

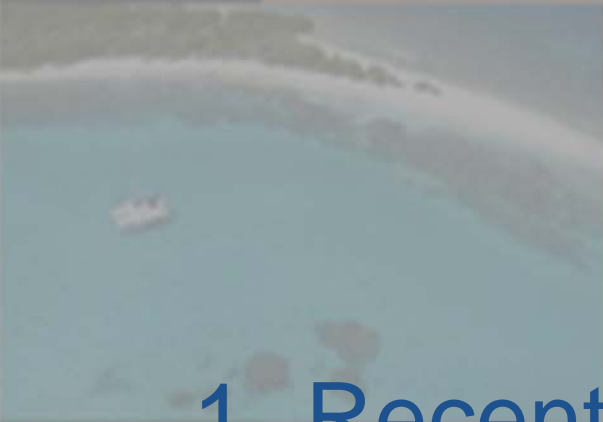


Economic Outlook and Improving Investment Climate

Indonesia's Country Presentation

4 May 2008

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1. Recent Macroeconomic Update

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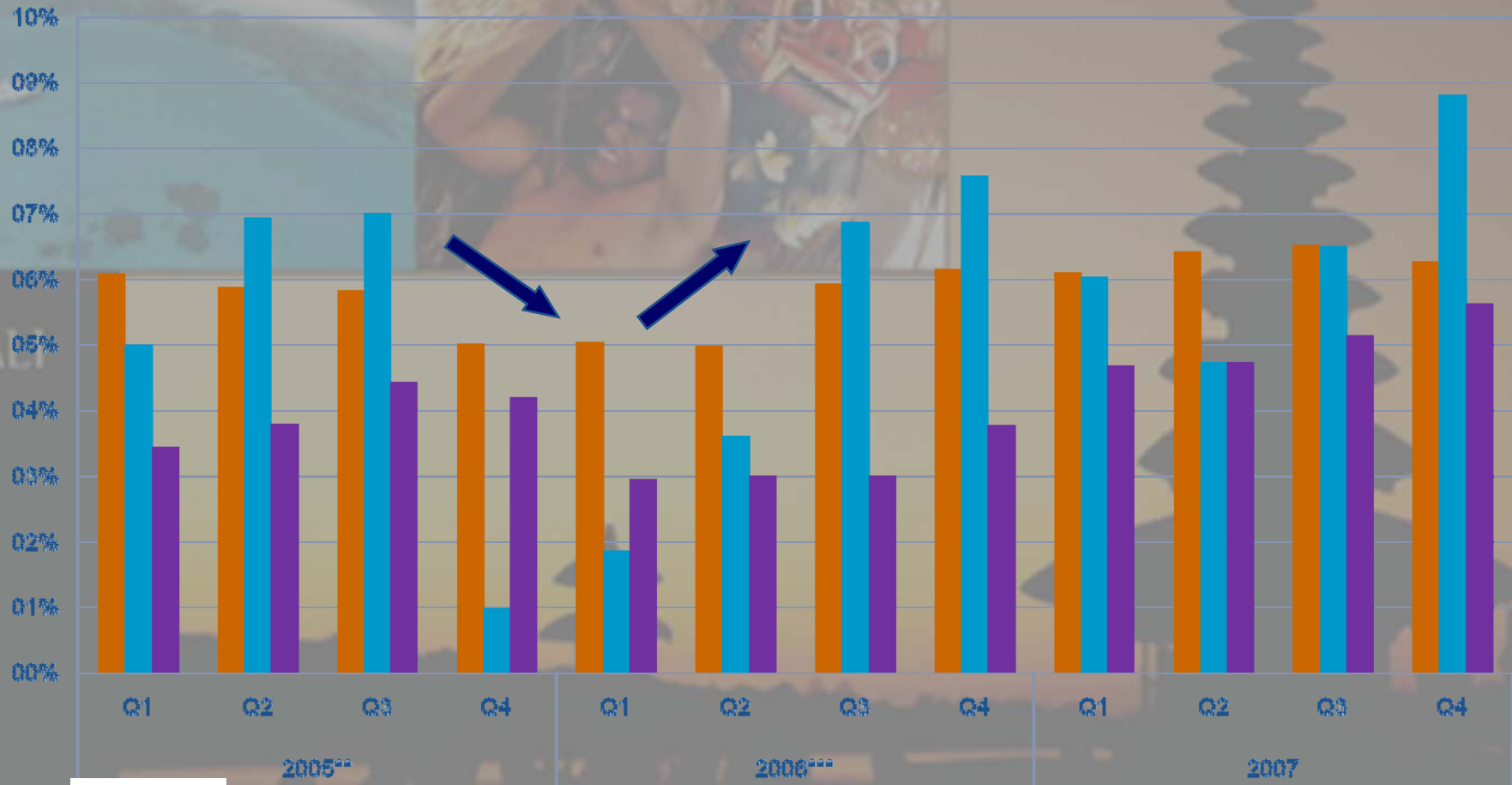
Recent Economic Update, Q1 2008

- Robust economic growth 2007 and Q1 2008. Domestic demand and export growth remain strong.
- Persistent high commodity prices (oil and food) have caused inflationary pressures (8,3% y-o-y inflation).
- The average Rupiah exchange rate in Q1 2008 was Rp9260 to the USD, and has maintained its stability and kept pace with fundamentals.
- Government bond yield dropped by 300 bps and the market cap declined by USD35 B over four months.
- Budget deficit increase to 2.1% GDP from 1.8% GDP due to additional energy and food subsidies payments, and would go higher than 3% if nothing is done on subsidy allocation. A fuel price adjustment scenario being developed.



