22nd of May 2008. The main objectives are to revive growth and investment through
    1) Further improvement on investment climate
    2) Acceleration of Infrastructure Development
    3) An enhancement of the financial sector and state owned enterprises reform
    4) Integrating Energy Security for competitiveness
    5) Employment Regulation Reform
    6) Environment Protection
    7) SME sector reform
    8) Comprehensive Preparation toward ASEAN Economic Community 2015

2. Bank Indonesia Monetary and Banking Policy

Economic Growth of 6.1% in 2008

GDP Growth by Expenditure (%, yoy) at Constant Price (Base Year 2000)

Component	2003	2004	2005	2006	2007	2008
Gross Domestic Product	**4.8**	**5.0**	**5.7**	**5.5**	**6.3**	**6.1**
Private Consumption	3.9	5.0	4.0	3.2	5.0	5.3
Government Consumption	10.0	4.0	6.6	9.6	3.9	10.4
Investment	0.6	14.7	10.9	2.6	9.4	11.7
Export of Goods and Services	5.9	13.5	16.6	9.4	8.5	9.5
Import of Goods and Services	1.6	26.7	17.8	8.6	9.0	10.0

- During 2008, the economy was able to maintain strong growth amid the global economic slowdown. The economy grew by 6.1% (yoy) on the back of export, investment and consumption
- Household consumption remained strong in 2008, about 5.3%, and outpaced post-Asian crisis historical average of 3.9%. This growth was facilitated by strong credit growth and stable exchange rate. Public purchasing power remained stable although the Government increased the subsidized fuel prices in May 2008.
- Investment saw more vigorous compared to 2007. The high investment growth was due to high export and consumption growth and stability of rupiah.
- Soaring export of goods and services growth mainly support by higher commodities prices

Source: Bank Indonesia, BPS.

Economic growth - Q1 2009: Point to a slowing trend

- The economic slowdown in the preceding quarter carried forward into Q1/2009. GDP growth in Q1/2009 is significantly below preceding quarters at 4.4% yoy.
- The softening GDP growth is largely the result of sharply falling export in line with the deterioration in global economic condition and weakening public purchasing power.
- However consumption is higher than expected. This is in line with the realization of the high expenditure associated with the general election activities. A gradually decrease on inflation pressure, realization of direct cash transfer at the end of Q1/2009 and fiscal policy such as tax cut and increase on Provincial Minimum Wage in several big cities would encourage consumption as well.

Strong Growth in the Last Two Years

Component	Unit	2009	
		Q1	Whole Year*
Total GDP	% yoy	4.4	3.0-4.0
By Expenditure			
Private Consumption	% yoy	5.8	2.8-3.7
Government Consumption	% yoy	19.3	9.9-11.5
Investment	% yoy	3.5	3.4-6.0
Export of Goods and Services	% yoy	(19.1)	(6.8)-(4.6)
Import of Goods and Services	% yoy	(24.1)	(7.4)-(4.8)

Source: BPS, Bank Indonesia

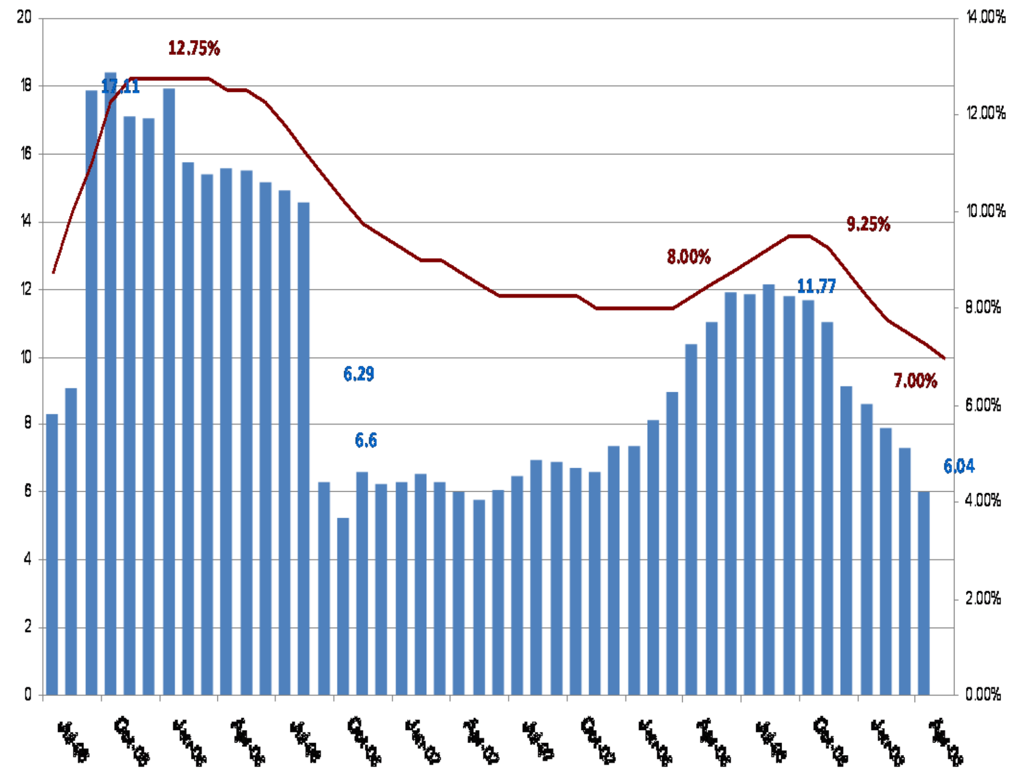
** BI's Projection*

Current Monetary Policy

Starting December 2008, BI lowered the BI Rate, as the impact of global economic crisis on Indonesian economy was becoming visible.

- BI is focusing on support for economic growth while maintaining a prudent stance, with close monitoring of impact on stability and achievement of the inflation target.
- Inflation is expected to continue with downward trend. Core inflation and volatile food will continue to contribute to waning inflation pressure due to lower commodities prices and adequate food production.
- Annual inflation in May 2009 was 6.04% much lower than 11.06% in 2008

BI Rate & CPI Inflation



Source: Bank Indonesia, BPS.

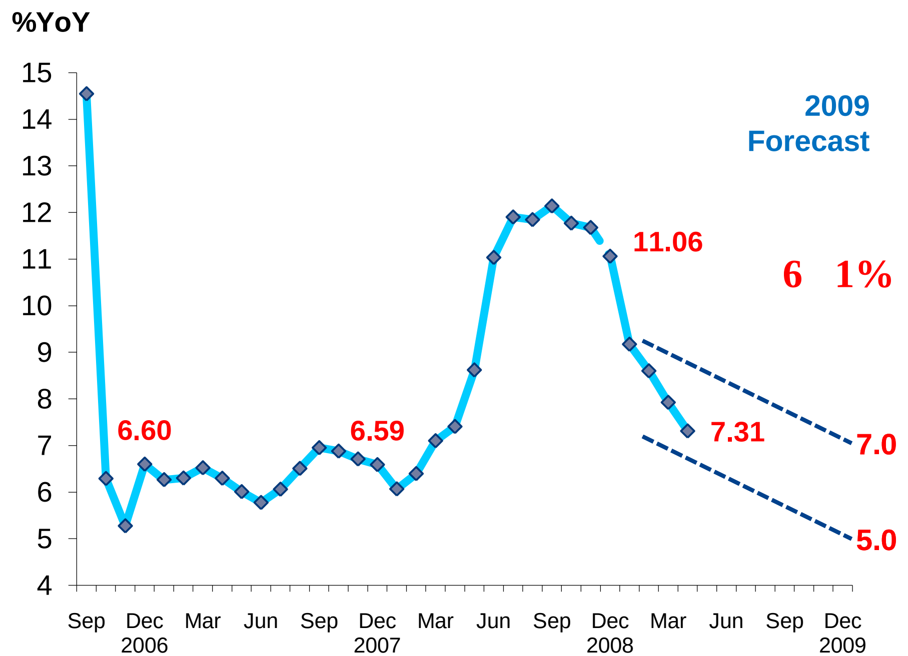
Latest Macroeconomic Indicators

Indicators	Unit	2007	2008	Q1 2009
External				
World GDP	% yoy	5.1	3.2	-0.5
World Trade Volume	% yoy	7.2	3.5	-3.6
Oil Price	USD/bbl	70.1	93.5	41.6
Non-Oil Commodity Price	% yoy	14.9	12	-19.4
6 month USD LIBOR	%, pa	5.3	3	1.6
Gross Domestic Product		6.3	6.1	4.3-4.8
Private Consumption	%yoy	5	5.3	4.3-5.0
Government Consumption	% yoy	3.9	10.4	8-13.1
Investment	% yoy	9.4	11.7	5-6.5
Exports of Goods and Services	% yoy	8.5	9.5	(-6) - (-9)
Imports of Goods and Services	% yoy	9	10	(-8) - (-12)
Balance of Payments				
Current Account	% GDP	2.4	-0.2	0.5
Capital and Financial Account	% GDP	0.8	-0.5	1.9
Overall Balance	% GDP	2.9	-0.4	3.1
International Reserves	USD bn	56.9	51.6	54.8
Fiscal				
Budget Surplus/Deficit	% GDP	-1.3	-0.1	0.2 (Jan-Feb)
Rupiah Exchange Rate (average)	IDR/USD	9,140	9,666	10.440
CPI	% yoy	6.6	11.1	7.9
BI rate	%, pa	8	9.25	7.0 (June)
Credit Growth	% yoy	25.5	29.5	27.6 (Feb)
Composite Index	1983 = 100	2,746	1,355	1,434

