Republic of Indonesia

Stability at the Forefront,
Synergize Reforms Move

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

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

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

Published by Investor Relations Unit – Republic of Indonesia


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        E-mail: contactIRU-DL@bi.go.id

2019 State Budget (2019 Budget)

The House of Representatives (DPR) has approved the 2019 state budget on Wednesday, October 31st, 2018...

Domestic Non Deliverable Forward (DNDF) Transaction

Bank Indonesia has introduced Domestic Non-Deliverable Forwards (DNDF) transactions in order to accelerate forex market deepening while providing alternate hedging instrument for banks and corporations (fully implemented on November 1st, 2018).
Overview

1. Institutional and Governance Effectiveness: Accelerated Reforms Agenda with Institutional Improvement

2. Economic Factor: Strong and Stable Growth Prospects Remain Intact

3. External Factor: Improved External Resilience


5. Monetary and Financial Factor: Credible Monetary Policy Track Record and Favourable Financial Sector

6. Progressive Infrastructure Development: Strong Commitment on Acceleration of Infrastructure Provision
Section 1

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

**Global Competitiveness Index**

- **Higher rank is better**

**Ease of Doing Business**

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

**World Governance Indicators**

- **Higher rank is better**

**Corruption Perception Index**

- **Higher score is better**

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Indonesia is Now Fully Rated as Investment Grade Country

**Fitch Ratings**
- **Sept 2018, BBB, Rating Affirmed**
  “Indonesia’s ratings balance a low government debt burden and a favourable GDP growth outlook with external challenges, including a strong dependence on external sources of financing, and several structural indicators that remain below rating peers.”

**S&P Global Ratings**
- **May 2018, BBB-, Stable Rating Affirmed**
  “The sovereign ratings on Indonesia are supported by the government’s relatively low debt levels and its moderate fiscal performance and external indebtedness.”

**Moody’s**
- **Apr 2018, Baa2, Rating Upgraded**
  “The upgrade to Baa2 is underpinned by an increasingly credible and effective policy framework conducive to macroeconomic stability. Together with a build-up of financial buffers, prudent fiscal and monetary policy strengthens Moody’s confidence that the sovereign’s resilience and capacity to respond to shocks has improved.”

**R&I**
- **March 2018, Rating Upgraded to BBB, Outlook Revised to Stable**
  “Indonesia’s economy continues its strong performance, with inflation remaining low and stable. Fiscal deficits have been reined in, and government debt is low. The economy is becoming more resilient to external shocks, reflecting small current account deficits and ample foreign reserves.”

**JCR**
- **February 2018, Rating Upgraded to BBB, Outlook Revised to Stable**
  “...the government led by President Joko Widodo has been pressing ahead with structural reforms aimed to promote sustainable growth. First, the investment climate has significantly improved,... Second, infrastructure development has been gaining momentum,... Third, the external debt owed by the private sector has been curbed since 2016... Taking those into consideration, JCR has upgraded its ratings by one notch and changed the outlook to Stable.”
Indonesia Remains the Investment Destination of Choice

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

UNCTAD: Indonesia is listed in the top 20 host economies based on FDI inflows, 2016 and 2017 (June 2018)³

Indonesia Enjoys Large Investments Relative to Peers within the Region²

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

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

The 3 Dimensions on Economic Development

Human Development
- Education
- Health
- Housing
- Character

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

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

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

Source: Coordinating Ministry for Economic Affairs
### The Economic Policy Packages

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

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

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

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

**Policy Goals**

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

**Policy Targets**

1. Import duty for 115 types of ship’s spare parts and components 0%

   Opportunities for national shipping to serve export and import transportation of around USD 600 million/year

2. 70-100 units of new ships worth USD 700 million

3. New employment opportunity of 2,000 sailors

4. Improve the Regional Government’s role in development of Regional Logistics System to control inflation and reduce post-harvest product damage up to 30%

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

Initially, there are 233 regulations which need to be deregulated.

<table>
<thead>
<tr>
<th>TOTAL INITIAL REGULATIONS</th>
<th>233</th>
<th>I–XV</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVOKED REGULATIONS</td>
<td>11</td>
<td>I–XV</td>
</tr>
<tr>
<td>TOTAL REGULATIONS</td>
<td>222</td>
<td>I–XV</td>
</tr>
<tr>
<td>SET</td>
<td>219</td>
<td>99%</td>
</tr>
<tr>
<td>52 TOTAL PRESIDENTIAL LEVEL</td>
<td>50 FINISHED</td>
<td>96%</td>
</tr>
<tr>
<td>170 TOTAL MINISTERIAL/INSTITUTIONAL LEVEL</td>
<td>169 FINISHED</td>
<td>99%</td>
</tr>
<tr>
<td>ON GOING DISCUSSION</td>
<td>3</td>
<td>1%</td>
</tr>
</tbody>
</table>

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

Total regulation subject to be deregulated: 222 regulations.

As of May 15th, 2018, deregulation of 219 regulations are finished (99%), comprising 50 regulations at Presidential level and 169 regulations at Ministerial/Institutional level.

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

*as of May 15, 2018

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

**Fair, Simplified & Projectable Wage System**

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

**Development of Special Economic Zone (SEZ)**

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

**Industrial Zone**

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

**Deregulation on Logistics Sector**

52 Bonded Logistic Center has been launched to support various industries
### Investment Incentives to Boost Industry Sector

#### BUSINESS EXPANSION
- **Tax allowance**
- **Exemption or relief of import duty on capital goods, machinery or equipment** for production purposes that cannot be produced domestically;
- **Exemption or relief of import duty on raw materials or auxiliary material** for production purposes for a certain period of time and certain conditions;
- **Exemption or suspension of VAT on the import of capital goods or machinery or equipment** for production purposes that have not been produced domestically for a certain period of time;
- Accelerate **depreciation or amortization** (part of tax allowance); and
- **Property tax relief**, especially for certain business sectors in certain regions;
- Combine with **Online Single Submission (OSS)**

#### INDUSTRIAL ZONE
- **VAT exemption** on import or delivery of capital goods,
- **Import Duty exemption** on machineries/goods/materials,
- **Tax Allowance and Tax Holiday**

#### FREE TRADE ZONES AND PORTS
- **Exemption of:**
  - Import Duty
  - VAT
  - Luxury Goods Sales Tax (PPnBM)
  - Customs duty

#### MICRO, SMALL, MEDIUM ENTERPRISES (MSMES)
- **Decreasing MSMEs Tax** from 1% to 0.5% of gross revenue

#### SPECIAL ECONOMIC ZONE
- **No collection of VAT and Luxury Goods Sales Tax (PPnBM),**
- **Customs tax exemption,**
- **Tax Allowance and Tax Holiday,**
- **Suspension of Import Duty,**
- **0% Import Duty** for goods produced using local components of a certain level

#### PIONEER INDUSTRIES
- **Tax holiday** of corporate income tax in a certain amount and time

#### E-COMMERCE
- **Sales from customs areas for non-small entrepreneurs** through the market place will be subject to **0.5% income tax and 1% VAT**
- **Sales from customs areas for small entrepreneurs** through the market place will be subject to **0.5% income tax**

Source: Coordinating Ministry for Economic Affairs
# New Tax Holiday Policy* to boost industry sector

<table>
<thead>
<tr>
<th>PROVISION</th>
<th>BEFORE</th>
<th>AFTER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxpayer</strong></td>
<td>Pioneer Industry with minimum investment value of 1 trillion Rupiah (minimum investment value of 500bn Rupiah for telecommunication sector)</td>
<td>Pioneer Industry with minimum investment value of 500bn Rupiah</td>
</tr>
<tr>
<td></td>
<td>Applied to 8 industry groups: (i) upstream basic metal industry; (ii) oil and gas refinery industry; (iii) organic basic chemicals industry; (iv) machinery industry; (v) plantation, forest, and fishery products processing industry; (vi) telecommunication, information and communication industry; (vii) marine transportation; and (viii) economic infrastructure</td>
<td>Applied to 17 industry groups: (i) upstream base metal; (ii) oil and gas refinery; (iii) petrochemical (oil, gas, or coal based); (iv) non-organic base chemical; (v) organic base chemical; (vi) pharmaceutical materials; (vii) semiconductor and other components; (viii) communication devices components; (ix) medical devices components; (x) machine manufacturing for industry; (xi) machine main components manufacturing; (xii) robotic components manufacturing; (xiii) ship components manufacturing; (xiv) airplane components manufacturing; (xv) train components manufacturing; (xvi) power plants; and (xvii) economic infrastructure</td>
</tr>
</tbody>
</table>

| Corporate Income Tax (CIT) reduction rate | 10 – 100% | 100% (single rate) |

<table>
<thead>
<tr>
<th>Concession period</th>
<th>5 – 20 years depends on the investment value (in IDR):</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 5 – 15 years; or</td>
<td>1. 500Bn – 1Tn : 5 years 4. 15Tn – 30Tn : 15 years</td>
</tr>
<tr>
<td>• Can be extended to 20 years; subject to MoF discretion</td>
<td>2. 1Tn – 5Tn : 7 years 5. ≥ 5Tn : 20 years</td>
</tr>
<tr>
<td>3. 5Tn – 15Tn : 10 years</td>
<td></td>
</tr>
</tbody>
</table>

| Transition | Not available | 50% CIT reduction for the next 2 years |

| After Tax Holiday | Tax allowance not provided | Tax allowance for business expansion can be provided with terms and conditions applied |

Source: Coordinating Ministry for Economic Affairs

*) MoF has issued a new Tax Holiday policy through Regulation No. 35/PMK.010/2018 (PMK-35) dated 4 April 2018.
Enhancing Business License Service Standard
Presidential Regulation to Accelerate Ease of Doing Business has been launched

**Policy Goals**

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

**Main Policy**

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

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

Note: 1st and 2nd Phase are implemented in parallel

Source: Coordinating Ministry for Economic Affairs
OSS is a web-based business licensing system intended to cut the red tape involved in obtaining business permits and integrated between the central government and regional administrations.

### Sectors

- Environment & Forestry Sector
- Electricity Sector
- Public Works & Housing Sector
- Health Sector
- Industry Sector
- Marine & Fishery Sector
- Medicine & Food Sector
- Transportation Sector
- Trade Sector
- Information & Communication Sector
- Other Sector

### The Advantage of Using OSS

- Business licenses can be secured in under an hour
- Standardized business licenses are available
- Electronically integrated
- More practical
- Accessible at anytime and anywhere
- The whole licensing process is monitored by the Task Force

Source: Coordinating Ministry for Economic Affairs
Bonded Logistic Center (Pusat Logistik Berikat/PLB) is a facility provided by Ministry of Finance as part of the implementation of the 1st Economic Policy Package. PLB facility aims to improve efficiency and reduce the cost of transportation and logistics in Indonesia; support the growth of the domestic industry, including small and medium industries; increase investment; and to make Indonesia to become a logistics hub in Asia Pacific.