GDP Growth: 2005 - 2007

GDP Growth 2005 - 2007



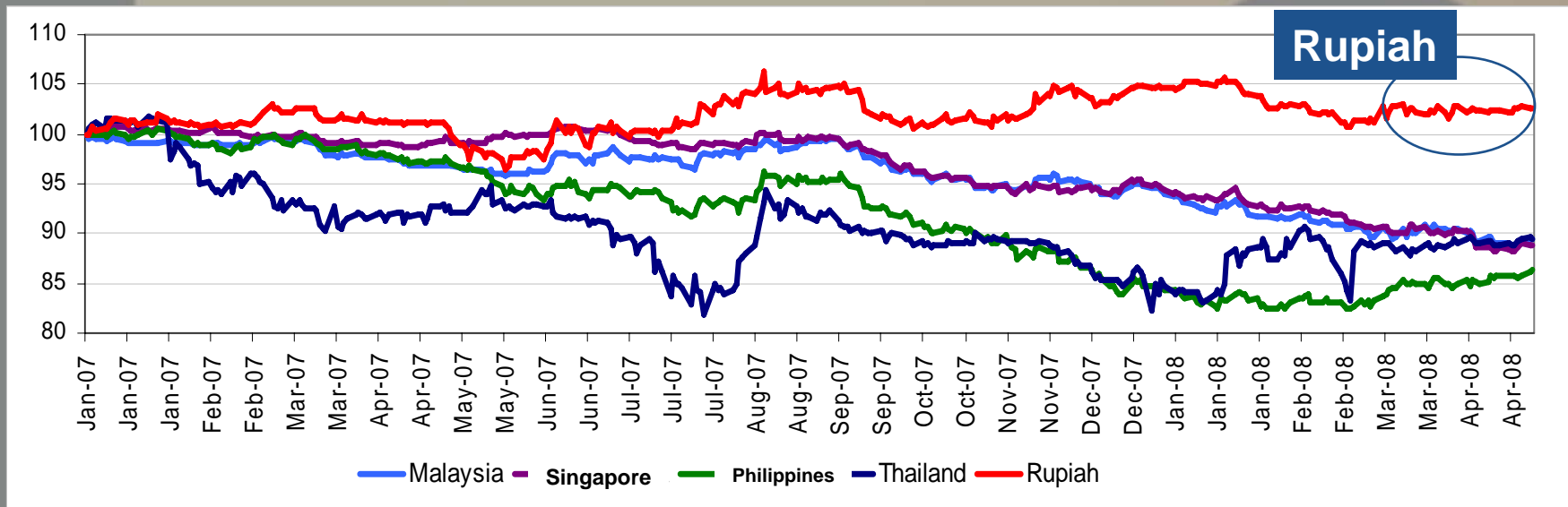
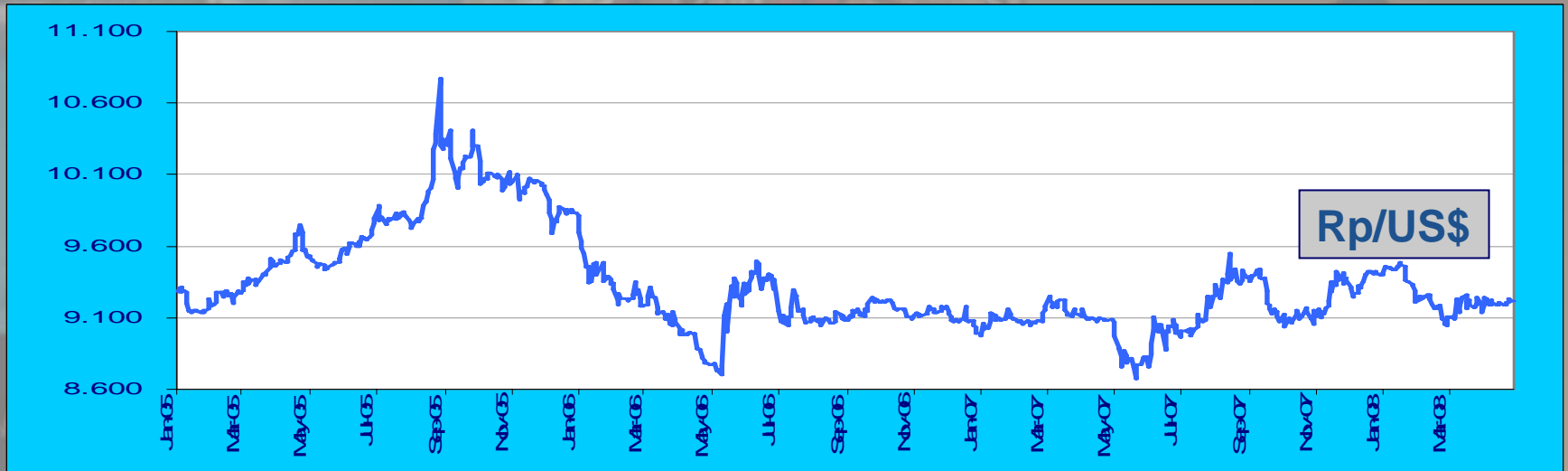
GDP Growth

Private Consumption

Aggregate Demand

Q1 2008
Growth: 6.1%
Private Consumption: 5%
Aggregate Demand: 7%

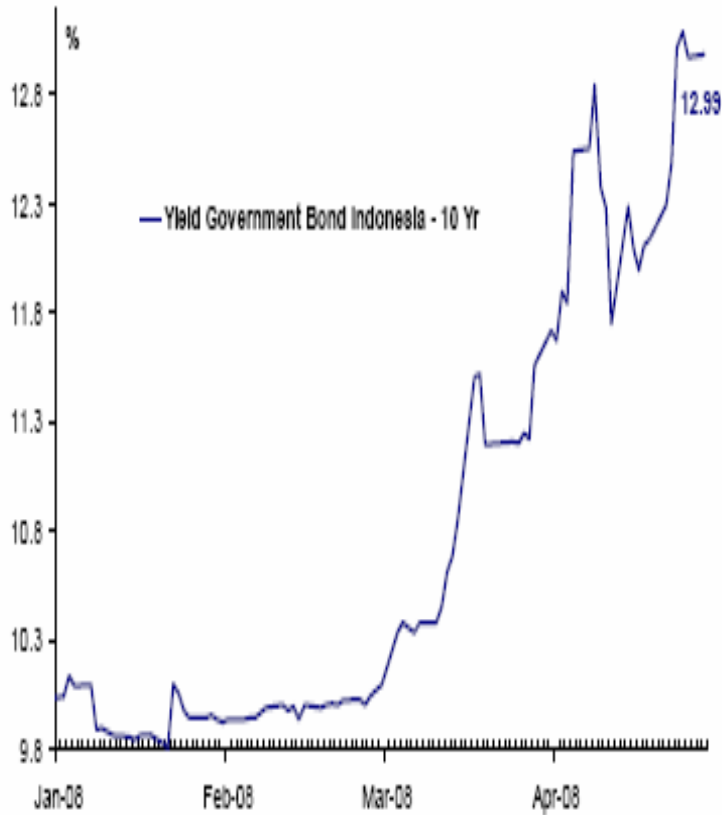
Exchange Rate : Rupiah and Neighbor Countries



