

REFORMS IN THE MAKING

INDONESIA – CANADA BUSINESS FORUM: DISCOVERING OPPORTUNITIES

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Erwin Haryono
Chief Representative, Bank Indonesia New York

Investor Relations Unit of the Republic of Indonesia
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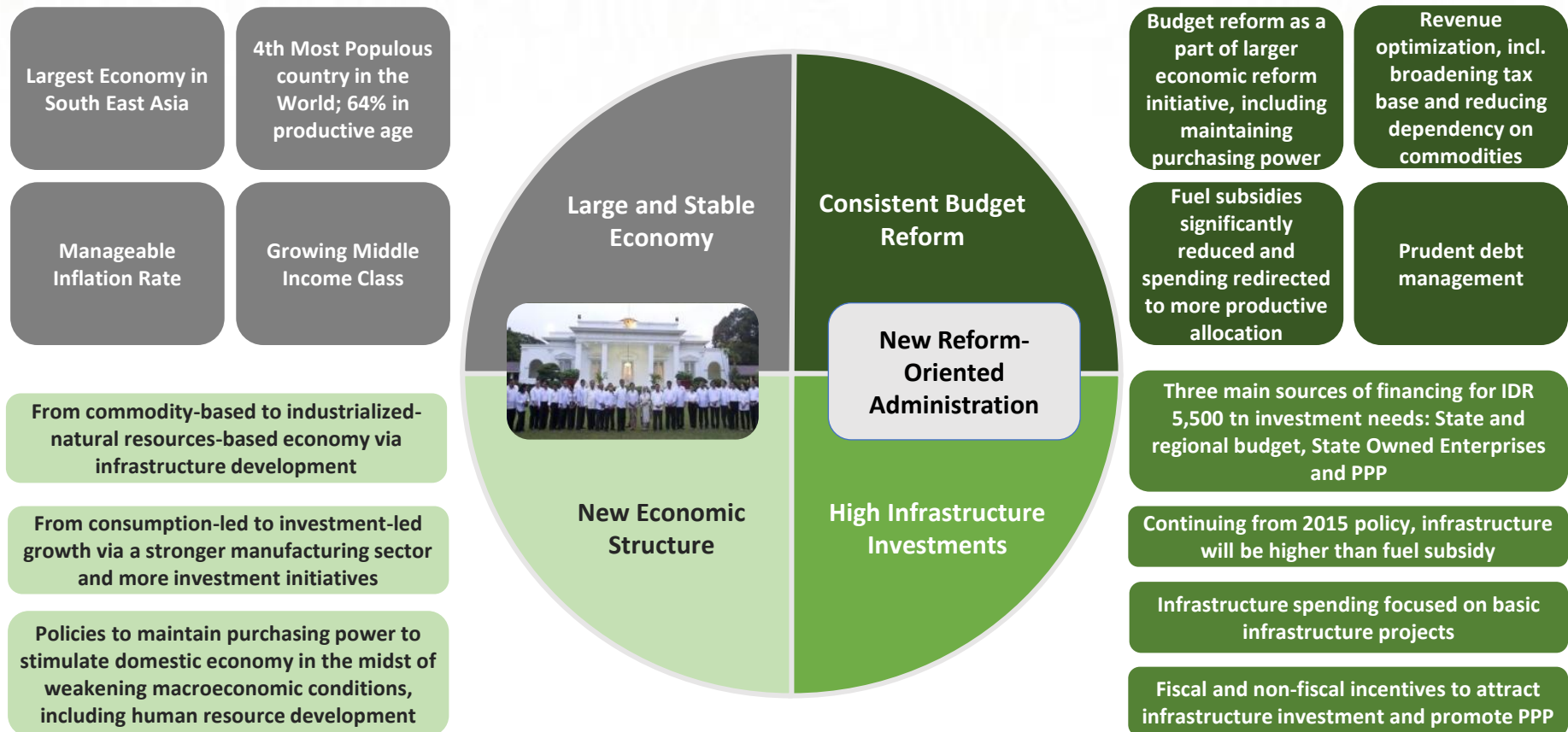
Section I

Executive Summary

Executive Summary: Conducive Environment Underpinning Strong Growth Fundamentals



The solid performance of the economy is underpinned by the series of structural reforms, within the area of budget reforms, infrastructure development, industries revitalization, and human resource development. The reforms are mainly to improve the business climate and competitiveness of the economy.



Executive Summary: Mid-term Development Plan (RPJMN) 2014-2019



Logistic Related



Sea toll concept as a means to support Indonesia in becoming the world maritime axis.

- develop **24 new seaports**
- increase number of substantial vessels (pioneer cargo, transport vessels, pioneer crossing vessels)
- develop 60 crossing ports



Strengthen connectivity through air transport infrastructure development

- develop **15 new airports**
- develop air cargo facilities in 6 locations
- increase number of pioneer airplanes



Improve transport efficiency by road development and maintenance

- develop **2,650 km** of new roads
- develop **1,000 km** of new toll roads
- rehabilitate **46,770 km** of existing road



Reduce logistic cost by improving railway infrastructure

- develop new tracks in Java, Sumatra, Sulawesi, and Kalimantan:
- **2,159 km** inter-urban railways
- **1,099 km** urban railways



Develop urban transport

- develop Bus Rapid Transit (BRT) in **29 cities**
- develop Mass Rapid Transit (MRT) in **6 metropolis** and **17 large cities**.

Energy Related



Achieve electrification ratio of 96.6% by 2019 through generating capacity improvement

- develop **power plants with total capacity of 35,000 MW**



Achieving food sovereignty through irrigation system improvement

- develop **33 new dams** and **30 hydropower plants**
- expand 1 million ha irrigation system
- rehabilitate existing irrigation system



Ensure efficiency of fuel production by optimizing domestic refineries

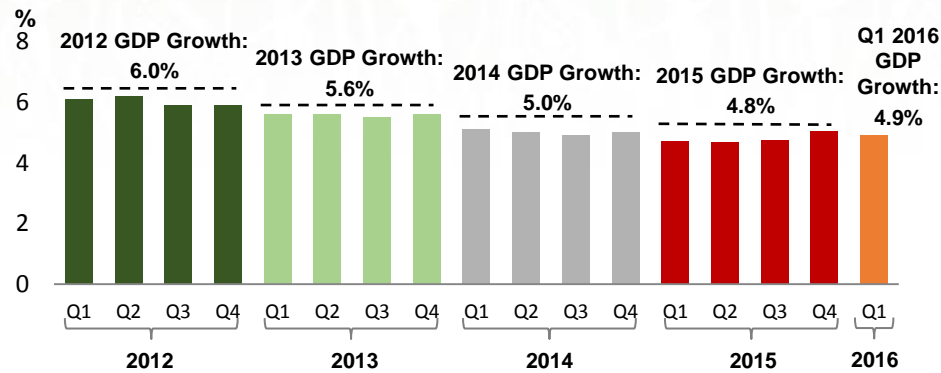
- build **new oil refineries of 2x300,000 barrels**
- Expand existing refineries in Cilacap and Balongan

Executive Summary: Strong Macroeconomic Fundamentals amidst Policy Adjustments



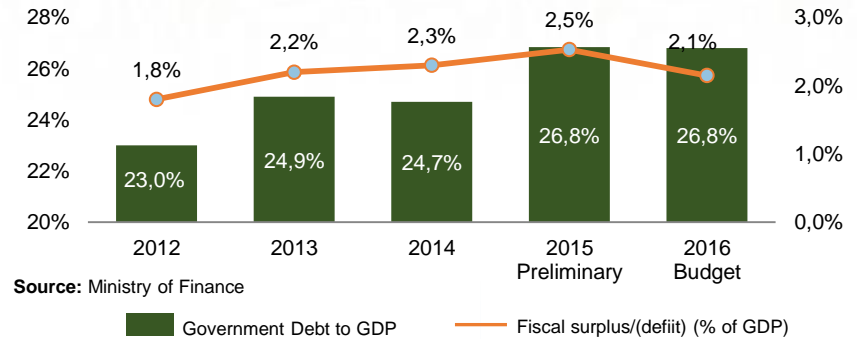
Indonesia's economy continue to show resiliency amidst lingering uncertainty in the global economy and financial market.

GDP Growth (yoy)

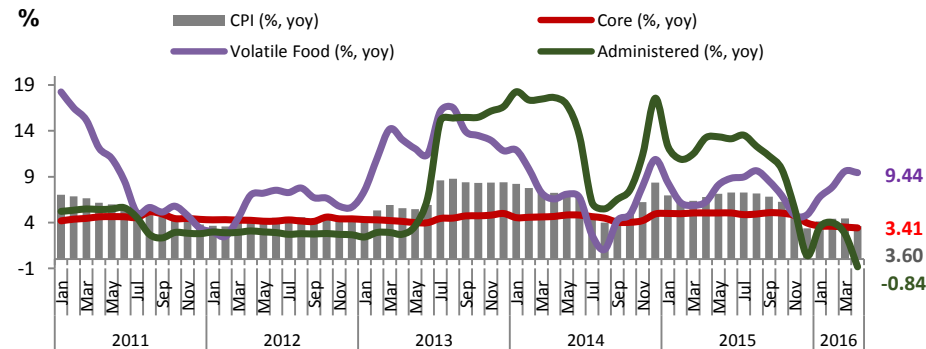


Source: BPS

Well Balanced Debt and Fiscal Management



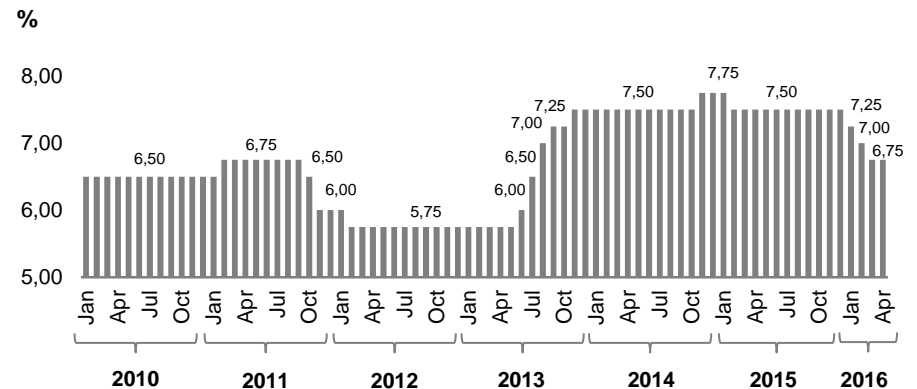
Manageable Inflation Rate



Source: BPS

	Realization	CPI	Core	Adm Price	Vol Food
2015 (yoy)		3.35%	3.95%	0.39%	4.84%
Apr 2016 (yoy)		3.60%	3.41%	-0.84%	9.44%

Pre-emptive and Bold Monetary Policy



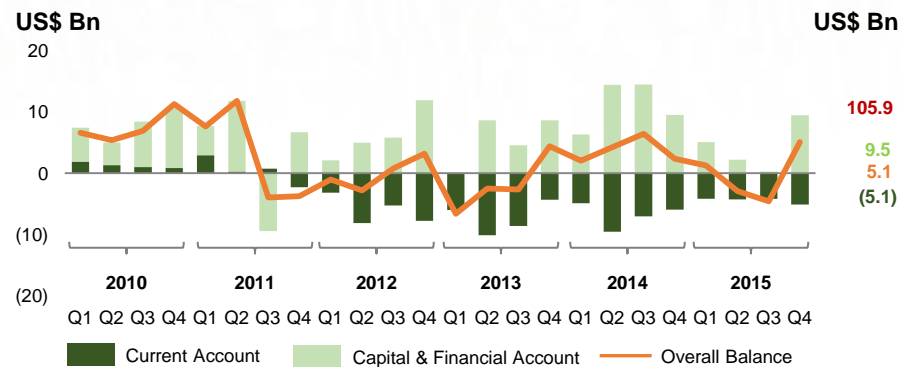
Source: Bank Indonesia

Executive Summary: Strong Macroeconomic Fundamentals amidst Policy Adjustments (continued)



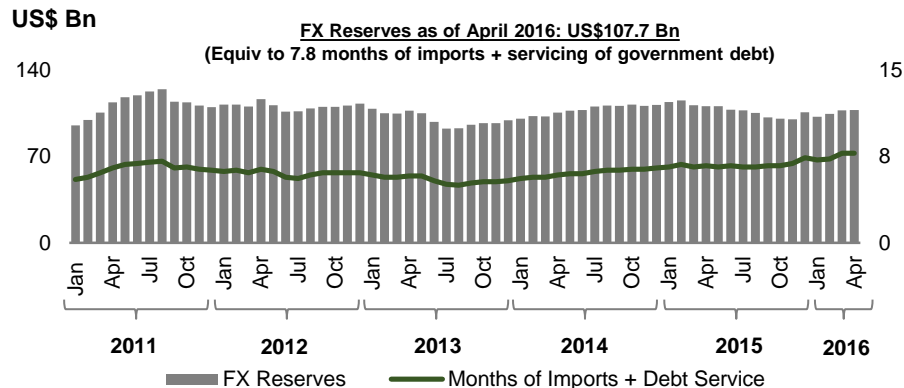
- Macro Indicators Remain Robust Despite External Pressure and Policy Adjustment Initiatives
- Indonesia's resilience to external headwinds has improved. Current account deficit has moved in line with its medium-term norm

Strong Balance of Payments



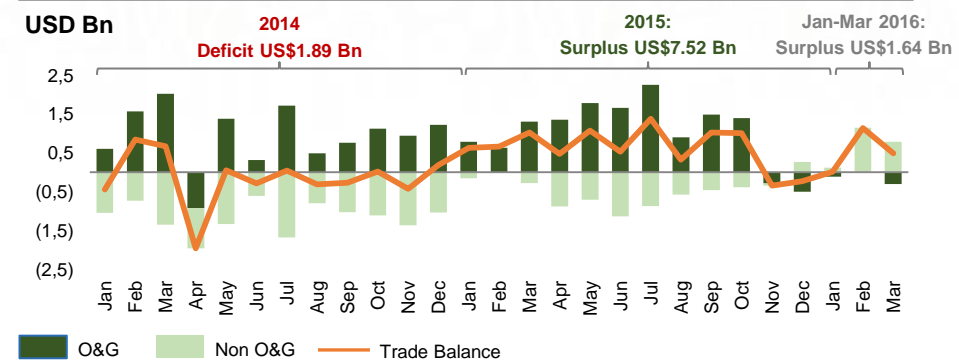
Source: Bank Indonesia

Supported by Substantial FX Reserves to Mitigate External Challenges



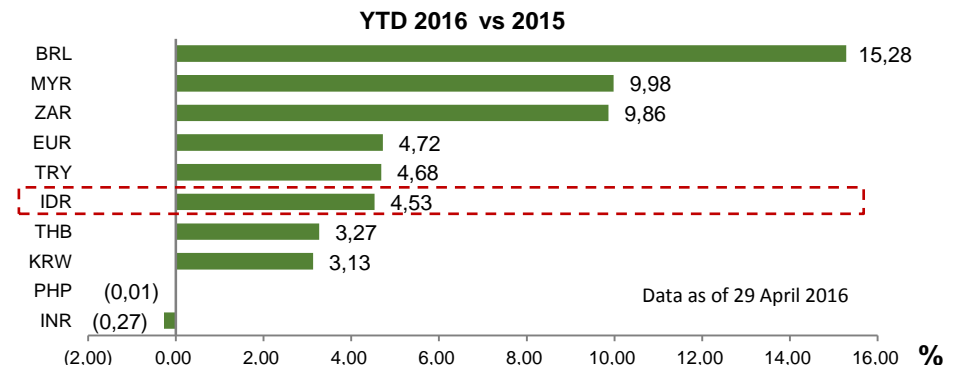
Source: Bank Indonesia

Trade Surplus Since 2015 Continuous



Source: BPS

Appreciation of Rupiah Compared to other EM Countries



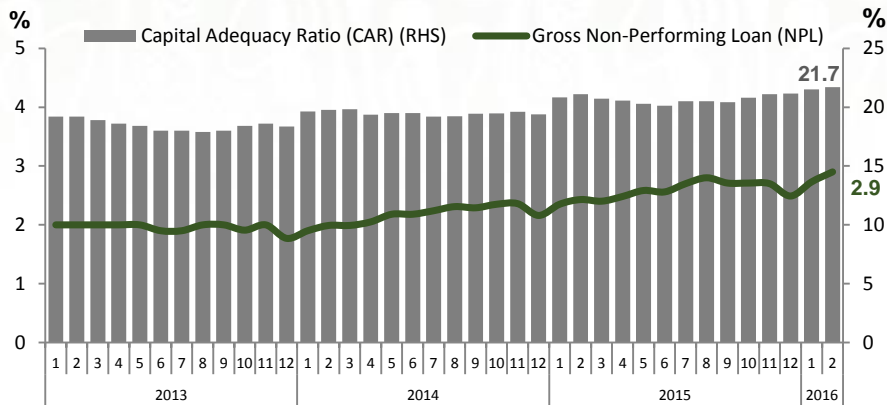
Source: Bank Indonesia

Executive Summary: Banking Sector Continues to Show Resilience

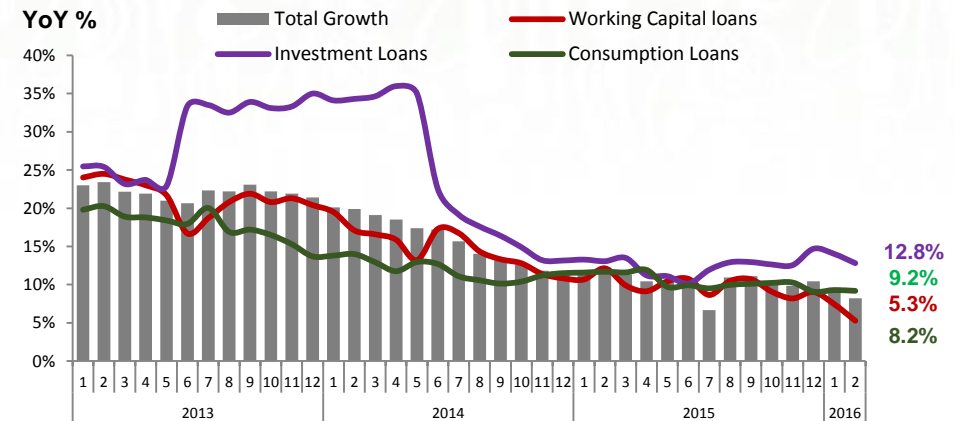


Strong Supervision, Robust Capitalization, Ample Liquidity, and Sustainable Credit Growth

Robust Banking Sector With High CAR & Low NPL Ratios

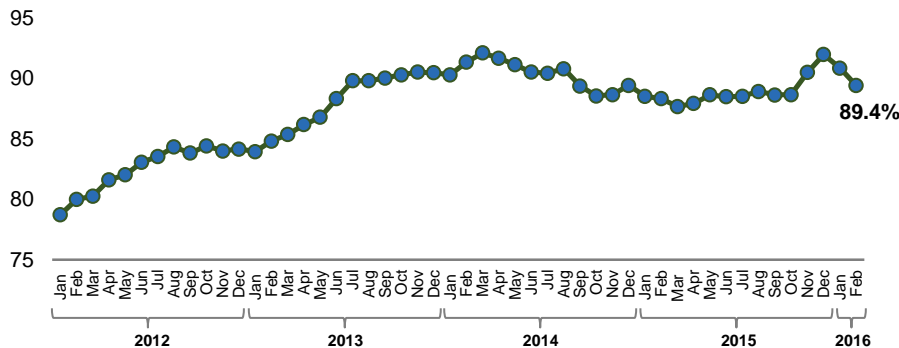


Credit Growth Supported by Macroprudential Policy



LDR Remains at Comfortable Level

Loan-to-Deposit Ratio (%)



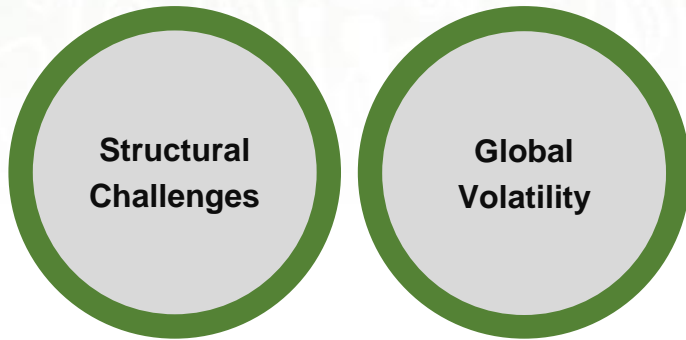
Act of Financial System Crisis Prevention and Resolution (PPKSK)

- Strengthening the role, function, and coordination among the 4 financial authorities in the crisis prevention and resolution.
- Financial crisis prevention by strengthening the regulatory and supervisory functions of banking especially against SIBs.
- Strengthening the resolution of systemic bank issues by prioritizing bail-in principle.
- BI provides Short-Term Liquidity Loans (PLJP) to banks which are solvent and has sufficient collateral.
- Implementation of the action plan (recovery plan) by OJK and early intervention by LPS in the event of a systemic bank experiencing solvency issues.
- In financial distress, the president has full authority to take decisions for crisis handling.
- Immunity and Legal Protection for KSSK members (MoF, BI, OJK, LPS).