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

Introduction of New Foreign Ownership Regulation for Strategic Sectors

<table>
<thead>
<tr>
<th>Cold storage</th>
<th>Sports Center, Film Processing Lab, Crumb Rubber</th>
<th>Restaurants, Bars</th>
<th>Pharmaceutical Raw Materials Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before</td>
<td>After</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>49%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>51%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>85%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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**

**Source:** Investment Coordinating Board (BKPM)

1 For total project value of IDR10bn and above
## Continuous Improvement of Investment Climate

...another leap on Indonesia’s Rank on Ease of Doing Business (EODB)*

<table>
<thead>
<tr>
<th>Category</th>
<th>EODB 2018 Rank</th>
<th>EODB 2017 Rank</th>
<th>Change in Rank</th>
<th>EODB 2018 Points</th>
<th>EODB 2017 Points</th>
<th>Change in Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>72</td>
<td>91</td>
<td>↑ 19</td>
<td>66.47</td>
<td>61.52</td>
<td>↑ 4.95</td>
</tr>
<tr>
<td>Starting a business</td>
<td>144</td>
<td>151</td>
<td>↑ 7</td>
<td>77.93</td>
<td>76.43</td>
<td>↑ 1.5</td>
</tr>
<tr>
<td>Dealing with Construction Permit</td>
<td>108</td>
<td>116</td>
<td>↑ 8</td>
<td>66.08</td>
<td>65.73</td>
<td>↑ 0.35</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>38</td>
<td>49</td>
<td>↑ 11</td>
<td>83.87</td>
<td>80.92</td>
<td>↑ 2.95</td>
</tr>
<tr>
<td>Registering Property</td>
<td>106</td>
<td>118</td>
<td>↑ 12</td>
<td>59.01</td>
<td>55.72</td>
<td>↑ 3.29</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>55</td>
<td>62</td>
<td>↑ 7</td>
<td>65.00</td>
<td>60.00</td>
<td>↑ 5.00</td>
</tr>
<tr>
<td>Protecting Minority Investors</td>
<td>43</td>
<td>70</td>
<td>↑ 33</td>
<td>63.33</td>
<td>56.67</td>
<td>↑ 6.66</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>114</td>
<td>104</td>
<td>↓ 10</td>
<td>68.04</td>
<td>69.25</td>
<td>↓ 1.21</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>112</td>
<td>108</td>
<td>↓ 4</td>
<td>66.59</td>
<td>65.87</td>
<td>↑ 0.72</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>145</td>
<td>166</td>
<td>↑ 21</td>
<td>47.23</td>
<td>38.15</td>
<td>↑ 9.08</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>38</td>
<td>76</td>
<td>↑ 38</td>
<td>67.61</td>
<td>46.46</td>
<td>↑ 21.15</td>
</tr>
</tbody>
</table>

* Higher rank is better, EoDB 2018 was published in October 2017

- Government efforts to boost business growth through deregulations and de-bureaucratization have been recognized by the improvement of EODB.
- Structural reforms will continue including in the budget and real sectors.

Source: World Bank
Investment Realization (Q3-2018)

Direct Investments

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI</th>
<th>DDI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2014</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2015</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>173.8</td>
<td>84.7</td>
<td>173.8</td>
</tr>
</tbody>
</table>

FDI Realization by Sectors (yoy)

- **Non Metallic Mineral Industry**: US$76.0 mn, 64.2%
- **Housing, Industrial Estate, and Office Building**: US$671.7 mn, 22.0%
- **Trade & Reparation**: US$1,220.1 mn, 82.0%
- **Electricity**: US$1,050.0 mn, 35.9%
- **Mining**: US$595.2 mn, 42.5%
- **Food Industry**: US$385.7 mn, 66.9%
- **Textile Industry**: US$99.0 mn, 40.2%
- **Transportation, Warehouse, and Telecommunication**: US$1,050.0 mn, 30.6%

Source: Investment Coordinating Board (BKPM), compared to Q3-2017 period
Section 2

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

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

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

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

Reform-Oriented Administration

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

Strong GDP Growth

<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>0.04</td>
<td>3.87</td>
<td>0.16</td>
<td>3.27</td>
<td>4.82</td>
<td>4.74</td>
<td>4.77</td>
<td>5.17</td>
<td>4.92</td>
<td>5.18</td>
<td>5.01</td>
</tr>
<tr>
<td>Q1</td>
<td>2015</td>
<td>3.70</td>
<td>1.73</td>
<td>3.31</td>
<td>4.01</td>
<td>3.14</td>
<td>4.01</td>
<td>3.19</td>
<td>4.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td>2016</td>
<td>(1.81)</td>
<td>(0.30)</td>
<td>(1.70)</td>
<td>4.01</td>
<td>3.19</td>
<td>4.21</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>2017</td>
<td>(1.70)</td>
<td>(0.42)</td>
<td>(1.70)</td>
<td>4.01</td>
<td>3.19</td>
<td>4.21</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td>2018</td>
<td>5.27</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

• National economic growth momentum has continued to build in Indonesia, as confirmed by solid GDP growth figures for the second quarter of 2018, reaching 5.27% (yoy), the highest rate on record since 2013.

• In terms of expenditure, private consumption by households and non-profit institutions serving households (NPISH) recorded strong growth. Household consumption stood at 5.14% (yoy), the highest since 2014. On the other hand, NPISH consumption grew 8.71% (yoy) in the three months to June 2018.

• BI projects solid economic growth in 2018 on resilient domestic demand. Solid investment is also expected in line with ongoing infrastructure development, thus driving private consumption gains. In addition, expansive government consumption and maintained macroeconomic stability will continue to bolster economic momentum. Moreover, efforts to strengthen the sectoral structure of the economy will be continued through structural reform policy, which will further help to accelerate the national economy moving forward.

Favourable GDP Growth Compared to Peers

Growth Prospect

<table>
<thead>
<tr>
<th>Institutions</th>
<th>2018 GDP growth (%YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 Budget</td>
<td>5.4</td>
</tr>
<tr>
<td>Bank Indonesia</td>
<td>5.0 – 5.4</td>
</tr>
<tr>
<td>IMF</td>
<td>5.3</td>
</tr>
<tr>
<td>World Bank</td>
<td>5.3</td>
</tr>
<tr>
<td>ADB</td>
<td>5.3</td>
</tr>
<tr>
<td>Consensus Forecast (October 2018)</td>
<td>5.2</td>
</tr>
</tbody>
</table>

1. Source: Central Bureau of Statistics of Indonesia (BPS), ** Including non-profit household consumption
2. Source: World Economic Outlook Database – April 2018; * indicates estimated figure
## GDP Growth Breakdown

### GDP Growth Based on Expenditures (% , YoY)\(^1\)

<table>
<thead>
<tr>
<th>By expenditure</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Tot.</td>
</tr>
<tr>
<td>HH. Consumption</td>
<td>5.2</td>
<td>5.2</td>
<td>5.1</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Non profit HH. consumption</td>
<td>23.2</td>
<td>22.4</td>
<td>5.8</td>
<td>0.5</td>
<td>12.2</td>
</tr>
<tr>
<td>Government consumption</td>
<td>6.1</td>
<td>(1.8)</td>
<td>1.2</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Gross Fixed Cap. Formation</td>
<td>5.4</td>
<td>4.0</td>
<td>4.4</td>
<td>4.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Exports</td>
<td>3.1</td>
<td>1.5</td>
<td>4.9</td>
<td>(4.4)</td>
<td>1.1</td>
</tr>
<tr>
<td>Imports</td>
<td>5.1</td>
<td>0.4</td>
<td>0.2</td>
<td>3.0</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>5.1</td>
<td>4.9</td>
<td>4.9</td>
<td>5.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

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

### GDP Growth by Sector (% , YoY)

<table>
<thead>
<tr>
<th>By sectors</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Tot.</td>
</tr>
<tr>
<td>Agriculture, forestry, and fishery</td>
<td>5.2</td>
<td>4.9</td>
<td>3.6</td>
<td>3.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>-1.2</td>
<td>0.7</td>
<td>0.7</td>
<td>1.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.5</td>
<td>4.9</td>
<td>5.0</td>
<td>4.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Construction</td>
<td>7.2</td>
<td>6.5</td>
<td>6.5</td>
<td>7.7</td>
<td>7.0</td>
</tr>
<tr>
<td>Wholesale and Retail Trade, Repair of Car and Motorcycle</td>
<td>6.1</td>
<td>5.1</td>
<td>5.2</td>
<td>4.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Transportation and Storage</td>
<td>7.0</td>
<td>7.6</td>
<td>7.7</td>
<td>7.2</td>
<td>7.4</td>
</tr>
<tr>
<td>Information and communication</td>
<td>9.9</td>
<td>10.7</td>
<td>9.8</td>
<td>10.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Financial service</td>
<td>3.6</td>
<td>5.5</td>
<td>1.9</td>
<td>7.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Other Services*</td>
<td>5.4</td>
<td>4.7</td>
<td>5.9</td>
<td>6.5</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>5.1</td>
<td>4.9</td>
<td>4.9</td>
<td>5.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: Central Bureau of Statistics of Indonesia (BPS)

*Other services consist of 10 sectors (according to Standard National 2008)
Regional Growth Remains Positive
Higher Growth Occurred In Most Of The Regions and Java Still Contributes Meaningfully

Source: Central Bureau of Statistics of Indonesia (BPS)
Section 3
External Factor: Improved External Resilience
External Balance under Control Supported by Adequate Reserves

Balance of Payments Portrait

US$bn
-15  -10  -5   0  5  10  15  20
Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4  Q1*  Q2*  Q3*  Q4*  Q1**  Q2**
Source: Bank Indonesia

Current Account Deficit within Safe Threshold

2012: CA Deficit (US$24.4bn)
2013: CA Deficit (US$29.1bn)
2014: CA Deficit (US$27.5bn)
2015: CA Deficit (US$17.3bn)
2016: CA Deficit (US$16.9bn)
2017: CA Deficit (US$17.3bn)

US$bn
0  2  4  6  8  10  12  14  16
Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4  Q1*  Q2*  Q3*  Q4*  Q1**  Q2**
Source: Bank Indonesia

Trade Balance Deficit in line with Improving Economic Activities

US$bn
-3.00  -2.00  -1.00  0.00  1.00  2.00  3.00
2013: Deficit (US$4.10bn)
2014: Deficit (US$2.37bn)
2015: Surplus US$7.59bn
2016: Surplus US$8.83bn
2017: Surplus US$11.83bn

Source: Bank Indonesia

Substantial FX Reserves to Mitigate External Challenges

FX Reserves as of September 2018: US$114.8 bn
(Equiv. to 6.3 months of imports + servicing of government debt)

US$bn
0  50  100  150  200
1  2  3  4  5  6  7  8  9  10  11  12  13  14  15
Month
Source: Bank Indonesia

* Preliminary Figure ** Very Preliminary Figure
Source: BPS
The Rupiah is undergoing depreciation, albeit with contained volatility. The depreciation of Rupiah is in line with currencies of peer countries. On average, the Rupiah depreciated 2.07% during September 2018, and continue to slightly depreciate in October 2018. As of 22nd October 2018, the rupiah had depreciated by 10.65% (ytd), which is not as severe as that felt in Brazil, India, South Africa and Turkey. Looking ahead, Bank Indonesia will continue to stabilize the Rupiah exchange rate in line with the currency's fundamental value, while maintaining market mechanisms, supported by financial market deepening. Such policy is focused on safeguarding the Rupiah volatility and sustaining adequate market liquidity, thus preventing risks to macroeconomic and financial system stability.