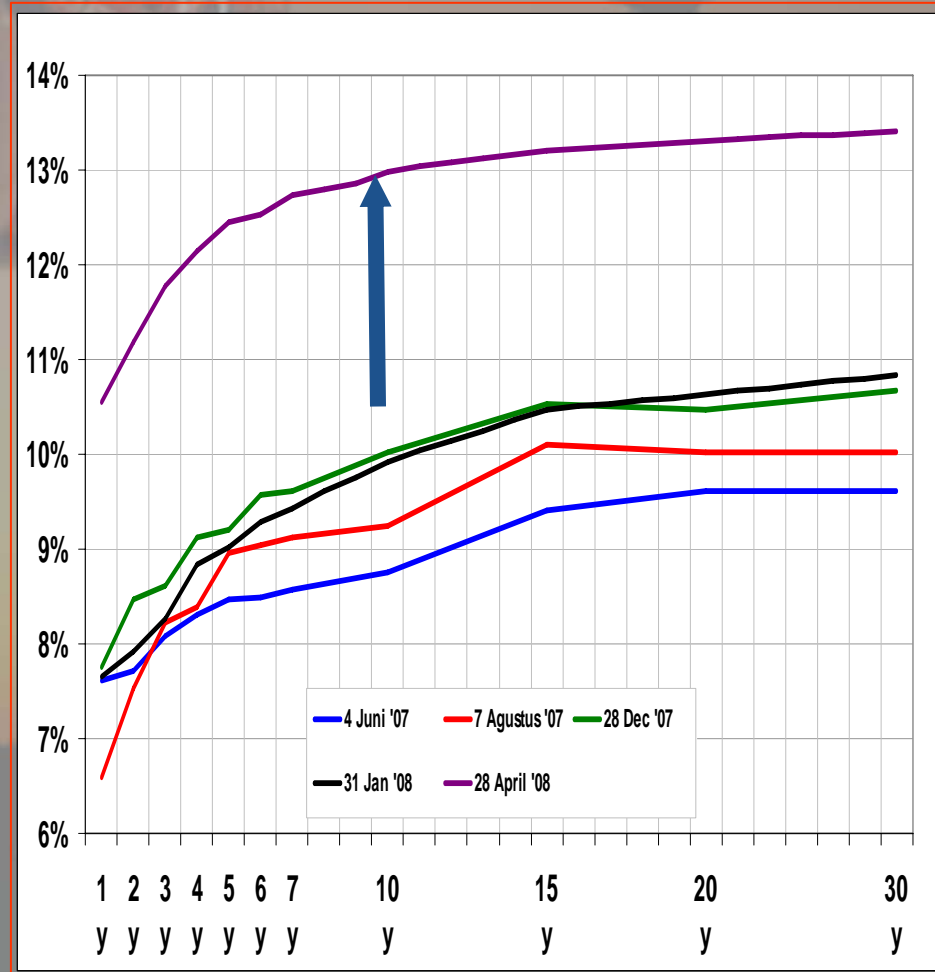
Yield Government Bonds



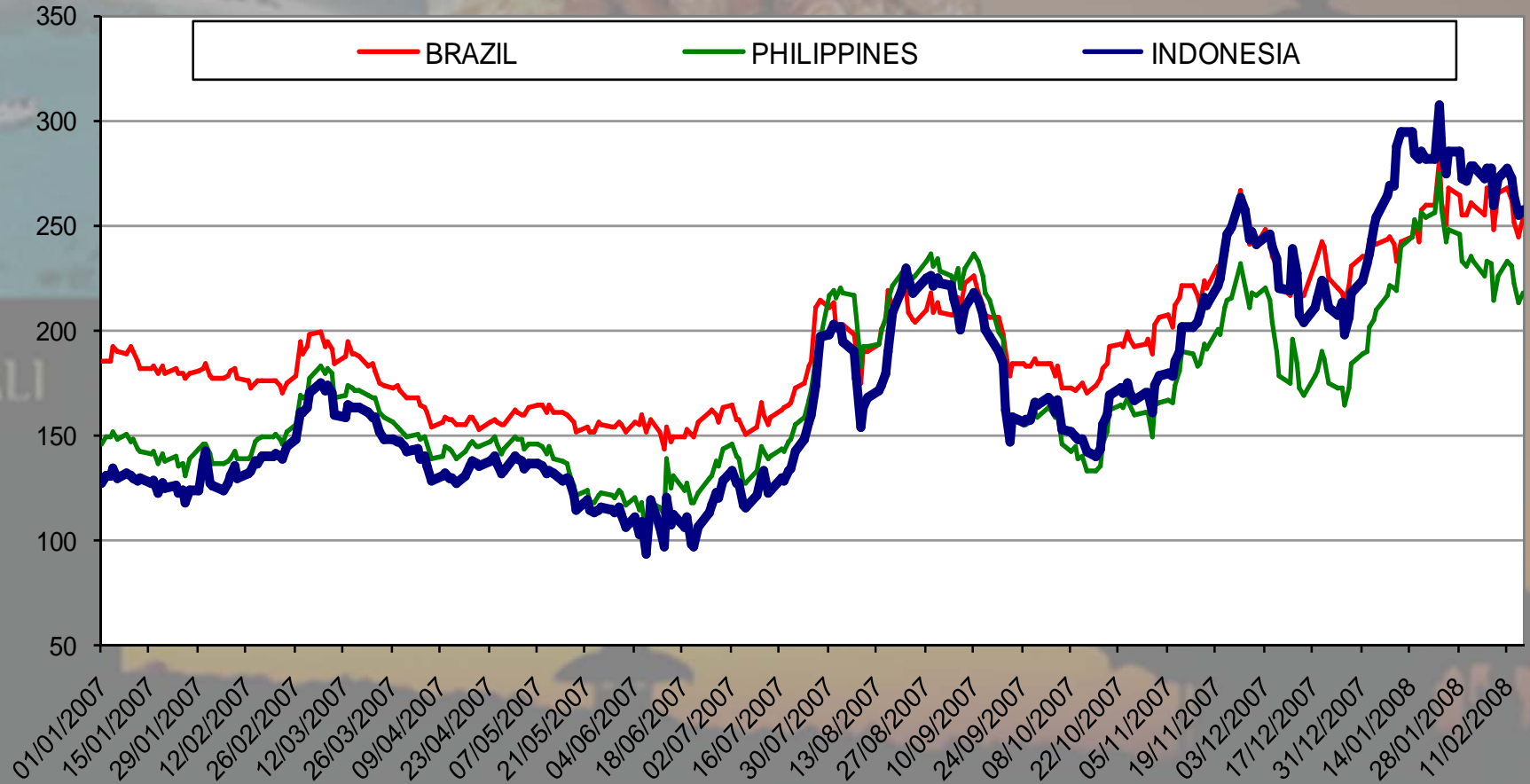
10 Years Yield Gov't Bond



Yield Curve



Yield Spread INDO-17 and peer groups



Indonesia Capital Market drop, Jan- May 2008