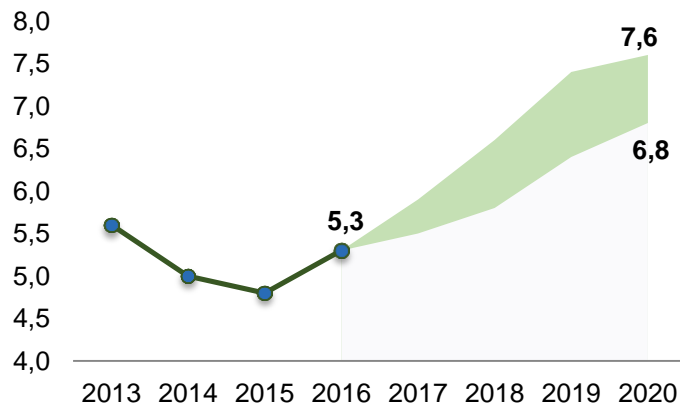
Executive Summary: Consistent Domestic Reform is Fundamental to Accelerate Growth



Ensure sustainable and equitable economic growth



Investment to contribute larger part in achieving sustainable and equitable economic growth



Long Term Strategy to Create Sustainable and Equitable Economic Growth



Short Term Strategy to Navigate Global Uncertainties and Financial Turmoil





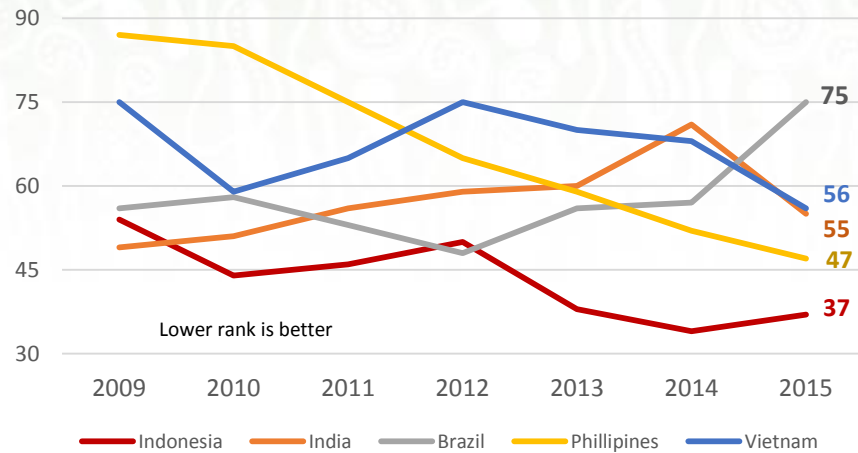
Section II

**Institutional And Governance Effectiveness:
Unwavering Commitment on Reforms Agenda**

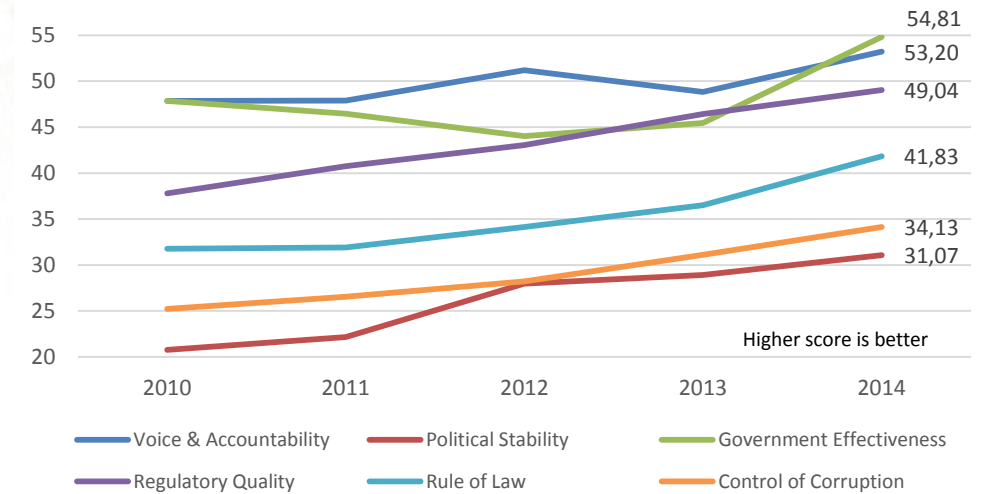
Improving Global Perception



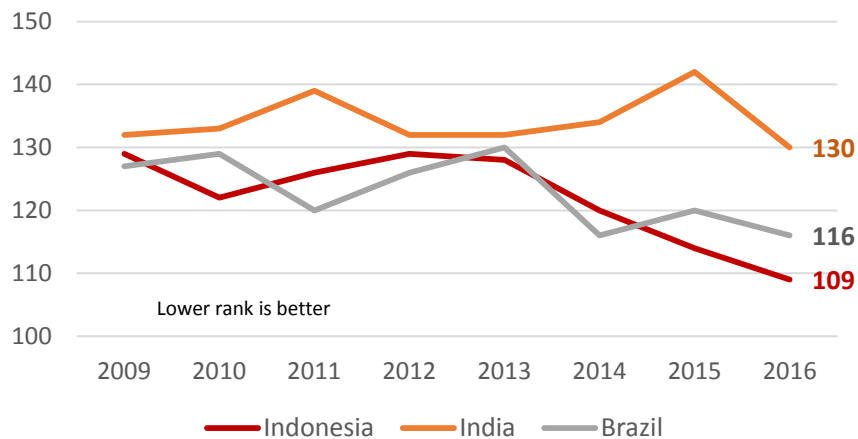
WEF Global Competitiveness



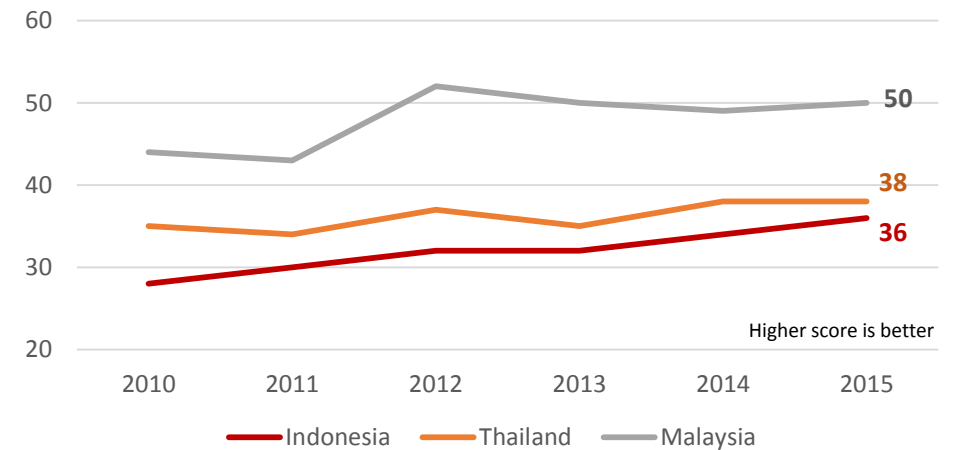
World Governance Indicators



Ease of Doing Business



Corruption Perception Index

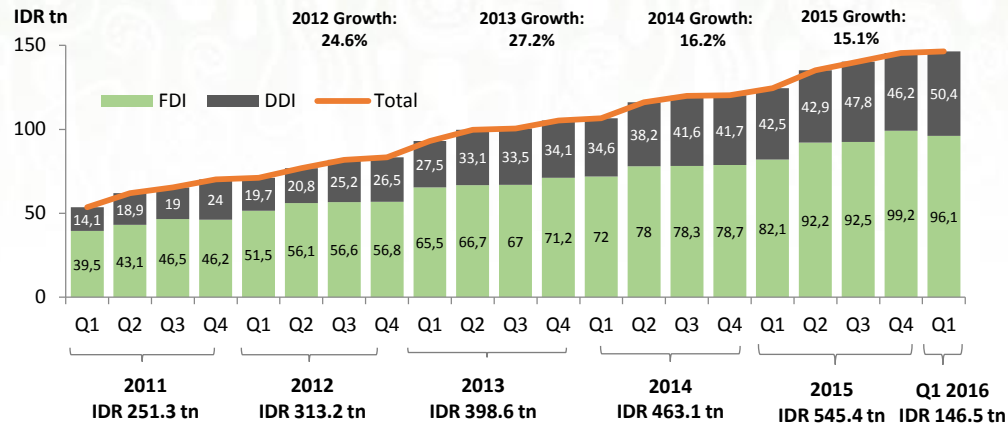




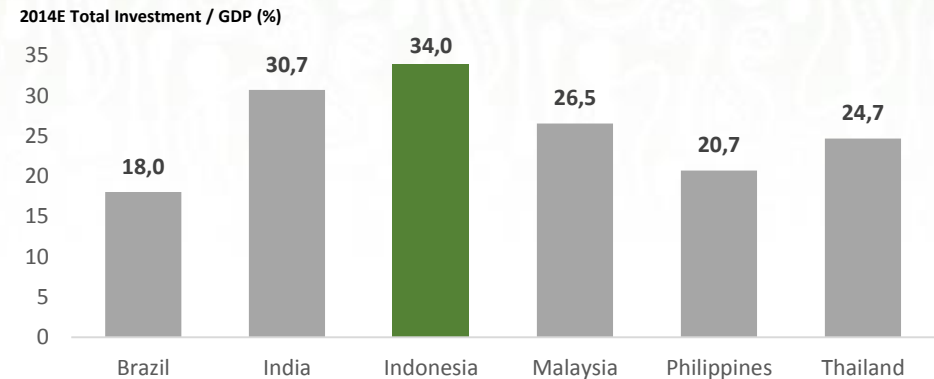
Indonesia Remains the Investment Destination of Choice

Indonesia continues to climb the ranks upon rising optimism in the country

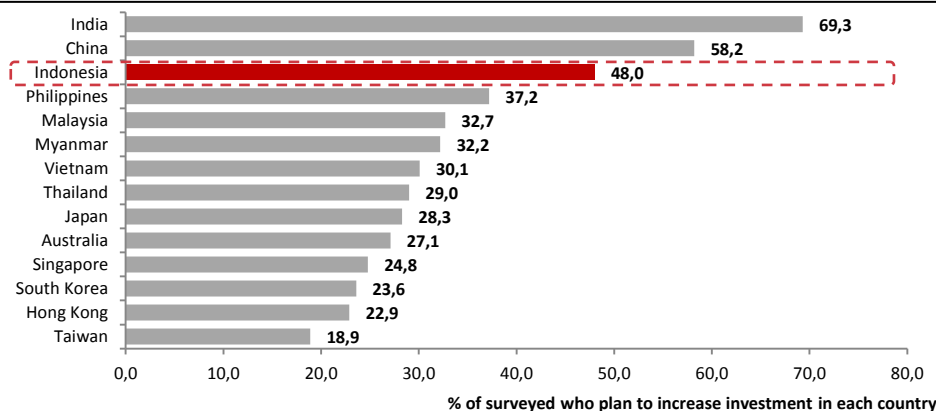
Investments have continued to grow in 2015¹



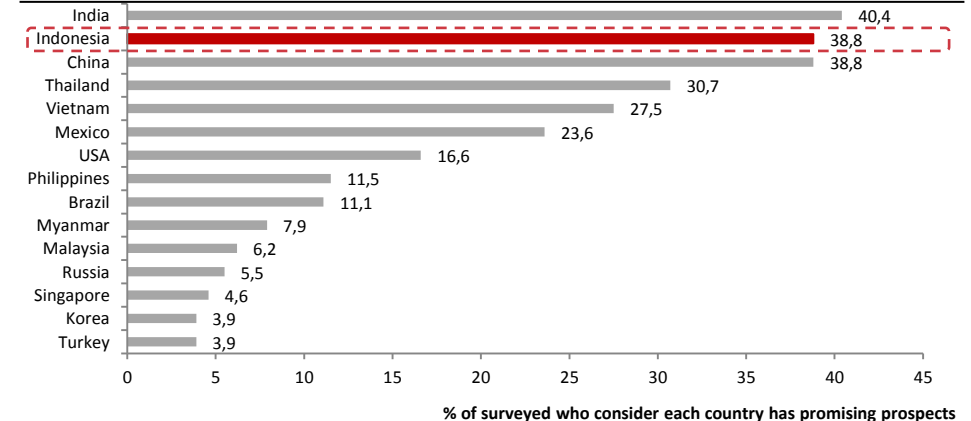
Indonesia enjoys large investments relative to peers within the region²



The Economist: Indonesia among the top 3 destination for attracting investors in Asia (January 2016)³



JBIC: Amongst ASEAN countries, Indonesia is the most preferred place for business investment (December 2015)⁴



1. Source: Indonesia Investment Coordinating Board (BKPM);
2. Source: IMF World Economic Outlook, Database October 2015;

3. The Economist – Asia Business Outlook Survey 2016;
4. Source: JBIC – Outlook for Japanese Foreign Direct Investment (27th Annual Survey);

Improving Investment Climate:

Introduce 3-hour investment licensing service to complement One Stop Service (OSS)



Priority Investment Service

3-hour Service

Available for investors with minimum investment of IDR 100 billion (USD 8 million) and/or employing 1,000 local workers.

No requirements for investment in infrastructure sector.

9 documents obtained

Certainty to start a business

- Investment license
- Certificate of incorporation
- NPWP / Tax registration
- TDP / Company registration

Certainty to work

- RPTKA / Employment plan
- IMTA / Working permit

Certainty to import capital goods

- APIP / Import identification
- NIK / Customs registration

Accurate land Information

- Letter of land availability



- **Arrive** at One-stop Integrated Service 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 your business.

Until April 2016, there were 43 companies obtained 3 hours services

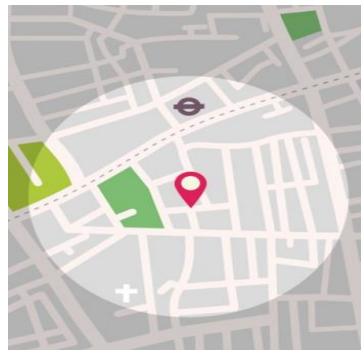
Priority Investment Service

Direct Construction (KLIK)

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

No Requirements

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

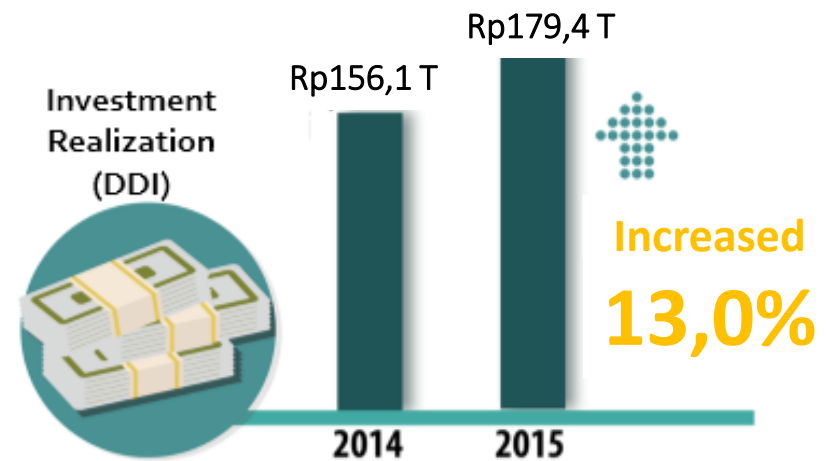
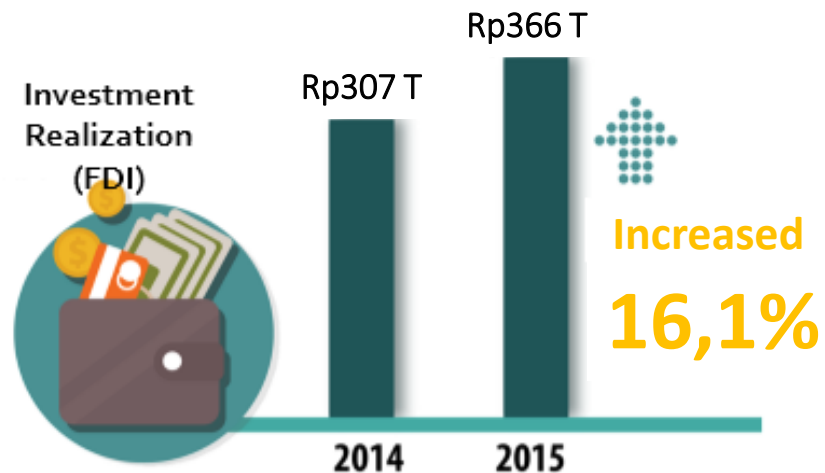
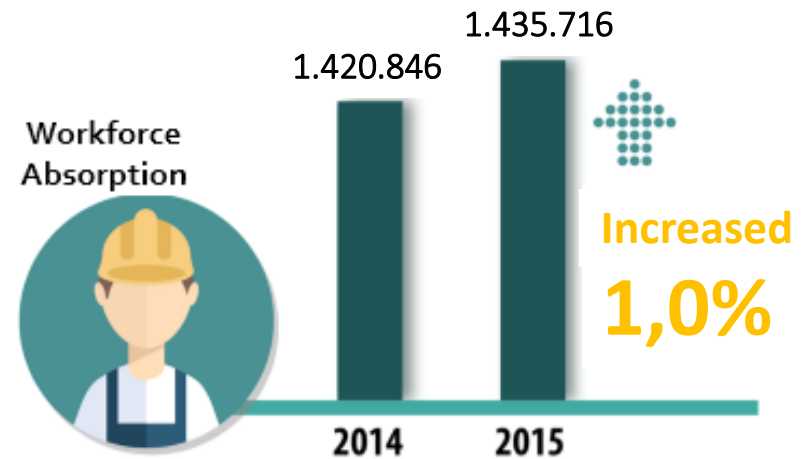
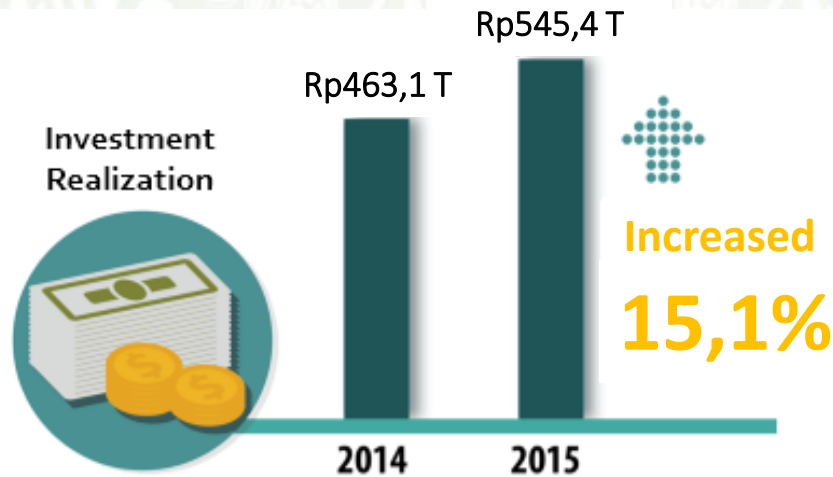


Obtain investment licence at One-stop Integrated Service (PTSP) at national or regional level.

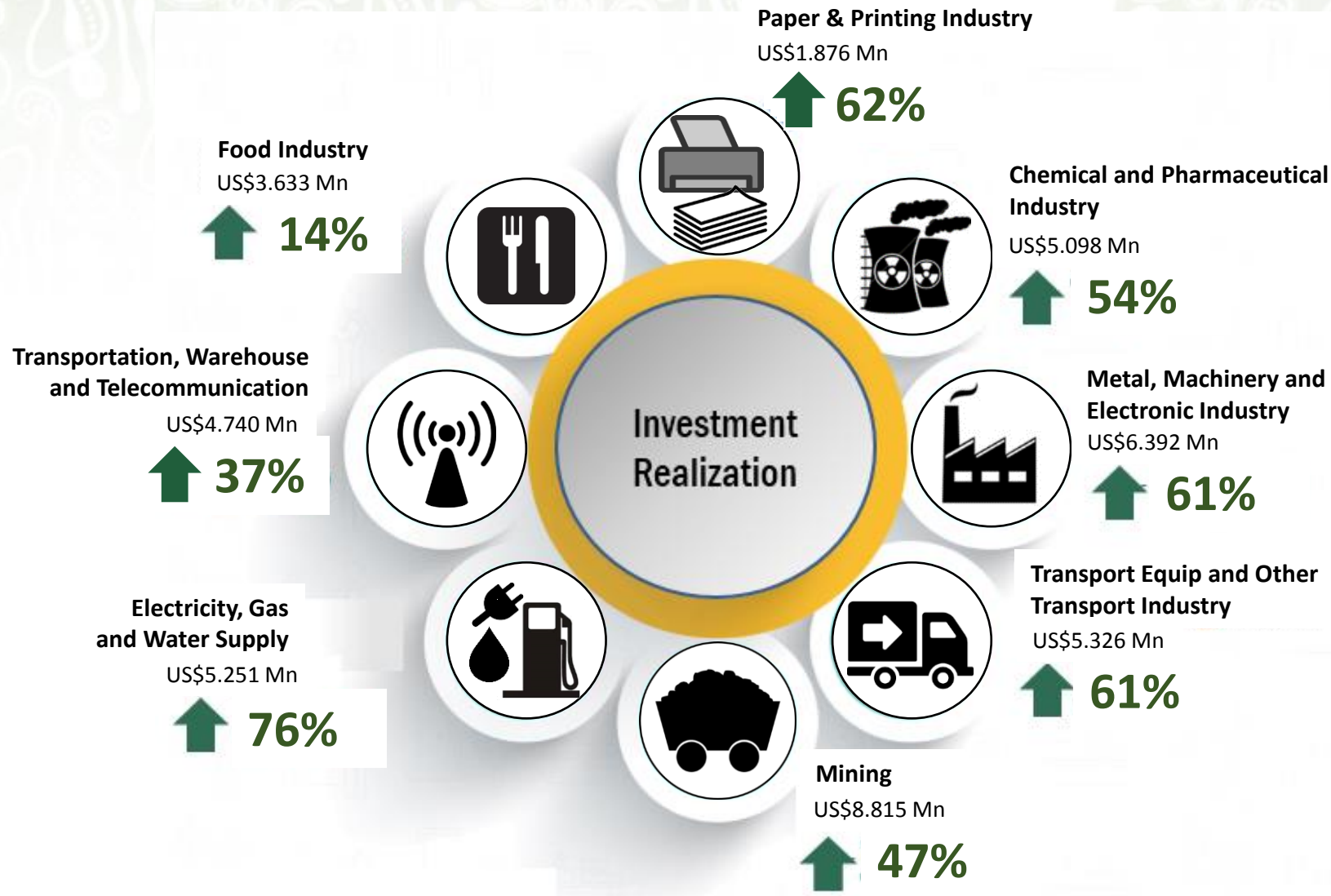
- **Survey** a land within selected industrial parks.
- **Acquire** the land for your industry.