Source: Bank Indonesia
<table>
<thead>
<tr>
<th>Measures To Stabilize Rupiah Exchange Rate</th>
<th>Measures To Support Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.</strong> A pre-emptive, front-loading and ahead-of-the-curve policy response</td>
<td><strong>1.</strong> Further easing of macroprudential policy</td>
</tr>
<tr>
<td><strong>2.</strong> Dual intervention in the foreign exchange market and government securities (Surat Berharga Negara - SBN) market in a measured way</td>
<td><strong>2.</strong> Policy coordination to accelerate financial market deepening</td>
</tr>
<tr>
<td><strong>3.</strong> Strengthening the monetary operations in the foreign exchange and money markets</td>
<td><strong>3.</strong> Payment system development to support digital economy</td>
</tr>
<tr>
<td><strong>4.</strong> Intensive communication, especially to market players, banks, businesses, and economists</td>
<td><strong>4.</strong> Sharia economy and finance development</td>
</tr>
</tbody>
</table>

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

#### Ample Reserves

| FX Reserve | ● Ample level of FX reserves to buffer against external shock  
|            | ● FX Reserves as of September 2018: US$114.8 billion |

#### Swap Arrangement

| Bilateral |  
| Japan      | ● US$22.76 billion swap line with Japan currently in place  
|           | ● As of October 14th, 2018, the facility available in USD and JPY  
|           | ● The size of the swap line was increased from US$12 bn in December 2013  
| South Korea| ● Renewed a 3 year KRW/IDR swap arrangement with the size of up to 10.7 tn KRW/IDR  
| Australia  | ● Established a 3 year A$/IDR swap arrangement with the size of up to A$10 bn or IDR100 tn in Dec. 2015 |

| Regional |  
| ASEAN Swap Arrangement (ASA) | ● Entitled to a maximum swap amount of USD600 million under ASA  
|           | ● The first MoU on the ASA was signed in 1977 among 5 ASEAN Central Banks with total facility USD100 million  
|           | ● Doubled to USD2 billion in 2005  
| 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 |

| Global |  
| IMF Global Financial Safety Net - GSFN | ● Indonesia is entitled to access IMF facilities for crisis prevention to address potential (actual) BOP problem  
|           | ● Such facilities include Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL) |

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

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

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

Swap facility arrangements based on international cooperation

Enhancing coordination between government institutions and continuous dialogue with market participants

Implementing Crisis Management Protocol (CMP)

Implementing Bond Stabilization Framework (BSF)

Gov't Securities Crisis Management Protocol (CMP)

- Indicators:
  - Yield of benchmark series;
  - Exchange rate;
  - Jakarta Composite Index;
  - Foreign ownership in government securities

- Policies to address the crisis at every level:
  - Repurchase the government securities at secondary market
  - Postpone or stop the issuance

Bond Stabilization Framework

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

<table>
<thead>
<tr>
<th>Second Line of Defense</th>
<th>State's Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>State General Treasury Account (Rekening KUN) (min. level Alert)</td>
<td></td>
</tr>
<tr>
<td>Accumulated cash surplus (SAL) (min. Level Crisis)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Finance
Debt Burden Indicator (External Debt/GDP) Remains Comparable to Peers Rating

<table>
<thead>
<tr>
<th>External Debt/GDP (%)</th>
<th>2017</th>
<th>2018F</th>
<th>2019F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>64.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>42.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>32.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>21.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>22.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Moody’s Statistical Handbook, May 2018

Regulation on Prudential Principle in Managing External Debt

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

Source: Bank Indonesia

Encouraging Corporates Compliance on Hedging Ratio & Liquidity Ratio

Hedging Ratio*

- ≤ 3 months
  - 2019F: 10.8%
  - 2018F: 2,432; 89.2%
- > 3 - 6 months
  - 2019F: 6.8%
  - 2018F: 2,542; 93.2%

Liquidity Ratio*

- 2019F: 12.8%
- 2018F: 350; 12.8%
- 2017: 2,377; 87.2%

Source: Bank Indonesia

*Data as of Q2 2018, with total population 2,727 corporates
Healthy External Debt Composition

**External Debt Structure**

- Private Debt
- Government and Central Bank Debt

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

- Short Term External Debt
- Long Term External Debt

**External Debt Remains Manageable**

- Million USD
- External Debt
- External Debt Growth (rhs)

**External Debt to GDP Ratio & Debt to Export Ratio**

- External Debt to Export Ratio
- External Debt / GDP Ratio (rhs)

*Provisional Figures  **Very Provisional Figures
Source: Bank Indonesia, External Debt Statistics of Indonesia, October 2018
Manageable External Debt Profile

Short term non-bank corporate debt (non affiliation) represents only 8.9% of total private external debt.

**External Debt Position as of August 2018**

1 Based on remaining maturity

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

Fiscal Performance and Flexibility: More Fiscal Stimulus with Prudent Fiscal Policy
Integrated Reform to Provide Higher Quality of Economic Growth

Structural reforms to enhance potential growth and navigate through challenges

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

Synergy in reform to boost the more sustainable and inclusive growth

Source: Ministry of Finance
Growth Momentum is Expected to Continue
Several key drivers and strategies to accelerate growth

Key Drivers

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

Strategies to Encourage Growth

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

Risks & Challenges

**Global economic uncertainties:** China economic rebalancing and its financial vulnerability, advanced countries policy normalization, geopolitic, and climate change
## 2019 State Budget (APBN 2019)

### Healthier, More Equitable, Self-Sufficient

#### Healthier
- Deficit 1.84% of GDP, the lowest since 2013
- Towards positive primary balance
- Debt to GDP ratio below 30% of GDP

#### More equitable
- Strengthening decentralization (increasing fiscal transfer to regions)
- Strengthening scisl protection programs
- Focusing on human capital quality improvement (inter-generational fairness)

#### Self sufficient
- Increasing tax revenue
- Increasing the share of local currency bond issuance
- Domestic financial deepening
- Driving export

### Macroeconomic Assumption

<table>
<thead>
<tr>
<th></th>
<th>Growth</th>
<th>Inflation</th>
<th>3 months T-bills</th>
<th>Exchange Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.3%</td>
<td>3.5%</td>
<td>5.3%</td>
<td>14.500/US$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>ICP</th>
<th>Oil Lifting</th>
<th>Gas Lifting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>70/barrel</td>
<td>775 barrel/day</td>
<td>1.250 barrel/day</td>
</tr>
</tbody>
</table>

### Development Target

<table>
<thead>
<tr>
<th></th>
<th>Unemployment</th>
<th>Poverty</th>
<th>Gini ratio</th>
<th>HDI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.8% – 5.2%</td>
<td>8.5 – 9.5</td>
<td>0.38 – 0.39</td>
<td>71.98</td>
</tr>
</tbody>
</table>

### REVENUE
- Rp2,165.1 T
  - Tax Rp1,786.4 T
  - Non Tax Rp378.3 T
  - Grant Rp0.4T

### EXPENDITURE
- Rp2,461.1 T
  - Central Government Rp1,634.3T
  - Transfer to Region Rp756.8 T
  - Village Fund Rp70.0 T

### Deficit
- Rp296.0 T (1.84% of GDP)

### Primary Balance
- (Rp20.1 T)

### Debt Financing
- Rp359.3 T

### Investment
- Rp75.9T

Source: Ministry of Finance
More Credible and Realistic Budget
...providing more certainty to all stakeholders

### Macroeconomic Assumption for 2018 Budget

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

### Description (IDR Trillion)

<table>
<thead>
<tr>
<th>Description (%)</th>
<th>2016 Audited Realization</th>
<th>2017 R-Budget</th>
<th>Realization (Auditaded)</th>
<th>% Realization to R-Budget</th>
<th>Budget</th>
<th>% difference with R-Budget</th>
<th>Realization (a.o. Sept 30)</th>
<th>% Realization to Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Revenues and Grants</td>
<td>1,555.9</td>
<td>1,736.1</td>
<td>1,666.4</td>
<td>96.0</td>
<td>1,894.7</td>
<td>9.1</td>
<td>1,312.3</td>
<td>69.3</td>
</tr>
<tr>
<td>I. Domestic Revenue</td>
<td>1,546.9</td>
<td>1,733.0</td>
<td>1,654.8</td>
<td>95.5</td>
<td>1,893.5</td>
<td>9.3</td>
<td>1,305.9</td>
<td>69.0</td>
</tr>
<tr>
<td>1. Tax Revenue</td>
<td>1,285.0</td>
<td>1,472.7</td>
<td>1,343.5</td>
<td>91.2</td>
<td>1,618.1</td>
<td>9.9</td>
<td>1,024.5</td>
<td>56.1</td>
</tr>
<tr>
<td>2. Non Tax Revenue</td>
<td>262.0</td>
<td>260.2</td>
<td>311.2</td>
<td>119.6</td>
<td>275.4</td>
<td>5.8</td>
<td>281.4</td>
<td>102.2</td>
</tr>
<tr>
<td>II. Grants</td>
<td>9.0</td>
<td>3.1</td>
<td>11.6</td>
<td>374.2</td>
<td>1.2</td>
<td>-61.3</td>
<td>6.4</td>
<td>538.5</td>
</tr>
<tr>
<td>B. Expenditure</td>
<td>1,864.3</td>
<td>2,133.3</td>
<td>2,007.3</td>
<td>94.1</td>
<td>2,220.7</td>
<td>4.1</td>
<td>1,512.6</td>
<td>68.1</td>
</tr>
<tr>
<td>I. Central Government Expenditure</td>
<td>1,154.0</td>
<td>1,367.0</td>
<td>1,265.3</td>
<td>92.6</td>
<td>1,454.5</td>
<td>6.4</td>
<td>938.8</td>
<td>64.5</td>
</tr>
<tr>
<td>1. Ministerial Spending</td>
<td>684.2</td>
<td>798.6</td>
<td>765.1</td>
<td>95.8</td>
<td>847.4</td>
<td>6.1</td>
<td>511.5</td>
<td>60.4</td>
</tr>
<tr>
<td>2. Non Ministerial Spending</td>
<td>469.8</td>
<td>568.4</td>
<td>500.2</td>
<td>88.0</td>
<td>607.1</td>
<td>6.8</td>
<td>427.3</td>
<td>70.4</td>
</tr>
<tr>
<td>II. Transfer to Region and Village Fund</td>
<td>710.3</td>
<td>766.3</td>
<td>742.0</td>
<td>96.8</td>
<td>766.2</td>
<td>-0.0</td>
<td>573.8</td>
<td>74.9</td>
</tr>
<tr>
<td>C. Primary Balance</td>
<td>-125.6</td>
<td>-178.0</td>
<td>-124.4</td>
<td>69.9</td>
<td>-87.3</td>
<td>-51.0</td>
<td>-2.4</td>
<td>2.7</td>
</tr>
<tr>
<td>D. Surplus (Deficit)</td>
<td>-308.3</td>
<td>-397.2</td>
<td>-340.9</td>
<td>85.8</td>
<td>-325.9</td>
<td>-18.0</td>
<td>-200.2</td>
<td></td>
</tr>
<tr>
<td>% of GDP</td>
<td>-2.49</td>
<td>-2.92</td>
<td>-2.51</td>
<td>-2.19</td>
<td>-2.19</td>
<td>2.35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E. Financing</td>
<td>334.5</td>
<td>397.2</td>
<td>366.6</td>
<td>92.3</td>
<td>325.9</td>
<td>-18.0</td>
<td>292.8</td>
<td>89.8</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance
Commitment to Continue Strengthening Productive Spending
Allocating budget to a more productive spending

Central Government Spending

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Rp1,183.3 T</td>
</tr>
<tr>
<td>2016</td>
<td>Rp1,154.0 T</td>
</tr>
<tr>
<td>2017</td>
<td>Rp1,259.6 T</td>
</tr>
<tr>
<td>2018</td>
<td>Rp1,454.5 T</td>
</tr>
</tbody>
</table>

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

Non Line Ministries Rp.607.1 T

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

Interest payment

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

Non Energy Subsidy
- Cost efficiency
  - Controlling cost of financing
  - Deepening government bond market
  - Controlling debt burden

Source: Ministry of Finance
Increasing Tax Revenue Over The Years

Future policies will be directed at expanding the tax base and increasing compliance.