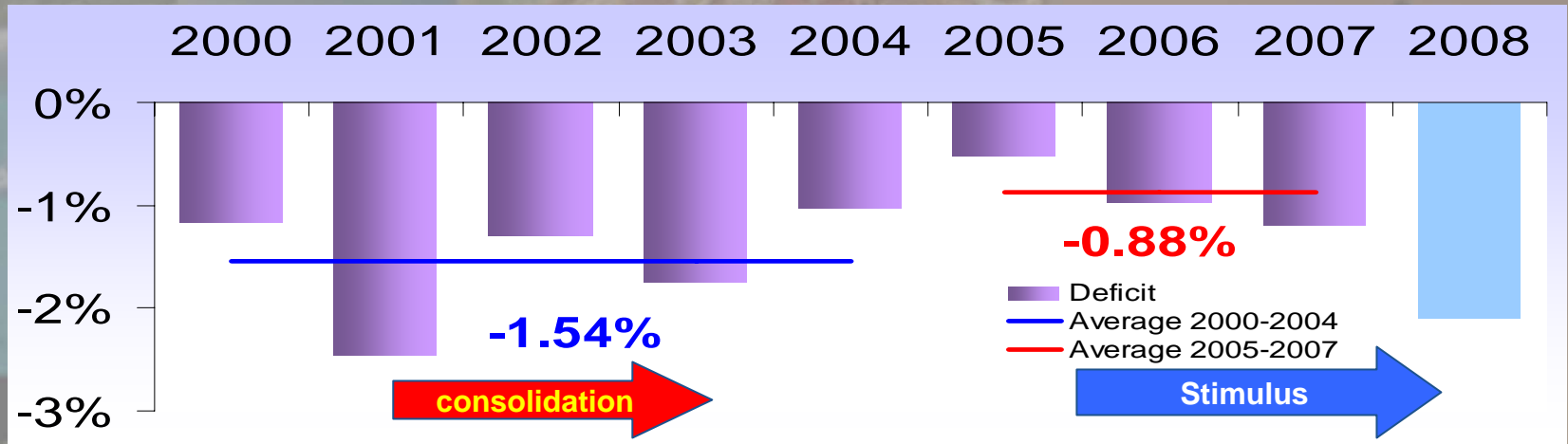
2. Prudent Fiscal Policy

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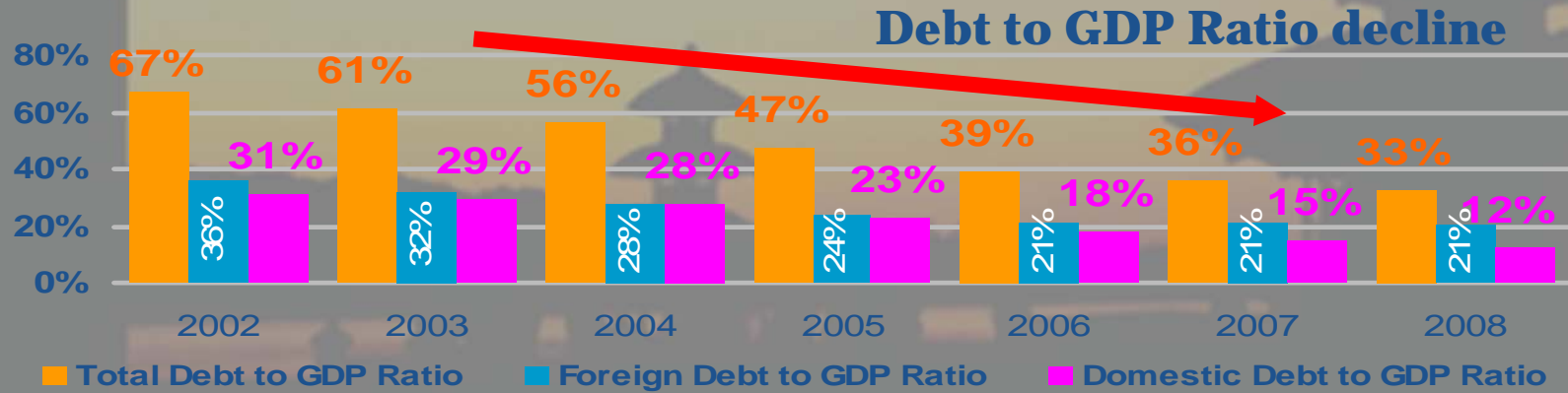




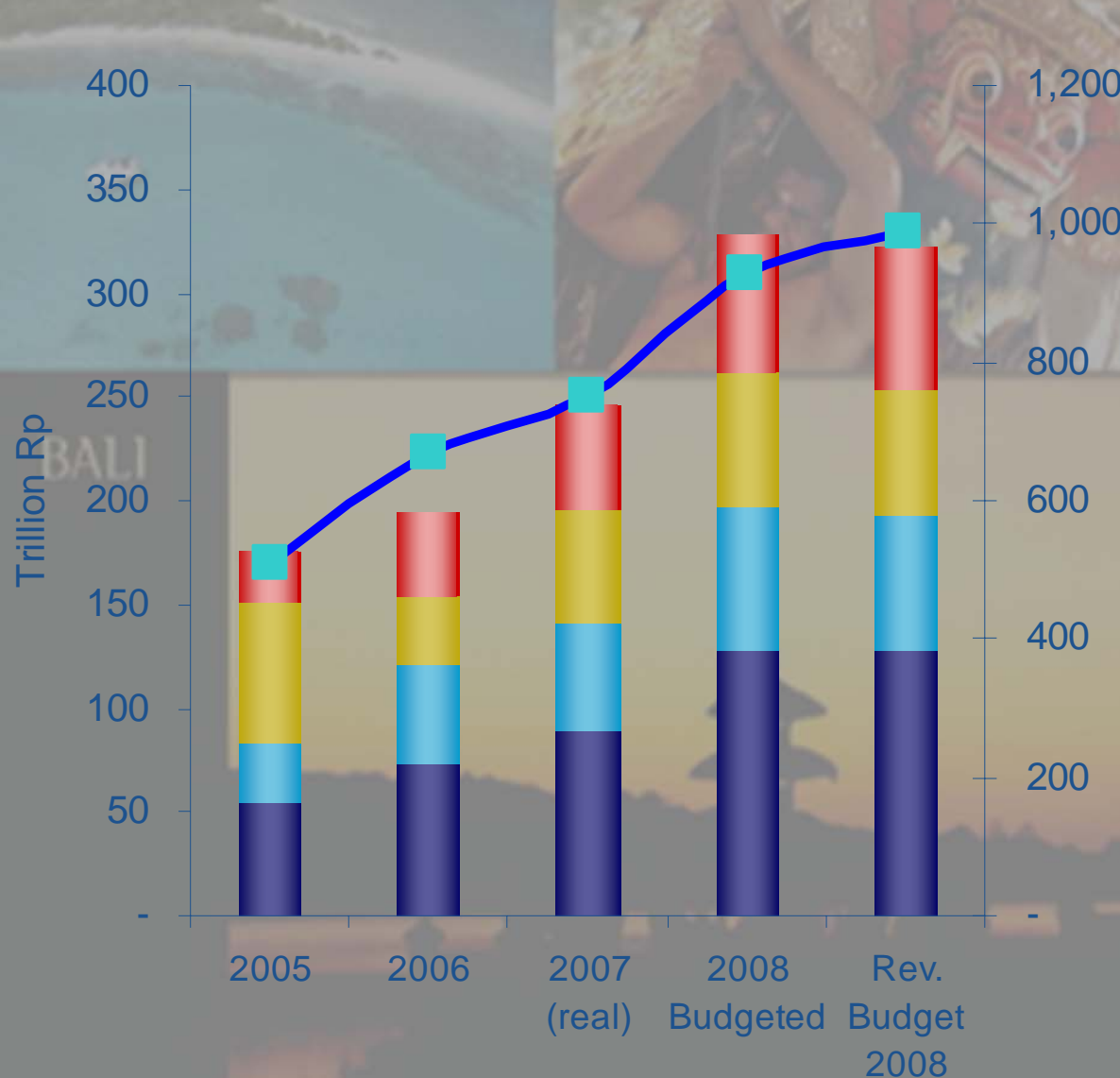
Deficit and Debt Ratio (% to GDP)