Monetary Policy Outlook

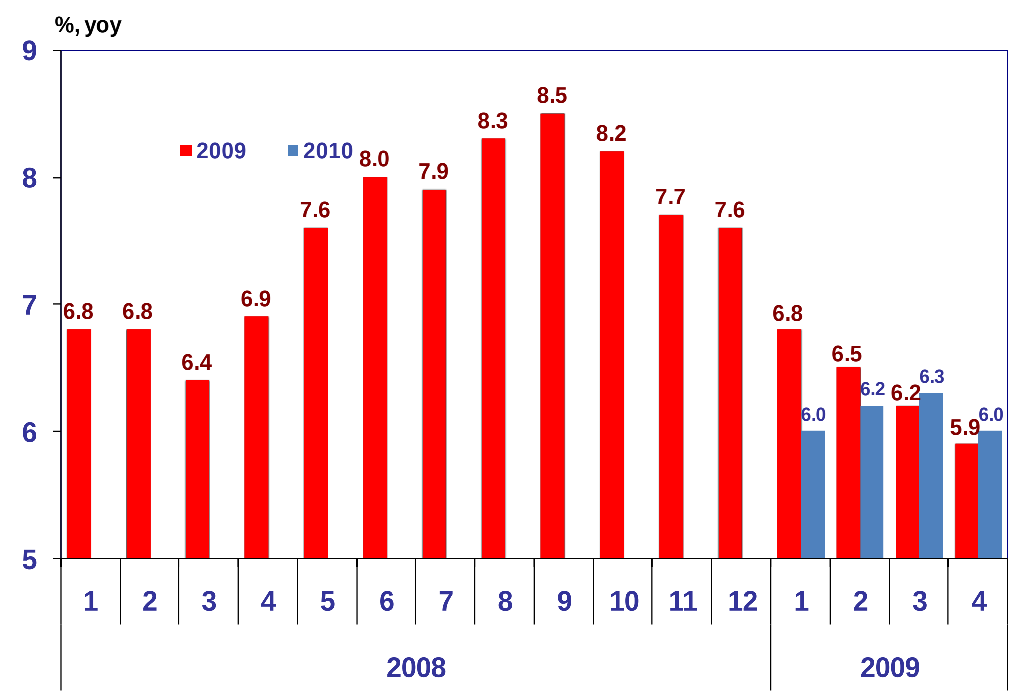
- Looking forward, Bank Indonesia will continue to closely monitor macroeconomic development, including inflation trend. The continued decline in inflation trend and slowdown in domestic economy creates room for further interest rate cuts, although we remain vigilant in light of recent rebound in the global commodity prices.
- Bank Indonesia will also maintain a steady course with pro-growth policies while safeguarding macroeconomic and financial system stability. Those policies also need to operate in synergy with the Government fiscal stimulus to ensure that action taken will achieve the desired objective of improvement in economic conditions.

CPI Inflation Forecasts



Source: Bank Indonesia.

Inflation Expectation – Consensus Forecast



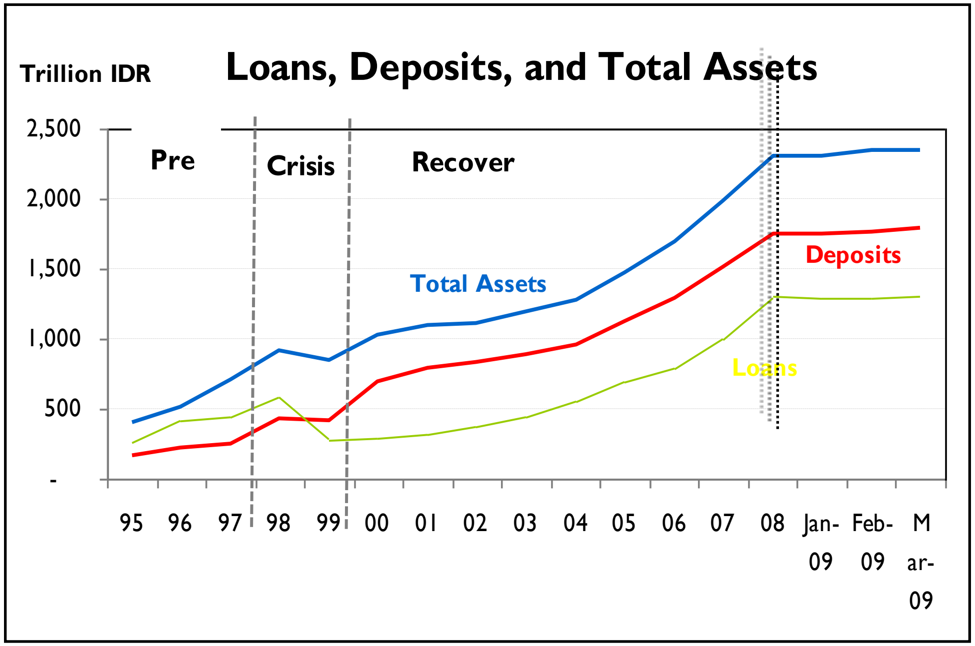
Performance of Selected Indicators

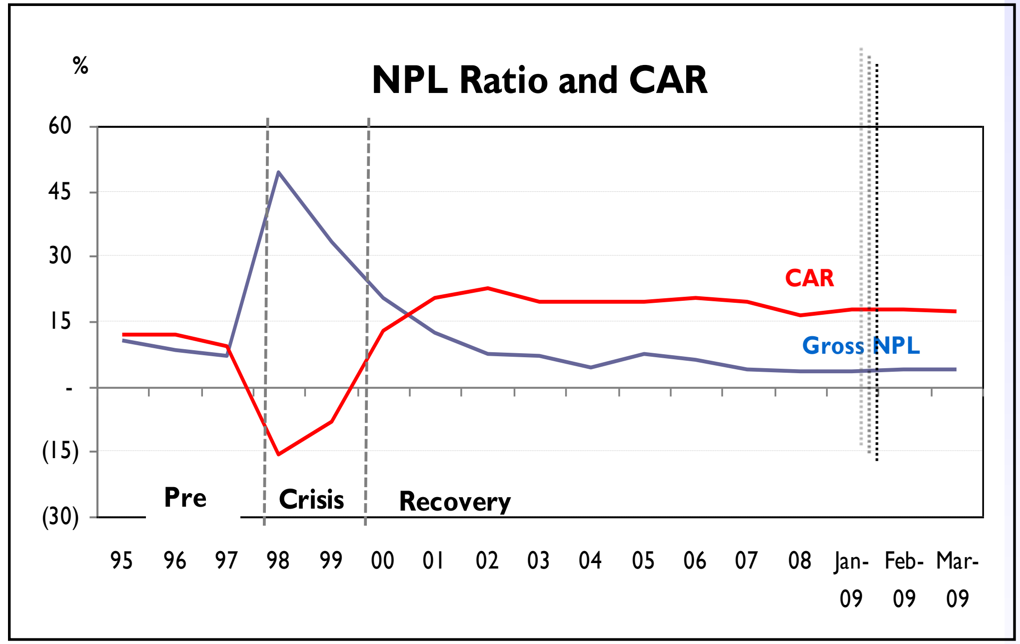
Indicators	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Mar-09
Total Asset (T Rp)	1,272.3	1,469.8	1,693.5	1,986.5	2,310.6	2,352.1
Deposits (T Rp)	963.1	1,127.9	1,287.0	1,510.7	1,753.3	1,786.2
Credit (T Rp)	595.1	730.2	832.9	1,045.7	1,353.6	1,342.1
BI Certificates (T Rp)	94.1	54.3	179.0	203.9	166.5	208.1
BI Placement Facility (T Rp)	36.8	53.1	38.6	46.8	71.9	46.8
Securities (T Rp)	348.1	350.5	342.9	350.2	358.5	374.0
Capital Adequacy Ratio (%)	19.36	19.5	20.5	19.3	16.2	17.4
Gross NPL (%)	5.75	8.3	7.0	4.6	3.8	4.5
Net NPL (%)	1.72	4.8	3.6	1.9	1.5	1.9
Return on Assets (%)	3.5	2.6	2.6	2.8	2.3	2.8
Loan Deposit Ratio (%)	61.8	64.7	64.7	69.2	77.2	75.1
Number of Banks	133	131	130	130	124	123