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

Improving Investment Realization (Jan-Dec 2015)



FDI Realization by Sectors (Jan-Dec 2015)



Short Run Policy Package I, II, and III

...to navigate through uncertain global environment and to stimulate domestic economic growth, Indonesia has launched a series of economic policy package



Stimulus Package I: 9 Sep 2015

Cut Red Tapes

- Rewriting **89 out of 154 regulations**
- Deregulation policies such as **relaxing visa requirements, gas price adjustment** for certain industries and **enhancing cooperative function**
- **Simplification to obtain business licenses** and implementation of **e-services**

Accelerate Strategic National Projects

- Simplifying **spatial license & land accommodation**
- Accelerating **goods & service procurement** for the government
- Discretion in legal issue barriers
- Strengthen the **role of regional heads** to **accelerate national strategic project completion**

Boost Low Income Housing

- Promoting **housing construction for low income citizens**
- Expanding opportunity for **investments in property sector**

Stimulus Package II: 29 Sep 2015

Simpler Permit Requirements

- Ease bureaucracy for investments via **3-hour permit issuance program**
- **Faster process for tax allowance and holiday** for qualified investments to 25 days and 45 days, respectively
- **Streamline permit requirements in forestry sector** from 14 to 9

Tax Incentives

- Elimination of **VAT for transport industries** (train, shipping and air transport inc. spare parts)
- **Reducing tax rate on deposits from export proceeds**. 1-month deposit tax 10%, 3-month 7.5%, 6-month 2.5% and more than 6-month 0%

Integrated Logistics Facilities

- Facility incentive on **integrated logistic center**
- Two facilities slated to be operational by end of 2015; Cikarang (Manufacturing) and Merak (Fuels)

Stimulus Package III: 7 Oct 2015

Lower Fuel and Electricity Prices

- **Lower retail fuel costs** (jet fuel, LPG and retail fuel)
- **Decrease gas price** for factories and qualified industries
- Lower **industrial electricity prices**

Land Permit Simplification for Investment Activities

- **3-hour turnaround** for land availability
- Faster approval time for **building, leasehold, use right and land permits**

Broadening of Small Business Credit Recipients

- Expanding criteria of eligible recipients for Small Business Credit

Short Run Policy Package IV, V, and VI

...to navigate through uncertain global environment and to stimulate domestic economic growth, Indonesia has launched a series of economic policy package



Stimulus Package IV: 15 Oct 2015



Fair, Simplified and Projectable Wage System

- Setting **Provincial Minimum Wage** regulation
- Formula for setting minimum wage to ensure **simplified, stable and projectable yearly wage adjustments**



Ease and Affordability of Small Business Credit

- Government provides **subsidy on small business credit** to stimulate credit growth in banking sector and affordability to applicants
- Expanding **criteria for small business credit** to include:
 - Micro, Small and Medium enterprises in productive sectors (farming, fishery, manufacturing, creative business, trading and services)
 - Overseas Indonesian workers with occupation in formal sectors
 - Family members of salaried workers
 - Ex-Overseas Indonesian workers
 - Overseas Indonesian workers with terminated contract

Stimulus Package V: 23 Oct 2015



Lower Asset Revaluation Tax

- **Revaluation tax originally set at 10%**
- Under new incentive, tax rates are cut according to periods, detailed below:
 - Revaluation period until **31 Dec 2015**: tax rate at **3%**
 - Revaluation period until **30 Jun 2016**: tax rate at **4%**
 - Revaluation period until **31 Dec 2016**: tax rate at **6%**



Eliminating Double Taxation for REITs

- **Eliminating double taxation system** for Real Estate Investment Trusts (**REITs**)
- Encourage **Indonesian property and infrastructure companies** to issue REITs in Indonesia

Stimulus Package VI: 5 Nov 2015



Propel Rural Economies through Development in Special Economic Zones (SEZs)

- **Tax holiday** (reduce income tax) **and tax allowance** (reduce net income and accelerate depreciation).
- **No charges** on value-added tax and luxury goods tax
- Import duty tariff require Certificate of Origin
- Foreigners are allowed to have property
- Reduce tax on development and amusement in tourist areas
- Establish wage boards and specialized tripartite agencies
- Grant 30 days visitor visa which are extendable for 5 times
- SEZ administrator is able to provide land services
- SEZ administrator is able to issue principles and business permits
- Accelerating licensing process a max. of 3 hours



Sustainable and Equitable Water Supply to the Community

- Drafting government regulations (RPP) on water resources utilization
- Drafting RPP on water supply systems (SPAM)
- Ensure that private entities do not dominate the whole SPAM subsystem
- Private water supplier to meet their needs on its own.



Simplifying Import Licensing for Pharmaceutical Raw Materials

- Simplifying the licensing process to only 5.7 hours
- Target 100% paperless

Short Run Policy Package VII, VIII, and IX

...to navigate through uncertain global environment and to stimulate domestic economic growth, Indonesia has launched a series of economic policy package



Stimulus Package VII: 4 Dec 2015



Acceleration of Land Certification Process

- **Increasing numbers of certified surveyor**, especially from non-civil servant.
- **Speed up the time needed to land registration announcement**, from 60-30 days to 14 days
- Shifting land registration process to electronic system
- Giving communal rights for indigeneous peoples and people who lives in plantation/forest area

% Tax Incentive for Labor Intensive Industry

- **Releasing Government Regulation (PP) which facilitate income tax (PPh)** for the labor works in labor intensive industry for 2 years
- Giving tax facilities for various footwear industries throughout provinces in Indonesia

Stimulus Package VIII: 21 Dec 2015



One Map Policy

- **All government office will use only thematic map in 1:50.000** in order to accelerate the settlement of land using problem and to solve the country's borderline problem



Refinery Construction

- **New refinery will be constructed in Tuban and Bontang**, to support the existing refinery in Cilacap, Balikpapan, Balongan and Dumai.



Incentive for Aircraft Maintenance Companies

- **0% of import duty will be applied for 21 tariff post regarding aircraft sparepart and maintenance components**

Stimulus Package IX: 27 Jan 2016



Accelerated Construction of Electricity Infrastructure

- The Government will support State Electricity Company (PLN) in its various actions by guaranteeing the supply of primary energy;
- Giving facilities for development of renewable energy sources;
- Streamlining of licensing through the one-stop-shop;
- Resolution of conflicting spatial planning, provision of land and resolution of legal issues



Stabilisation of Meat Prices

- Expanding the cattle population;
- Development of logistics and distribution;
- Improvements to the cattle and beef regulated trading schemes;
- Institutional strengthening involving Smallholder Livestock Centres (SPRs).



Deregulation on Logistics Sector

- Development of commercial postal services
- Electronic single billing for port services
- SoE's synergy in development of export aggregators for SME's products, geographical indications and the creative economy
- Electronic port integrated services system

Short Run Policy Package X, XI, and XII

...to navigate through uncertain global environment and to stimulate domestic economic growth, Indonesia has launched a series of economic policy package



Stimulus Package X:

11 Feb 2016



Easing of Investment Restrictions

- The government has added 19 business categories to those reserved for micro, small and medium enterprises and cooperative (MSMECs) in a revision to Presidential Decree Number 39 of 2014 concerning the List of Business Closed and Conditionally Open to Investment, more commonly known as the Negative Investment List (NIL).
- 35 business categories, including crumb rubber production; cold storage; tourism (restaurants, bars, cafés, recreational, art and entertainment businesses, sports facilities); the film-making industry; operation of marketplace electronic transactions above Rp 100 billion; establishment of telecommunication devices testing institutions; toll road concessions; non-hazardous waste management and disposal; and the pharmaceutical raw material industry have been taken off the NIL.
- The revisions to the NIL also opens 20 business categories to foreigners permitted to hold shares up to particular levels, compared to the previously required 100% domestic investment, including health support services (max. 67% foreign capital), land passenger transportation (max. 49%), the film-making industry including film distribution (up to 100%) and high/extra high voltage power utility installations.

Stimulus Package XI:

29 Mar 2016



Export-Oriented People's Business Credit (KURBE)

- Provide complete and integrated export finance facilities for the working capital and investment needs of micro, small and medium enterprises.



Real Estate Investment Trust (REITs)

- Issue REITs at relatively low cost in order to bolster efficiency in provision of long-term investment funds in support of accelerated construction of infrastructure and housing under the National Medium-Term Plan for 2015-2019.



Risk Management for Expediting Flows of Goods in Ports (Indonesia Single Risk Management/ISRM)

- Expedite services for import/export activities that can offer business certainty, efficiency in times and costs of licensing, and savings in dwelling time through more effective supervision through integration of risk management among the relevant line ministries/government agencies.



Further Development of the Pharmaceutical and Medical Equipment Industries

- Guarantee the availability of pharmaceutical preparations (i.e. drugs, drug raw materials, traditional medicines and cosmetics) and medical equipment in an effort to improve health services under the National Health Insurance (JKN) and promote affordable prices for drugs in Indonesia.

Stimulus Package XII:

28 April 2016



Simplification of Licensing, Procedures, Duration, and Cost of Starting Business in Indonesia

- **Starting Business**
Cutting procedures and minimum requirements in the establishment of Limited Company (Ltd.)
- **Dealing with Construction Permit**
Simplification from 17 procedures / 210 days to 14 procedures / 52 days
- **Registering Property**
Simplification from 5 procedures / 25 days to 3 procedures / 7 days
- **Paying Taxes**
Introduce online tax system to simplify procedure from 54-time to 10-time payments.
- **Getting Credit**
Easing access to credit through PT Pefindo Biro Kredit and PT Kredit Biro Indonesia Jaya
- **Enforcing Contract**
Simple disputes will be settled through 8 procedures that take 28 days to complete
- **Getting Electricity**
Simplification from 5 procedures / 80 days to 4 procedures / 25 days
- **Trading Across Borders**
Cut export time from 4.5 days to 3 days and export fees from USD424 to USD83.
- **Resolving Insolvency**
Return for curator is calculated by the percentage of debtor's asset value (based on the value of debt)
- **Protecting Minority Investors**
Minority investors will be protected by the existing regulations.

Efforts to Accelerate Infrastructure Provision

Improvement on PPP Regulation

- By taking into account the growth of PPP project potential, the Government of Indonesia has revised the Presidential Regulation No. 67 of 2005 on PPP and its amendments by issuing the new Presidential Regulation No. 38 of 2015 on PPP on 20 March 2015.
- This new Presidential Regulation addresses the constraints which contributes to delays in PPP implementation, such as: PPP for the social infrastructure; a low quality of pre-feasibility studies; gaps of quality in assets that were partly constructed by the Government; unattractive investment return scheme; and weak Ministries/Institutions commitment for PPP projects.



The Ministry of National Development Planning has issued the Ministerial Regulation No. 4 of 2015 on the implementation Procedures for a Public-Private Partnership in Infrastructure Provision. This Ministerial Regulation is a derivative regulation to supplement the Presidential Regulation No. 38 of 2015 on PPP.

Efforts to Accelerate Infrastructure Provision (continued)

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.

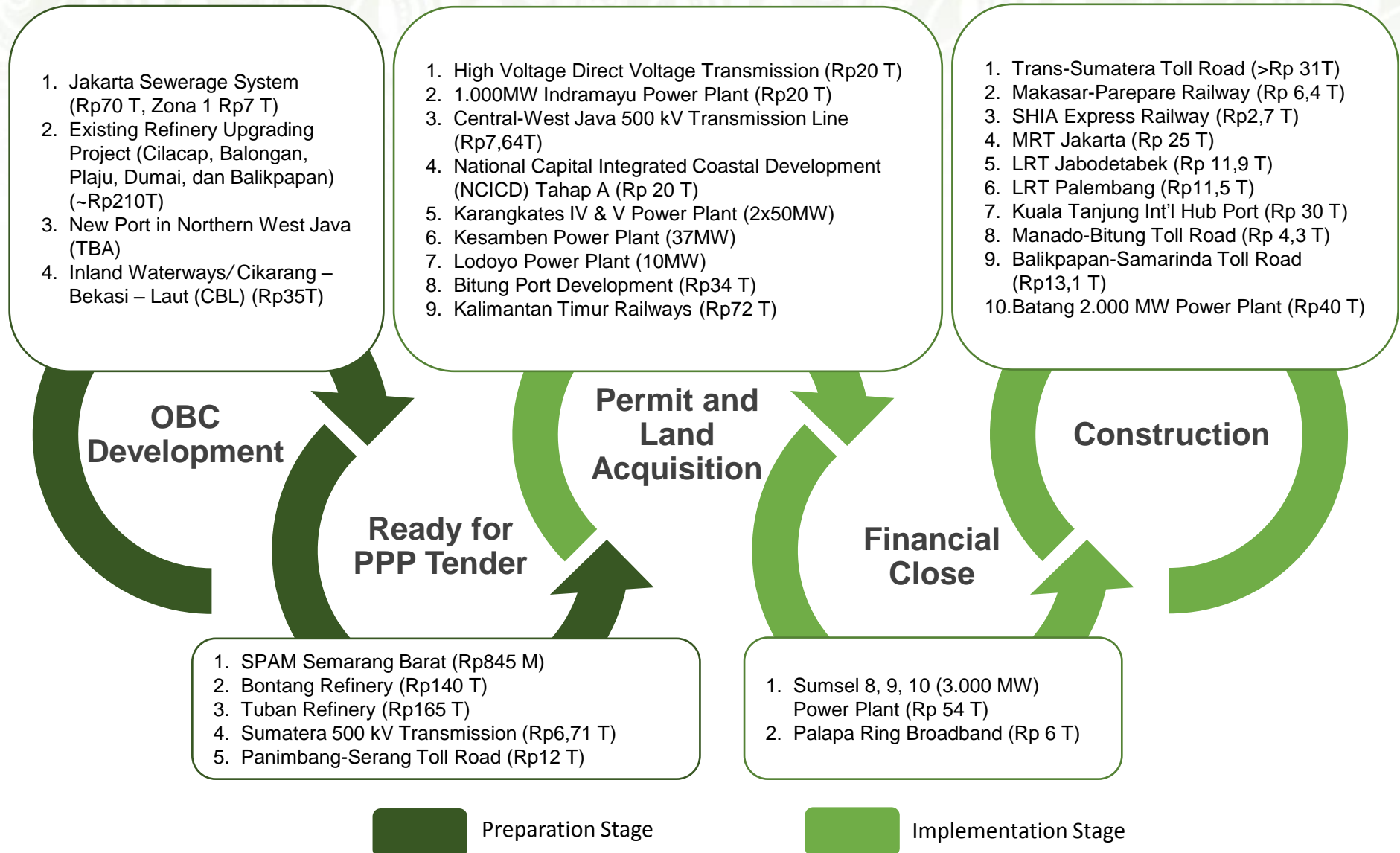
“Law No. 2 of 2012 was successfully applied in the Palembang - Indralaya Section of the Trans Sumatra Toll Road project.”



Land Procurement Process as Stipulated in Law No. 2 of 2012



30 Priority Projects Within the Pipeline



Significant Progress on Key Infrastructure Projects



Improving the Nation's Connectivity, Efficiency and Quality of Life Funded by Both Budget and Private Sector

Roads



Trans-Sumatra Highway



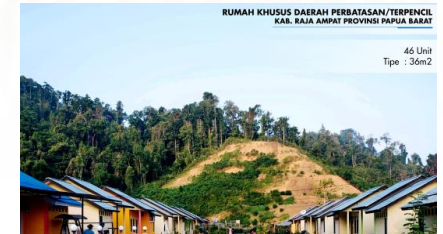
Cikampek-Palimanan Highway (Operational)

Dams



Jatigede Dam (Completed)

Housing



Raja Ampat Housing Project, Papua

Transportation



Jakarta MRT Project¹



Terminal 3 Ultimate Soekarno-Hatta¹



New Tanjung Priok Port Project¹



Komodo Airport, NTT



Matahora Airport, Southeast Sulawesi



Tual Airport, Maluku



Juwata Airport, Tarakan

¹ Not funded from National Budget



Section III

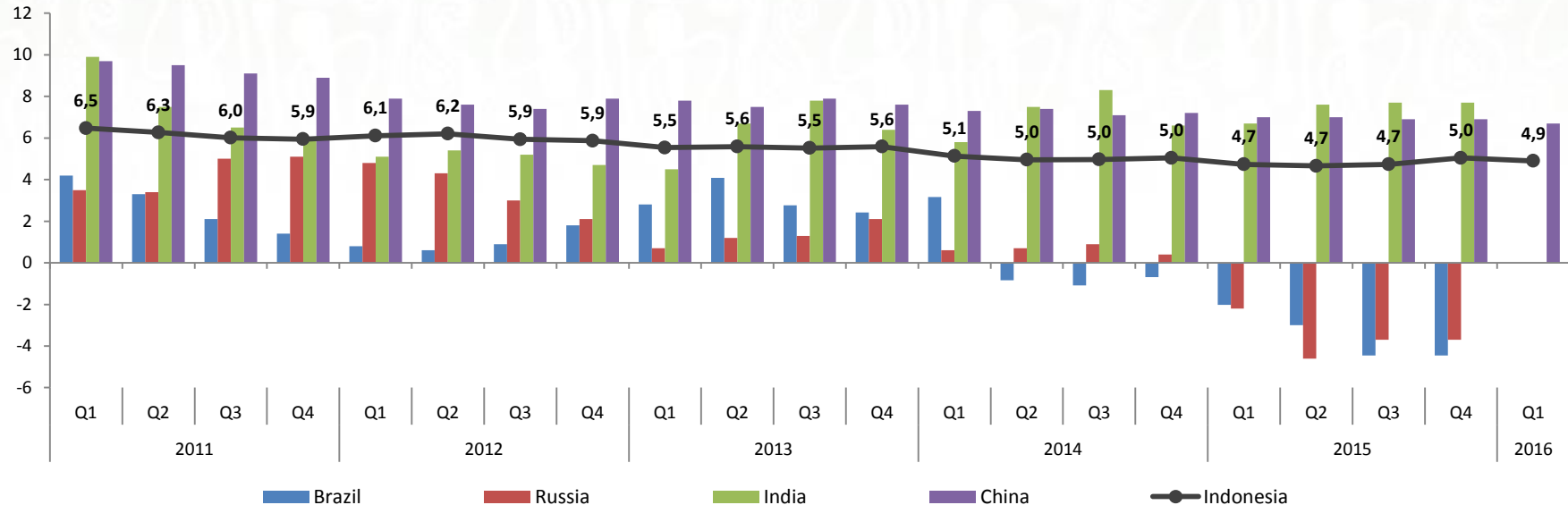
**Economic Factor:
Healthy Growth Prospects Remain Intact**

Cementing Status as an Economic Powerhouse



Indonesia's GDP growth rate has been stable and continues to be robust relative to other EM peers

GDP Growth YoY (%)



Source: Bloomberg L.P.

The Indonesian government remains vigilant on the following key sources of global risk and volatility pressure points

Advanced Economies Performance

US shows some improvements, but Japan and Europe are still in slow recovery stage

Policy Uncertainties in Developed Countries

The Fed normalization, BoJ and ECB stimulus packages

Global Commodity Markets

Volatile with tendency to weaken

China Growth Slowdown

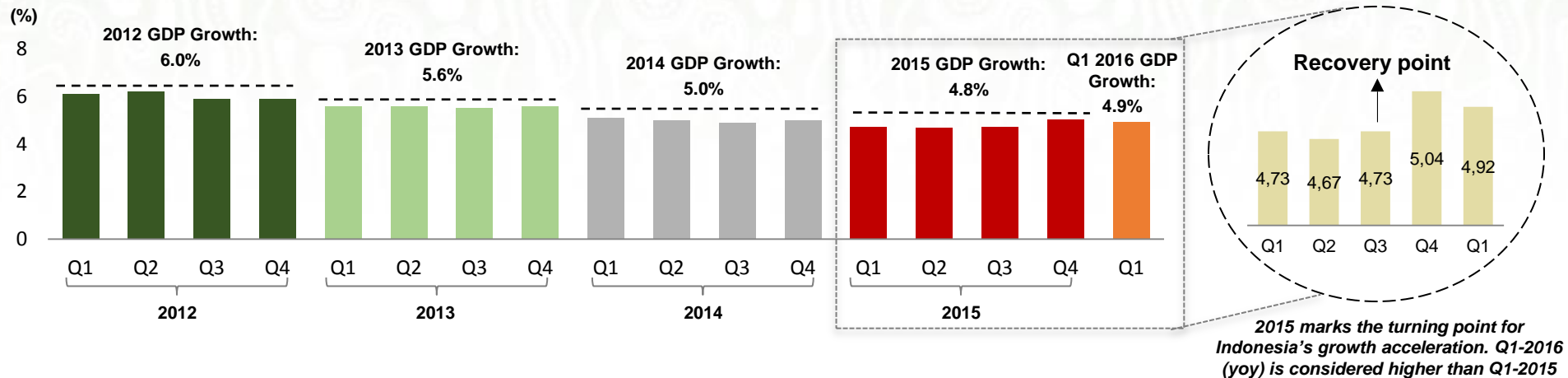
Hard or soft landing?