Tax Revenue (in IDR trillion)

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

Tax Improvement Efforts

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

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

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

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

- Human Resource and Regulation
  - Improving services and organization effectivity

In Trillion Rupiah

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

Tax Revenue: 1,424.0
Customs and Excise: 194.1
Oil & Gas Income: 38.1
Non-Oil & Gas Income: 1,385.9

\(^a\) Tax ratio derived from tax revenue + revenue from natural resources/GDP

Source: Ministry of Finance
Non-Tax Revenue
Efficiency and Effectiveness on Natural Resources Management and Public Service Improvement

Non-Tax Revenue (in IDR trillion)

Ratio of non-tax revenue to Total Revenue

Yearly Growth

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

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

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

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

In Trillion Rupiah

2018 Allocation: 275.4
2017 Realization: 311.9

Non-Tax Revenue 2018 : 275.4

Source: Ministry of Finance
### Increasing Quality of Spending

**Reinforcing Allocation, Distribution, and Stabilization functions**

<table>
<thead>
<tr>
<th>Poverty and Gap</th>
<th>Infrastructure</th>
<th>Priority Sector</th>
<th>State Apparatus and Community Services</th>
<th>Defense of Security &amp; Democracy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>283.7</strong>&lt;sup&gt;1)&lt;/sup&gt;</td>
<td><strong>410.7</strong>&lt;sup&gt;2)&lt;/sup&gt;</td>
<td><strong>34.8</strong>&lt;sup&gt;3)&lt;/sup&gt;</td>
<td><strong>365.8</strong>&lt;sup&gt;4)&lt;/sup&gt;</td>
<td><strong>220.8</strong>&lt;sup&gt;5)&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

**Social protection program (PKH)**
- 2018: 10,0 mio families Rp17.3 T
- 2017: 6.0 mio families Rp12.7 T

**Expansion of Non-Cash Food Assistance (BPNT)**
- 2018: 10.0 mio families Rp13.5 T
- 2017: 1.4 mio families Rp1.6 T

**Health services →PBI**
- 2018: 92.4 mio people Rp25.5T
- 2017: 92.4 mio people Rp25.5T

**Education Smart Indonesia Program**
- 2018: 19.7 thousand students Rp10.8 T
- 2017: 19.7 thousand students Rp10.7 T
- Bidik Misi: 401.5 thousand students Rp4.1 T
- 2017: 339.4 thousand students Rp3.5 T

**Road Construction** 865 km
**Irrigation Construction** 781 km
**Electrification Ratio** 95.15 %
**Building Flats** 13,405 unit

**Agriculture**
- Increased food production and construction of infrastructure facilities
- Development of horticulture

**Tourism**
- Development of 10 tourist destinations
- Increased tourists
- Tourism promotion

**Fishery**
- Increased competitiveness of processed fishery products
- Fishing boats support 1048 units
- Environmental sustainability

**Improved bureaucratic reform** for better quality of public services

**Prosperity of the apparatus and pensioners**

**Increase budget for the food allowance of military / police forces →**
- Rp5 mio from Rp55,000 tp
- Rp60,000/person/day

**Improved system and retirement benefits of state employee**

**Defense**
- The achievement of MEF phase 2 and the development of defense industry

**Security**
- Maintenance of security, order, and criminal investigation

**Democracy**
- Regional elections 2018, and preparations for national elections 2019

---

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

Source: Ministry of Finance
Investments in Human Capital Has Been Ramped Up
20% of national budget is allocated for education and another 5% for health

**Budget for Education Program**

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

**Budget for Health Program**

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

**Targets of Education Program in 2018**

- **Indonesia Smart Program**: 19.7 million students
- **Bidikmisi Scholarship**: 401.5 thousand college students
- **School Rehabilitation**: 61.2 thousand rooms
- **School Operational Assistance (BOS)**: 56 million students

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

**Targets of Health Program in 2018**

- **Immunization**: Basic & complete immunization for 92.5% of 0-11 months old infants
- **Indonesia Healthy Program**: 92.4 million people
- **Provision of Health Facilities**: 49 hospitals/health centers
- **Drug and Food Certification**: 74 thousand certifications
- **Family Plan Program (KB)**: 1.8 million people
Improved Budget Allocation Towards Local Government
...promoting better allocation of budget spending to local government

2018 Transfer to Regions and Village Funds (Budget)

Transfer to Regions/Village Funds

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

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

Source: Ministry of Finance
2017 Achievements of State Budget
Value creation on various projects and country development

Local Government Achievements

- **Roads:** 1,033 km in development, 1,503 km maintenance, 9,789 km improvement
- **Bridges:** 3.749 m bridge in development, 291 m maintenance, and 2,916m improvement
- **Medical:** Improved facilities in 347 hospitals and 3,873 clinics
- **Tuition:** Reduced tuition costs for 46.6 million students and 5.6 million kindergarten-aged children
- **Rural:** 107.9 village roads, 89,200 health clinics, 178,800 toilets, and 107,700 connected clean water and 25,903 Ha irrigated lands

Central Government Milestones

- **Infrastructure:**
  - 794 km road development
  - 9,072 m bridge development
  - 3 airports completed
  - 618.3 km railways
- **Education:**
  - Distributed Indonesian Smart Card to 19.8 million students
  - School Operational Benefit for 8.0 million
  - Scholarship for 364.4 students
- **Healthcare and Social Security:**
  - Distribution of Indonesian Health Card to 92.1 million people
- **Welfare:**
  - Increased welfare and work ethics of 1.7 million civil teachers in rural areas and compensated 41,000 teachers in special regions

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

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

Revenue
- IDR 134.8tn (~1.1% GDP)

Redemption Money
- 114.2

Preliminary Evidence Payment
- 1%

Tax Arrears Payment
- 14%

18.8

1.7

Onshore Declaration
- 76%

Offshore Declaration
- 21%

Repatriation
- 3%

Redemption Money
- 85%

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

Onshore Declaration
- 594.99

Offshore Declaration
- 861.81

Repatriation
- 39.3

Composition of Participants Based on Asset Declared
- Individuals 68%
- Individual SMEs 18%
- Companies 12%
- SMEs 2%

Asset Declared

% of GDP

Spain (2012)

South Africa (2003)

Australia (2014)

Germany (2004)

Belgium (2004)

Italy (2009)

Chile (2015)

Indonesia (2016)

India (1997)

South Africa (2003)

Australia (2014)

Individuals

Individual SMEs

Companies

SMEs

% of GDP

2.1

3.9

8.3

39.3

5.2

3.6

0.3

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

To meet financing needs at efficient cost and tolerable risk

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

To enhance public accountability as part of transparent Government debt management

Source: Ministry of Finance
2018 Financing Needs
Fulfilled from Government Securities IDR 730.2 tn (92%) and Loan IDR63.1 tn (8%)
Indicative Financing Plan for 2018
Creating prudent and sustainable fiscal management

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Indicative Budget Target*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Deficit (2.19%)</td>
<td>IDR 325.9, USD 24.3</td>
</tr>
<tr>
<td>Government Securities (Net)</td>
<td>IDR 407.2, USD 30.4</td>
</tr>
<tr>
<td>Government Securities (Gross)</td>
<td>IDR 822.2, USD 61.4</td>
</tr>
</tbody>
</table>

**Composition**

| Domestic Bond                | 80-83%                     |
| International Bond           | 17-20%                     |

**Issuance Targets for Government Debt Securities and Sukuk**

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

**Domestic Bonds**

- **Weekly auction:**
  - Conventional securities: 25x
  - Islamic securities: 24x

- **Non-Auction**
  - Retail bonds (ORI, Retail Sukuk, Online Savings Bond Retail, Savings Sukuk)
  - Private Placement: Based on request

**Target avg. tenor maturity for Government Securities (SBN) Issuance**

- 7-8 years

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

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

**Front Loading Issuance for 2018 Budget Financing**

- Faster access to liquidity
- Anticipate developments in global environment

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

Source: Ministry of Finance
Disciplined and Sophisticated Debt Portfolio Management

**Stable Debt to GDP Ratio Over the Years**

<table>
<thead>
<tr>
<th>Year</th>
<th>US$ bn</th>
<th>Government Debt / GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>136.3</td>
<td>24.9%</td>
</tr>
<tr>
<td>2014</td>
<td>155.2</td>
<td>24.7%</td>
</tr>
<tr>
<td>2015</td>
<td>174.7</td>
<td>27.4%</td>
</tr>
<tr>
<td>2016</td>
<td>207.0</td>
<td>28.3%</td>
</tr>
<tr>
<td>2017</td>
<td>239.8</td>
<td>29.4%</td>
</tr>
<tr>
<td>2018</td>
<td>240.7</td>
<td>30.5%</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

**Weighted Average Debt Maturity of ~8.5 Years**

<table>
<thead>
<tr>
<th>Year</th>
<th>ATM (in years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>9.7</td>
</tr>
<tr>
<td>2014</td>
<td>9.8</td>
</tr>
<tr>
<td>2015</td>
<td>9.4</td>
</tr>
<tr>
<td>2016</td>
<td>9.1</td>
</tr>
<tr>
<td>2017</td>
<td>8.6</td>
</tr>
<tr>
<td>Sep 2018</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

**Deficit Productivity**

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Growth (%)</th>
<th>Fiscal Deficit (% GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>5.5</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.5</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Japan</td>
<td>5.5</td>
<td>(0.1)</td>
</tr>
<tr>
<td>UK</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>USA</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>S Africa</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Australia</td>
<td>(0.6)</td>
<td>0.6</td>
</tr>
<tr>
<td>Italy</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>(2.2)</td>
<td>2.2</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.4</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: MOF, World Economic Outlook