The Indonesian banking industry is:

- Well-capitalized: CAR levels are above 17.4% (March 2008)
- Experiencing a slight decrease in asset quality: NPL levels have recently increased (March 2009 data shows that Net NPL increases to 1.9%--still well below the 5% threshold)
- Well Managed: Good Corporate Governance requirements (i.e., Fit & Proper Tests, Compliance Directors, Independent Commissioners, and Financial Transparency).
- Profitable: ROA levels are maintained (2.8% for March 2008)
- Liquid: Placements in BI Certificates and Securities (including Government Bonds) are increasing

Credit, Deposit, NPL, and CAR





- Credit growth has slowed down to 24% (yoy, March 2009). During the same period of last year (March 2008) credit growth reached 28% (yoy) and peaked at 37% (yoy) in October 2008.
- Deposit growth is at 21.8% (yoy, March 2009). This is higher than last year’s 13.5% (yoy, March 2008)
- Overall, the banking industry’s current situation is much better than that of during the 1997/1998 Asian crisis

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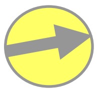
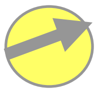
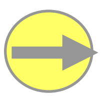
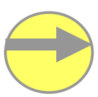
Risk Profile: Cautiously Watched

Risk/Performance	Level	Outlook
Liquidity Risk 	**Relatively stable -** the *liquid asset to non core deposits* ratio of March 2009 is 109.8%. Although slightly decreasing from February's 111.2%, liquidity is still relatively adequate. The slight drop is due to banks' recent need for liquidity.	**Relatively stable** as banks have relatively adequate levels of liquid assets. However, potential liquidity pressures remain as majority of liquid assets are held by major banks.
Market Risk 	**Moderate** - pressures from interest rate risk, government bond (SUN) price risk, and exchange rate risk are relatively controllable and tends to decrease. This is attributed to the dropping interest rates, increase in SUN price, and strengthening in rupiah.	**Potentially increasing** as uncertainty in the global financial markets persist.
Credit Risk 	**Moderate** - As of March 2009 credit quality continues to decrease as reflected by increasing NPL (both nominal and ratio)	**Potentially increasing** as economic prospects remain bleak.
Profitability 	**Relatively stable -** NII remains positive, increasing by Rp13.4 T during March 2009. Consequently, ROA levels increase from 2.6% to 2.8%.	**Potentially suppressed** as credit quality starts to suffer while the economy is predicted to remain as is.
Capital 	**Relatively high** - CAR levels as of March 2009 reached 17.4%, or dropping slightly from its previous month's of 17.7%. The slight drop is particularly attributed to the increase of credits in March 2009.	**Potentially suppressed** as there is potential pressure to profitability due to increases in NPL levels.

Prudential Response to The Crisis

- The issuance of the following Government Regulations in Lieu of Law on:
  - Amendment of the Bank Indonesia Law
  - The Deposit Guarantee Agency (deposit guarantee coverage increased from Rp100 million to Rp2 billion for each customer per bank)
  - Financial Safety Net
- In maintaining macro economic stability, Bank Indonesia has put the following as its focus:
  - Reducing rupiah volatility by means of:
    - market intervention
    - developing forex swap transactions
  - Maintaining adequate liquidity
  - Building inflation expectations which support the inflation target
- Measures taken by Bank Indonesia include among others:
  - Simplifying and reducing the minimum Reserve Requirement
  - Extending foreign exchange swap periods to increase Open Market Operations effectiveness
  - Broadening access of Bank Indonesia's Short Term Funding Facility to more banks in need
  - Ensuring that foreign exchange is available for domestic businesses in need of foreign exchange for non-speculative purposes

The Indonesian Banking Industry Ahead

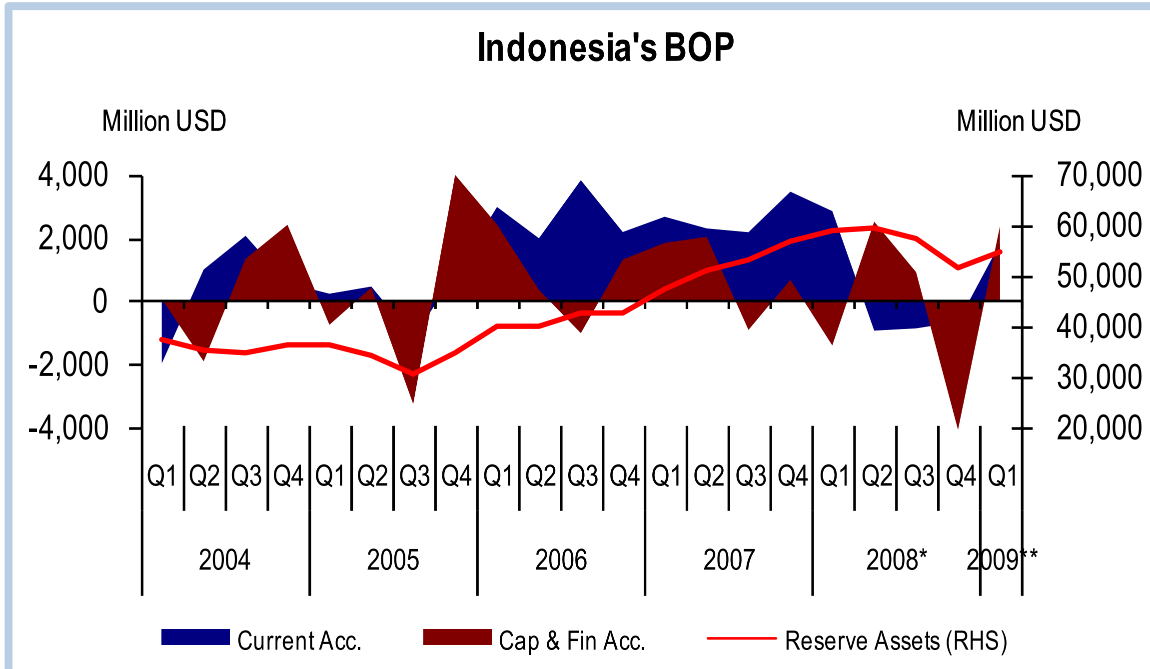
- Banking consolidation remains a priority in strengthening the industry and is currently on-going.
- Prudential measures are improved to ensure the banking industry is able to safely weather the global crisis while providing adequate support to economic growth.
- Regulatory steps to improve bank transparency, strengthen the effectiveness of liquidity risk management and derivative products will be given priority

5. Balance of Payments: Q1 - 2009 Performance

Balance of Payments: Q1 – 2009

Overall Balance and Current Account

Indonesia's Balance of Payments (BOP) in Q1-2009 improved and posted a surplus of USD4.0 billion compared to a deficit of US$4.2 billion in the preceding quarter. In line with that, the official reserves increased from US$51.6 billion at end of December 2008 to US$54.8 billion (equivalent to 6.1 months of imports and official debt service payments) at end of March 2009.



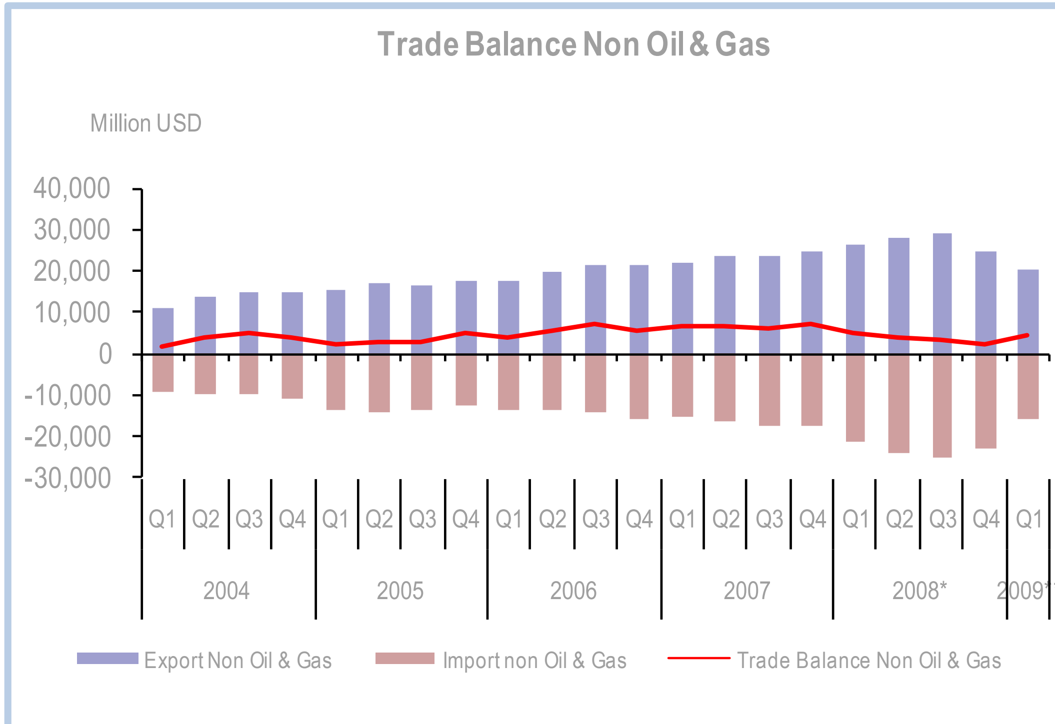
The current account registered a surplus of US$1.8 billion, better than a deficit of US$0.7 billion in the previous period. Key to this improvement was an increased surplus in the non-oil and gas trade balance and a reduced deficit in the oil trade balance and services account.