Yuan Devaluation Policy
exerting pressure to other Asian currencies

Indonesia Economy on Stable Growth Path with Q3-2015 as The Recovery Point



GDP Growth (Y-o-Y)

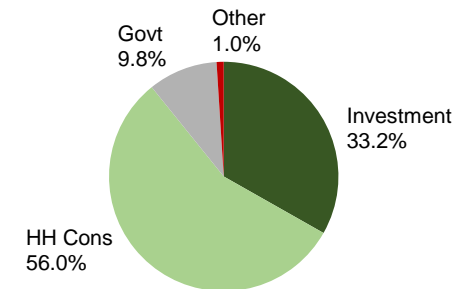


Expenditure Component (%)	2013	2014	2015					2016
	Yearly	Yearly	Q1	Q2	Q3	Q4	Yearly	Q1
HH Consumption	5.4	5.1	5.0	5.0	5.0	4.9	5.0	4.9
Non Profit Consumption	8.2	12.4	(8.3)	(7.9)	6.4	8.3	(0.6)	6.4
Government Spending	6.9	1.9	2.2	2.3	6.6	7.3	5.4	2.9
Investment	5.3	4.1	4.4	3.6	4.6	6.9	5.1	5.6
Export	4.2	1.0	(0.9)	(0.1)	(0.7)	(6.4)	(2.0)	3.9
Import	1.9	2.2	(2.3)	(6.8)	(6.1)	(8.1)	(5.8)	4.2
GDP	5.6	5.0	4.7	4.7	4.7	5.0	4.8	4.9

Source: BPS

- **Govt. consumption** has increased significantly due to higher expenditure absorption. Positive consumer sentiment.
- **Investment increased significantly** due to a stronger capex spending and positively growing sectors (construction, vehicle, machinery)
- HH consumption is relatively stable with non profit consumption increased
- **External (trade) sector still experiencing slowdown** due to soft commodity and oil prices and slower non-oil & gas exports

GDP Contribution 2015



Despite weak global macroeconomic conditions, stable growth in Indonesia is expected to be supported by public consumption and investments



Indonesia's Growth Fundamentals Remain Healthy

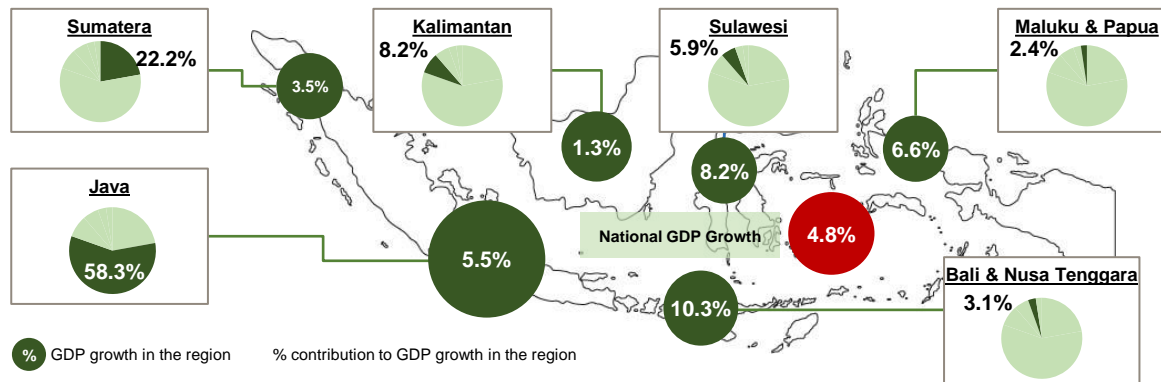
Stable Growth on the Back of Household Consumption and Java Island, Bolstered by Ongoing Shift from Commodity-based Economy to Value-adding Sectors and Investments

GDP Growth by Sector (% YoY)	2013	2014	2015				2016
	Yearly	Yearly	Q1	Q2	Q3	Q4	Yearly
Agriculture, Forestry, and Fishery	4.2	4.2	4.0	6.9	3.3	1.6	4.0
Mining Industries	1.7	0.6	(1.3)	(5.2)	(5.7)	(7.9)	(5.1)
Industrial processing	4.5	4.6	4.0	4.1	4.5	4.4	4.2
Construction	6.1	7.0	6.0	5.4	6.8	8.2	6.6
Big traders and Wholesale and Retail; Automotive Repair	4.7	4.8	4.1	1.7	1.4	2.8	2.5
Transportation and Warehousing	8.4	8.0	5.8	5.9	7.3	7.7	6.7
Information and Communication	10.4	10.0	10.1	9.7	10.7	9.7	10.1
Other Services	6.4	8.9	8.0	8.1	8.1	8.2	8.1
GDP	5.6	5.0	4.7	4.7	4.7	5.0	4.8

- Strong growth of construction sector as a result of government capital expenditure in 2H15
- Primary sector showed weakened performance due to bearish condition of the commodities market, particularly in mining
- Industrial processing sector grew slower than Q4 2014 due to contraction in external trade growth. This will become the main focus for the Government's industrialization efforts
- Slower growth in trading sector was notable due to negative growth of import and export

Source: BPS

GDP Growth Contribution by Region (2015)



Source: BPS

- Majority of Indonesia's growth was driven from Java island
- Growth in Java is higher than resource-rich regions such as Sumatra and Kalimantan, given its high industrialization and larger consumption base
- Indonesia continues to drive growth in resource-based industrialization to shift from commodity-based economy

The Government of Indonesia is committed to shift from resource-based economy to manufacturing and value-adding sectors through policy reforms, tax intensification and other new breakthroughs



Indonesia's Growth Fundamentals Remain Healthy (continued)

Indonesia's 2016 GDP Growth Projected at 5.2 – 5.6%, In-Line with National Budget Assumption at 5.3%

Global Growth (YoY) Showings Signs of Recovery in 2016

WEO IMF		2014	2015	2016				
			Jan '16	April '15	Jul '15	Oct '15	Jan '16	April '16
GDP Growth	World	3.4	3.1	3.8	3.8	3.6	3.6	3.2
	US	2.4	2.5	3.1	3.0	2.8	2.6	2.4
	Europe	0.9	1.5	1.6	1.7	1.6	1.7	1.5
	China	7.3	6.9	6.3	6.3	6.3	6.3	6.5
	India	7.3	7.3	7.5	7.5	7.5	7.5	7.5
	ASEAN-5	4.6	4.7	5.3	5.1	4.9	4.8	4.8

Source: WEO, IMF

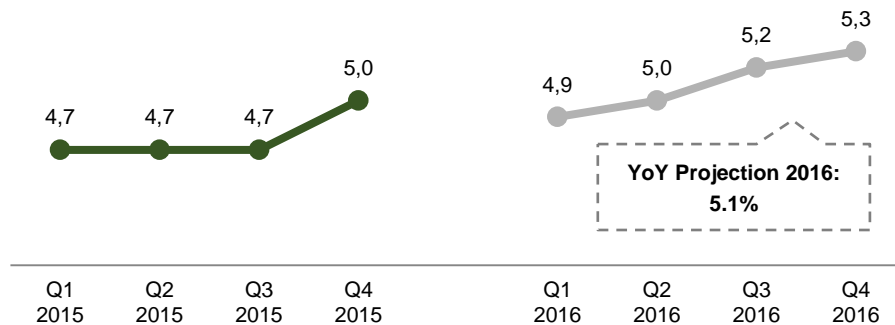
GDP Growth by Expenditure

Component	2012	2013	2014	2015	Budget 2016
Household Cons.	5.5	5.4	5.1	5.0	5.1
Non Household Cons	6.7	8.2	12.4	(0.6)	2.0
Government Spending	4.5	6.9	2.0	5.4	5.7
Investment	9.1	5.3	4.1	5.1	6.2
Export	1.6	4.2	1.0	(2.0)	2.2
Import	8.0	1.9	2.2	(5.8)	2.0
GDP	6.0	5.6	5.0	4.8	5.3

Optimistic Outlook on Indonesia's Growth

Bloomberg Consensus Forecast (% YoY)

March 2016



Institutions	2016
National Budget	5.3
Bank Indonesia	5.2 – 5.6
IMF (October 2015) WEO	5.1
World Bank (October 2015)	5.3
ADB (September 2015)	5.4
OECD (November 2015)	5.2



Section IV

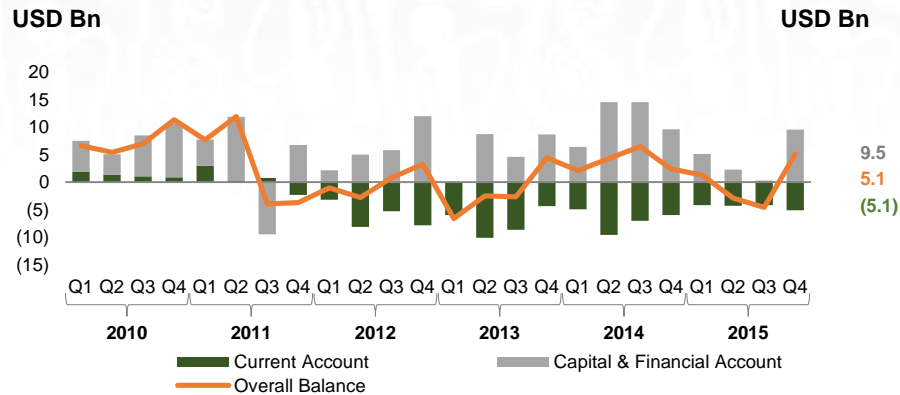
**External Factor:
Improved External Resiliency**

External Accounts Remains Robust Despite Shift in Global Capital Flows From Emerging Markets



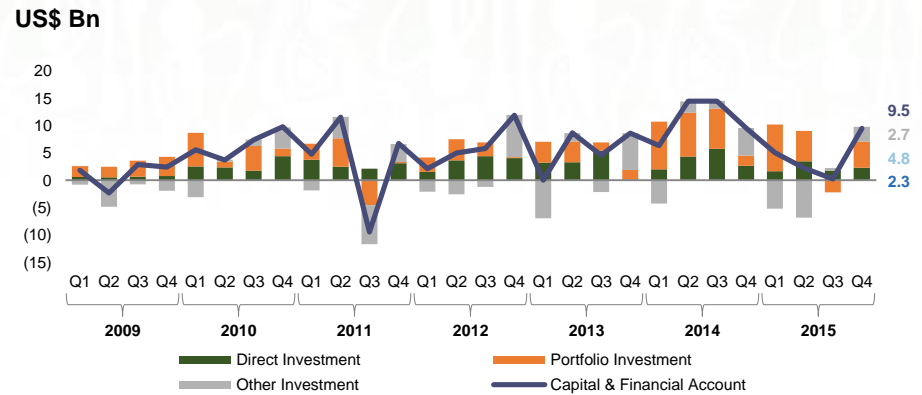
Balance of Payments Remain Healthy Given Capital Account Surplus and Steadily Decreasing CAD

Strong Balance of Payments



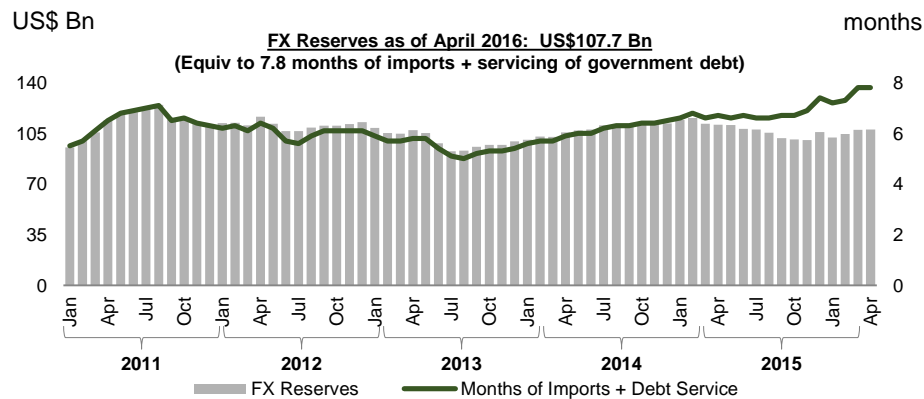
Source: Bank Indonesia

Stable Development in Capital and Financial Accounts



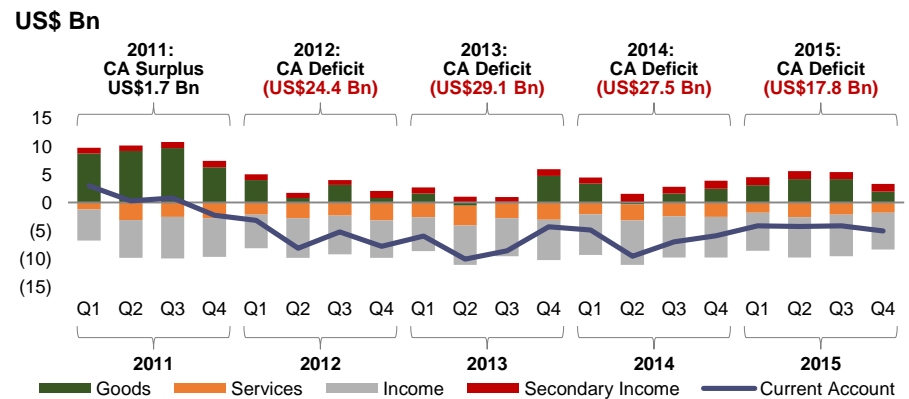
Source: Bank Indonesia

Rising Foreign Reserves Amid Global Uncertainties



Source: Bank Indonesia

Improving Current Account Deficit

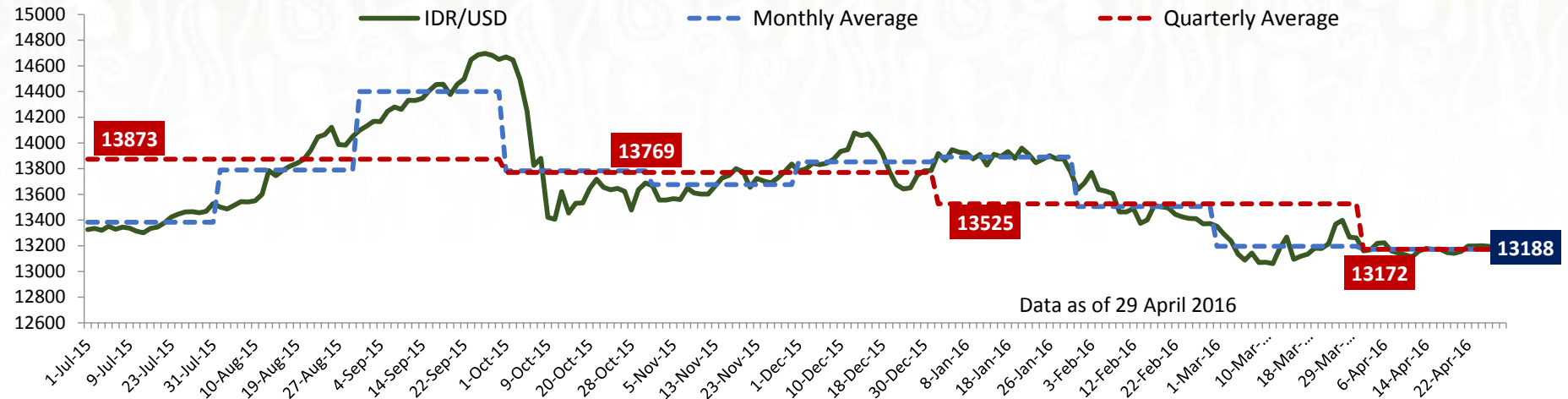


Source: Bank Indonesia



Exchange Rate In Line with Fundamentals

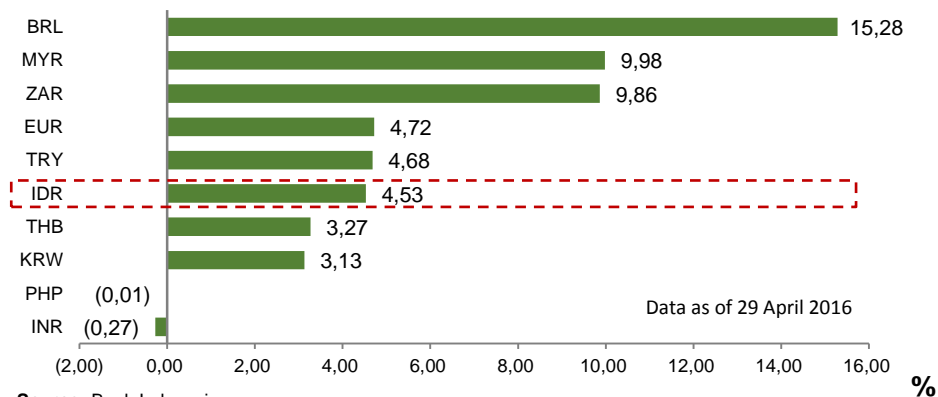
Movement of Rupiah



Source: Bank Indonesia

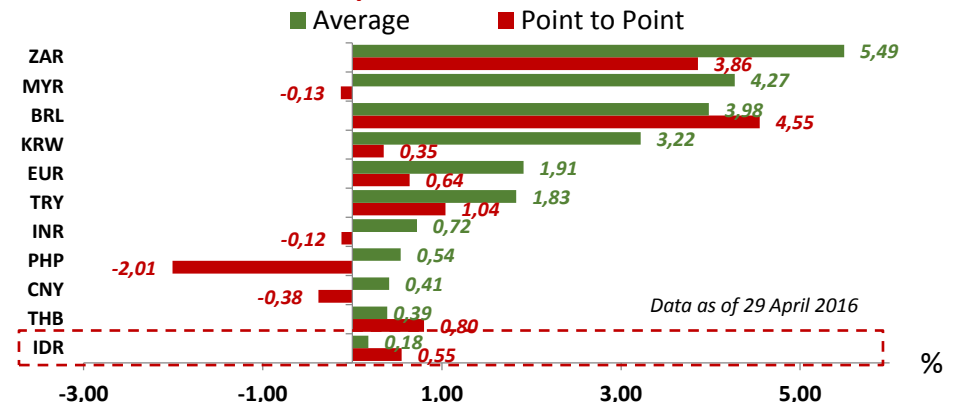
Appreciation of Rupiah compared to other EM currencies.

YTD 2016 vs 2015



Source: Bank Indonesia

Apr 2016 vs Mar 2016



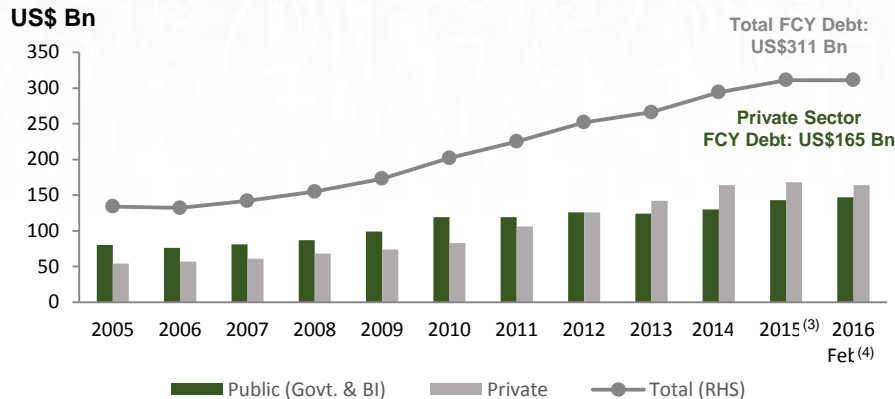
Source: Bank Indonesia



Strengthened Private External Debt Risk Management

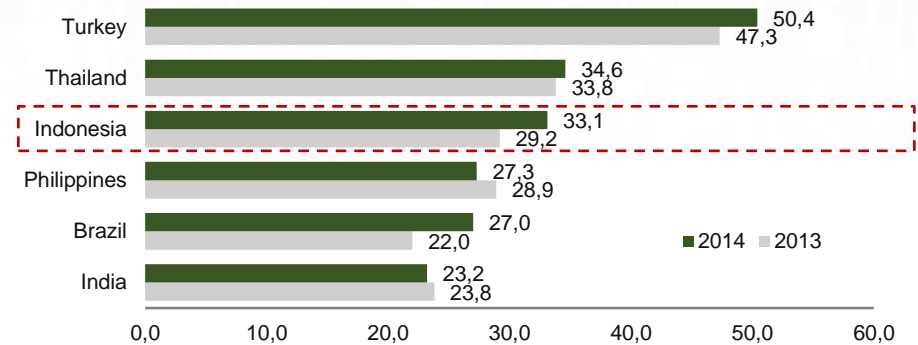
External Debt is Still within Reasonable Level and Prudently Managed

Despite Increasing Trend of External Debt...⁽¹⁾



...Debt Burden Indicator Remains Comparable to Peers⁽²⁾

External Debt / GDP (%)



Prudent External Debt Management

- Oct 2014, introduced prudential principles in managing external debt for the nonbank corporation to mitigate risk emerging from external debt activity. Corporations holding external debt required to fulfil:
 - Minimum hedging ratio in order to mitigate currency risk
 - Minimum forex liquidity ratio to mitigate liquidity risk
 - Minimum credit rating to mitigate overleverage risk
- Regulation update in Dec 2014 including among others: broadening the coverage of components of FX Assets and Liabilities, extension of credit rating's status validity period

Implementation of Offshore Borrowing Regulation

Regulation Key Points	Phase 1 Jan 1, 2015 – Dec 31, 2015	Phase 2 Jan 1, 2016 – Dec 31, 2016	Phase 3 Jan 1, 2017 and beyond
Object of Regulation	Governs all Foreign Currency Debt		
Hedging Ratio			
≤ 3 months	20%		25%
> 3 – 6 months	20%		25%
Liquidity Ratio (≤ 3 months)	50%		70%
Credit Rating	Not applicable	Minimum rating of BB-	
Hedging transaction to meet hedge ratio	Not necessarily be done with a bank in Indonesia		Must be done with a bank in Indonesia
Sanction	As of Q4-2015	Applied	

1 Source: External Debt Statistics of Indonesia, April 2016

2 Source: Moody's Statistical Handbook, November 2015

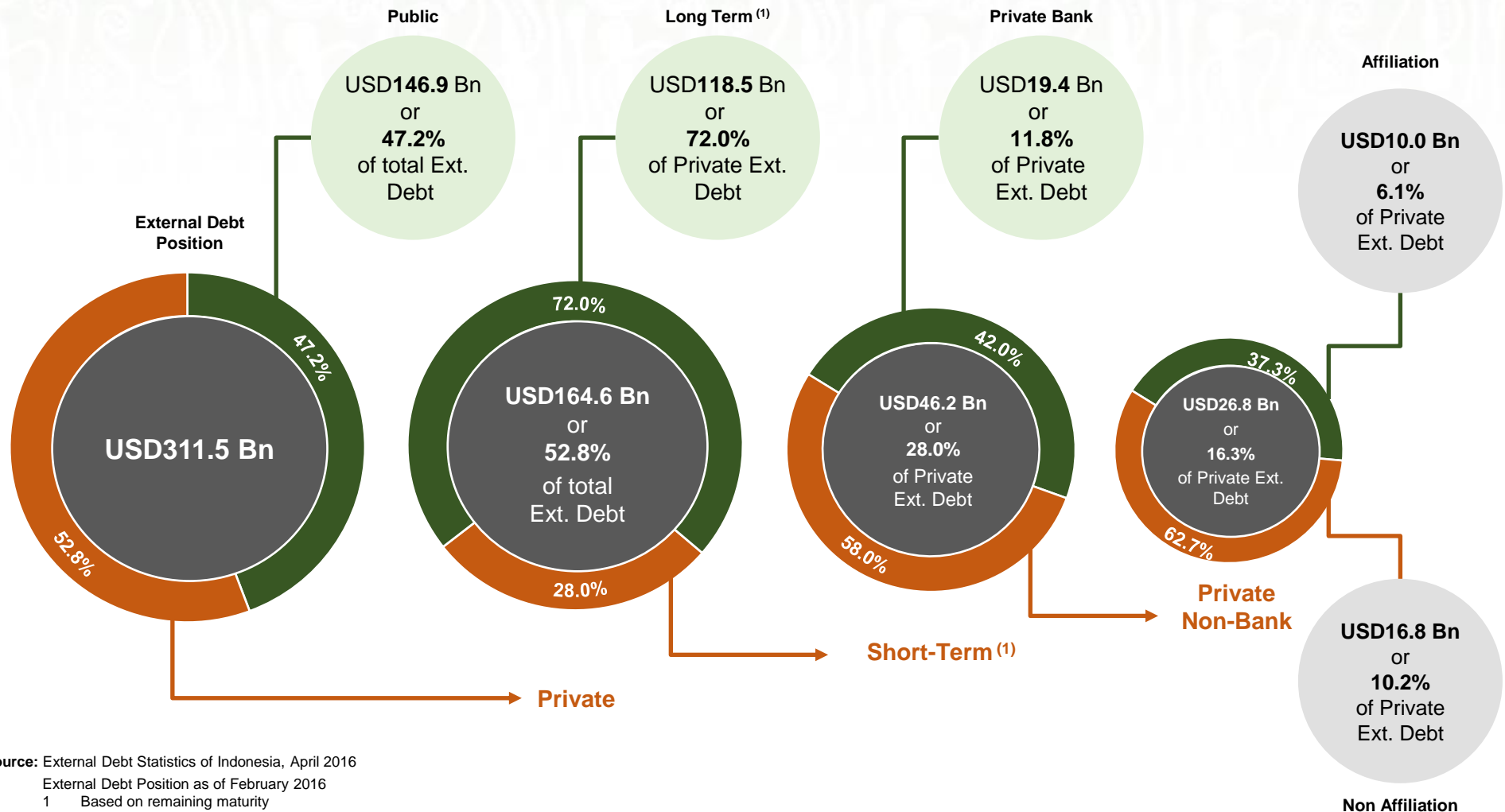
3 Preliminary

4 Very preliminary



Manageable External Debt Profile

Short Term Non-Bank Corporate Debt Represents Only 16.3% of Total Private External Debt