Debt to GDP Ratio



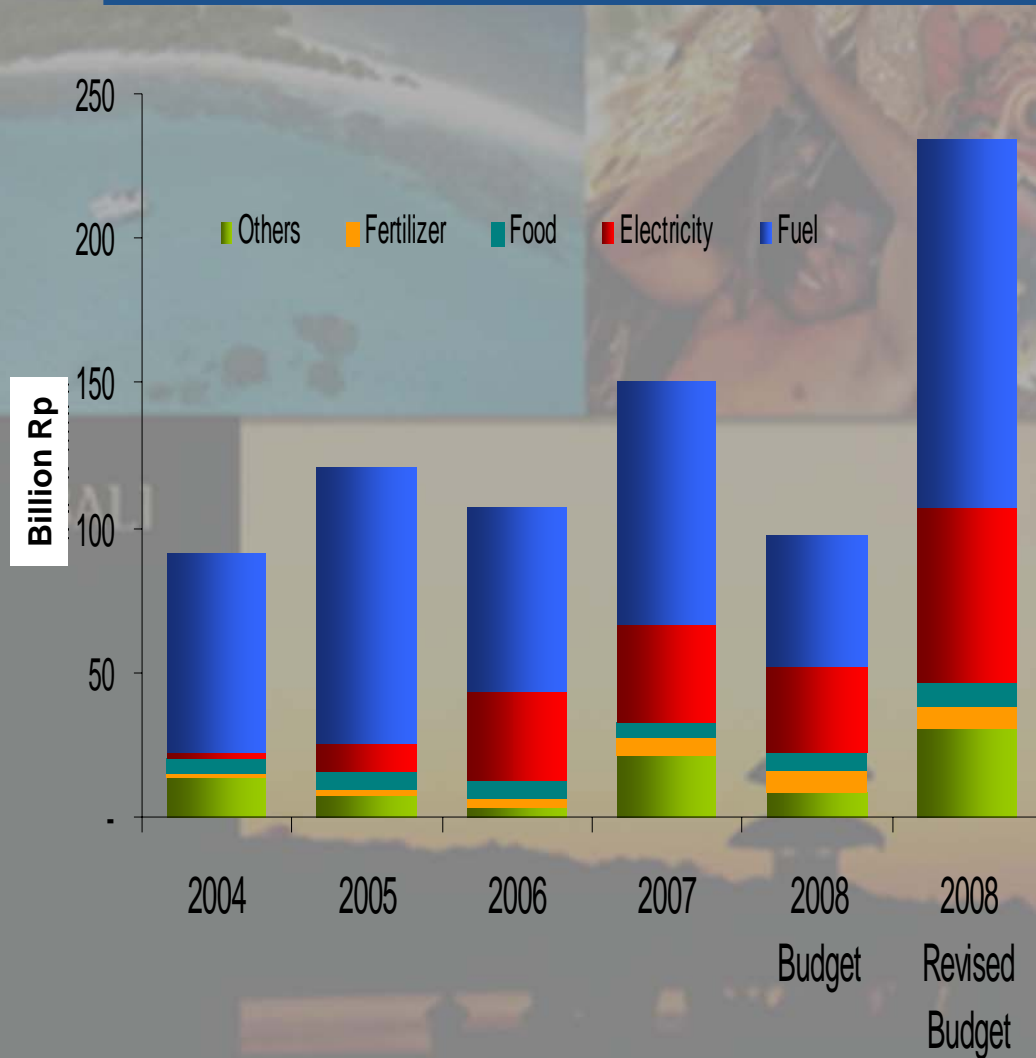
Government Expenditure



- 10% cut in ministries spending
- Capital spending on infrastructure and poverty program remains a priority
- Providing for fiscal risk :
 - US\$100 Indonesian Crude Price and above
 - Additional 2 millions KL oil consumption
 - Policy measures for macro assumption
 - Contingent liabilities related to Private Public Partnerships

Personnel
 Material
 Capital
 Social
 Total Govt. Exp.

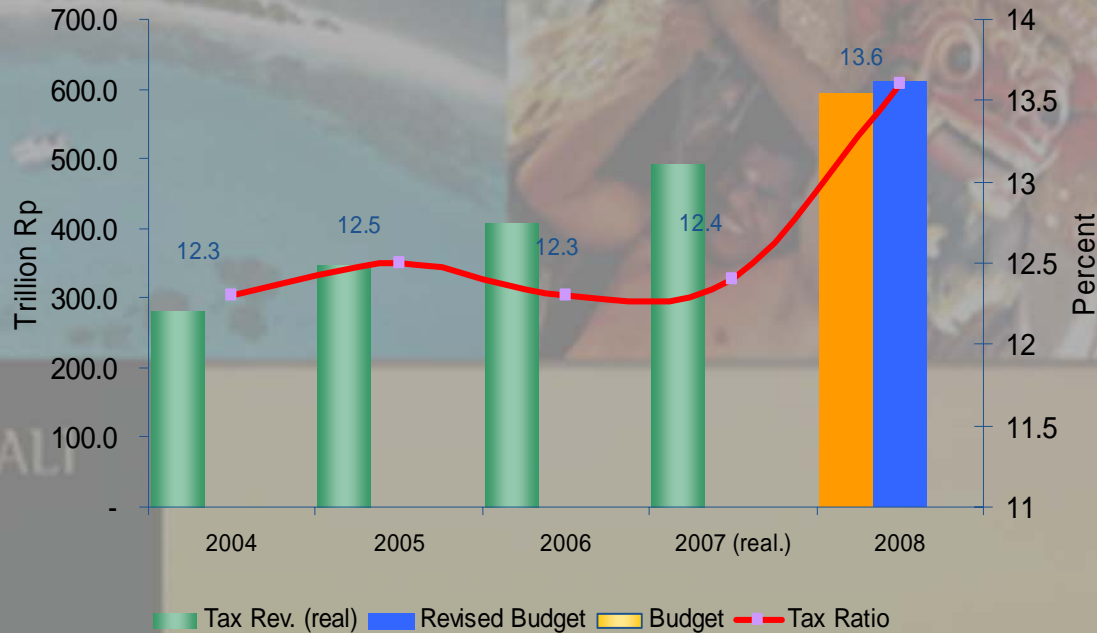
Subsidies



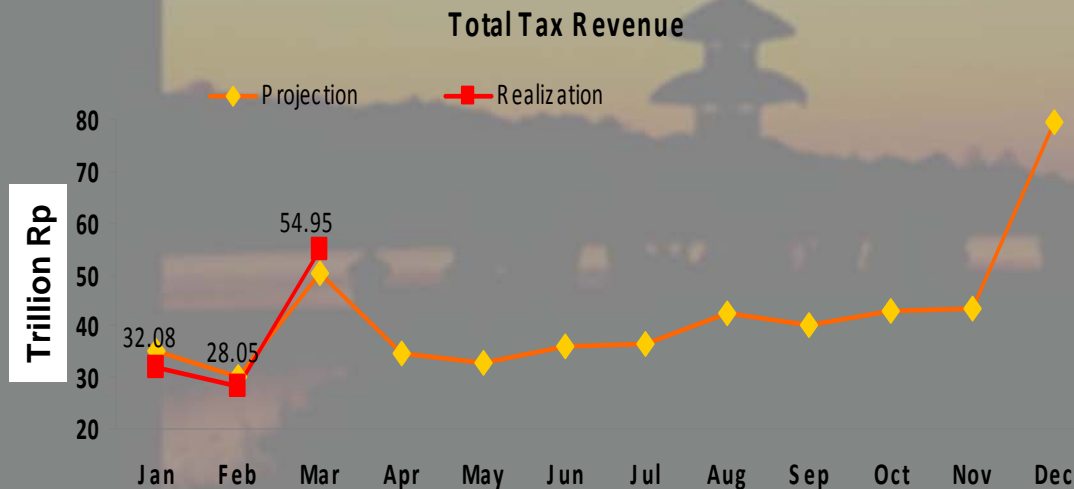
- Subsidies for fuel (US\$13.9 billion) and electricity (US\$6.6 billion).
- Policy on subsidies:
 - Energy conversion from kerosene to LPG
 - Smart card
 - Incentives & disincentives for electricity
 - Energy saving light bulb.
- Fuel subsidy capped at 3% of GDP
 - ⇒ 3 options for subsidy policies:
 - Consumption limit
 - Fuel price adjustment
 - Further budget adjustment
- Food subsidies for price stabilization:
 - Rice for the poor
 - Cooking oil for the poor
 - Soybean and flour for SMEs.