Source: Bank Indonesia

Balance of Payments: Q1 – 2009

Trade Balance: Non-Oil & Gas

Surplus on non-oil and gas trade balance increased in Q1-2009 to US$4.6 billion (Q4-2008: US$2.2 billion surplus). The more robust surplus in the non-oil and gas trade balance resulted from steeper decline in non-oil and gas imports (-26.7%, y.o.y) compared to exports (-23.3%, y.o.y) in the same category.



Source: Bank Indonesia

Trade Balance: Growth of Non-Oil & Gas Exports

It is worth noting, however, that the rate of decline in the non-oil and gas exports was slowing down on the month-to-month basis, with renewed improvement in some export commodity prices and still considerable demand for copper and coal from some Asian economies.

Source: Bank Indonesia

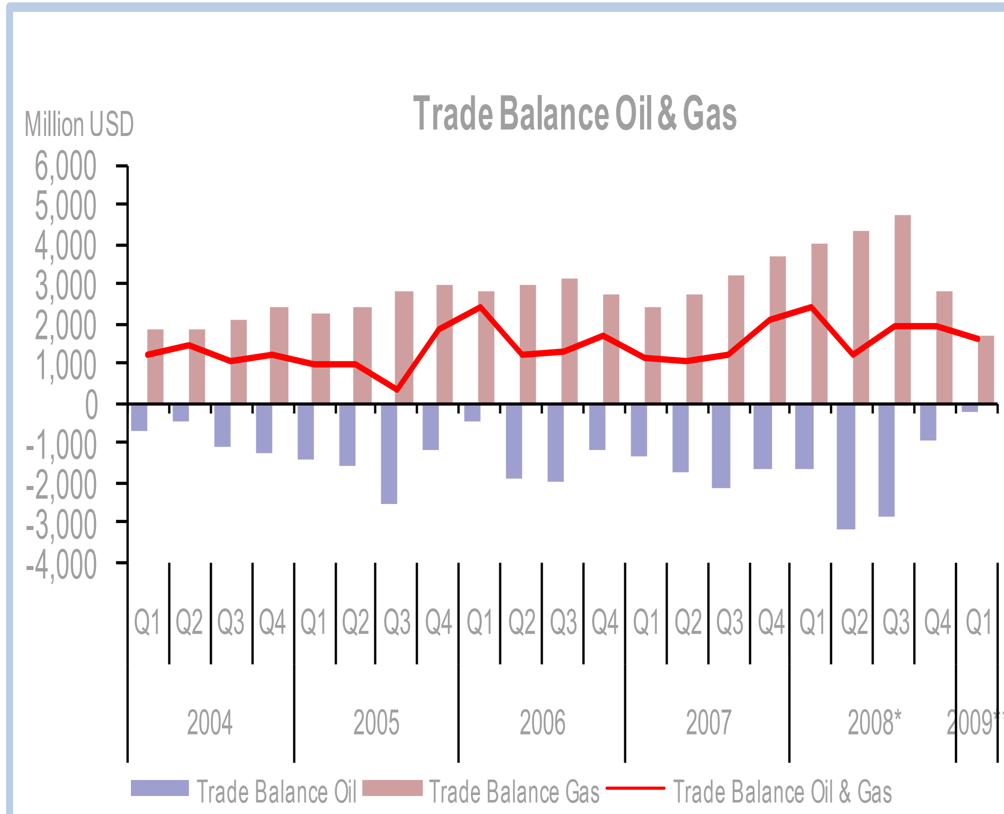
Balance of Payments: Q1 – 2009

Trade Balance: Oil & Gas

In the oil trade balance, falling oil imports were key to the reduced deficit. Oil imports were down in response to a sharp drop in oil-based fuel consumption caused by slowing economic growth and the ongoing conversion programme to replace oil-based fuels with gas and coal.

In contrast to the improvement in oil trade balance, **the gas trade balance surplus decreased** as export volume (LNG) decreased and its price descended in line with the oil price movements.

Taken together, the oil and gas trade balance surplus decreased from USD2.0 billion in Q4-2008 to USD1.6 billion in Q1-2009.



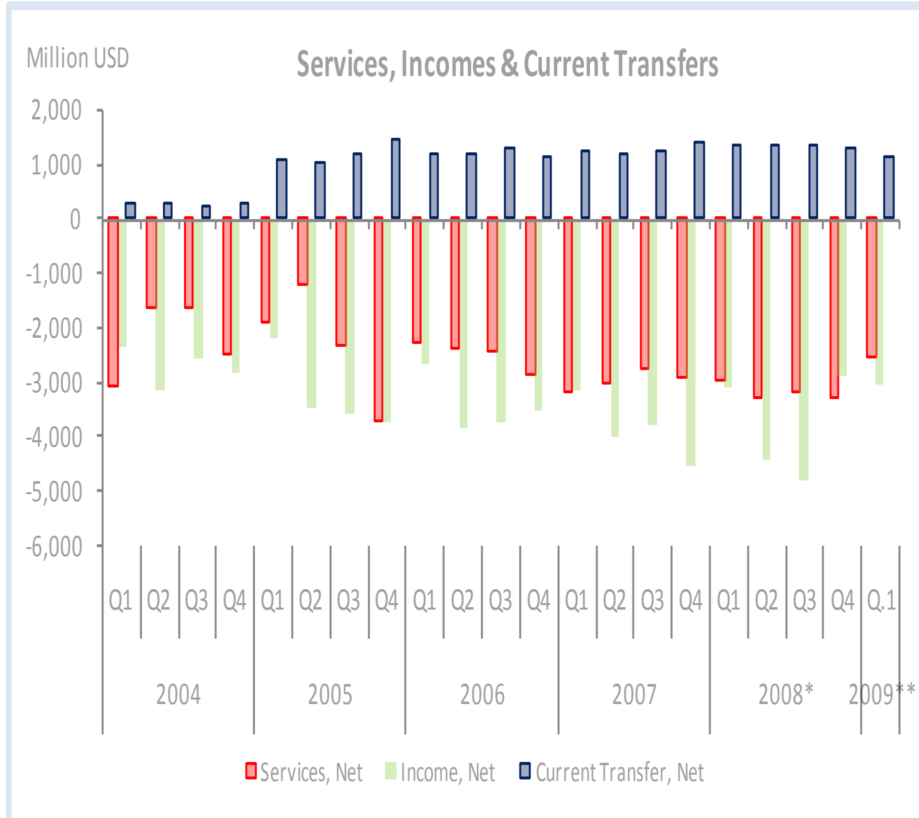
Source: Bank Indonesia

Balance of Payments: Q1 – 2009

Services, Income, and Current Transfers

Services account deficits decreased significantly while income deficit increased and current transfer surplus declined.

- Services account recorded a US$2.5 billion deficit in Q1-2009 (Q4-2008: USD3.3 billion deficit). The steep drop in imports paved the way for reduced spending on freight services, which in turn helped to trim the services deficit.
- Income account posted a US$3.0 billion deficit in Q1-2009 (Q4-2008: USD2.9 billion deficit) as profit transfer by direct investment enterprises and interest payments on debt securities increased.
- The surplus in current transfers decreased from US$1.3 billion in Q4-2008 to US$1.1 billion in Q1-2009 as inflows of workers' remittances declined following economic slowdown in some Asian and Far East countries.