Lines of Defense Against External Shocks

Abundant Cushion to Safeguard Economy from External Shocks

First Line of Defence

FX Reserve

- Ample of level of FX reserves to buffer against external shock
- FX Reserves as of April 2016: US\$107.7 Bn

Second Line of Defence

Japan

- US\$22.76 Bn swap line with the Bank of Japan currently in place
- The quantum of the swap line was increased from US\$12 Bn in December 2013

Chiang Mai Initiative Multilateralization (CMIM) Agreement

- 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

BI's Existing Bilateral Currency Swap Arrangement (BCSA)

China

- Agreed to renew currency swap agreement with PBOC and increase volume of funds to RMB130 Bn up from RMB100 Bn
- Agreement was signed in 2009 and was previously extended for a period of 3 years in 2013

South Korea

- Established a 3 year KRW/IDR swap arrangement with the size of up to 10.7 Tn KRW / IDR115 Tn in March 2014

Australia

- Exchange of local currencies between the two central banks of up to A\$10 Bn or IDR100 Tn
- Effective as of December 15, 2015. The effective period will be three years, and could be extended by mutual consent of both sides

* In addition to the above facilities, Indonesia is entitled to access IMF facilities for crisis prevention to address potential (actual) BOP problem as part of IMF's Global Financial Safety Net (GSFN) initiative. Such facilities include Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL)

Source: Bloomberg, Bank Indonesia



Section V

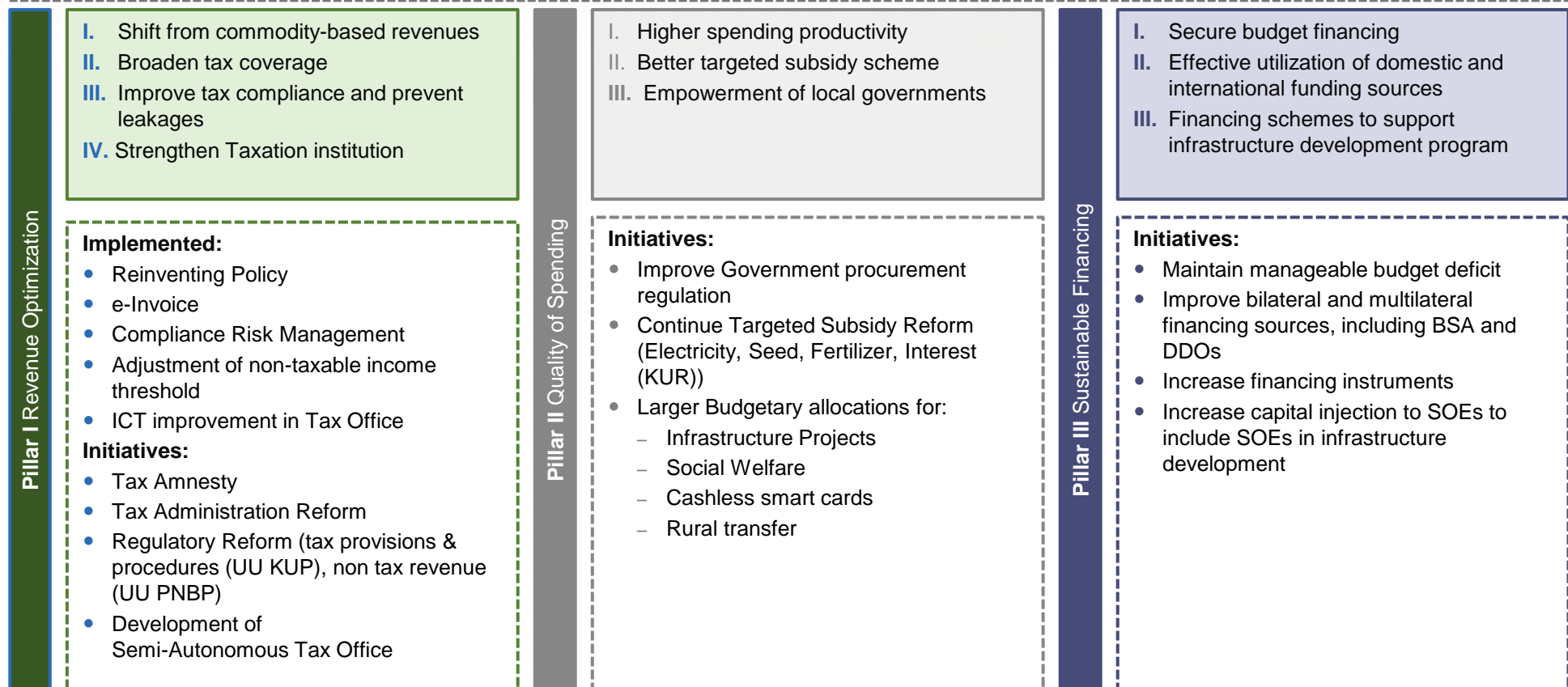
**Fiscal Performance and Flexibility:
More Fiscal Stimulus with Prudent Fiscal Management**



Three Key Pillars To a Sustainable and Equitable Growth

Long Term Policies to Ensure Consistent and Equitable Growth in Indonesia

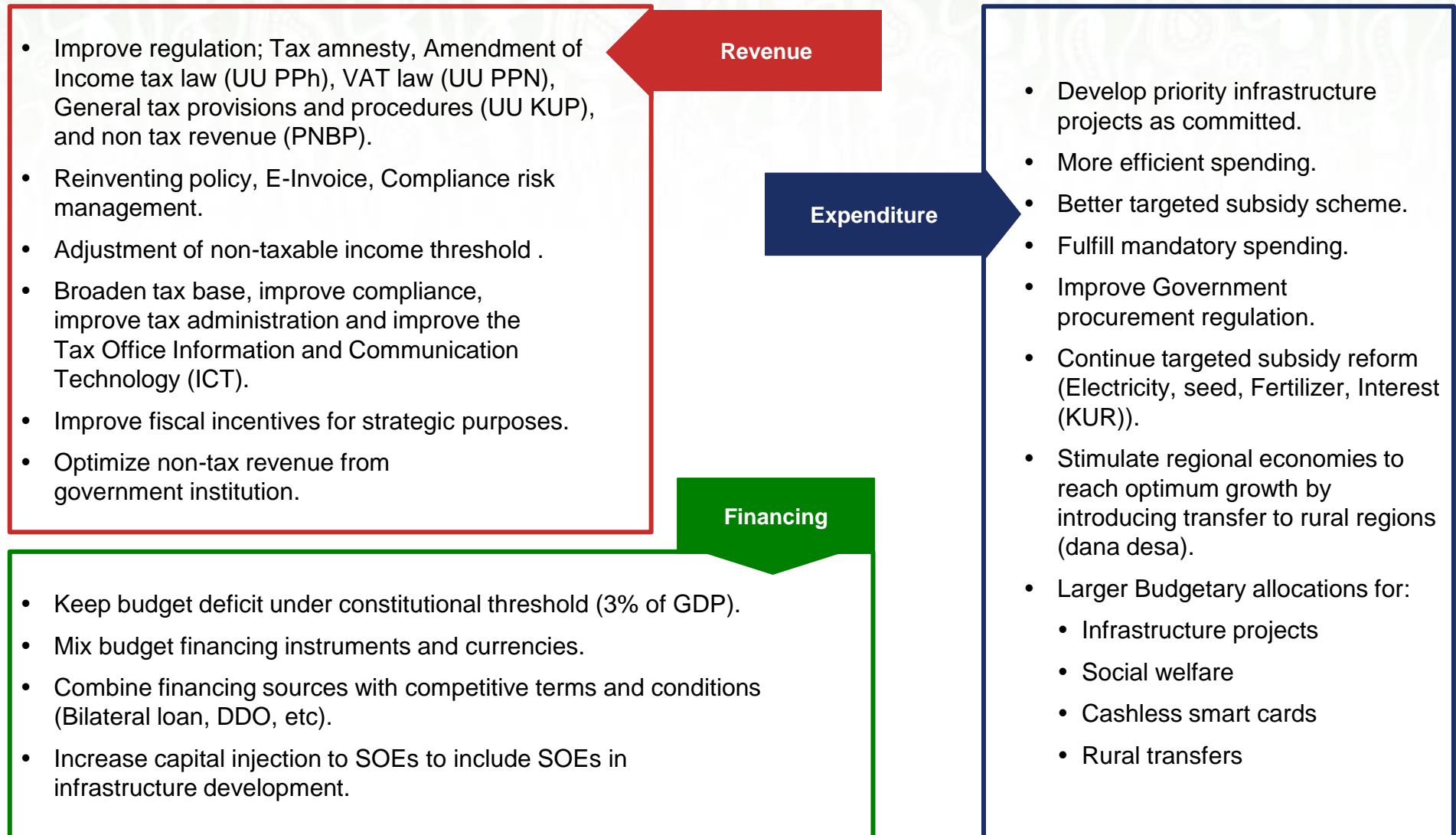
Objective: Creating a Sustainable and Equitable Economic Growth for Indonesia



Source: Ministry of Finance

Reform in All Parts of the Budget (Revenue, Spending, Financing)

...as part of a larger structural reform



Optimization of Government Revenue

...the Government focus on expanding tax base, increasing compliance, and improve the quality of tax administration



Policies to Achieve Taxation Target

To control the consumption of goods subject to customs

To improve competitiveness and value-adding process to the national industry

To maintain national economic stability and improve people's purchasing power

To optimize tax revenue by improving investment climate



Policy Direction

Shifting source of income from raw commodities

Expanding revenue base

Increasing tax compliance

Preventing tax leakage, especially VAT refunds

Strengthening tax agency



Tax Policies

Improvement of tax administration

Tax Amnesty

Compliance Risk Management

Reinventing policy; e-invoice

Tax Audit Optimization

Priority mapping in every regional office, transfer pricing, and avoid fraudulent activities

Adjustments to Non-Taxable Income Threshold

Tax payers intensification and extension
Data matching, IT improvement, e-tax invoice, regulation adjustment

Implementation of **2016 as the year of Law Enforcement**

Revision on Taxation Regulation
(Amendments Tax Procedures Law, Income Tax Law, and VAT Law)

Tax Amnesty Scheme as Policy Breakthrough

...expected to be strongly affecting the economy trajectory in both short and long run



Assets and Properties of
Indonesian Citizen Located Abroad

Objectives



**Accelerating Economic Growth
through Asset Repatriation**

Increase
domestic liquidity

Improve the stability of
IDR currency

Create lower
interest rate

Support
investment growth



**Expanding Tax Base
through Reliable, Integrated
and Comprehensive Database**



**Increasing More Sustainable
Tax Collection**

Providing tax relief for taxpayers who revise their unreported assets

Paying for certain
amount of
compensation

Lowering tax rate
for **repatriation**
than **declaration**

Lowering tax rate
for **early reporting**

*By the implementation of
Automatic Exchange of Information (AEOI)
globally in 2018, taxpayers could not hide the
information of their asset to avoid taxation*

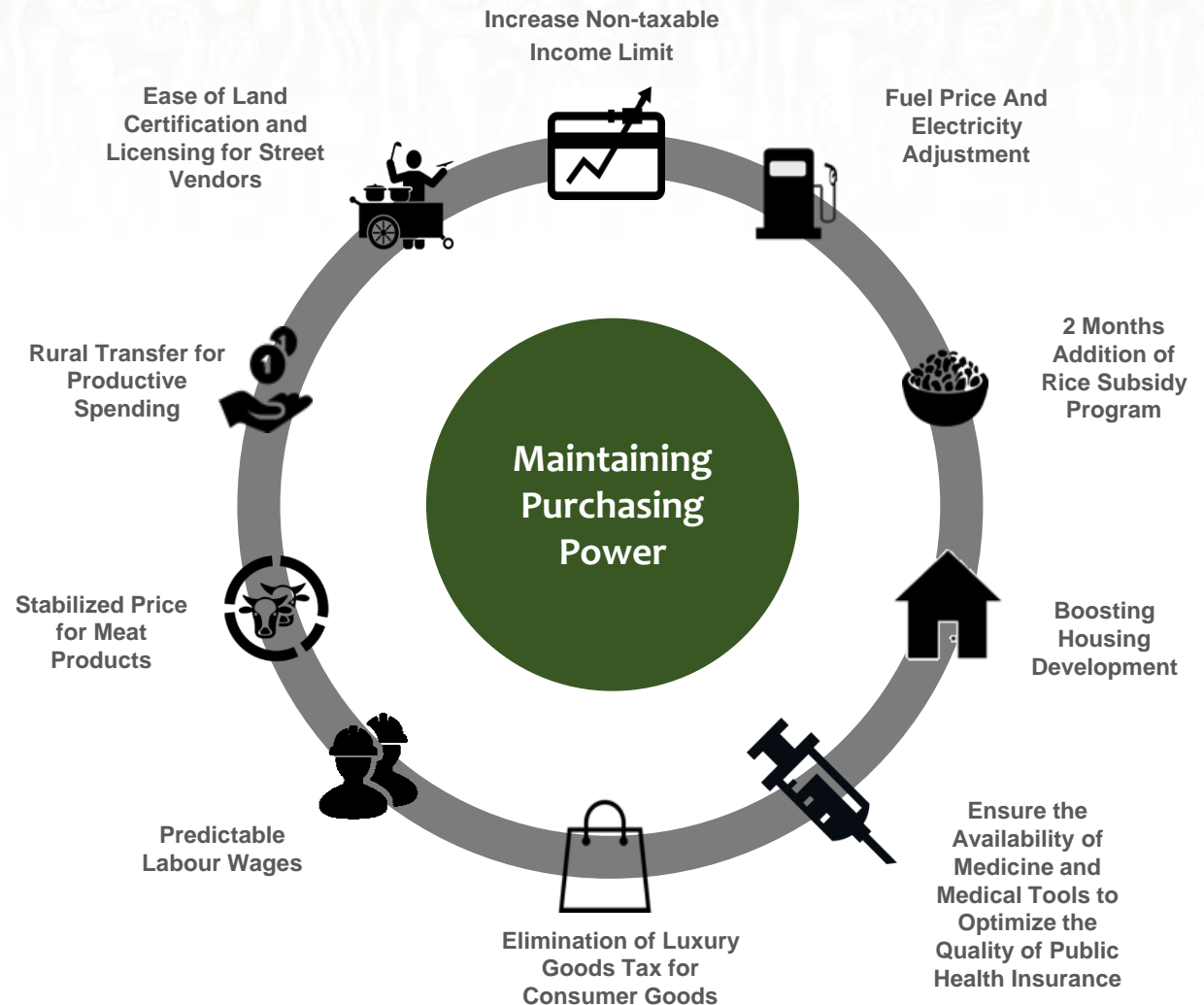
Stimuli to Maintain Purchasing Power



Maintaining a Robust Household Consumption to Provide Strong Growth Fundamentals

The Virtuous Cycle of Purchasing Power Stimuli

























- Consumption is still the largest contributor to Indonesia's GDP
- Private consumption has been a key factor driving Indonesia's economic growth in recent years
- The Government has designed stimulus program to maintain and enhance purchasing power of the people
- Funds are targeted at not only to improve basic village infrastructure but also to create jobs through labor intensive projects as well as other job creation programs



Stimuli to Promote Investments



Aimed at Improving Investment Climate as well as Strengthening Domestic Competitiveness and Infrastructure

Licensing Incentives	Tax Incentives	Business and Infrastructure Incentives				Other Incentives
 Permit & Licensing Simplification	 Income Tax Relief for Labor Intensive Industries	 Incentives for Footwear and Apparel Industries	 Simplification of Import Licensing for Drugs and Raw Food	 Accelerating Infrastructure Development	 Water Management and Regulation	 One Map Policy
 Relaxation of Entry Visa Policies	 Eliminate Double Taxation for REITS and Tax Incentive for REITS Issuance	 Dwelling Time Optimization	 Oil Refinery Development	 Aviation Sector Incentives	 Downstream Industries	 Debt To Equity Ratio
 Special Economic Zones	 Tax Incentives on Property	 Integrated Logistics Zones	 CPO Fund	 Support for Export-Oriented Industries	 Village-City Logistics Improvement	 Acceleration of Power Infrastructure
 Accelerate export import process, esp. in Harbor						 SME Loan Improvement: Expansion of Coverage, Interest Subsidy, Special Rate for Export Oriented SME
						 Relaxation of Negative Foreign Investment List



"The Big Bang" Policy on Foreign Investment Relaxation

Increase in Allowed Foreign Stake (Before and After Relaxation)

Cold Storage



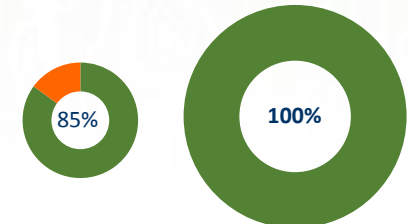
Sports Center; Film Processing Lab; Crumb Rubber



Restaurants; Bars



Pharmaceutical Raw Materials Manufacturing



Key Reforms in Negative Foreign Investment List

Revision of "Partnership" category to refer to partnership with Micro, Small and Medium Enterprises (MSMEs)

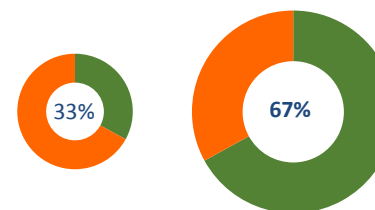
Grandfather Law: If a particular sector is tightened in future, existing foreign investor does not need to comply with tighter stake

Strengthen implementation of Negative Investment Law through active roles from Ministries, Agencies and Regional Governments

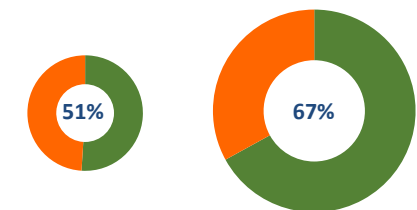
Toll Road Operator; Telecommunication Testing Company



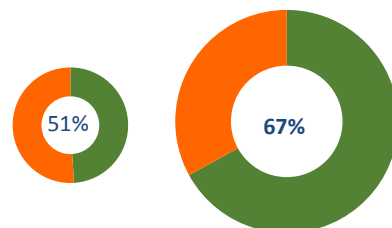
Distribution; Warehousing



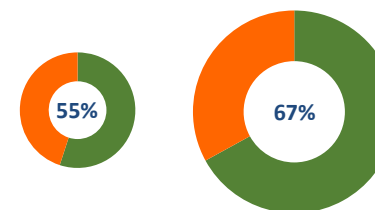
Private Museum; Catering; Apparel Manufacturing; Exhibitions & Conventions



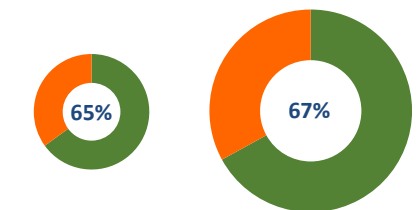
Professional Training; Golf Course Management; Air Transport Support Services; Travel Bureau



Consultancy for Construction¹



Telecommunication Provider with Integrated Services



1. For total project value of IDR10bn and above



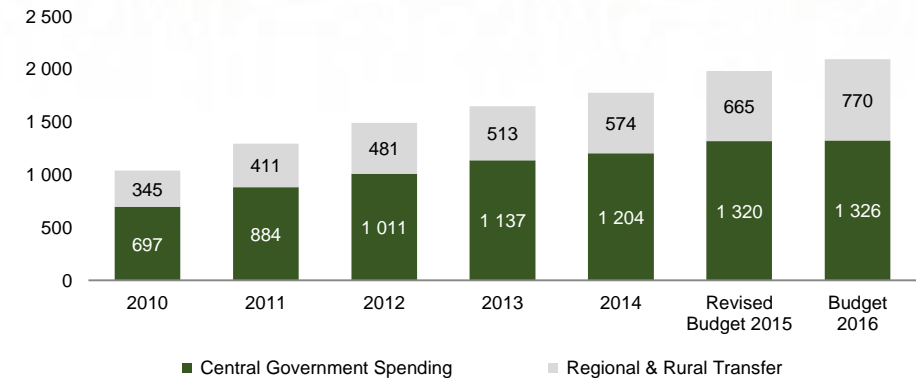
Transfer to Local Government and Rural Also Being Revisited

Improvement on Allocated Budget, Disbursement Process, Target of Financing

Policy Reform for 2016 Transfer to Region

1. Transfer to region to be closer or even higher than line ministries
2. Increasing the amount and improving the formula of General Allocation Fund (DAU) as an equalization grant
3. Strengthening Specific Allocation Fund (DAK) as an instrument to improve the quality of public infrastructure as well as a tool to support national priority
4. Strengthening and improving incentive mechanism through reform on Regional Incentive Fund (DID) policy
5. Strengthening village fund