**Well Diversified Across Different Currencies**

<table>
<thead>
<tr>
<th>Year</th>
<th>IDR</th>
<th>USD</th>
<th>JPY</th>
<th>EUR</th>
<th>Others***</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>14%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>2013</td>
<td>24%</td>
<td>29%</td>
<td>29%</td>
<td>31%</td>
<td>30%</td>
</tr>
<tr>
<td>2014</td>
<td>56%</td>
<td>53%</td>
<td>57%</td>
<td>56%</td>
<td>58%</td>
</tr>
<tr>
<td>2015</td>
<td>56%</td>
<td>58%</td>
<td>56%</td>
<td>58%</td>
<td>60%</td>
</tr>
<tr>
<td>2016</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>2017</td>
<td>1%</td>
<td>4%</td>
<td>1%</td>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

*using GDP assumption IDR14,395.07 as mentioned in APBN Kita **GDP growth and fiscal deficit numbers are average of 2012-2016 (5 years), ***SDR, AUD, and other.
Well Balanced Maturity Profile With Strong Resilience Against External Shocks

**Declining Interest Rate Risks**

- Variable rate ratio [%]
- Refixing [%]

<table>
<thead>
<tr>
<th>Year</th>
<th>Variable rate ratio</th>
<th>Refixing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>23.2</td>
<td>16.0</td>
</tr>
<tr>
<td>2014</td>
<td>21.0</td>
<td>14.8</td>
</tr>
<tr>
<td>2015</td>
<td>20.7</td>
<td>13.7</td>
</tr>
<tr>
<td>2016</td>
<td>17.5</td>
<td>12.1</td>
</tr>
<tr>
<td>2017</td>
<td>19.5</td>
<td>10.7</td>
</tr>
<tr>
<td>2018</td>
<td>20.8</td>
<td>10.6</td>
</tr>
</tbody>
</table>

**Declining Exchange Rate Risks**

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

<table>
<thead>
<tr>
<th>Year</th>
<th>FX Debt to GDP ratio</th>
<th>FX Debt to total debt ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>11.7</td>
<td>46.8</td>
</tr>
<tr>
<td>2014</td>
<td>10.7</td>
<td>43.4</td>
</tr>
<tr>
<td>2015</td>
<td>12.2</td>
<td>44.5</td>
</tr>
<tr>
<td>2016</td>
<td>12.1</td>
<td>42.6</td>
</tr>
<tr>
<td>2017</td>
<td>11.7</td>
<td>40.4</td>
</tr>
<tr>
<td>2018</td>
<td>12.8</td>
<td>42.4</td>
</tr>
</tbody>
</table>

**Debt Maturity Profile**

- IDR Denominated
- Other Currencies

<table>
<thead>
<tr>
<th>Year</th>
<th>IDR Denominated</th>
<th>Other Currencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>73.41</td>
<td>251.36</td>
</tr>
<tr>
<td>2014</td>
<td>171.28</td>
<td>165.55</td>
</tr>
<tr>
<td>2015</td>
<td>162.12</td>
<td>158.09</td>
</tr>
<tr>
<td>2016</td>
<td>165.83</td>
<td>165.83</td>
</tr>
<tr>
<td>2017</td>
<td>175.04</td>
<td>175.04</td>
</tr>
<tr>
<td>2018</td>
<td>156.12</td>
<td>156.12</td>
</tr>
</tbody>
</table>

**Upcoming Maturities (Next 5 Years)**

- in 1 year [%]
- in 3 year [%]
- in 5 year [%]

<table>
<thead>
<tr>
<th>Year</th>
<th>in 1 year</th>
<th>in 3 year</th>
<th>in 5 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>21.7</td>
<td>33.3</td>
<td>33.9</td>
</tr>
<tr>
<td>2014</td>
<td>20.1</td>
<td>34.7</td>
<td>36.0</td>
</tr>
<tr>
<td>2015</td>
<td>21.4</td>
<td>22.7</td>
<td>10.1</td>
</tr>
<tr>
<td>2016</td>
<td>6.5</td>
<td>25.4</td>
<td>11.3</td>
</tr>
<tr>
<td>2017</td>
<td>26.3</td>
<td>39.8</td>
<td>40.8</td>
</tr>
<tr>
<td>Sep 2018</td>
<td>8.6</td>
<td>7.7</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Note: using GDP assumption IDR14,395.07 as mentioned in APBN Kita
Source: Ministry of Finance
Holders of Tradable Central Government Securities
More Balance Ownership in Terms of Holders and Tenors

Foreign Ownership of Gov’t Domestic Debt Securities by Tenor

<table>
<thead>
<tr>
<th>Tenor</th>
<th>Foreign Holders</th>
<th>Domestic Non-Banks</th>
<th>Domestic Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1</td>
<td>32.5%</td>
<td>32.0%</td>
<td>32.5%</td>
</tr>
<tr>
<td>≥2-5</td>
<td>44.5%</td>
<td>44.7%</td>
<td>44.5%</td>
</tr>
<tr>
<td>≥5-10</td>
<td>36.0%</td>
<td>36.0%</td>
<td>36.0%</td>
</tr>
<tr>
<td>≥10</td>
<td>37.0%</td>
<td>37.0%</td>
<td>37.0%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Dec-14</th>
<th>Dec-15</th>
<th>Dec-16</th>
<th>Dec-17</th>
<th>September-18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banks</strong>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Non Resident consists of Private Bank, Fund/Asset Manager, Securities Company, Insurance Company and Pension Fund.</em></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt Institutions (Bank Indonesia**)</td>
<td>41.63</td>
<td>3.44%</td>
<td>148.91</td>
<td>10.19%</td>
<td>134.25</td>
</tr>
<tr>
<td><em>Others such as Securities Company, Corporation, and Foundation.</em></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Indonesia (gross)</td>
<td></td>
<td></td>
<td>157.88</td>
<td>8.90%</td>
<td>179.84</td>
</tr>
<tr>
<td>GS used for Monetary Operation</td>
<td>23.63</td>
<td>1.33%</td>
<td>38.01</td>
<td>1.81%</td>
<td>106.65</td>
</tr>
<tr>
<td><strong>Non-Banks</strong></td>
<td>792.78</td>
<td>65.52%</td>
<td>962.86</td>
<td>65.87%</td>
<td>1,239.57</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>45.79</td>
<td>3.78%</td>
<td>61.60</td>
<td>4.21%</td>
<td>85.66</td>
</tr>
<tr>
<td>Insurance Company and Pension Fund</td>
<td>193.90</td>
<td>16.03%</td>
<td>221.45</td>
<td>15.15%</td>
<td>325.52</td>
</tr>
<tr>
<td><strong>Foreign Holders</strong></td>
<td>461.35</td>
<td>38.13%</td>
<td>558.52</td>
<td>38.21%</td>
<td>665.81</td>
</tr>
<tr>
<td>Foreign Govt’s &amp; Central Banks</td>
<td>103.42</td>
<td>8.55%</td>
<td>110.32</td>
<td>7.55%</td>
<td>120.84</td>
</tr>
<tr>
<td>Individual</td>
<td>30.41</td>
<td>2.51%</td>
<td>42.53</td>
<td>2.91%</td>
<td>57.75</td>
</tr>
<tr>
<td>Others</td>
<td>60.51</td>
<td>5.00%</td>
<td>78.50</td>
<td>5.37%</td>
<td>104.84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,209.96</td>
<td>100.00%</td>
<td>1,461.85</td>
<td>100.00%</td>
<td>1,773.28</td>
</tr>
</tbody>
</table>

1) Non Resident consists of Private Bank, Fund/Asset Manager, Securities Company, Insurance Company and Pension Fund.

2) Others such as Securities Company, Corporation, and Foundation.

*) Including the Government Securities used in monetary operation with Bank Indonesia.

**) net, excluding Government Securities used in monetary operation with Banks.

Source: Ministry of Finance
Section 5

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

- Consistent policy rate, accelerate reduction of lending rate
- Stabilize exchange rate consistent with fundamentals
- Accelerate implementation of reserve requirement averaging

- Implementing Macro prudential Intermediation Ratio (RIM)
- Implementing Macro prudential Liquidity Buffer (MLB)

- Controlling inflation: TPIP, TPID
- Structural reforms: Government
- Financial deepening & stability: KSSK (Financial System Stability Committee), OJK (Financial Services Authority)

- Electronification: Social program, e-payment for Government
- Financial technology
- National Payment Gateway (NPG)

- Developing market instruments for financing infrastructure
- Developing financial market infrastructures

Source: Bank Indonesia
The BI Board of Governors agreed on 22nd and 23rd October 2018 to hold the BI 7-Day Reverse Repo Rate at 5.75%, while also maintaining the Deposit Facility (DF) and Lending Facility (LF) rates at 5.00% and 6.50%, respectively.

Holds the BI 7-Day Reverse Repo Rate at 5.75%.

Consistent with ongoing efforts to reduce the current account deficit within a manageable threshold, while maintaining the attractiveness of domestic financial markets, thereby bolstering external resilience in Indonesia against a backdrop of persistently high global uncertainty.

Constantly implements a monetary operations strategy oriented towards maintaining adequate liquidity in the Rupiah market and foreign exchange market, while also effectively commencing the Domestic Non-Deliverable Forwards (DNDF) on 1st November 2018.

Always strengthens policy coordination with the Government and other relevant authorities in order to maintain economic stability and reinforce external resilience, including stimulating exports and lowering imports, which will reduce the current account deficit to 2.5% of GDP projected in 2019.

Monitors prevailing economic developments, such as the current account deficit, exchange rates, financial system stability and inflation, as follow-up measures to maintain macroeconomic and financial system stability.
Principles of Average Reserve Requirement Ratios Improvement

Considerations for the Average Reserve Requirement Ratios Improvement

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

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

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

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

* Complemented by harmonisation feature to align with the average reserve requirement in rupiah feature for conventional commercial banks (e.g. Calculation period, lag period, and Maintenance period of 2 weeks)
Principles of Macroprudential Intermediation Ratio (MIR) and Macroprudential Liquidity Buffer (MLB)

Considerations for Macroprudential Instruments
Macroprudential Intermediation Ratio (MIR) and Macroprudential Liquidity Buffer (MLB)

1. Striving to stimulate the bank intermediation function and liquidity management, Bank Indonesia issued Bank Indonesia Regulation (PBI) No. 20/4/PBI/2018 and Board of Governors Regulation (PADG) No. 20/11/PADG/2018 concerning the Macroprudential Intermediation Ratio (MIR) and Macroprudential Liquidity Buffer (MLB) for Conventional Commercial Banks, Sharia Banks and Sharia Business Units.

2. The regulation is effective for conventional commercial banks from 16th July 2018 and for sharia banks from 1st October 2018.

3. The policy is expected to stimulate the bank intermediation function to the real sector congruent with sectoral capacity and the economic growth target in compliance with prudential principles, while also overcoming the issue of liquidity procyclicality.

4. This macroprudential policy instrument is countercyclical and can be adjusted in line with prevailing economic and financial dynamics.