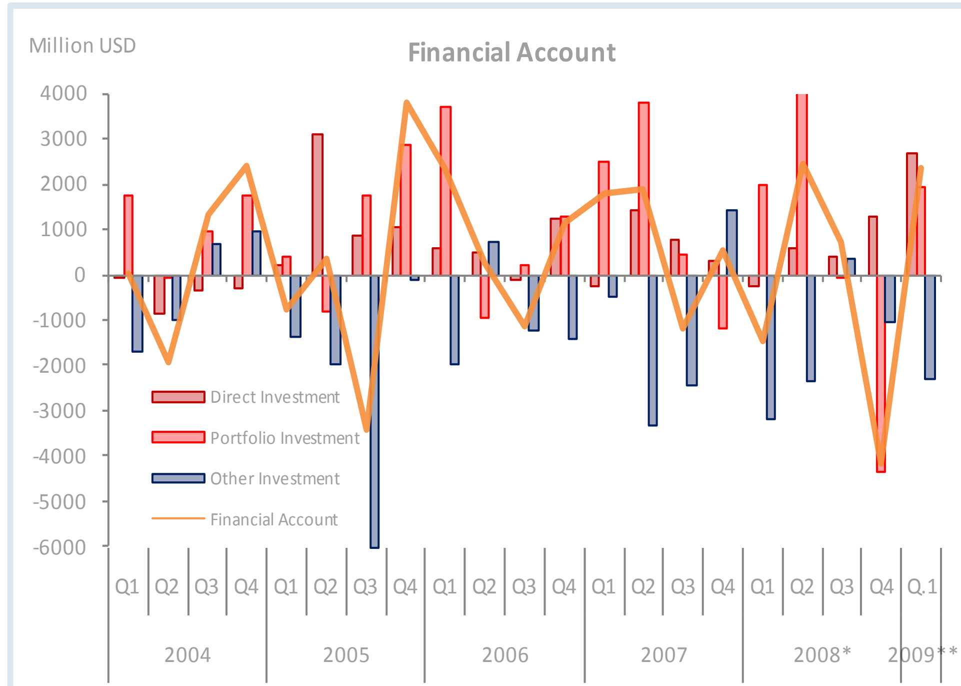


Source: Bank Indonesia

Balance of Payments: Q1 – 2009

Financial Account

The financial account in Q1-2009 posted a surplus of USD2.3 billion compared to a deficit of US$4.1 billion in Q4-2008. This improvement was driven by surpluses in direct investment and portfolio investment.

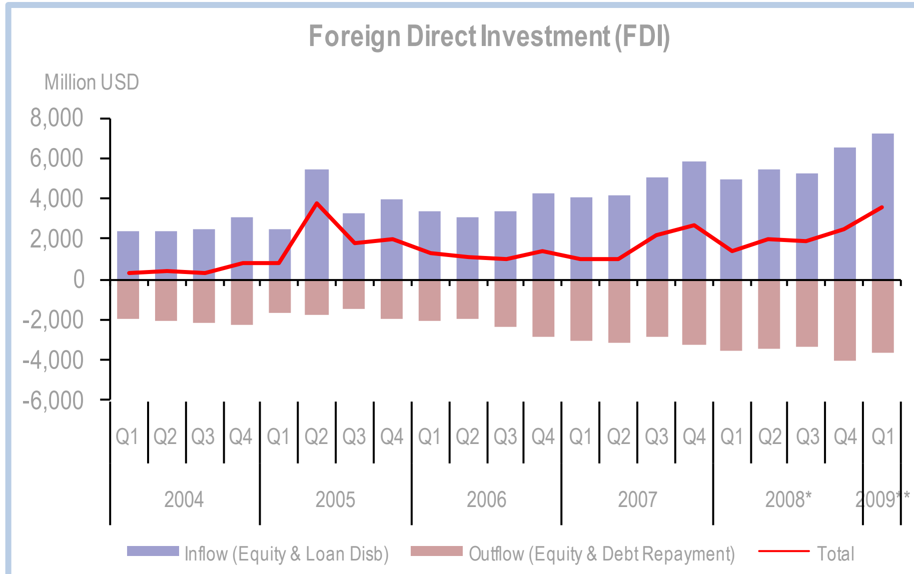


Source: Bank Indonesia

Balance of Payments: Q1 – 2009

Financial Account: Foreign Direct Investment

Foreign Direct Investment (FDI) posted a surplus amounted to USD3.5 billion, larger than a surplus of USD2.5 billion in the preceding quarter. The increased surplus was bolstered primarily by higher investment in the oil and gas sector and acquisitions in the telecommunications sector.

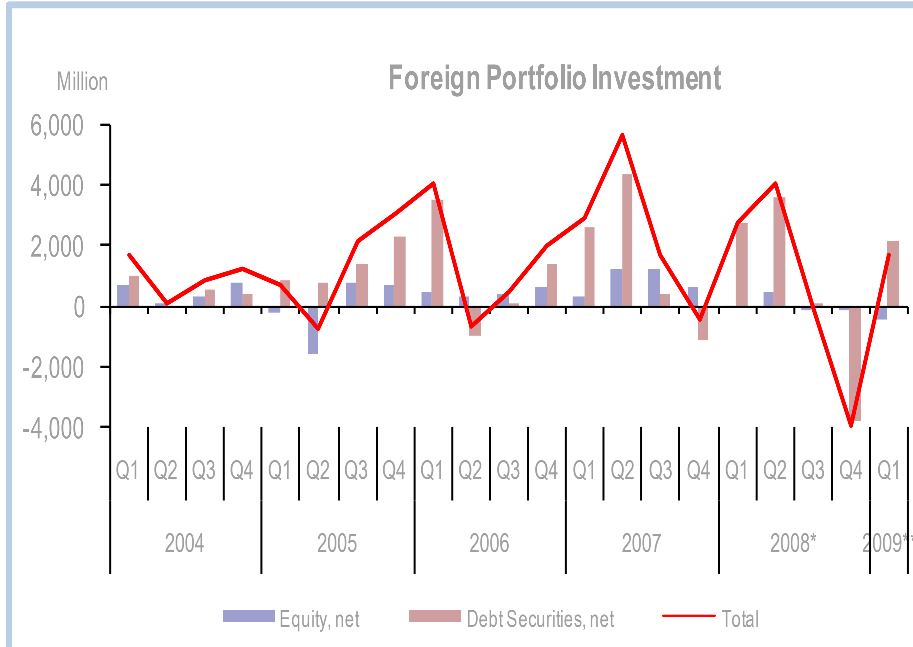


Source: Bank Indonesia

Financial Account: Foreign Portfolio Investment

Foreign portfolio investment posted a surplus of USD1.7 billion in Q1-2009 (Q4-2008: USD3.9 billion deficit), generated largely from issuances of foreign currency government bonds.

Portfolio investments excluding foreign currency government bonds continued to record net outflows, albeit less than in the preceding quarter. Supporting this was the onset in March 2009 of renewed foreign investor interest in rupiah-denominated securities, led by Bank Indonesia Certificates (SBIs), rupiah-denominated Government Securities and shares.



 Source: Bank Indonesia

5. Fiscal Sustainability:
2009 State Budget and Fiscal Stimulus

2009 Budget with Safety Net and Crisis Prevention Mechanism

The 2009 budget is designed to give the Government enough room to adjust to any potential impact of the global credit crisis

Assumptions on Macroeconomic Indicators

	Original	Adjusted		Original	Adjusted
GDP Growth Rate	6.0%	4 - 4.5%	Average IDR/USD	9,400	11,000
Average Inflation Rate	6.2%	5.0% - 6.0%	Average oil production	960,000 barrels/day	960,000 barrels/day
Interest Rate on 3-month Short-term SBI	7.5%	7.5%	Average ICP	US$80/barrel	US$45 – US $60 /barrel

2009 Budget (in USD)

Expenditure

	Original	Adjusted
Central Government's Own Expenditure	$76.2bn	$62.3bn
Capital and Recurrent Expenditure	$32.3bn	$27.6bn
Debt Interest Service	$10.8bn	$10.1bn
Total Subsidy	$17.7bn	$11.2bn
Others	$15.4bn	$13.4bn
Transfers to Regional Governments	$34.1bn	$27.6bn
Total Expenditure	$110.3bn	$89.8bn
Total Expenditure as % of GDP	*19.47%*	*18.01%*
Memo: Stimulus spending	$ 1.3bn	$ 1.9bn

Revenue

	Original	Adjusted
Domestic Revenue	$104.8bn	$77.1bn
Tax Revenue	$77.2bn	$60.2bn
Non-tax Revenue	$27.5bn	$16.9bn
External Grants	$0.1bn	$0.1bn
Total Revenue	$104.9bn	$77.1bn
Total Revenue as % of GDP	*18.50%*	*15.46%*

Budget Deficit

	Original	Adjusted
Budget Deficit	-$5.5bn	-$12.7bn
Budget Deficit as % of GDP	*1.00%*	*2.50%*

Assumption:
1 USD = IDR 9,400 for Original Budget,
1 USD = IDR 11,000 for Adjusted Budget

Source: Ministry of Finance.