IDR Tn



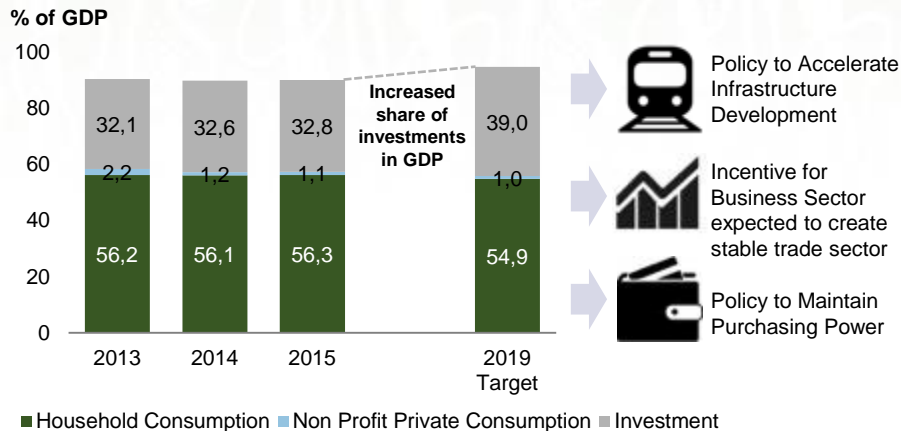
- Objectives of non-cash scheme on regional transfer, are:
 1. To encourage a more healthy, efficient, and effective regional budget management
 2. To push a more optimum and timely regional budget disbursement
 3. To lesser regional government unusual cash and/or bank deposits
- Non-cash scheme can be delivered by government sharia/obligation scheme
- Time period of the sharia/obligation is 3 months, with yield 50% of interest rate of government deposit in Bank Indonesia (65% from BI rate)



Future Growth Policies Geared Towards Investments

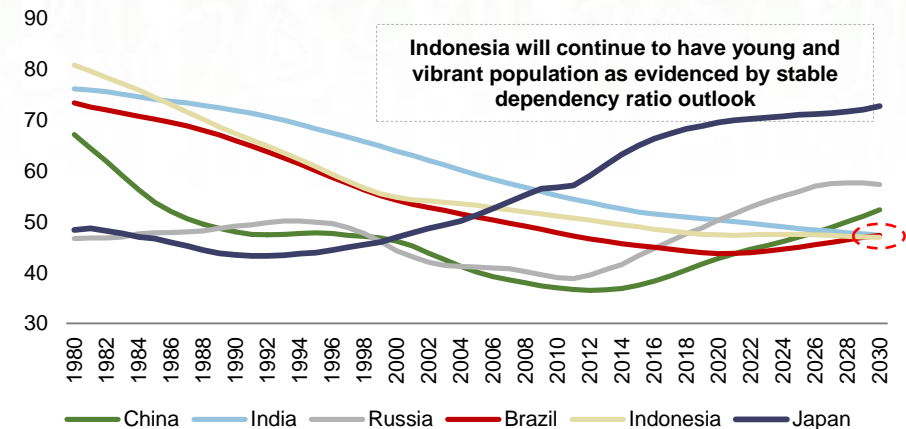
Investment to Contribute Larger Part in Economic Growth

Share of Growth Geared Towards Investment



Source: BPS

Stable Dependency Ratio Showing Sustainable Support for Investment Activities



Source: Euromonitor

Strategies & Policies to Boost Investments

1. Maintain **economic stability** to promote strong business and investment climate
2. Simplify licensing and investment procedures
3. **Harmonize investment regulations** between central government and local governments
4. Consistently improve the involvement of **state owned enterprise (SOE) in infrastructure development**
5. Increase the **role of banking institutions** in lending rate development, especially for working capital and **investment credits**
6. Expand the role of **non-bank financial institutions** in the development of **infrastructure financing** alternative

The Government will encourage the development of infrastructure projects to boost investment opportunities and create greater competitiveness for Indonesian economy



2015 Marks Strong Commitment to Improve the Budget Structure

Boosting Alternative Sources of Growth from Government and Investments Became Prime Focus

Indicators	2015	
	R-Budget	Realization*
Economic Growth (% , YoY)	5.7	4.8
Inflation Rate (% , YoY)	5.0	3.4
3-month-SPN (Treasury Bills, %)	6.2	5.97
Exchange Rate (USD/IDR, Average)	12,500	13,392
Indonesia Crude Price (USD/bbl)	60	50
Oil Lifting (thousand bbl/day)	825	779
Gas Lifting (thousand bbl/day oil equivalent)	1,221	1,195

*as of Dec 31st 2015

Description (In Trillion Rupiah)	2015		
	Realization Per 31 Dec	% to Budget	Δ 2015 – 2014 (IDR Tn)
A. Revenue	1,504.5	85.4%	(46.0)
I. Domestic Revenue	1,494.1	85.0%	(51.4)
1. Tax Revenue	1,240.4	83.3%	93.5
2. Non Tax Revenue	253.7	94.3%	(144.9)
II. Grant	10.4	314.9%	5.4
B. Government Spending	1,796.6	90.5%	19.4
I. Central Government	1,173.6	88.9%	(30.0)
1. Personnel, Operational & Capital Spending	724.7	91.1%	147.5
2. Subsidies, Interest Payment & Others	448.9	85.7%	(177.5)
II. Inter-Governmental Transfers	623.0	93.7%	49.3
1. Transfer to Regional & Local Governments	602.2	93.5%	28.5
2. Rural Transfer	20.8	100.0%	20.8
C. Primary Balance	(136.1)	203.8%	(42.8)
D. Surplus/Deficit	(292.1)	131.3%	(65.4)
% deficit to GDP	(2.53%)		(0.3%)
E. Financing	318.1	143.0%	69.2
I. Domestic Financing	307.8	126.9%	46.6
II. Foreign Financing (Net)	10.4	(51.9%)	22.8
Surplus/(deficit) financing	26.1		3.9

- There were some pressures on the macroeconomic indicators throughout 2015 mainly caused by:
 - Continuation of global economic slowdown
 - The low price of Indonesia's main export commodities
- Non-oil & gas tax revenue in 2015 amounted to IDR1,011.0 Tn, translating to an increase of 12.6% from last year. Income tax (non-oil and gas) reached IDR552.6 Tn (2014 : IDR458.7 Tn, 20% increase)**
- Slower growth in 2015 has impacted tax revenue**, especially in manufacturing and mining sectors. Weaker import and export (due to lower main commodity prices) are also affecting tax revenues. Lower non-tax revenues realization are particularly impacted from **the drop in revenues from natural resources**
- The **improved budget structure** has created a base for **acceleration of economic development** in the midst of global uncertainty
- Capital Expenditure in 2015 reached IDR 209 Tn (41.8% increase from 2014 realization)
- Rural transfer initiatives, started in 2015, amounted to IDR 20.8 Tn as of **December 2015, have been entirely distributed**

Continuous Improvement on Budget through Comprehensive Strategies for 2016



Focus on Productive Spending, Broadening Tax Base, Improved Subsidy Schemes and Fiscal Decentralization

Indicators	2016
	Budget
Economic Growth (% YoY)	5.3
Inflation Rate (% YoY)	4.7
3-month-SPN (Treasury Bills, %)	5.5
Exchange Rate (USD/IDR, Average)	13,900
Indonesia Crude Price (USD/bbl)	50
Oil Lifting (thousand bbl/day)	830
Gas Lifting (thousand bbl/day oil equivalent)	1,155

Description (In Trillion Rupiah)	2016	
	Budget	Δ 2016 – 2015 (IDR Tn)
A. Revenue	1,822.5	60.9
I. Domestic Revenue	1,820.5	62.2
1. Tax Revenue	1,546.7	57.4
2. Non Tax Revenue	273.8	4.7
II. Grant	2.0	(1.3)
B. Government Spending	2,095.7	111.6
I. Central Government	1,325.6	6.1
1. Personnel, Operational & Capital Spending	784.1	(11.4)
2. Subsidies, Interest Payment & Others	541.4	17.3
II. Inter-Governmental Transfers	770.2	105.6
1. Transfer to Local & Regional Governments	723.2	79.4
2. Rural Transfer	47.0	26.2
C. Primary Balance	(88.2)	(21.4)
D. Surplus/Deficit	(273.2)	(50.7)
% deficit to GDP	(2.15%)	
E. Financing	273.2	50.7
I. Domestic Financing	272.8	30.3
II. Foreign Financing	0.4	20.4

Fiscal risks have shifted from predominantly spending side (subsidy and non-productive spending) to revenue side

Revenue	Expenditure	Financing
<ul style="list-style-type: none"> To set realistic revenue target by using 2015 revenue outlook Broaden tax base, improve compliance, improve tax administration and improve Tax Office Information and Communication Technology (ICT) Improve fiscal incentives for strategic purposes Optimizing non-tax revenue from government institutions 	<ul style="list-style-type: none"> Develop priority infrastructure projects as committed More efficient spending Better targeted subsidy scheme Fulfill mandatory spending Stimulating regional economies to reach optimum growth 	<ul style="list-style-type: none"> To keep budget deficit under constitutional threshold (3% of GDP) Mix budget financing instruments, currencies Cooperate with financing sources with competitive term and condition (Bilateral loan, DDO, etc.)

Strategic Policies		
Acceleration on decreasing inequality (broadening Taxable Business population)	Prudent and targeted budget expansion (2.15% of GDP)	Continuously increasing infrastructure project
20% for Education Budget	Bureaucratic efficiency	Improved Subsidy Scheme (Objects, Subjects, Delivery Methods)
5% for Health Budget	Strengthening fiscal decentralization (higher Regional Transfer & Rural Transfer)	Sustainable National Social Security System
1 Million House Program		



Targeted Tax Incentives to Attract Investment

Supportive Fiscal (Tax Allowance and Tax Holiday) to Further Improve Business Climate

Tax Allowance

Tax Allowance Facility

Up to 30% of invested capital is deductible for tax purposes

Pioneer industry/projects

High economic integration
Contributes high value addition and externalities
Introduces new technology
Has strategic role on the national economy

Incentives

- Net Income reduction amounting up to 30% of the invested capital
- Accelerated depreciation and amortization
- Reduction of Income Tax on dividend from 20% to 10%
- Extended loss carried forward (from 5 years) to max of 10 years
- Eligible Industry: 66 sector industries and 77 sector industries in specified region

Tax Holiday

Tax Holiday Facility

Income Tax Relief or Reduction

High priority industry/projects

Support economic diversification
Strengthen national industry structure
Competitive in the international market
High absorptions of workers and supporting technology transfer
Located outside Java, Bali, and Batam Islands (Remote Areas & KTI)

Incentives

- Corporate income-tax relief for a minimum period of 5 - 15 years. Can be extended to 20 years
- Eligible industries:
 - Basic metal industry
 - Oil refinery
 - Petrochemical industry
 - Machinery
 - Agricultural, forestry and fisheries
 - Telecommunication, information and communication
 - Marine transportation
 - Major manufacturing in Special Economic Zone
 - Infrastructure, ex. PPP projects

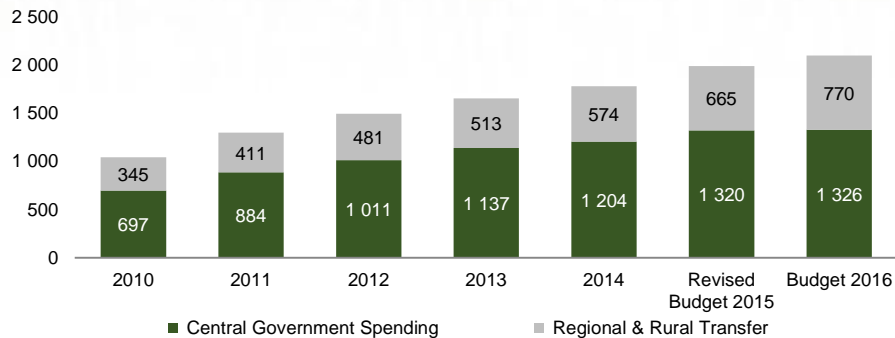
Improvement in Budget Implementation Supports Sustainable Economic Growth



Re-Allocation of Energy Subsidy to Productive Sectors and Rural Development, While Modernizing Procurement System

Government Spending grew 11% CAGR from 2010 – 2016 with Regional and Rural Transfer Allocation Outgrowing Central Government Budget

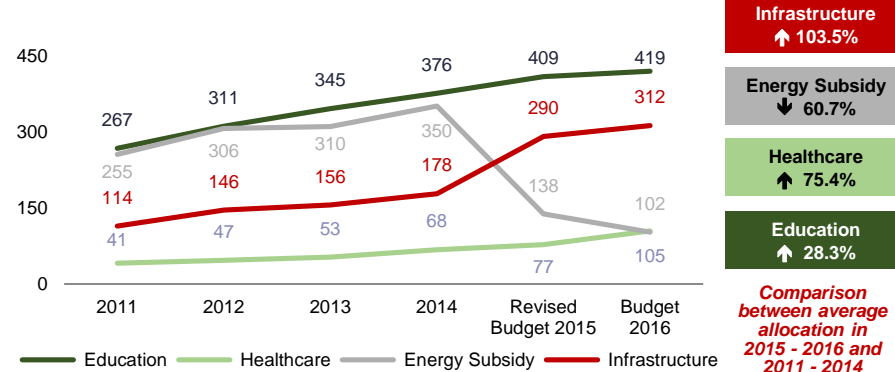
IDR Tn



10 Ministries with Highest Budget Allocation	Budget (IDR Tn)
Min. of Public Works and Housing	104.1
Min. of Defence	99.5
National Police	73.0
Min. of Health	63.5
Min. of Religious Affairs	57.1
Min. of Basic Education	49.2
Min. of Transportation	48.5
Min. of Higher Education and Research	40.6
Min. of Finance	39.3
Min. of Agriculture	31.5

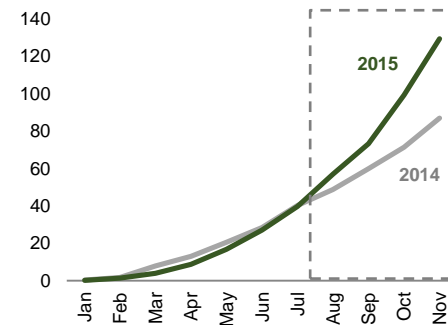
Reallocation of Energy Subsidies to Productive Areas: Education, Healthcare and Infrastructure

IDR Tn

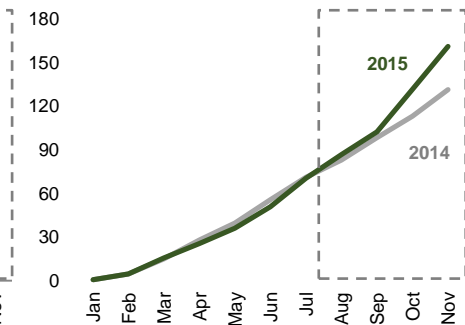


Acceleration of Capital and Goods Spending in 2015 is Resulted from Adoption of Online Procurement System Which Promotes Efficiency and Transparency

2015 Revised Budget
Capital Spending Profile (IDR Tn)



2015 Revised Budget
Goods Spending Profile (IDR Tn)



Macroeconomic Assumption Realization

...lower ICP and stronger IDR become ones of the issues that need to be revisited



		2014	2015		2016	
		Realization	R-Budget	Realization	Budget	Realization (March)
GDP Growth (%, yoy)		5,0	5,7	4,8	5,3	-
Inflation	%, yoy	8,4	5,0	3,35	4,7	4,45
	%, ytd					0,62
IDR (per USD, average)	eop	12.440	12.500	13.795	13.900	13.276
	Ytd	11.878		13.392		13.527
3-month-SPN (Treasury Bills, Avg %)		5,8	6,2	5,97	5,5	5,9
Indonesia Crude Price (USD/bbl)		97	60	49,2	50	30.2
Lifting						
Oil Lifting (thousand bbl/day)		793,5	825	777,59	830	785,2*
Gas Lifting (thousand bbl/day oil equivalent)		1.224	1.221	1.195	1.155	1234,6*

* Per December 2015 - February 2016

Commitment to Accelerate Infrastructure Development



Good progress on 2015 infrastructure projects, 2016 project auctions are on the way

2015

Progress of Infrastructure Projects Still Positive
Despite Some Administration Issues in the
Beginning of 2015

National Toll Road

Trans Java

Pejagan – Pemalang (58 km)

Semarang – Solo (73 km)

Trans Sulawesi

Manado – Bitung (39 km)

Trans Sumatera

Medan – Binjai (16 km)

Palembang – Indralaya (22 km)

Pekanbaru – Dumai (135 km)

Medan – Tebing Tinggi (62 km)

1 Million House Project

West Jakarta, Banten, Kalimantan,
Batam, NTB, NTT, East Java, Central
Java, South Sulawesi, West Sulawesi,
Southeast Sulawesi

Drinking Water Infrastructure

Central Java (West Semarang);

Dam

East Java (Bendo), Central Java
(Gondang, Pidekso), North Sulawesi
(Lolak), NTT (Raknamo), NTB (Mila),
Banten (Karian)

Intercity Railway

South Sumatera (Prabumulih –
Kertapati), North Sumatera (Tebing
Tinggi – Kuala Tanjung), Southern
Java Double Track

Commuter Railway

Jakarta MRT (North – South Corridor),
Jakarta LRT, SHIA Airport Railway

Airport Development

Revitalization

Central Kalimantan, Bangka Belitung,

New Project

West Java (Kertajati)

Expansion

Terminal 3 Soekarno-Hatta
International Airport

Port and Harbour

East Kalimantan (Maloy), Jakarta
(Kalibaru), South Sulawesi (Makassar
New Port), Central Sulawesi (Parigi)

2016

Projects Already Being Auctioned



Ministry of Public Works & Housing

IDR66.4 Tn allocated to:

- Public Road
- Water Resource
- Housing Infrastructure (sanitation
and clean water)
- Public housing



Ministry of Agriculture

IDR4.6 Tn allocated to:

- Procurement of farm machineries
- Cattle procurement
- Other supporting infrastructure for
agriculture sectors



Ministry of Transportation

IDR32.5 Tn allocated to:

- New construction and
maintenance of railway
infrastructure
- Port construction, procurement of
exploration and navigation ships
- Procurement of traffic equipment
- Ferry ships



Ministry of Energy & Mineral Resources

IDR4.0 Tn allocated to:

- Power plants
- Oil & gas infrastructure
- Energy conversion and renewable
energy infrastructure
- LPG and fuel storage tanks

Infrastructure Financing Needs



Infrastructure Financing Needs 2015 – 2019	Scenario 1 (Full Scenario)	Scenario 2 (Partial Scenario)	Baseline (Baseline)
Roads	1,274	851	637
Rail System	278	222	140
Urban Transportation	155	115	75
Sea Transportation	563	424	282
Ferry and Other Waster Transporation	91	80	60
Air Transportation	182	165	100
Electricity	1,080	762	714
Other Energy dan Gas	535	420	268
Waer Resources	1,091	845	645
Water and Sanitation	666	450	330
Public Housing	384	247	180
Information and Communication Technology	242	200	130
Total	6,541	4,781	3,561



Full Scenario

- It is the most optimistic scenario under which Indonesia reach middle income country standard by 2020. As per this Scenario, Indonesia requires investment of at least IDR 5,619 trillion



Partial Scenario

- Under this scenario Indonesia reach 75% towards middle income country standard by 2020, with a view to reaching 100% by 2025. As per this Scenario, Indonesia requires investment of at least IDR 4,278 trillion



Baseline Scenario

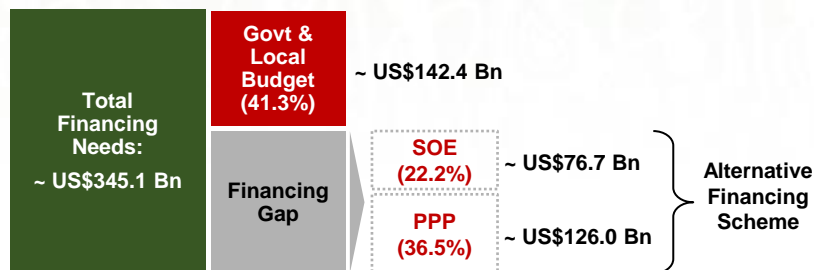
- Under this scenario Indonesia reach 50% towards middle income country standard by 2020, with a view to reaching 100% by 2030. As per this Scenario, Indonesia requires investment of at least IDR 3,104 trillion



Indonesia Infrastructure Projects and Financing Schemes

PPP, SOEs and Private Sector as Alternatives to Direct Budgetary Spending

Financing Breakdown (2015 – 2019)



Establishment of PPP Unit

Broad Objective	<ul style="list-style-type: none"> Champion project preparation and acceleration of the PPP agenda in Indonesia
Core Mandates	<ul style="list-style-type: none"> Improve quality of project selection under KKPI – OBC criteria Support project preparation through PDF support and use a high quality Transaction Advisor Act on behalf the Minister of Finance in providing government support approvals for projects
Additional Mandates	<ul style="list-style-type: none"> Coordinate all public finance instruments Provide input for PPP Policy Development and Regulations Implement capacity building program to GCA One stop shop for PPP promotion & Information

Sea Port 	New Sea Ports	24
	Sea port developments	59
Roads 	New Roads	2,650 km
	Highway	1,000 km
	Road maintenance	46,770 km
	Bus Corridors	2
Railways 	Railway Lines	2,159 km
	Intra City Rail Lines	1,099 km
Airport 	New Airports	15
	Airplanes for new routes	20

Budget
<ul style="list-style-type: none"> Central & Regional Budget (Special Allocation Fund & Rural Transfer) Mainly to support basic infrastructure projects: <ul style="list-style-type: none"> Food Security: Irrigation, dams etc. Maritime: Seaports, shipyards etc. Connectivity: Village roads, public transportation etc.