Source: Bank Indonesia
# Principles of Macroprudential Intermediation Ratio (MIR)

<table>
<thead>
<tr>
<th></th>
<th>Regulation</th>
<th>MIR (Conventional Commercial Bank)</th>
<th>MIR Sharia (Sharia Banks and Sharia Business Units)</th>
</tr>
</thead>
</table>
| 1 | MIR Accounting Formula | \( \text{Credit} + \text{Owned Bond} \)  
\( \text{Deposit} + \text{Issued Bond} \) | \( \text{Financing} + \text{Owned Sharia Bond} \)  
\( \text{Deposit} + \text{Issued Sharia Bond} \) |
| 2 | Rate and Parameters | • Ceiling 92%  
• Floor 80%  
• Minimum Capital Adequacy Requirement 14%  
• Upper disincentive parameter 0.2  
• Lower disincentive parameter 0.1 | • Ceiling 92%  
• Floor 80%  
• Minimum Capital Adequacy Requirement 14%  
• For Sharia business units, the Minimum Capital Adequacy Requirement is the same as that of the parent conventional commercial bank  
• Upper disincentive parameter 0.2  
• Lower disincentive parameter 0.1 |
| 3 | Scope of credit/financing and deposits to calculate MIR / MIR Sharia | • Credit: rupiah and foreign currency  
• Deposits in rupiah and a foreign currency: (i) demand deposits, (ii) savings deposits; and (iii) term deposits, excluding interbank funds | • Financing: rupiah and foreign currency  
• Deposits in rupiah and a foreign currency: (i) wadiah savings; and (ii) unrestricted investment funds, excluding interbank funds |
| 4 | Source of Data | Monthly Commercial Bank Reports | Monthly Sharia Bank Reports |
| 5 | Criteria for securities held | • Corporate bonds and/or corporate sukuk  
• Issued by a nonbank corporation and by a resident  
• Offered to the public through a public offering  
• Equivalent to investment grade rating affirmed by a rating agency  
• Administrated by an authorised securities institution | Corporate bonds and/or corporate sukuk |
### Principles of Macroprudential Intermediation Ratio (MIR)

<table>
<thead>
<tr>
<th>Regulation</th>
<th>MIR (Conventional Commercial Bank)</th>
<th>MIR Sharia (Sharia Banks and Sharia Business Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Percentage of the securities held</td>
<td>100%</td>
</tr>
<tr>
<td>7</td>
<td>Criteria for securities issued</td>
<td>• medium-term notes (MTN), floating rate notes (FRN) and/or bonds other than subordinated bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• sharia-compliant medium-term notes (MTN) and/or sukuk other than subordinated sukuk</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Issued by a nonbank corporation and by a resident</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Offered to the public through a public offering</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Equivalent to investment grade rating affirmed by a rating agency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Administered by an authorised securities institution</td>
</tr>
<tr>
<td>8</td>
<td>Securities Reporting</td>
<td>Offline delivery mechanism (email)</td>
</tr>
<tr>
<td>9</td>
<td>Scope of deposits to meet DD MIR /DD MIR Sharia</td>
<td>• Average daily total deposits in rupiah at all branch offices in Indonesia</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Including rupiah liabilities to a resident and non-resident third-party nonbank, consisting of: (i) demand deposits, (ii) savings deposits; (iii) term deposits, and (iv) other liabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Average daily total deposits in rupiah at all branch offices and sharia business units in Indonesia</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Including rupiah liabilities to a resident and non-resident third-party nonbank, consisting of: (i) wadiah savings; (ii) unrestricted investment funds, and (iii) other liabilities</td>
</tr>
<tr>
<td>10</td>
<td>Relaxation of DD MIR/Sharia DD MIR</td>
<td>• Bank Indonesia may relax the provisions of the disbursement and fund accumulation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The provisions may be relaxed based on a request from a conventional commercial bank, Sharia bank or Sharia business unit or a recommendation from the Financial Services Authority (OJK)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Conventional commercial banks, Sharia banks or Sharia business units that receive the relaxed policy are exempt from sanctions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DD MIR/Sharia DD MIR based on credit/financing</td>
</tr>
</tbody>
</table>


## Principles of Macroprudential Liquidity Buffer (MLB)

<table>
<thead>
<tr>
<th>Regulation</th>
<th>MLB (Conventional Commercial Bank)</th>
<th>MLB Sharia (Sharia Banks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Rate</td>
<td>4% of rupiah deposits (including Sharia Business Units deposits)</td>
<td>4% of rupiah deposits</td>
</tr>
</tbody>
</table>
| 2 Components | • Securities denominated in rupiah held by a conventional commercial bank that may be used for monetary operations (including SBI/SDBI/SBN); and  
• Sharia-complaint securities denominated in rupiah held by an Sharia business unit that may be used for sharia-compliant monetary operations (including SBIS/SBSN) | • Sharia-complaint securities denominated in rupiah held by an Sharia bank that may be used for sharia-compliant monetary operations (including SBIS/SBSN) |
| 3 Calculation Formula | Percentage of rupiah securities held by a conventional commercial bank to rupiah deposits | Percentage of sharia-compliant rupiah securities held by an Sharia bank to rupiah deposits |
| 4 Flexibility | Under certain conditions, the securities used to meet the MLB may be used for repo transactions to Bank Indonesia for open market operations, totalling no more than 2% of rupiah deposits | Under certain conditions, the securities used to meet the sharia MLB may be used for repo transactions to Bank Indonesia for open market operations, totalling no more than 2% of rupiah deposits |
| 5 Sources of Data on Deposits | • Monthly Commercial Bank Reports  
• Rupiah deposits to calculate MLB are the average daily total deposits at all branches in Indonesia  
• Rupiah deposits include: (i) demand deposits, (ii) savings deposits; (iii) term deposits, and (iv) other liabilities | • Monthly Sharia Bank Reports  
• Rupiah deposits to calculate sharia MLB are the average daily total deposits at all branches in Indonesia  
• Rupiah deposits include: (i) wadiah savings; (ii) unrestricted investment funds, and (iii) other liabilities |
Relaxing the Loan-to-Value (LTV) and Financing-to-Value (FTV) Ratios

The LTV/FTV relaxation is conducted while taking into account aspects of prudential and consumer protection.

1. Increasing opportunities of first time buyers to fulfill their housing needs through housing loan, specifically by adjusting the LTV ratio for property loan and the FTV ratio for property financing for the 1st facility, 2nd facility, etc., making the largest LTV ratio for property credit and FTV ratio for property financing as shown in the table below.

2. Relaxing the amount of loan/financing facility through indent mechanism to a maximum of 5 facilities without taking account of the orders.

3. Adjusting the arrangement of stages and amount of property loan/financing disbursement of indent property:

| PROPERTY LOAN & PROPERTY FINANCING BASED ON MURABAHAH & ISTISHNA DEALINGS |
|---|---|---|---|---|
| PROPERTY TYPE (m²) | Current Regulation | Relaxation |
| | Property Loan & Financing | Property Loan & Financing |
| | I | II | III etc | I | II etc |
| HOUSE |
| Type >70m² | 85% | 80% | 75% | - | 80% |
| Type 22-70m² | - | 85% | 80% | - | 85% |
| Type <=21m² | - | - | - | - | - |
| APARTMENT |
| Type >70m² | 85% | 80% | 75% | - | 80% |
| Type 22-70m² | 90% | 85% | 80% | - | 85% |
| Type <=21m² | - | - | - | - | - |

| PROPERTY FINANCING BASED ON MMQ & IMBT DEALINGS |
|---|---|---|---|---|
| PROPERTY TYPE (m²) | Current Regulation | Relaxation |
| | Property Financing | Property Financing |
| | I | II | III etc | I | II etc |
| HOUSE |
| Type >70m² | 90% | 85% | 80% | - | 85% |
| Type 22-70m² | - | 90% | 85% | - | 90% |
| Type <=21m² | - | - | - | - | - |
| APARTMENT |
| Type >70m² | 90% | 85% | 80% | - | 85% |
| Type 22-70m² | 90% | 85% | 80% | - | 85% |
| Type <=21m² | - | 85% | 80% | - | 85% |

"=-" The LTV rate depends on each bank’s risk management.

Source: Bank Indonesia
Prudential aspects of Relaxing the Loan-to-Value (LTV) and Financing-to-Value (FTV) Ratios

1. The requirements of the LTV ratio for property credit and FTV ratio for property financing are as follows:
   i. The net ratio of NPL to total credit or NPF to total financing must not exceed 5%; and
   ii. The gross ratio of property NPL to total property credit or property NPF to total financing must not exceed 5%.

2. Banks must make sure that there is no loan transfer to another borrower at the same bank or different bank for tenors of less than 1 year. The requirements are valid for banks that will disburse pre-order property loan/financing.

3. Banks are required to comply with prudential principles when disbursing loans.

4. Gradual loan liquidation is only allowed for developers that comply with bank’s risk management policy (e.g., the business feasibility of the developer).

5. Banks are required to ensure that transactions to disburse loans (including down payment) and gradual liquidation must be processed through the debtor and developer/seller’s bank account.

LTV / FTV Exemptions

Central government or local government loan / financing programs are exempt from this regulation.
# Principles of Domestic Non Deliverable Forward (DNDF) Transaction

<table>
<thead>
<tr>
<th>Purposes</th>
<th>General Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To support the effort of stabilizing the Rupiah exchange rate through the additional of alternative hedging instruments</td>
<td><strong>Domestic Non-Deliverable Forward Transaction (DNDF Transaction)</strong></td>
</tr>
<tr>
<td></td>
<td>Plain vanilla derivatif transaction of foreign exchange against rupiah in the form of forward transaction with fixing mechanism in the domestic market</td>
</tr>
<tr>
<td>2. To support the development and deepening of the domestic financial market</td>
<td><strong>Forward Transactions</strong></td>
</tr>
<tr>
<td></td>
<td>Forward Transactions are sell/purchase foreign currencies against rupiah whereas the delivery of funds shall be performed in more than 2 days after the transaction date</td>
</tr>
<tr>
<td>3. To increase the confidence of exporters, importers, and investors in conducting economic and investment activities through the flexibility of hedging transactions against Rupiah currency risk</td>
<td><strong>Fixing Mechanism</strong></td>
</tr>
<tr>
<td></td>
<td>Transaction settlement mechanism without full movement of funds by calculating the difference between rate on the transaction date and reference rate in JISDOR on a specified future time agreed in the contract (fixing date)</td>
</tr>
<tr>
<td></td>
<td><strong>Other Definitions</strong></td>
</tr>
<tr>
<td></td>
<td>The definition of derivative transaction of foreign exchange against rupiah, Forward Transaction, Spot Transaction, Customers, Foreign Party is referring to Bank Indonesia regulations regarding foreign exchange transaction against rupiah</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia
Principles of Domestic Non Deliverable Forward (DNDF) Transaction

Bank can perform DNDF Transactions as follows:

Transaction between:

- Bank – Customer
- Bank – Foreign Party
- Bank – Bank

Can only be performed to hedge rupiah exchange rate risk.