Rationale Supporting the 2009 Budget

- Adjust macroeconomic assumptions:
  - Economic growth: From 6.0% to 4.0 - 4.5%
  - IDR/USD: From 9,400 to 11,000
  - World oil price: From 80 to US$ 45 – US$ 60 per barrel

- Revenue projected to be 26 % lower than original budget
- Accelerate expenditure disbursement from the central and regional government
- Automatic price adjustment with maximum cap applied to gasoline price

- Original capital and social spending through line ministries remain unchanged
- Incorporate fiscal stimulus (1.4% of GDP) to stabilize the economy

- Budget deficit: 1% → 2.5% of GDP
- Increase in budget deficit to be financed by 2008 budget surplus of US$4.7 billion (1% GDP) and additional debt of US$4 billion (0.8% GDP)
- Arrange contingencies financing from multilateral and bilateral countries in anticipation of any worsening of the Financial Crisis

Fiscal Stimulus 2009 in Indonesia

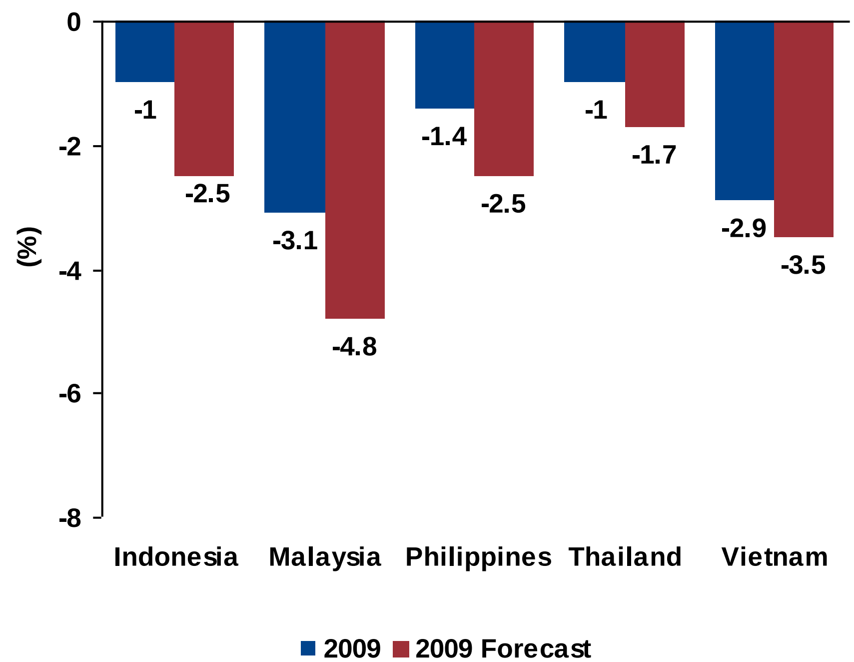
Description	USD Billion
A Tax-saving Payment	**3.91**
1. Reduction in individual income tax rate (35% --> 30%) and extention	1.23
2. Increase minimum threshold to Rp15,8 mn	1.00
3. Tax rate reduction on corporate income (30% --> 28%) and listing company --> 5% lower	1.68
B. Import duty-subsidy / tax subsidy for business	**1.21**
1. VAT of Cooking oil	0.07
2. VAT of biofuel	0.02
3. Import duty for raw material and capital goods	0.23
4. VAT of oil and gas exploration	0.23
5. Income Tax of Geothermal	0.07
6. Personal Income tax	0.59
C. Non-tax subsidy for business/job opportunity	**1.54**
1. Reduction in diesel fuel price by Rp 300/litre	0.25
2. Discount on electricity for industries	0.13
3. Additional peoples empowerment program	0.06
4. Interest rate subsidy for clean-water industries	0.00
5. Subsidi Minyak Goreng	
5. Subsidy for generic medicine	0.03
6. Rehabilitation of primery commodity warehouse	0.01
7. Stimulus spending for infrastrucuture	1.02
9. PMN untuk ASEI	
8. *PMN* for Askrindo (credit program / KUR)	0.05
Total Stimulus	**6,7**

1. **Budget deficit**: 1% to 2.5% of GDP due to
   - Changes in macro-economic assumption
   - Fiscal stimulus
2. **Budget deficit financing**
   - US$ 4.6 billion from 2008 financing surplus
   - Additional debt and drawn the stand by loan
   - Additional program loan US$1 billion
3. **Fiscal stimulus** US$ 6.7 billion which includes tax, customs and duty, and government spending stimulus

Indonesia's Stimulus Package is Comparable to Other Economies

The fiscal stimulus package that Indonesia has put in place is in line with the rest of the world

Country	2009 GDP Growth Projection (%)		2009 Fiscal Stimulus
	Original	Outlook	(% of Outlook GDP)
Malaysia	4.8	0.2	4.4
Thailand	4.5	2	1.8
Australia	2.2	1.7	1.5
Indonesia*	**6.0**	**4.5**	**1.4**
USA	0.1	-0.8	1.2
UK	-0.1	-1.3	1.1
Singapore	3.5	-5	1.1
Japan	0.5	-0.2	1.0
South Korea	3.5	2.5	0.9
India	6.9	6	0.9
China	9.3	8	0.6



ASEAN countries adjust budget deficit due to a lower revenue and fiscal stimulus program

Source: CEIC, Bloomberg.
* Indonesia's data taken from Ministry of Finance.

Fiscal Stimulus package for 2009

1	**Accelerate job creation and foster growth of small scale businesses**	Support from infrastructure and national programs, such as • Additional peoples empowerment (PNPM) program to alleviate poverty • Expansion of credit program (KUR) to accelerate the development of the primary sectors • Additional infrastructure projects for job creation
2	**Boosting the society's purchasing power**	• Subsidies on medicine and cooking oil • Direct subsidies (cash transfer and conditional cash transfer) for low-income households • Provide more direct and indirect subsidies to education and health sector
3	**Stimulate trade and promote entrepreneurship**	• Provide tax subsidy and import duty facility on selected capital goods and materials • Export financing and guarantee • Tax rate reduction on corporate income and individual income, and increase minimum threshold for employee tax • Discount on electricity peak-hour charge for industries and reduction of diesel fuel price

6. Government Debt Management

Budget Deficit Financing (in USD)

1. **2009 budget deficit: US$12.7 billion (2.5% GDP) – Upsized from US$5.5 billion (1.0% GDP) under the original budget**
2. **Maintain total issuance amount (net of redemption) of government securities: US$5.0 billion**
3. **Additional debt required: US$4.1 billion**
4. **Contigencies Financing facilities in place should market conditions be unfavorable for debt issuance:**
   1. **Multilateral: World Bank and ADB**
   2. **Bilateral: Japan and Australia**

In response to volatile market conditions, Indonesia has embarked on the following steps for 2009

- Providing contingencies financing facilities from bilateral and multilateral organisations and other institutional investors
- Enhance debt issuance strategy
  - Explore new fundraising methodology including establishing a Global Medium Term Note Program and issuance via private placements and syndicated offerings
  - Shortening portfolio duration
  - Instrument diversification

Source: Ministry of Finance.
* Still in discussion.

State Budget Financing 2009

		2009-Budget (A)	% of GDP	2009-Adjusted Budget (B)	% of GDP
Total Revenue & Grants		**985.7**	**18.5%**	**848.6**	**15.5%**
of which	*Tax Revenue*	*725.8*	*13.6%*	661.7	*12.1%*
	Non Tax Revenue	*259.9*	*4.9%*	186.9	*3.4%*
Expenditure		**1,037.1**	**19.5%**	**988.1**	**18.0%**
of which	*Interest payment*	*101.6*	*1.9%*	*110.6*	*2.0%*
	Domestic	*69.3*	*1.3%*	*70.1*	*1.3%*
	Foreign	*32.3*	*0.6%*	*37.8*	*0.7%*
	Interest of Additional Debt			*2.7*	*0.0%*
	Subsidy	*166.7*	*3.1%*	*123.6*	*2.3%*
Primary Balance		**50.3**	**0.0**	**-28.9**	**-0.5%**
Overall Balance		**(51.3)**	**-1.0%**	**(139.5)**	**-2.5%**
Financing		***51.3***	***1.0%***	***139.5***	***2.5%***
Non Debt		**6.0**	***0.1%***	**54.8**	***1.0%***
Debt		**45.3**	***0.9%***	**84.7**	***1.5%***
Govt Securities (Net)		*54.7*	*1.0%*	*54.7*	*1.0%*
Official Borrowing (Net)		**(9.4)**	***-0.2%***	**(14.5)**	***-0.3%***
Additional Debt				**44.5**	***0.8%***