Public Private Partnership
<ul style="list-style-type: none"> Certain infrastructure projects to be funded and operated through a partnership between the Indonesian government and private sector companies <ul style="list-style-type: none"> Projects Ready for Auction under PPP Scheme: <ul style="list-style-type: none"> Toll roads projects such as Balikpapan-Samarinda and Manado-Bitung Water supply such as Lampung water supply project Palapa Ring East Project Government to support the PPP via initiatives: <ul style="list-style-type: none"> Land Fund: Modification and simplification of land acquisition process Project Development Facility (PDF) through PT Sarana Multi Infrastructure Indonesia Infrastructure Guarantee Fund (IIGF): A mutual government guarantee scheme for infrastructure risks Viability Gap Fund (VGF) for PPP projects with near-term financial constraints Infrastructure Fund: To offer long term financing for infrastructure projects Availability Payment (AP): To allow availability of infrastructure services provided by PPP companies

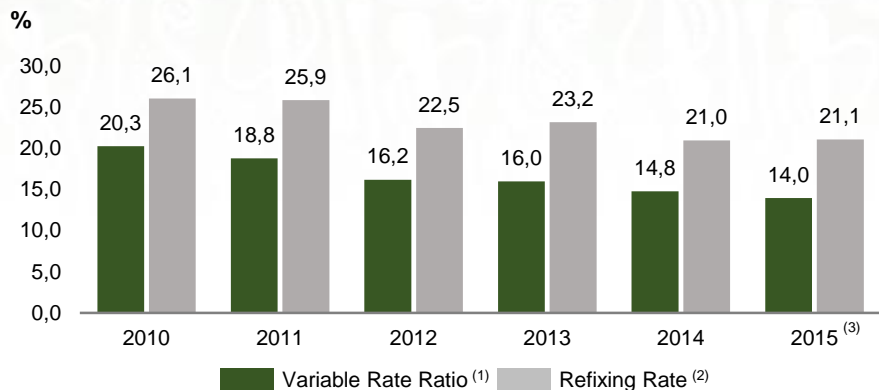
State Owned Enterprise & Private Sector
<ul style="list-style-type: none"> Government to inject capital into SOEs – intention is that through a multiplier effect, more infrastructure projects can be developed Key focus areas: <ul style="list-style-type: none"> Infrastructure and maritime development Transportation and connectivity Food security Medium term infrastructure developments in focus: <ul style="list-style-type: none"> Water Supply Airports Seaports Electricity and power plants Housing Mining

Well Balanced Maturity Profile With Strong Resilience Against External Shocks

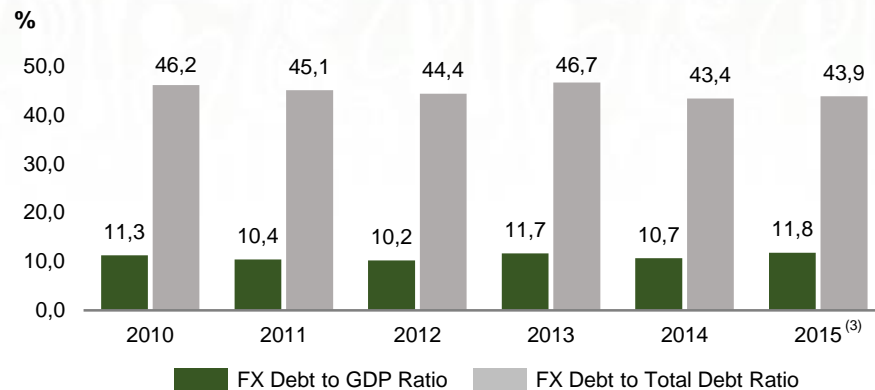


Marked by Stable Maturity Profile and Declining Risks Against Interest Rate and FX Volatilities

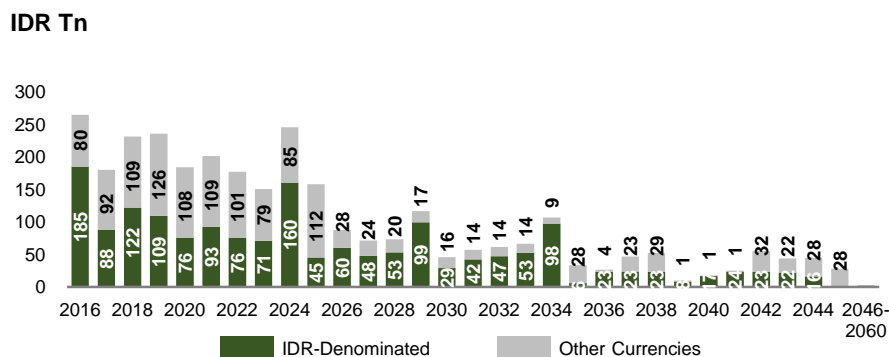
Declining Interest Rate Risks



Declining Exchange Rate Risks

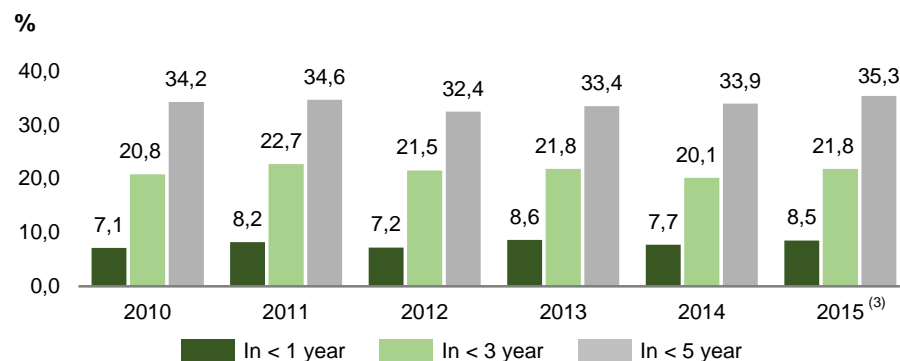


Debt Maturity Profile



Source: Ministry of Finance

Upcoming Maturities (Next 5 Years)



- 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)
- 3 Preliminary figures for 2015

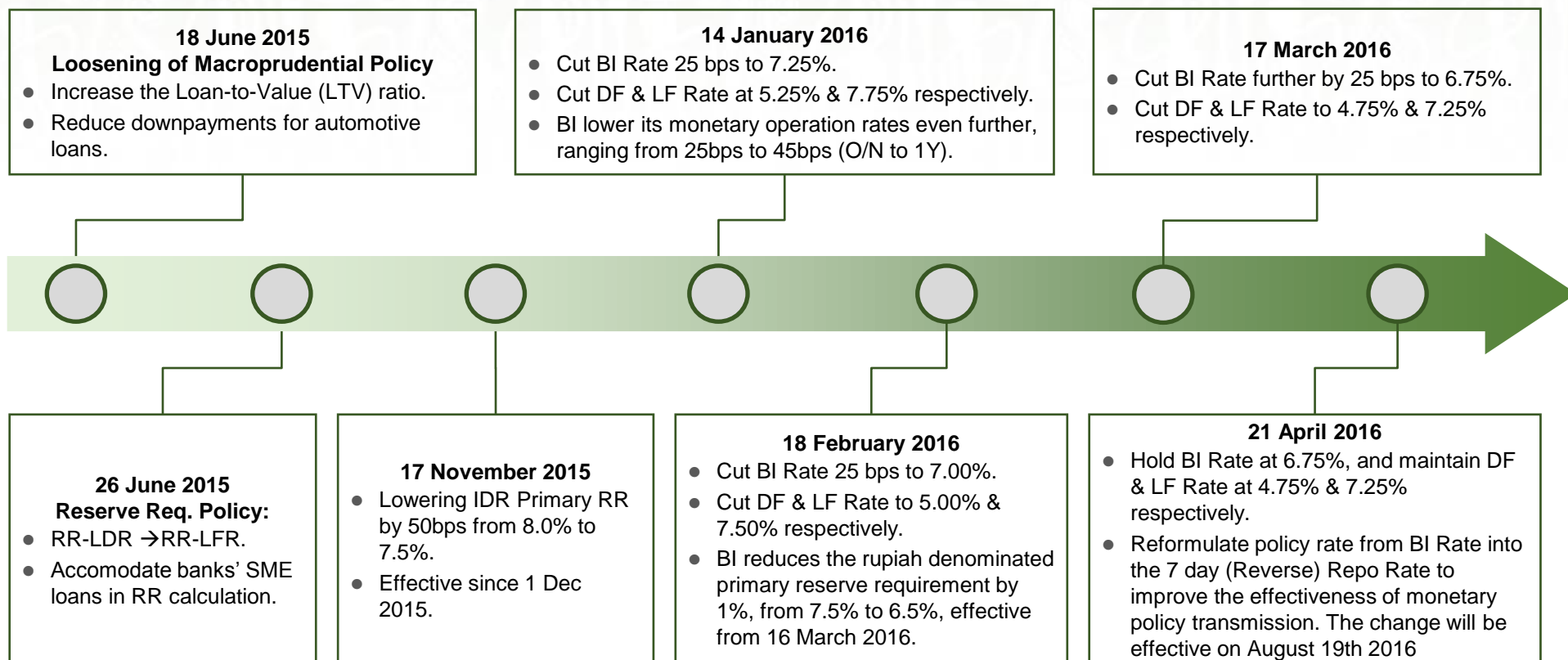


Section VI

**Monetary and Banking:
Monetary Policy Anchors Price and External
Stability**



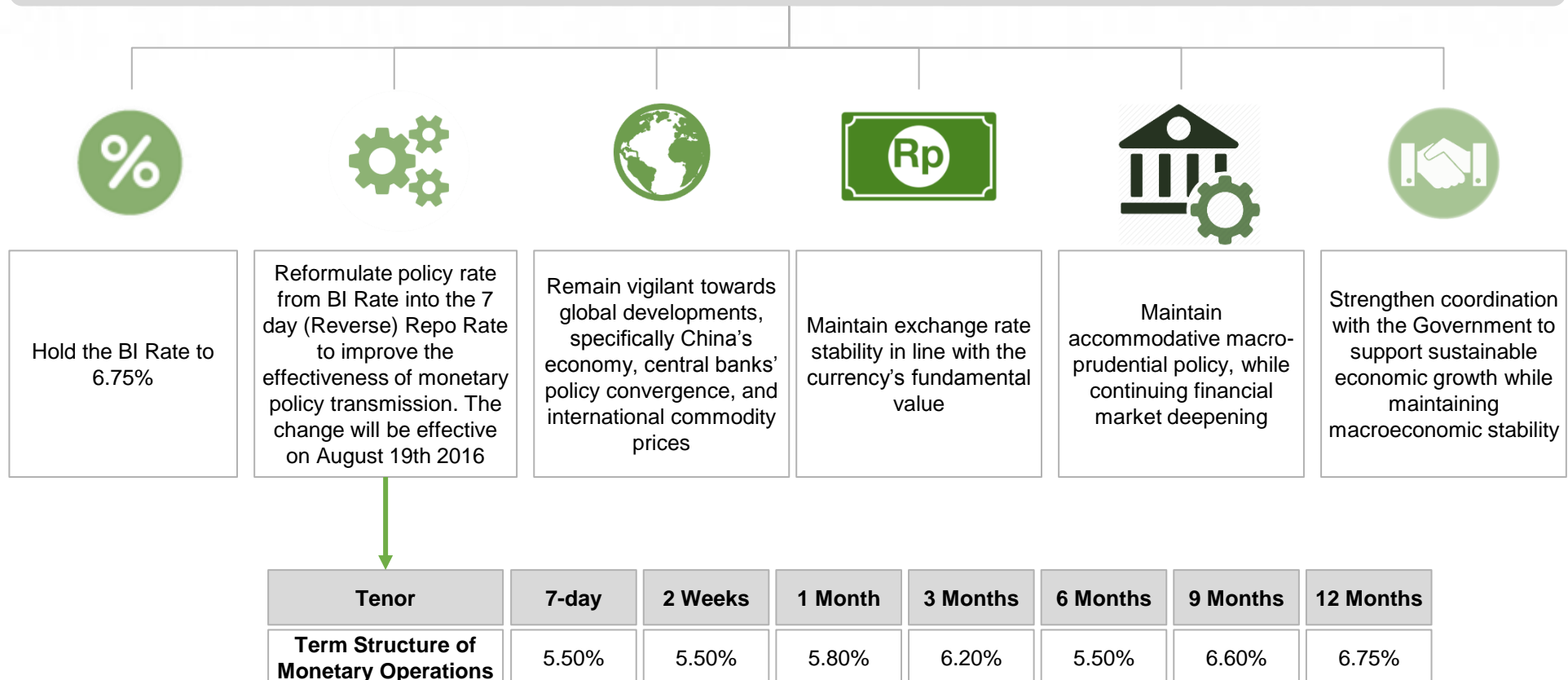
Shift to More Accommodative Monetary Policies to Support Economic Growth



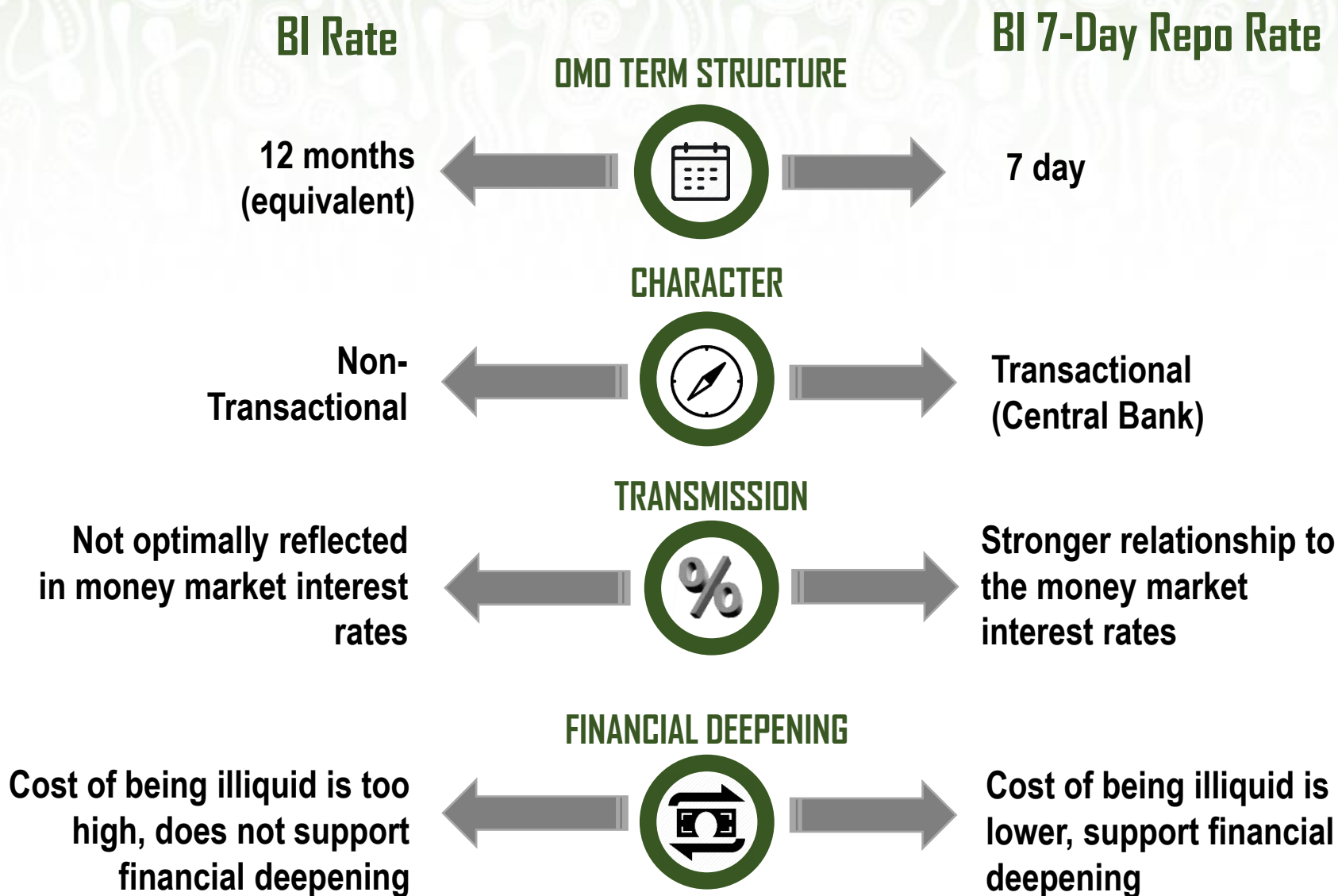
Bank Indonesia Policy Mix: April 2016



The BI Board of Governors agreed on 20th and 21st April 2016 to hold the BI Rate at 6.75%, while maintaining the Deposit Facility and Lending Facility rates at 4.75% and 7.25%, respectively



Enhancement Of Monetary Operations Framework

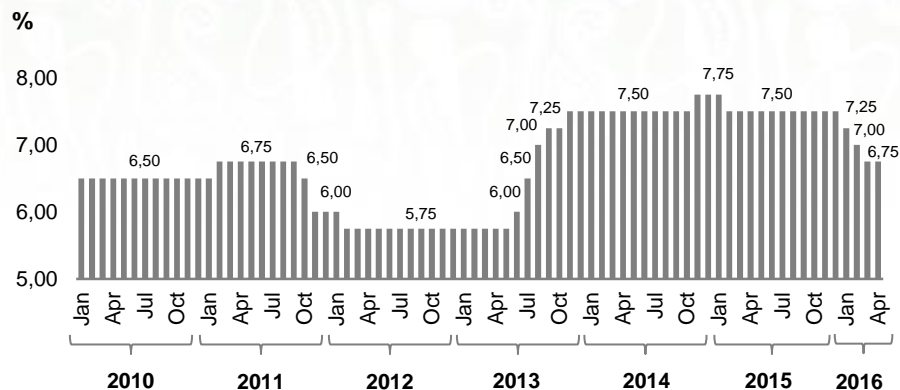


Stable Monetary Environment Despite Challenges



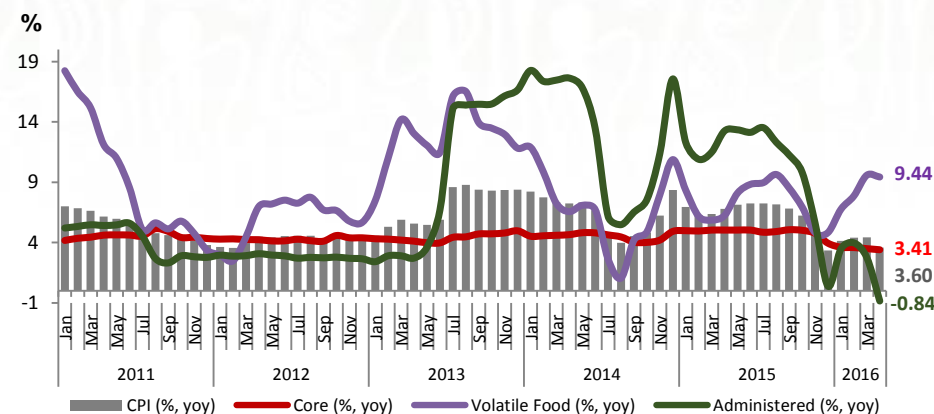
Solid Macroeconomic Stability Provides Greater Room to Ease Monetary Policy

Pre-emptive and Bold Monetary Policy



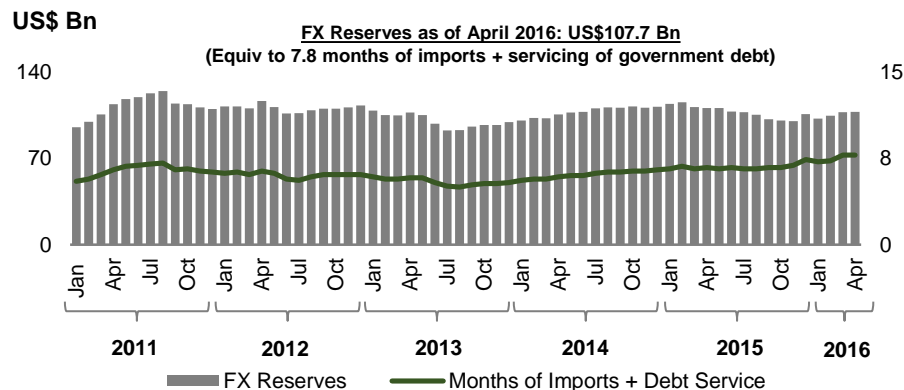
Source: Bank Indonesia

Managed Core Inflation Over The Past Few Months



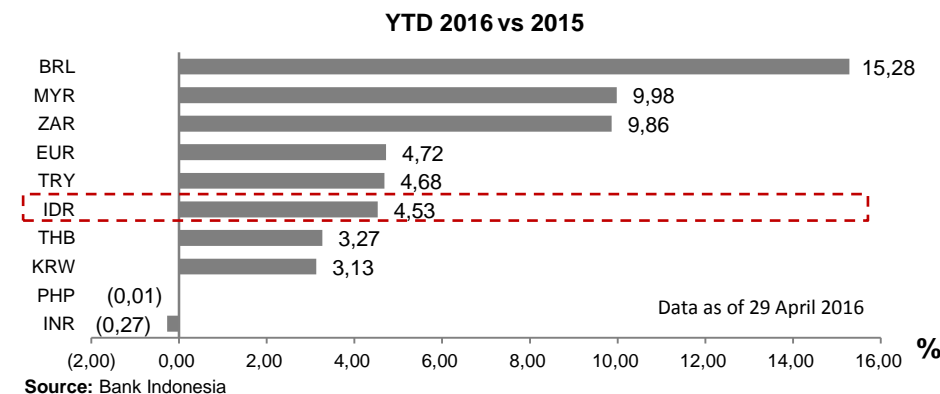
Source: Bank Indonesia

Supported by Substantial FX Reserves to Mitigate External Challenges



Source: Bank Indonesia

Appreciation of Rupiah Compared to other EM Countries



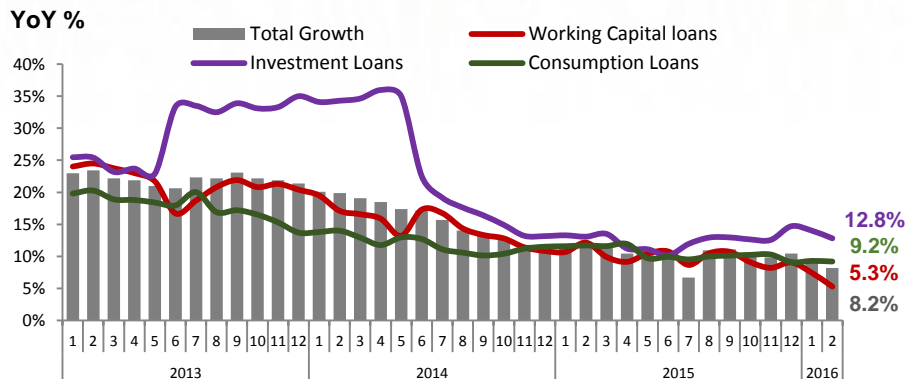
Source: Bank Indonesia



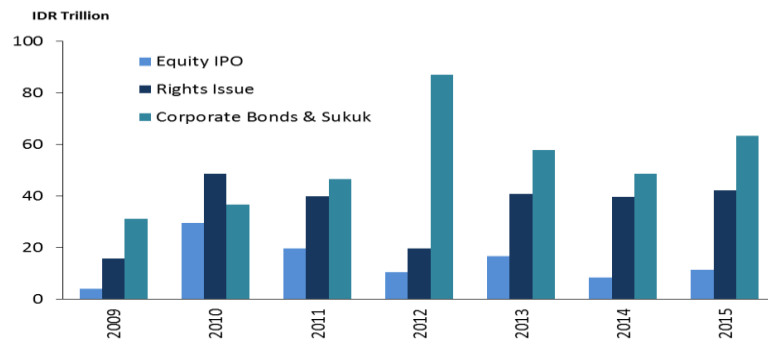
Banking Sector Continues to Show Resilience

In line with the moderating economic growth, the growth of banking loans and multifinance companies' financing slowed down in 2015, but with a moderate pace compared to the previous year. Capital raising from the capital market still increased amidst the fluctuating market. Meanwhile, insurance penetration and density were relatively stable.