1. Must have Underlying Transactions:
   - Including all following activities:
     - a. Trade of goods and services
     - b. Investments, loans, capital, and other investments.
     - c. Banks credit or financing in foreign currencies (specifically for transactions between bank and customers)
   - Excluding following activities:
     - a. Bank Indonesia certificates;
     - b. Placement of funds with bank;
     - c. Unwithdrawn credit facilities;
     - d. Documents of foreign currencies sales against rupiah;
     - e. Money transfer by fund transfer companies
     - f. Intercompany loan
     - g. Money changer activities.

2. Nominal of DNDF Transactions ≤ Nominal of Underlying Transactions

3. Tenor of DNDF Transactions ≤ Tenor of Underlying Transactions

Source: Bank Indonesia
Principles of Domestic Non Deliverable Forward (DNDF) Transaction

**Transaction Settlement**
- Use Fixing mechanism
- Reference rate: JISDOR for USD/IDR and BI FX Transaction MidRate for non-USD/IDR
- Settlement currency: IDR
- Roll over and early termination are not allowed

**Roll over and early termination for DNDF is prohibited**
However, unwind can be done by opening the reverse DNDF transactions

**Cover Hedging**
Bank may conduct DNDF Transactions with Bank Overseas for cover hedging purpose.
- Underlying Transactions: DNDF Transaction between Bank and Customer/Foreign
- Purpose: Hedging

Notes:
Customer A conduct DNDF transactions with Bank B, and so Bank B can conduct DNDF transactions with overseas Bank for the purpose of cover hedge.
Bank Indonesia Policy Mix: 2015 – 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Monetary Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>• BI Rate cut of 25bps (Feb)</td>
</tr>
<tr>
<td>2016</td>
<td>• Policy Rate cuts of 150bps</td>
</tr>
<tr>
<td>2017</td>
<td>• BI 7-day RR Rate cut of 25bps to 4.50% (Aug)</td>
</tr>
</tbody>
</table>

**Policy Rate**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exchange Rate Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>• Market-based exchange rate stability consistent with fundamental</td>
</tr>
<tr>
<td>2016</td>
<td>• Dual intervention in the FX market and purchases of government bonds from secondary market in time of distress (capital reversal) or large mis-alignment</td>
</tr>
<tr>
<td>2017</td>
<td>• Initiative to issue macroprudential regulation on Financing to Funding Ratio (FFR)</td>
</tr>
</tbody>
</table>

**Reserve Requirement**

<table>
<thead>
<tr>
<th>Year</th>
<th>Macroprudential Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>• Relaxation of LTV for property and automotive loans (June)</td>
</tr>
<tr>
<td>2016</td>
<td>• Further relaxation of LTV for property loans (Sept)</td>
</tr>
<tr>
<td>2017</td>
<td>• Initiative to issue macroprudential regulation on Financing to Funding Ratio (FFR)</td>
</tr>
</tbody>
</table>

**Macroprudential Policy**

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment System Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>• Obligation to use IDR in domestic transaction (March)</td>
</tr>
<tr>
<td>2016</td>
<td>• E-money for social transfer (Nov)</td>
</tr>
<tr>
<td>2017</td>
<td>• National Payment Gateway (June)</td>
</tr>
</tbody>
</table>

**Payment System Policy**

Source: Bank Indonesia
Stable Monetary Environment Despite Challenges

Well Maintained Inflation Ensured Price Stability

Rupiah Exchange Rate Remains Comparable to Peers

Strengthened Monetary Policy Framework

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

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

**2018-2019 Target**
- Achieving inflation at 3.5%±1%
  - Maintaining core inflation
  - Maintaining volatile food stability at 4-5%
  - Controlling administered price inflation

**2020-2021 Target**
- Achieving inflation at 3.0%±1%
  - Maintaining core inflation
  - Maintaining volatile food inflation less than 4%
  - Controlling administered price inflation

**1. Price Affordability**
- Stabilizing the price

**2. Supply Availability**
- Managing demand side
- Strengthening production, Government food reserves and food export-import management
- Strengthening institution

**3. Well Managed Distribution**
- Encouraging trade cooperation between regions
- Improving trade infrastructure

**4. Effective Communication**
- Improving data quality
- Strengthening central-regional coordination

Source: Bank Indonesia
Improving the Effectiveness of Monetary Policy Transmission

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

Enhancement of monetary policy signal
Enhancement of banking liquidity management
Enhancement of instruments and transactions

Source: Bank Indonesia
Enhancement of Monetary Operations Framework

1. Strengthened the role of JIBOR as reference rate by regulatory enhancement.

2. Accelerated market repo transactions by promoting GMRA.

3. Reduced segmentation and improve the capacity of market transactions by encouraging banks to open more access to counterparties.

4. Moving from fixed rate tender (FRT) to variable rate tender (VRT).

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

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

Source: Bank Indonesia
The growth of bank lending has demonstrated an increasing trend since early 2018, expected to grow by 10-12% by the end of this year. Meanwhile, capital raising in the capital market (particularly through corporate bond issuance) remains strong.

**Bank lending growth exhibits a strengthening trend in 2018**

![Bank lending growth chart]

**Financing distributed by multifinance companies starts to improve**

![Financing chart]

**Capital raising in the capital market, particularly through corporate bonds issuance, remains strong in 2018**

![Capital raising chart]

**Gross premium revenues in the domestic insurance industry are also continuously growing**

![Gross premium chart]

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

Domestic financial institutions demonstrate a generally sound condition. Capital adequacy is maintained well above the minimum requirements. Profitability and leverage are maintained at a sufficient level.

CAR of the banking sector remains at a high level. As of Aug-18, CAR & Tier-1 Capital was 23.01% & 21.24%, respectively.

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

Gearing ratio of multifinance companies was at 3.01 times, providing ample room for future growth.

Profitability of the banking sector was relatively stable.

Source: Financial Service Authority (OJK)
Ample Liquidity; Well-maintained Asset Quality

The liquidity ratios in the banking sector are relatively stable amidst recent volatility in the financial market. Insurance industry also demonstrates an stable level of investment adequacy ratio. The non-performing loan/financing ratio is maintained below the threshold.

The ratio of liquid assets to deposits in the banking sector is relatively stable.

As of Aug-18, the gross & net NPL ratios of the banking sector were 2.74% & 1.20% respectively, maintained below the threshold.

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

NPF ratio of the multifinance industry was 3.11% as of Aug-18, maintained well below the 5% threshold.

Source: Financial Service Authority (OJK)

*The spike in this ratio was due a change in calculation methods.*
Well-mitigated Market Risks

Amidst the increasing market volatility, the risk profile of financial institutions remains manageable. Net open position of the banking sector was maintained at a low level, while the investment value of domestic institutional investors (mutual funds, insurers, and pension funds) was relatively stable.

Amidst the depreciating Rupiah, net open position in the banking sector was kept far below the maximum limit (20%).

The investment value of insurers & pension funds was relatively stable.

Mutual funds’ net asset value (NAV) was relatively stable amidst the fluctuating market, with a low level of volatility.

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

Source: Financial Service Authority (OJK)
Recent developments in the global economy and financial markets have generated some pressures on the domestic capital markets. However, the overall market stability is still maintained.

The IDX Composite Index experienced some pressures, but its correction is relatively moderate compared to some other emerging markets. The volatility in the domestic market is still observed, but now tends to ease.

Government bond yields tend to increase in line with the increased policy interest rate.

Source: Bloomberg, IBPA, Indonesia Stock Exchange, Ministry of Finance

*as data 19 September 2018
Strategic Policies in Financial Sector

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

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

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

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

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

**Supporting innovations in digital finance**

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

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

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

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

Developing financial education models utilizing various delivery channels
Enhancing the role of the “Investment Alert Taskforce”
Developing micro-credit products with additional business support (“KUR Klaster”)
Promoting the establishment of Islamic microfinance institutions (“Bank Wakaf Mikro”)
Strengthening the role of Financial Access Acceleration Taskforce (TPAKD) in local areas

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

Financial Literacy
2013: 21.8% → 2016: 29.7%

Financial Inclusion
2013: 59.7% → 2016: 67.8%

Source: Financial Service Authority (OJK), June 2017
In Apr-2016, the Minister of Finance, the Governor of Bank Indonesia, and the Chairman of the Board of Commissioners of the Financial Services Authority launched a Coordination Forum for Development Financing through Financial Market (FK-PPPK). The three authorities have agreed to formulate “The National Strategy of Financial Market Development”

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

**Mission:** Financial Market as Sources of National Development Financing

1. **Economic Funding & Risk Management**
   - Money Market
   - FX Market
   - Fund
   - Instrument
   - Intermediaries

2. **Market Infrastructure Development**
   - Bond Market
   - Stock Market
   - Market Infrastructure
   - Benchmark Rate & Standardization

3. **Policy Coordination, Harmonization & Education**
   - Syariah Market
   - Structure Product Market
   - Regulatory Framework
   - Coordination & Education

**Target**
- Economic Funding & Risk Management
- Market Infrastructure Development
- Policy Coordination, Harmonization & Education

**Key Performance Indicator**

**Strategic Action Plan**

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

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

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

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

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

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

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

NCSA Programs

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

Source: Bank Indonesia
**Progress of NCSA Programs**

### Family Hope Program (Program Keluarga Harapan - PKH)
- The Family Hope Program (PKH) is a program that provides cash to very poor households. Rp 1,89 million/year will be granted for each household. PKH will be granted every February, May, August, and November.
- As of December 2017, PKH has been distributed to 6,0 million households on non-cash basis.
- PKH is expanded to 10 million households in 514 regencies/cities in 2018.

### Non Cash Food Assistance (Bantuan Pangan Non Tunai - BPNT)
- BPNT is a poverty alleviation and social protection program that is managed by the central government. It provides subsidized rice and eggs to low-income households. Rp 110 thousand/month will be granted for each household as BPNT that can be used in certain stores which called e-warong.
- As of December 2017, BPNT was distributed to 1,2 million households in 44 cities.
- BPNT is expanded to 10 million households in 217 regencies/cities on the 25th of each month in 2018.

*Source: Bank Indonesia*
Stronger Fundamentals Facing the Headwinds

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

- 1998: 82.4
- 2008: 12.1
- Sept ’18: 2.88 (yoy)

**IDR Movement (%)**
IDR depreciated year-to-date in September 2018

- 1998: -197
- 2008: -35
- 22-Oct-18: -10.65 (ytd)

**Foreign Reserves (USD bn)**
Significantly higher than 1998 & 2008, ample to cover 6.3 months of import and external debt repayment

- 1998: 17.4
- 2008: 50.2
- Sept ’18: 114.8

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

- 1998: 30
- 2008: 3.8
- August ’18: 2.7

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

- 1998: 100.0%
- 2008: 27.4%
- Q2 - 2018: 29.8%

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

- 1998: 8.6x
- 2008: 3.1x
- Q2 - 2018: 3.0x

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

- 1998: 116.8%
- 2008: 33.2%
- Q2 - 2018: 34.3%

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

- 1998: 62
- 2008: 10.5
- Sept ’18: 5.39
Outlook of Domestic Economy Remains Robust
...domestic economic growth is predicted to be higher in 2018

2018 Economic Outlook

- Economic growth in 2018 is projected in the 5.0-5.4% range, on sound investment and consumption performance, strong building and non-building investment, backed by infrastructure development and investment in the manufacturing industry.
- Inflation is predicted to remain within the target range for 2018, namely 3.5±1%, with the current account deficit is expected to remain under control and within a safe threshold that is not exceed 3.0% of GDP in line with domestic economic improvements.
- Credit growth is predicted to grow in the 10.0 -12.0% range, in line with the domestic economy gaining momentum dan ongoing consolidation in the corporate and banking sectors.