	2009-Budget (A)	2009-Adjusted Budget (B)
Assumptions:		
GDP (trillion)	*5,327.5*	*5,487.6*
Growth (%)	*6.0*	*4.5*
Inflation (%)	*6.2*	*6*
3-mo SBI (% avg)	*7.5*	*7.5*
Rp / USD (avg)	*9,400.0*	*11,000*
Oil Price (USD/barrel)	*80.0*	*45*
Oil Lifting (MBCD)		*0.96*

Notes :
Figures are in trillion IDR

Source: Ministry of Finance

Debt To GDP

	End of Year					
	2004	2005*	2006**	2007***	2008+	2009++
GDP	**2,295,826.20**	**2,774,281.00**	**3,339,480.00**	**3,957,403.90**	**4,954,028.90**	**5,136,749.00**
Debt Outstanding (billion IDR)	**1,299,386.11**	**1,313,289.88**	**1,302,157.37**	**1,389,414.98**	**1,623,128.09**	**1,699,565.00**
- Domestic Debt (Securities)	662,322.15	693,075.86	742,727.95	803,058.54	906,495.10	968,003.00
- Foreign Debt (Loan & Securities)	637,063.96	620,214.02	559,429.42	586,356.44	716,632.99	731,562.00
Debt to GDP Ratio	**56.60%**	**47.34%**	**38.99%**	**35.11%**	**32.76%**	**33.09%**
- Domestic Debt to GDP Ratio	28.85%	24.98%	22.24%	20.29%	18.30%	18.84%
- Foreign Debt to GDP Ratio	27.75%	22.36%	16.75%	14.82%	14.47%	14.24%

Notes:
* = Preliminary
** = Very Preliminary
*** = Very Very Preliminary

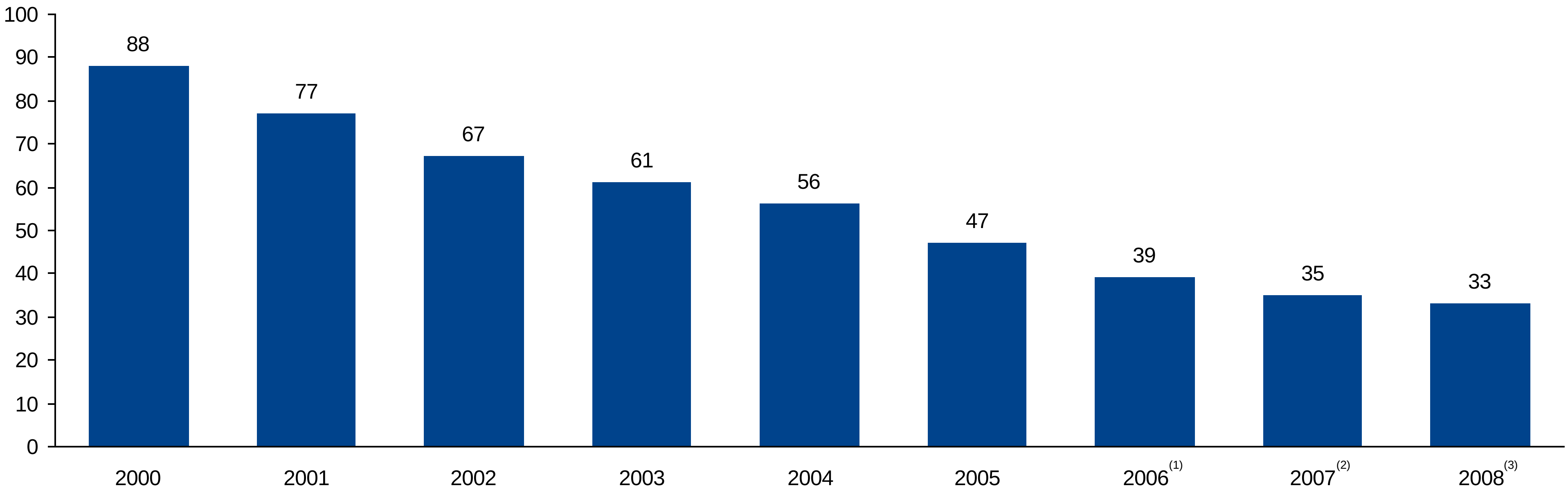
\+ = GDP Based on numbers from BPS
++ = Annual GDP as of March 2009

Source: Ministry of Finance

Debt Figure (2000–2008)

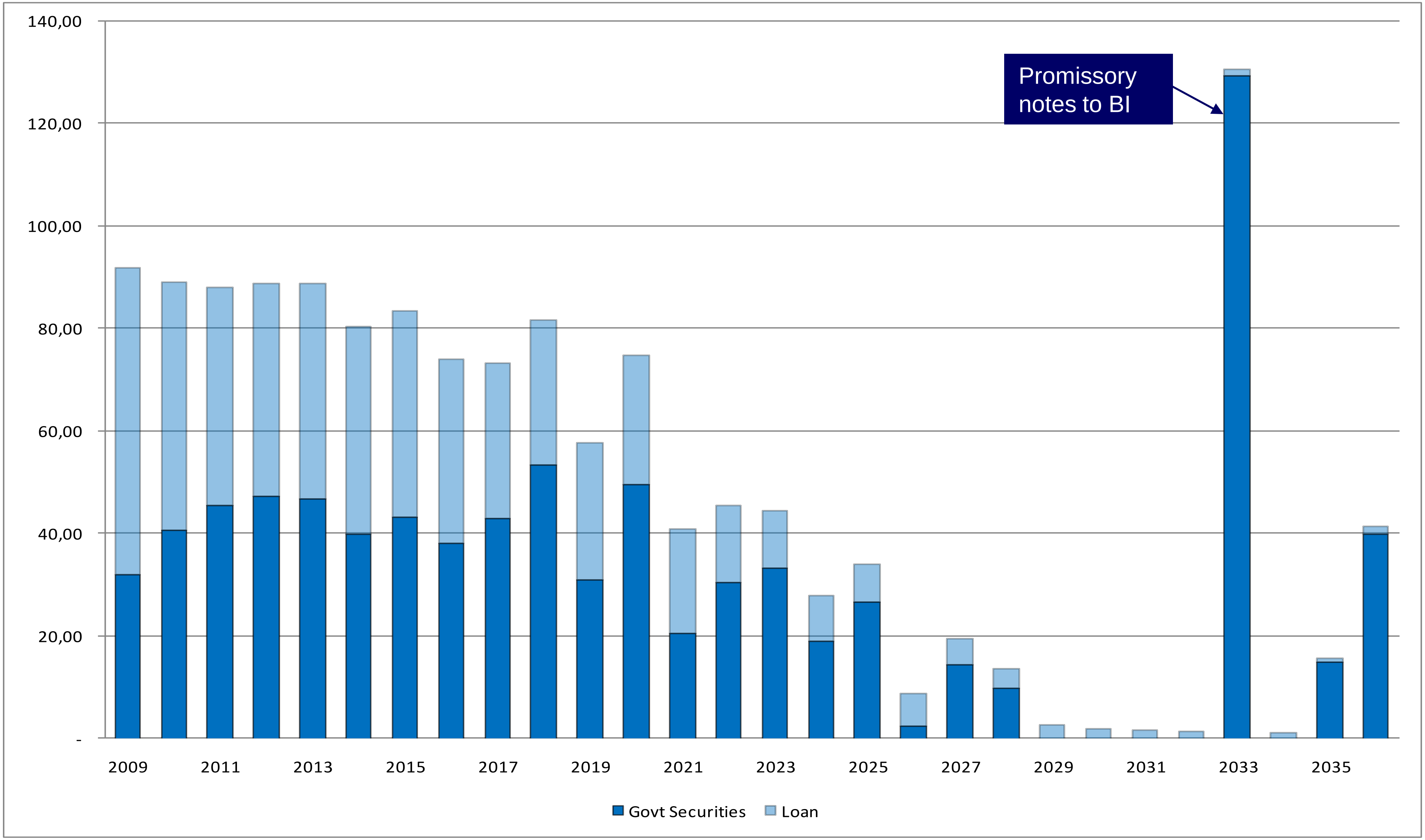
- Per Law Number 17/2003 concerning State Budget, stipulated that the growth of debt should not exceed Indonesia economic growth with the following key measures
  - Overall Balance (deficit) should be less than 3% of GDP, and
  - Total Debt to GDP ratio should be less than 60%

Debt to GDP Ratio (% of GDP)



Source: Ministry of Finance.
(1) Preliminary.
(2) Very Preliminary.
(3) Projection based on State Budget 2007 Preliminary Realisation.
(4) Projection based on State Budget 2008.