Tax Revenue 2008



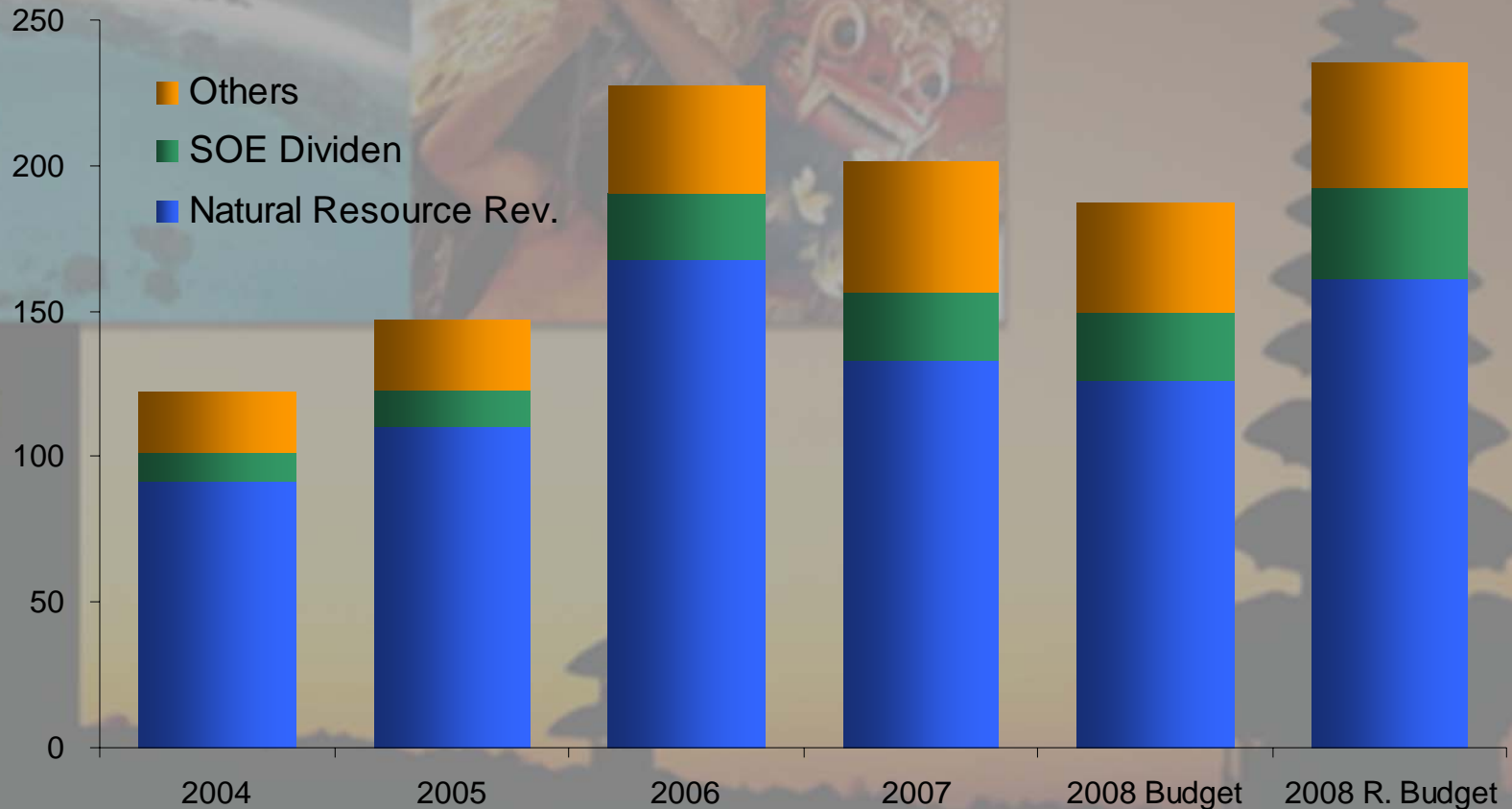
- Tax revenue increasing because of ICP assumption and improved administration.
- Tax incentives:
 - Food prices (rice, cooking oil, soy bean, flour)
 - Reduced income tax rate for publicly listed companies
 - Priority sectors include oil and geothermal.
- Actual non-oil tax revenue collection as of March increased by 48.1%.





Non Tax Revenue

Trillion Rp

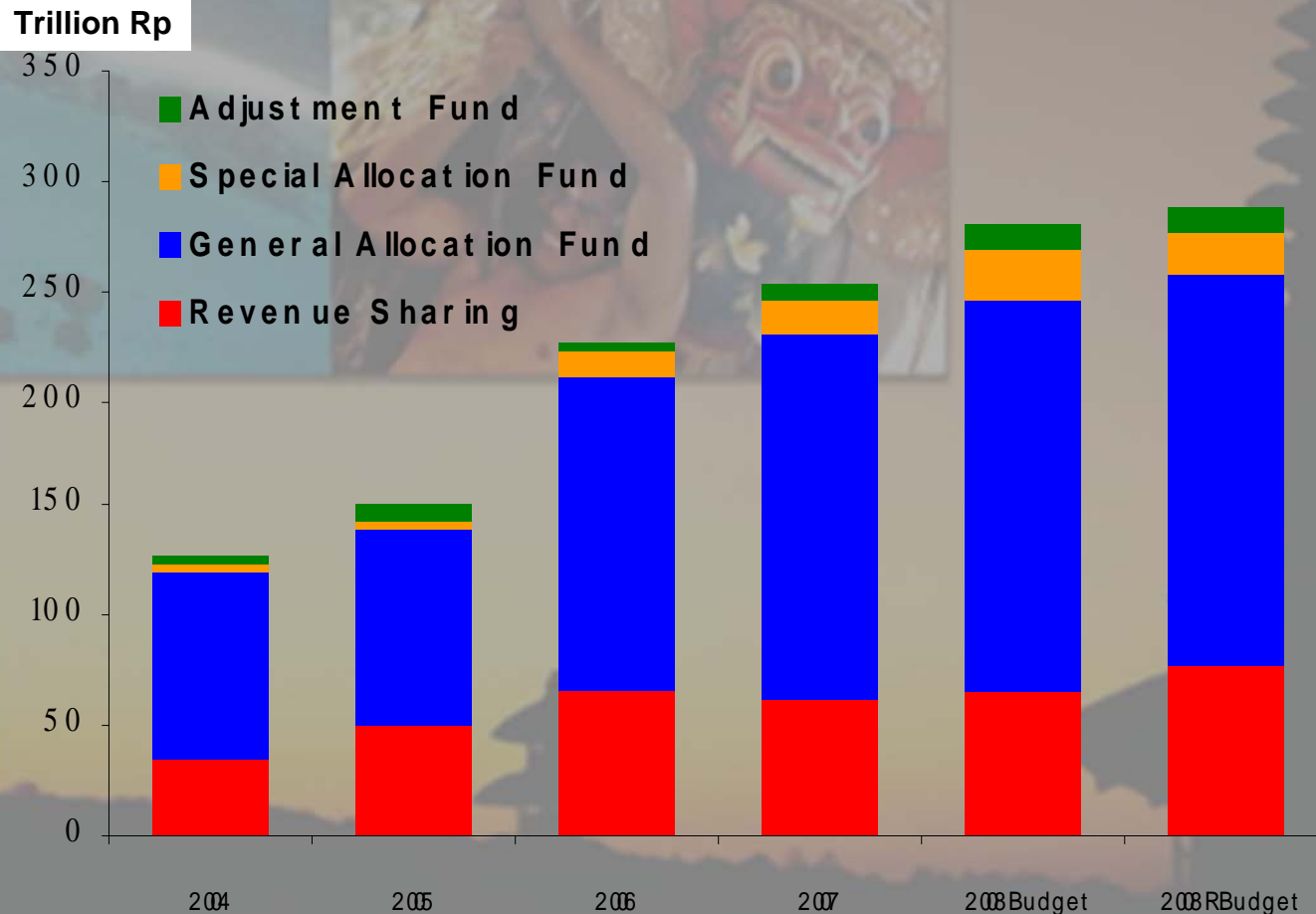


Non tax revenue increased due to:

- Increases in oil price
- Increases in natural resources and mining revenue
- Larger Pertamina and other SOEs profit



Transfers to the Regions



- No significant increase in local government revenue
- Local government to share windfall oil revenue with central government



3. Fiscal Sustainability Measures

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Fiscal Policy Measures :

- 1. Government Department Expenditure Cut : USD 2,5 billion**
- 2. Optimalization Non Oil Tax Revenue: USD 2,17 billion**
- 3. Contingency Fund : USD 902 million**
- 4. Government Bond issuance: Gross USD 17,1 billion. Ytd April 2008 USD 5,5 billion with yield 2.5 – 3.5 percent higher**
- 5. Program loans (ADB, World Bank, and bilateral) USD 2.7 billion**



Policy Measures (con't) :

6. **Oil lifting production upgrade : 916 → 927 thousand barrel per day**
7. **Energy savings program**
 - Conversion Kerosene to LPG : 1 million KI- 2 million KI equivalent
 - 10.000 MW coal based electricity project to replace fuel based generators
 - Efficiency in Pertamina and PLN
 - Energy savings in Government Buildings, Private Offices, mall, hotel, shopping center



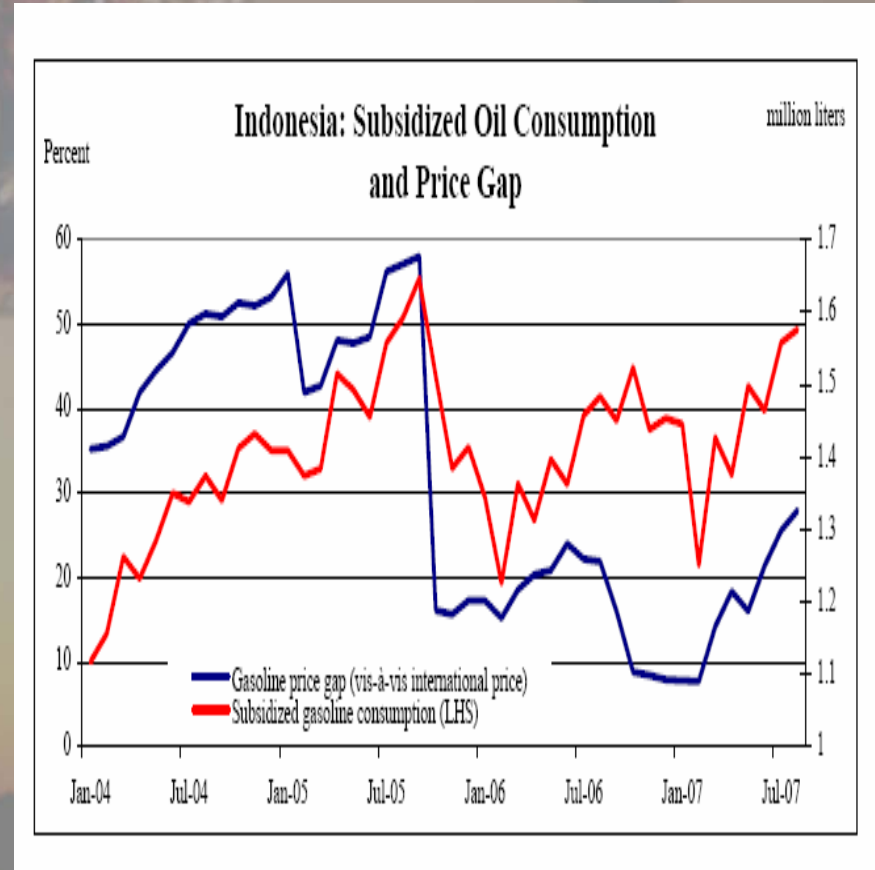
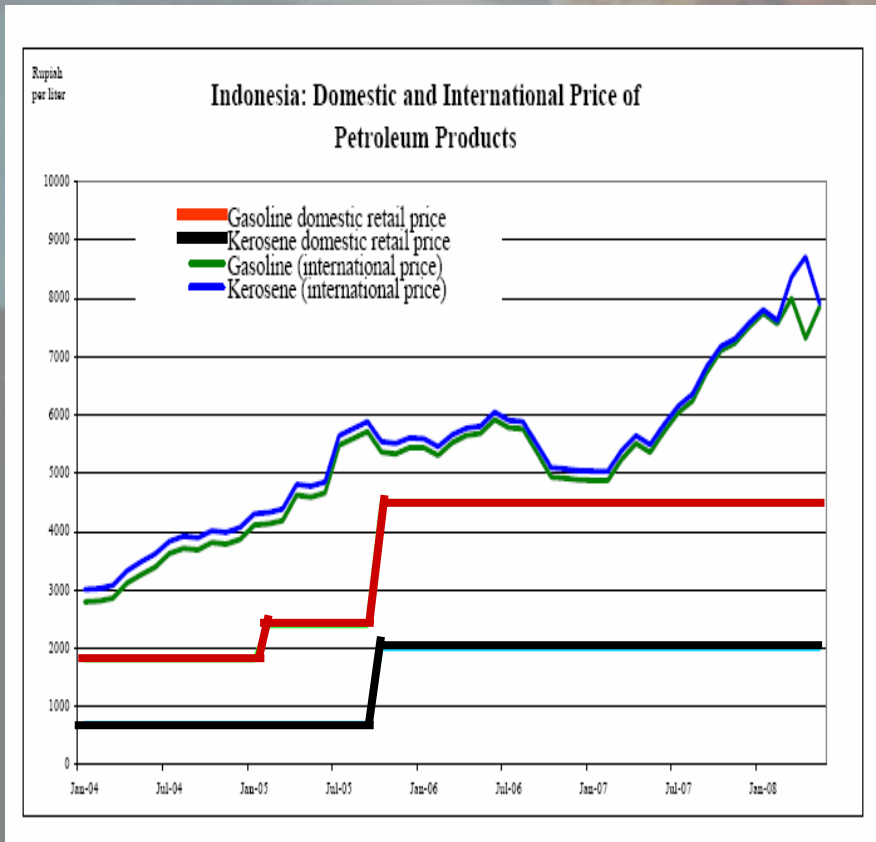
Policy Measures (con't) :