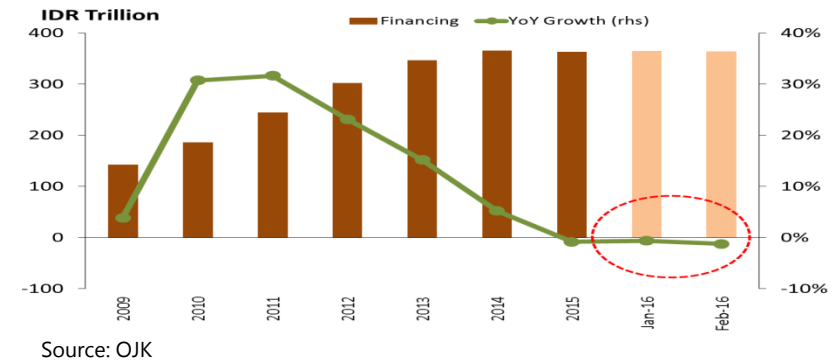
The slowdown in the growth of banking loans slightly moderates...



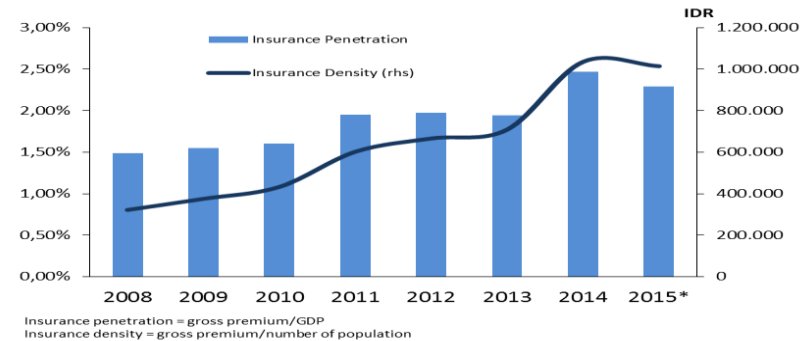
Capital raising through IPOs, rights issues, and corporate bond issuance in the capital market still increased...



... and so does the slowdown in financing distributed by multifinance companies...



Insurance penetration and density were relatively stable...



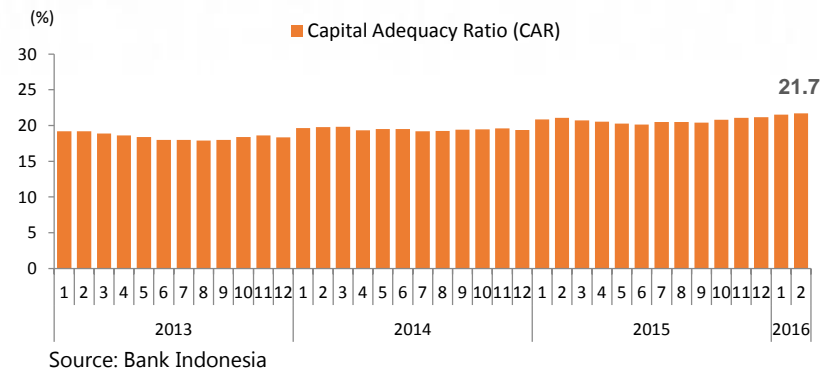
*) unaudited Source: OJK



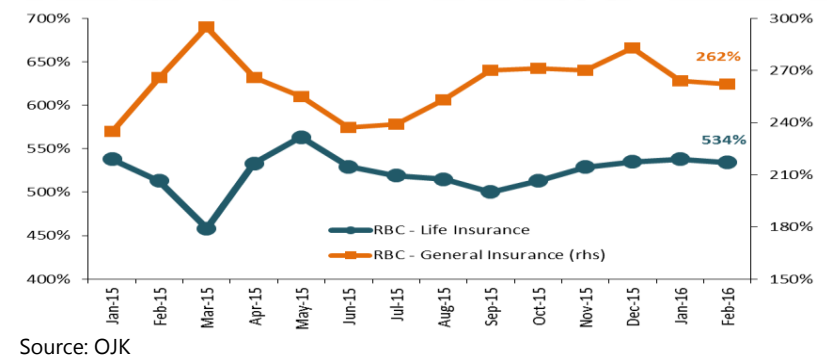
Banking Sector Continues to Show Resilience (continued)

Financial performance of domestic financial institutions generally remains robust. Capital adequacy is well above the minimum requirements. Profitability and leverage are maintained at a sufficient level. Gearing (debt-to-equity) ratio of multifinance companies is 3.4 times (well below the maximum requirement of 10 times), providing room for further growth.

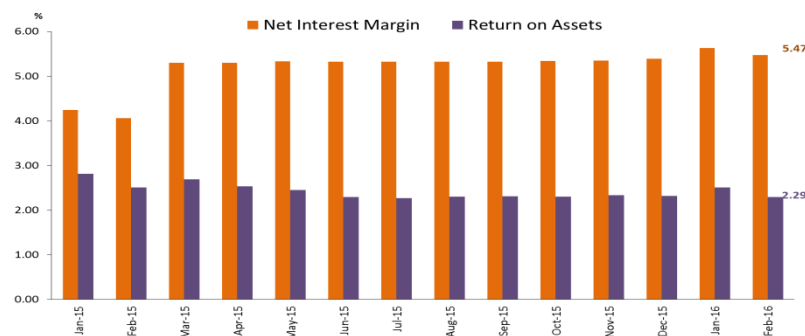
Banking sector's capital adequacy ratio (CAR) is maintained at a high level...



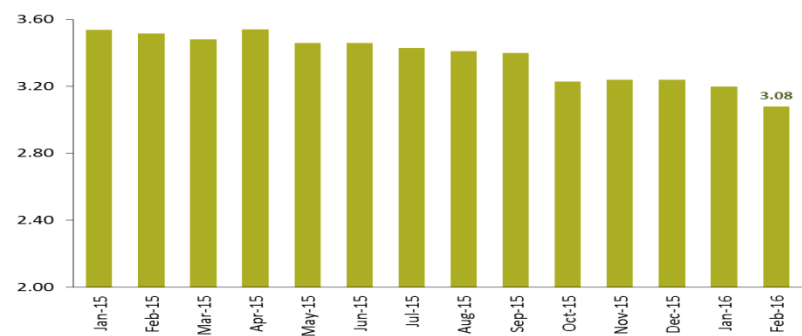
Risk-based capital (RBC) of the insurance industry remains high, well above the minimum threshold (120%)...



Profitability of the banking sector is relatively stable...



Gearing ratio of multifinance companies is quite low, providing ample room for future growth...

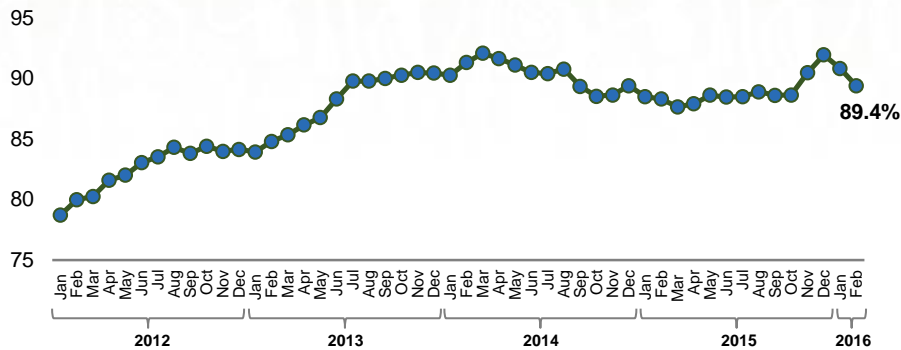




Banking Sector Continues to Show Resilience (continued)

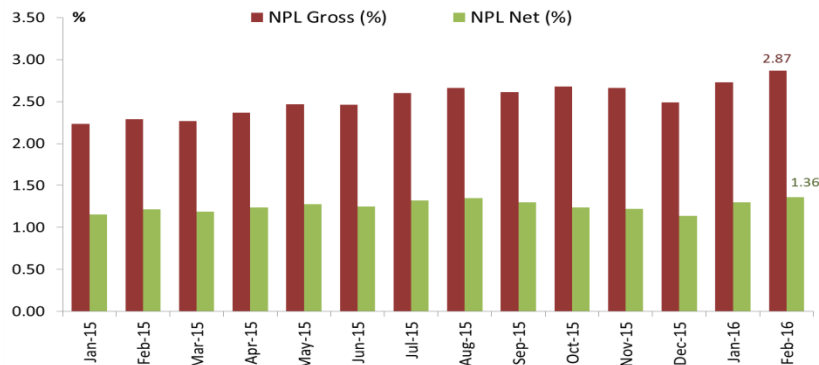
Robust Banking Sector With High CAR & Low NPL Ratios

Loan-to-Deposit Ratio (%)



Source: Bank Indonesia

LDR Remains at Comfortable Level



Source: OJK

Act of Financial System Crisis Prevention and Resolution (PPKSK)

- Strengthening the role, function, and coordination among the 4 financial authorities in the crisis prevention and resolution.
- Financial crisis prevention by strengthening the regulatory and supervisory functions of banking especially against SIBs.
- Strengthening the resolution of systemic bank issues by prioritizing bail-in principle.
- BI provides Short-Term Liquidity Loans (PLJP) to banks which are solvent and has sufficient collateral.
- Implementation of the action plan (recovery plan) by OJK and early intervention by LPS in the event of a systemic bank experiencing solvency issues.
- In financial distress, the president has full authority to take decisions for crisis handling.
- Immunity and Legal Protection for KSSK members (MoF, BI, OJK, LPS).



Three Directions for Indonesia's Financial Sector

OJK has clearly set out three directions to develop the domestic financial sector in the medium-term. From each direction, key priorities and programs are derived. A comprehensive "*Indonesia's Financial Services Sector Master Plan*" has been launched.



Contributive

In ongoing efforts to achieve a robust and sustainable economic growth, the domestic financial sector is directed to play a more vital role in terms of catalyzing national economic activities.



Stable

To support the sustainability of economic development, financial stability plays an important role. To that end, financial sector must maintain its resilience to confront possible shocks that could emerge from the domestic or external environments.



Inclusive

Financial sector has the opportunity to play an increasingly significant role in overcoming inequality that may arise. Initiatives undertaken by OJK include promoting financial inclusion and catalyzing local economy.



Measures in Financial Sector to Boost Growth and Maintain Stability

As part of national efforts to reverse the recent economic slowdown, OJK has issued a series of measures in the domestic financial sector. Such measures are directed to—among others—maintain the level of private consumption, support financial inclusion, and maintain confidence in the domestic financial market.

21 August 2015

- Regulations on shares buyback for listed companies

24 August 2015

- Changes on auto-rejection limit for equity trading on the stock exchange

8 October 2015

- Financial sector policy packages (*next slide*)

22 October 2015

- Deregulation in the Islamic banking sector

July-15

24 July 2015

- Financial sector policy packages

August-15

September-15

3 September 2015

- Relaxation of regulations for insurers and pension funds on the valuation of investments

9 September 2015

- Relaxation of regulations for foreign citizens in opening accounts in Indonesian banks

October-15

March-16

- Capping policy for deposit rate in commercial banks

Initiatives for Capital Market Deepening



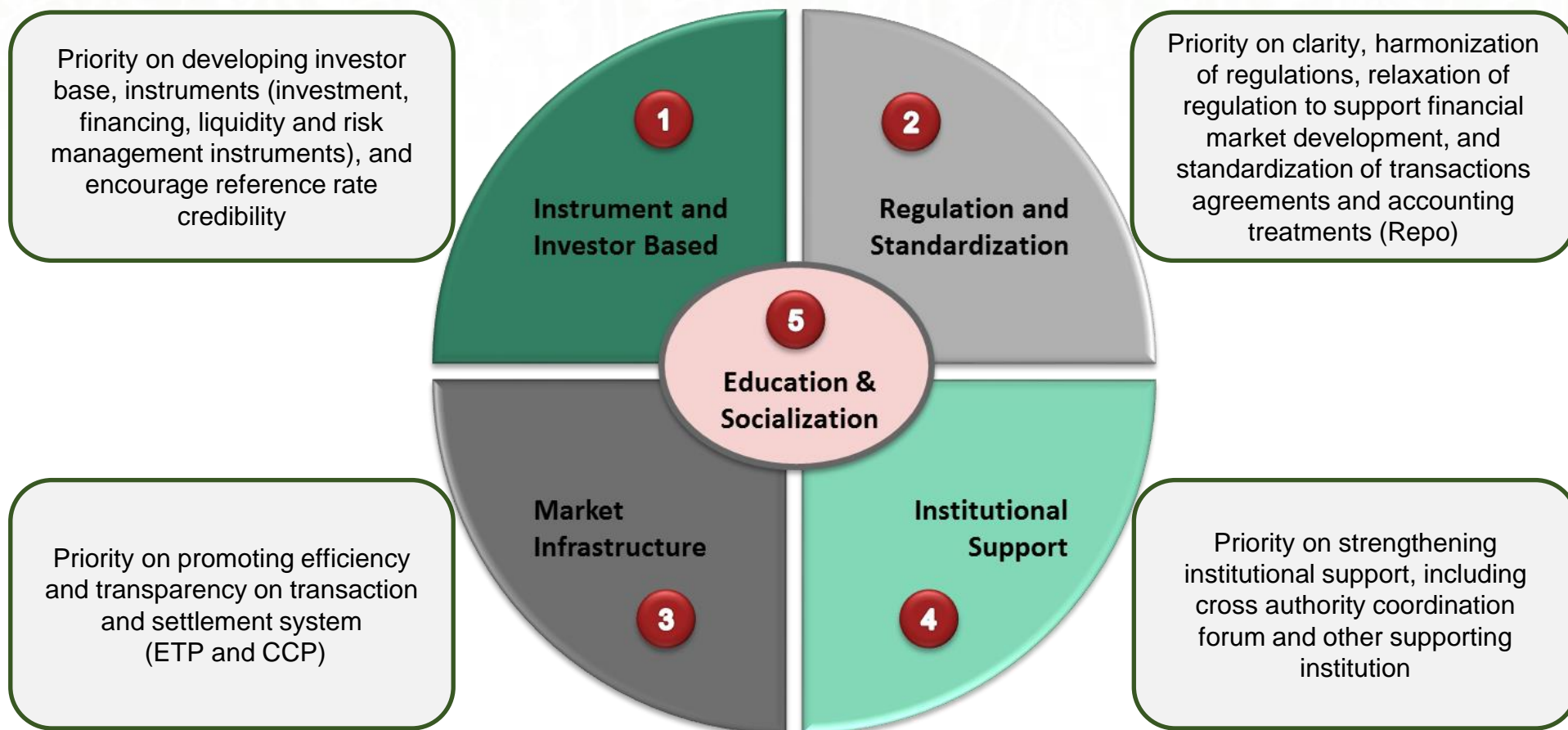
OJK, BI, and MoF have signed a MoU on financial market deepening to enhance the role of domestic financial market in supporting financing for national development. OJK in particular has issued policies and formulated initiatives with regards to financial market deepening.

Primary Market	Secondary Market	Bond Market
<ul style="list-style-type: none">▪ Simplifying regulations/ procedures to attract potential issuers▪ Expanding investment product alternatives & distribution channels	<ul style="list-style-type: none">▪ Enhancing market infrastructure as well as transaction efficiency▪ Expanding single investor identification (SID) to mutual funds & government debt securities investors	<ul style="list-style-type: none">▪ <i>Enhancing the role of domestic insurers & pension funds in government bonds market</i>▪ Developing electronic trading platform; establishing regulation of GMRA implementation▪ Developing bond market infrastructure & products
Islamic Capital Market	Reporting & Supervision	Capital Market Literacy
<ul style="list-style-type: none">▪ Enhancing regulations on Islamic capital market products & players▪ Increasing the supply & demand of Islamic capital market products	<ul style="list-style-type: none">▪ Developing reporting standards (XBRL) for issuers▪ Improving data warehouse & supervision dashboard▪ Developing e-registration, e-licensing & e-monitoring	<ul style="list-style-type: none">▪ Growing the domestic investor base through campaigns & education on capital markets, utilizing various media & cooperation with relevant institutions

A Comprehensive Financial Deepening Program



Five Pillar Strategy to Tackle Challenges in Deepening Indonesia's Financial Markets






Outlook of Domestic Economy Improves



Domestic economic growth is predicted to be higher in 2016...

2016 Economic Outlook

- Economic growth expected to increase, supported by fiscal stimulus. Private investment is expected to increase as a result of government policy packages and measurable monetary easing.
- Inflation projected at the lower end of the $4\pm 1\%$ inflation target, with the current account deficit is projected below 3% of GDP.
- Credit is projected to grow 12-14% on the back of improving purchasing power and fiscal stimulus.

	 Economic Growth	π Inflation	 CAD (% GDP)	 Credit Growth
2015	4.79%	3.35%	2.06%	10.45%
2016	5.2% - 5.6%	$4.0\%\pm 1\%$	< 3.0%	12% - 14%

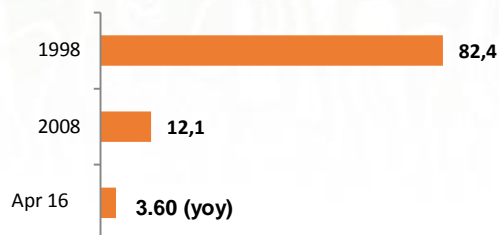
Stronger Fundamentals Facing the Headwinds



Indonesia has proven its remarkable ability to navigate through crisis, even now with stronger footing

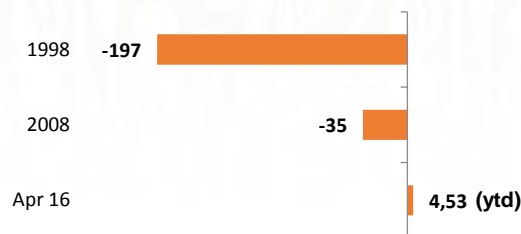
Inflation Rate

Inflation controlled under the revised Budget target



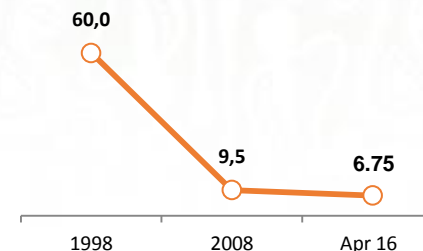
Exchange Rate

Rupiah depreciated in 1998 & 2008, but appreciates in 2016



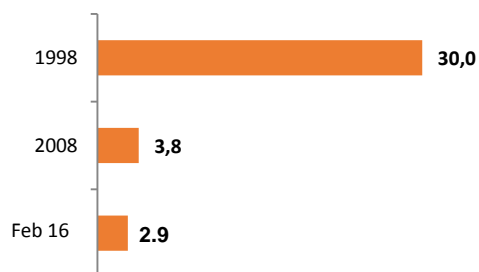
BI Rate

BI Rate is lower than 2008



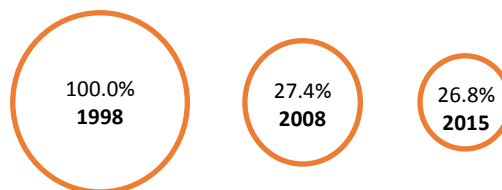
Non-Performing Loan (NPL)

NPL level is below the maximum threshold of 5%



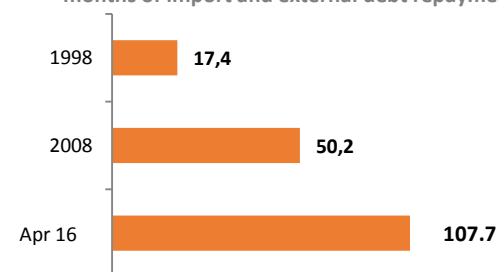
Government Debt/GDP

Continue to decline and allocated to productive sectors



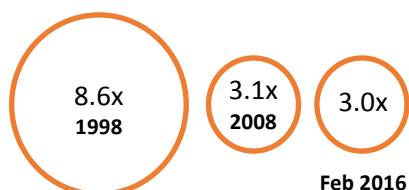
Foreign Reserves

Significantly higher than 1998 & 2008, ample to cover 7.8 months of import and external debt repayment



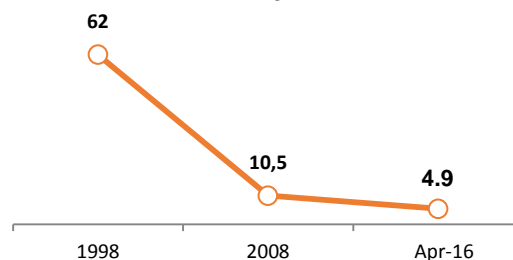
External Debt (Public & Private) to FX Reserve Ratio

Significantly lower than 1998 crisis



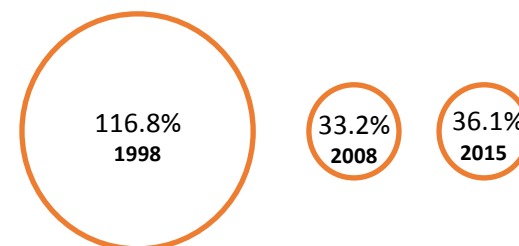
More Liquid Market

Overnight interbank money market rate is relatively lower



External Debt/GDP

Slightly higher than 2008, but significantly lower than 1998





Thank you!



For further enquiries please contact:

Investor Relations Unit (IRU) Republic of Indonesia - Secretariat
International Department - Bank Indonesia
Email: contactIRU-DL@bi.go.id