Total Debt Maturity Profile



Notes:

+ Preliminary numbers in trillion IDR equivalent, as of March 2009
+ Exchange Rate (IDR/USD) at 31 December 2008 = IDR10.950

Outstanding of Total Central Government Debt

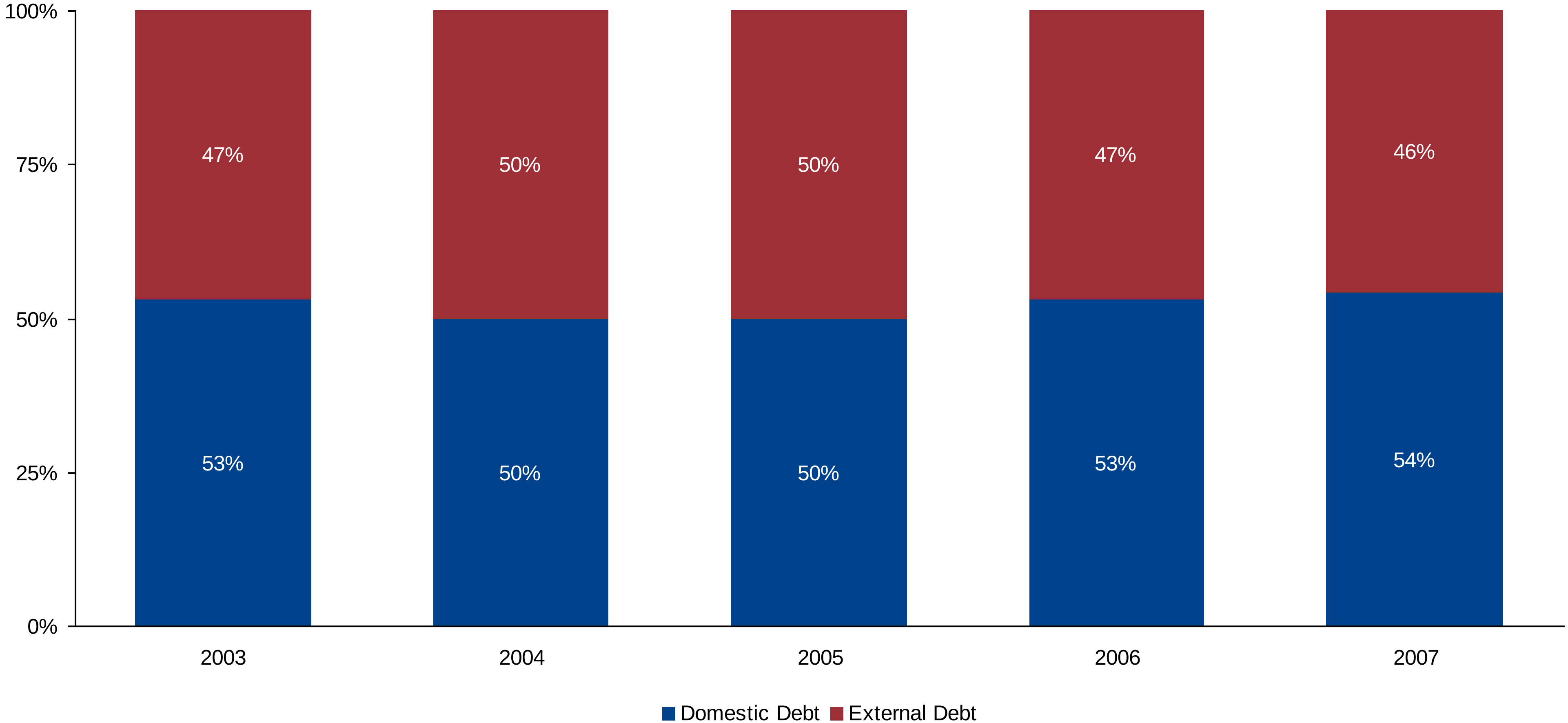
	2004	2005	2006	2007+	2008 ++	% Total	Mar'09 +++	% Total
a. External Loans	68,58	63,09	62,02	62,25	65,45	44,2%	63,20	43,0%
Bilateral *)	46,49	42,16	41,07	41,03	43,93	29,6%	42,43	28,9%
Multilateral **)	19,46	18,78	18,84	19,05	19,50	13,2%	18,83	12,8%
Commercial ***)	2,17	1,82	2,01	2,08	1,93	1,3%	1,86	1,3%
Suppliers ***)	0,29	0,17	0,11	0,08	0,09	0,1%	0,09	0,1%
Bonds/Notes ***)	0,17	0,17	-	-	-	0,0%	-	0,0%
b. Government Securities	71,28	66,65	82,34	85,26	82,78	55,8%	83,63	57,0%
FX Denominated	1,00	3,50	5,50	7,00	11,20	7,6%	14,20	9,7%
Rupiah Denominated	70,28	63,15	76,84	78,26	71,58	48,3%	69,43	47,3%
Total Government Debt	139,86	129,74	144,36	147,51	148,23		146,83	
Total Government Debt (equivalent in billion rupiah)	1.299.259	1.275.357	1.302.157	1.389.415	1.623.128		1.699.565	
of which Rupiah Denominated Securities (trillion rupiah)	*652,91*	*620,74*	*693,12*	*737,13*	*783,86*		*803,64*	
Exchange Rate (IDR/USD)	9.290	9.830	9.020	9.419	10.950		11.575	

Notes:
+ Preliminary numbers
++ Very preliminary numbers
+++ Very very preliminary numbers, as of March 2009
* Some of them are semi commercial
** Most of them are semi concessional
*** All of them are commercial

Source: Ministry of Finance

Composition of Debt

Composition of Central Government Debt

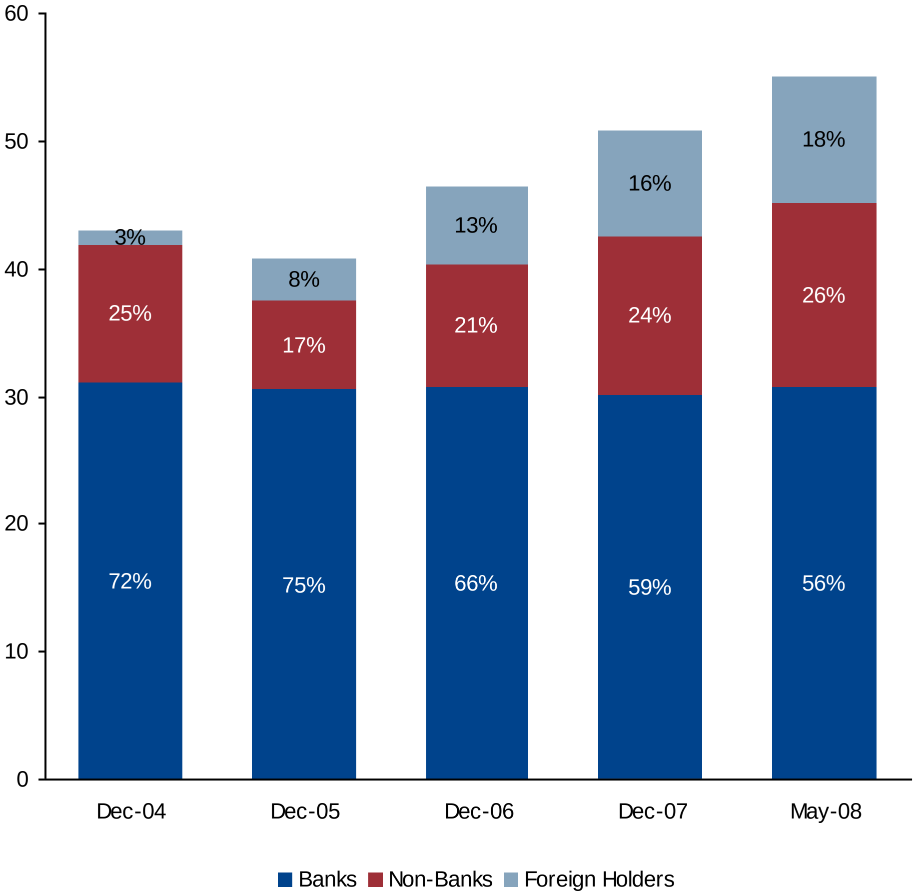


Source: Ministry of Finance.
Note: Exchange rate of Rp.9,034 per US$ used for 2007.

Holders of Tradable Government Securities

There is an increasing proportion of foreign and non-bank holders of Indonesian Government securities.

Holders of Tradable Domestic Government Securities



Developments in the Domestic Market

- Yearly issuance schedule publicly available
- Established primary dealership infrastructure
- Benchmark series
- Active communication with market participants
- Variety of domestic securities available
  - T-Bills, fixed rate, floating rate, variable rate, zero coupon, retail bonds and Sukuk (1)

Source: Ministry of Finance. New Shariah instruments expected to be launched in 2008 in the form of Sukuk.