6. Price Adjustment Scenarios

- 10, 20 or 30% administered price adjustment and automatic adjustment when possible
- One year Cash transfer to the poor (similar to 2005) and other pro poor support
- Reduce budget deficit to restore confidence on government bond

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Domestic and International Fuel Price 2005- 2008



Budget Scenario 2008: Before and After



Billion USD

	Baseline	Before	After
Revenue	96,96	103,73	101,46
Expenditure	107,55	117,67	111,15
- Energy Subsidy	20,34	28,87	22,24
- Cash Transfer + add food subsidies	-	-	2,00
Deficit	10,27	13,62	9,38
Financing Gap	-	3,42	-



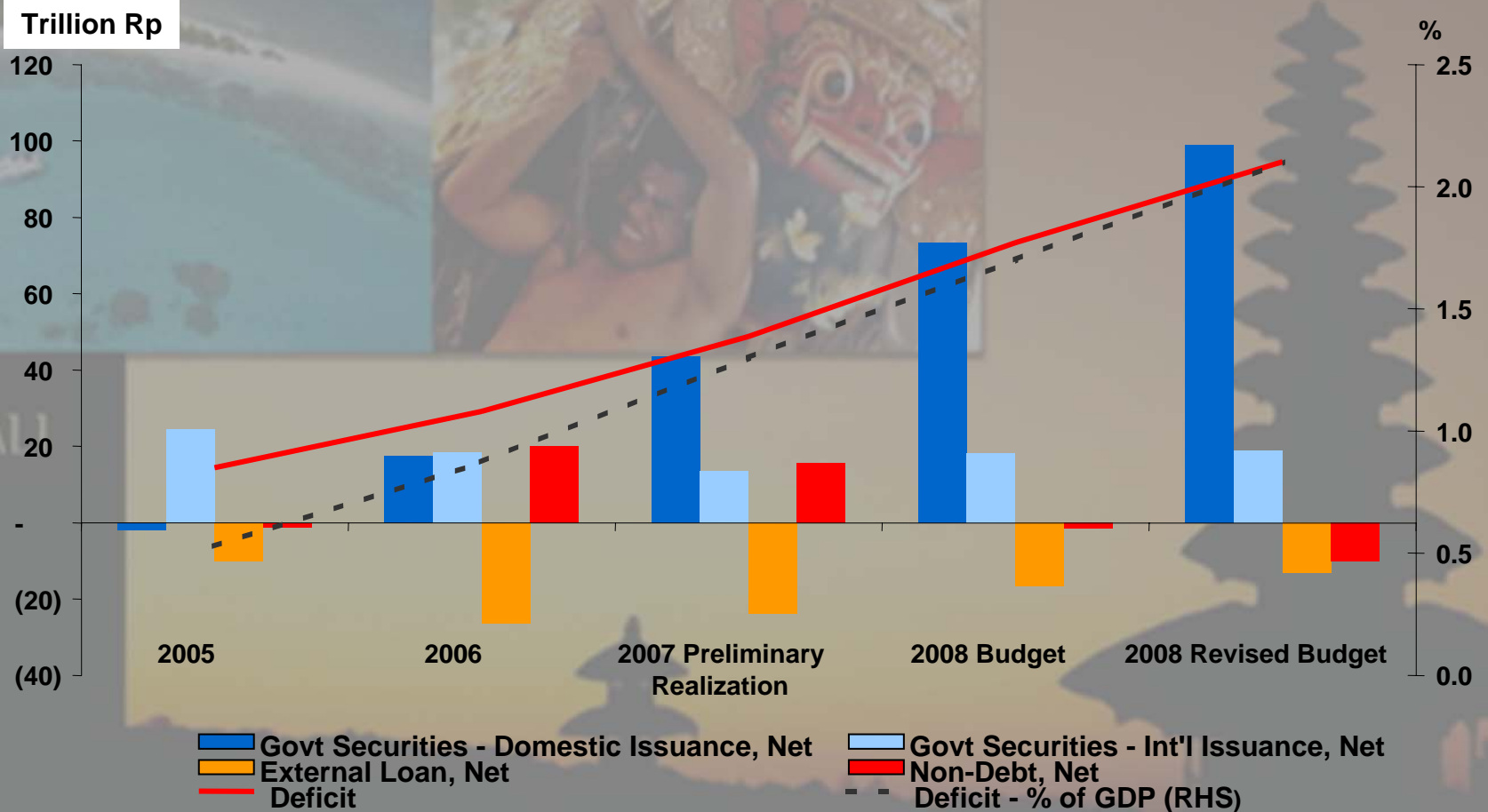
4. Financing Strategy

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Financing Trends for Budget 2008



- Financing for budget 2008 to rely on market sources



2008 Financing before and after adjustment

Trillion Rp

	Budget	Before (estimated)	After (estimated)
Deficit	73.3	94.5	86.1
Non debt	-1.6	-10.2	-10.2
Debt	74.9	104.7	95.5
Securities, net	91.6	117.8	108.6
Loan, net	-16.7	-13.1	-13.1
Program	19.1	26.4	26.4

- Debt Securities will be the main source for deficit financing and debt refinancing.
- External loan financing (net) has been kept negative.
- Program loan will mainly come from World Bank, ADB, and JBIC.
- Non Debt including for cash management purposes.

Government Securities Issuance Program



- Prioritizing issuance from domestic market.
- New debt instrument will be launched → Sukuk (Rupiah and USD).
- Short term instruments e.g. T-Bills, Variable Rate Bonds, and Zero Coupon Bonds.
- Where appropriate, the international market to avoid “crowding out” in the domestic market.



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5. Conclusion : Challenges Ahead





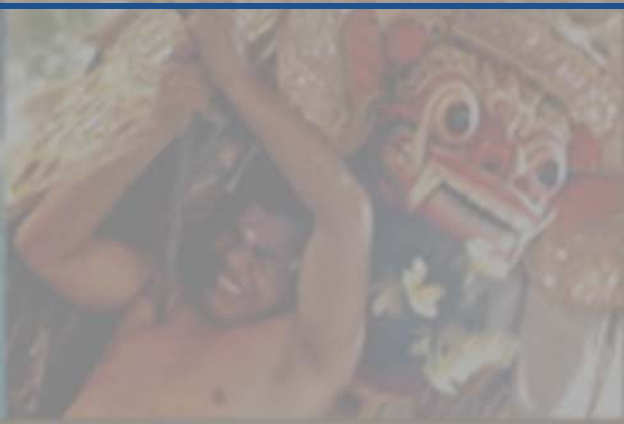
Challenges for 2008

- Revised down GDP growth target due to lower US, global economic growth, and lower household demand.
- The budget deficit will increase to 2.1% from 1.8% GDP due to additional energy and food subsidies payments, and would go higher than 3% if nothing is done on subsidy allocation.
- Fuel subsidy capped to a maximum 3% of GDP (US\$14.8 billion) or average Indonesian oil price approximately USD100 per barrel average year.



Challenges for 2008

- Price adjustment in first semester 2008 helps to restore confidence and budget sustainability 2008-2009. With 20%-30% price adjustment set aside sufficient budget funding for one year cash transfer and food subsidy for the poor.
- With fuel price adjustment, budget deficit could go lower, therefore requires less government bond issuance.
- Monetary policy aimed at addressing inflationary pressures through preserving exchange rate stability and optimizing open market operations of the central bank.



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Thank You