<table>
<thead>
<tr>
<th>Year</th>
<th>Economic Growth</th>
<th>Inflation</th>
<th>CAD (% of GDP)</th>
<th>Credit Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 Realization</td>
<td>5.07%</td>
<td>3.61%</td>
<td>1.7%</td>
<td>8.2%</td>
</tr>
<tr>
<td>2018</td>
<td>5.0–5.4 %</td>
<td>3.5±1%</td>
<td>&lt;3.0%</td>
<td>10.0-12.0%</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia
Section 6

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

<table>
<thead>
<tr>
<th>Fiscal Reforms</th>
<th>Institutional Reforms</th>
<th>Regulatory Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viability Gap Funding (VGF)</td>
<td>KPPIP</td>
<td>Direct Lending</td>
</tr>
<tr>
<td>Increase project financial feasibility by contributing up to 49% of the construction cost (MoF Reg. No. 223/2012)</td>
<td>KPPIP is actively involved in accelerating delivery of priority infrastructure projects</td>
<td>Allow guarantee for direct lending to SOE to accelerate financial close process for infrastructure projects (Presidential Reg. No. 82/2015)</td>
</tr>
<tr>
<td>Availability Payment</td>
<td>PT. Sarana Multi Infrastruktur</td>
<td>Land Acquisition</td>
</tr>
<tr>
<td>Issuance of regulatory framework to allow annuity payment by the Government during concession period to concessionaire since project operation based on infrastructure service availability (MoF Reg. No. 190/2015 for Central Gov’t and MoHA Reg. No. 96/2016 for Regional Gov’t.)</td>
<td>Merging between PT. SMI and Gov’t Investment Center (PIP) to become an infrastructure funding company</td>
<td>Stipulate land acquisition acceleration based on Law No. 2/2012 (Presidential Reg. No. 148/2015) and land acquisition fee payment for impacted community (Presidential Reg. No.56/2017)</td>
</tr>
<tr>
<td>Land Revolving Fund</td>
<td>Indonesia Infras. Guarantee Fund (IIGF)</td>
<td>Economy Packages</td>
</tr>
<tr>
<td>A revolving-fund sourced from State Budget, to accelerate land acquisition (MoF Reg. No. 220/2010)</td>
<td>IIGF has the potential to provide project guarantee for non-PPP projects</td>
<td>Conduct deregulation for issues hindering infrastructure delivery and develop a task force under CMEA to ensure the effectiveness of economic packages implementation</td>
</tr>
<tr>
<td>Risk-sharing Guidelines</td>
<td>PPP Unit</td>
<td></td>
</tr>
<tr>
<td>IIGF has issued risk allocation and mitigation guidelines for PPP project</td>
<td>Provide facilities to help GCA on preparing PPP project (PDF/TA)</td>
<td></td>
</tr>
<tr>
<td>Tax Incentives (Tax Holiday)</td>
<td>BLU LMAN</td>
<td></td>
</tr>
<tr>
<td>MoF Reg. No.35/2018 allowed 100% Tax Holiday for 17 Pioneering Industries for 5 – 20 years depending on the investment value</td>
<td>The State Asset Management Agency (BLU LMAN) is mandated to provide land fund for National Strategic Projects to ensure timely land acquisition process</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indonesia Infrastructure Guarantee Fund (IIGF)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IIGF has the potential to provide project guarantee for non-PPP projects</td>
<td></td>
</tr>
</tbody>
</table>
### Policy reforms are aiming to create a more conducive investment climate for infrastructure delivery

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Title</th>
<th>Date Released</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presidential Reg. No. 20/2018</td>
<td>Use of Foreign Labor</td>
<td>March 2018</td>
</tr>
<tr>
<td>Presidential Reg. No. 56/2017</td>
<td>Social Impact Handling in Land Acquisition Process for PSN</td>
<td>June 2017</td>
</tr>
<tr>
<td>MoF No. 60/2017</td>
<td>Procedures for the Provision of Central Government Guarantee for the Acceleration of the National Strategic Projects Implementation</td>
<td>May 2017</td>
</tr>
<tr>
<td>Government Reg. No. 13/2017</td>
<td>National Spatial Plan (RTRWN)</td>
<td>April 2017</td>
</tr>
<tr>
<td>MoF No. 21/2017</td>
<td>Procedures for Land Acquisition for National Strategic Projects and Asset Management of Land Acquisition by State Asset Management Agency</td>
<td>February 2017</td>
</tr>
</tbody>
</table>

**Presidential Reg. No. 20/2018 on Use of Foreign Labor** – released on March 2018

This regulation aims **at simplifying the permit application process for foreign workers**, hence making the process more efficient and faster, in order to rise foreign direct investment in Indonesia.

**Presidential Reg. No. 56/2017 on Social Impact Handling in Land Acquisition Process for PSN** – released on June 2017

This Presidential Reg. allows the **Executing Agency to pay land acquisition compensation to the impacted community who does not have official rights over the land required for PSN**. This regulation helps to solve the land acquisition problem due to community objection over the land use.

**MoF No. 60/2017 on Procedures for the Provision of Central Government Guarantee for the Acceleration of the National Strategic Projects Implementation** – released on May 2017

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

**Government Reg. No. 13/2017 on National Spatial Plan (RTRWN)** – released on April 2017

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

**MoF No. 21/2017 on Procedures for Land Acquisition for National Strategic Projects and Asset Management of Land Acquisition by State Asset Management Agency** – released on February 2017

The implementing regulation of Presidential Reg. No. 102/2016 on Financing of Land Acquisition for the Development of Public Interest in the Framework of the National Strategic Implementation. This regulation becomes the legal basis for the financing of the procurement of National Strategic and Priority Projects by BLU LMAN.

---

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

Project Development Facility (PDF)

- Project development facility contributing to assist GCA on PPP project preparation (PDF&TA)
  - Managing entity: KPPIP, PT SMI PT IIF, and Ministry of Finance

Viability Funding Gap (VGF)

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

Guarantee Fund

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

Tax Facilities

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

Availability Payment

- A scheme in which concessionaires receive sum of money periodically from central or regional government after the completion of an asset.
  - MoF Regulation, and MoHA Regulation on Availability Payment has been ratified.
  - Managing entity: Ministry of Finance & Ministry of Home Affairs
  - Gov’t. commitment: US$ 12 mn (2016)

Land Acquisition

- A facility to support land acquisition for infrastructure projects particularly projects that involve private sector
  - Managing entity: Ministry of Finance, Ministry of Agrarian and Land Spatial/BPN and BLU-LMAN

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

Regulation improvement to accelerate land procurement process

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

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

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

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

**LMAN at a Glance**

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

**Land Acquisition Budgeting Scheme**

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

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

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

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

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

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

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

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)
Under Presidential Reg. No.56/2018, PSN list has been revised into 223 Projects and 3 Programs.

- **Projects**
  - Sumatra: 53 Projects, US$40.4 B
  - Kalimantan: 18 Projects, US$35.6 B
  - Sulawesi: 26 Projects, US$22.8 B
  - Maluku & Papua: 12 Projects, US$34.4 B
  - Java: 89 Projects, US$73.8 B
  - National: 3 Programs, 12 Projects, US$99.7 B
  - Bali & Nusa Tenggara: 13 Projects, US$0.7 B

- **Programs**
  - National: 3 Programs

Exchange rate: US$ 1 = IDR 13,500

**PSN includes 15 sectors at project level and 3 sectors at program level**

- Project
  - Road: 69 Projects
  - Dams: 51 Projects
  - SEZs & IEs: 29 Projects
  - Railway: 16 Projects
  - Energy: 11 Projects
  - Ports: 10 Projects
  - Clean Water & Sanitation: 8 Projects
  - Airports: 7 Projects
  - Smelter: 6 Projects
  - Technology: 4 Projects
  - Housing: 3 Projects
  - Fisheries/Farming: 1 Projects
  - Sea Dike: 1 Projects
  - Education: 1 Projects
  - Irrigation: 6 Projects

- Program
  - Electricity: 1 Program
  - Aeroplane Industry: 1 Program
  - Economic Equality: 1 Program

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

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)
Progress on 223 Projects and 3 Programs PSN

The Estimated Investment Value for 223 Projects + 3 Programs PSN

- **Total Investment Value**: US$ 307.4 Billion
  - State Budget: US$ 31.7 Bn
  - SOEs/RSOEs: US$ 94.3 Bn
  - Private: US$ 181.4 Bn

Exclude 7 projects which investment value are still unknown

Exchange rate : US$ 1 = IDR 13,500

Progress of National Strategic Projects + 3 Programs (per September 2018)

- 3 projects already completed
- 51 projects and 1 electricity program are in construction and partial-operation phase
- 23 projects are in construction and will start operating in 2018
- 52 projects are in construction and will start operating in 2019
- 37 projects are in construction and will start operating after 2019
- 6 projects in transaction
- 51 projects and 1 Airplane Industry Program in preparation

5 Sectors with Highest Investment Value

- **Energy**: 11 Projects
  - US$ 89.8 Bn
- **Electricity**: 1 Program
  - US$ 76.7 Bn
- **Roads**: 69 Projects
  - US$ 49.7 Bn
- **Railways**: 16 Projects
  - US$ 29.2 Bn
- **SEZs and IEs**: 31 Projects
  - US$ 31 Bn

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPIIP)
In 2016 - September 2018, 33 PSN has been Completed with Total Investment Value of Rp 96.9 Trillion

### 2016

<table>
<thead>
<tr>
<th>No.</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gempol – Pandaan Toll Road</td>
</tr>
<tr>
<td>2</td>
<td>Sentani Airport, Jayapura, Papua</td>
</tr>
<tr>
<td>3</td>
<td>Juwata Airport, Tarakan, North Kalimantan</td>
</tr>
<tr>
<td>4</td>
<td>Fatmawati Soekarno Airport, Bengkulu</td>
</tr>
<tr>
<td>5</td>
<td>Mutiaa Airport, Palu</td>
</tr>
<tr>
<td>6</td>
<td>Matahora Airport, Wakatobi</td>
</tr>
<tr>
<td>7</td>
<td>Labuan Bajo Airport, Komodo Island</td>
</tr>
<tr>
<td>8</td>
<td>Development of Soekarno Hatta Airport (Include Terminal 3), Banten</td>
</tr>
<tr>
<td>9</td>
<td>Kalibaru Port, Jakarta</td>
</tr>
<tr>
<td>10</td>
<td>Belawan-Sei Mengkei Gas Pipe (75 mm3scfd), North Sumatera</td>
</tr>
<tr>
<td>11</td>
<td>Entikong National Border, West Kalimantan</td>
</tr>
<tr>
<td>12</td>
<td>Mota’ain National Border, East Nusa Tenggara</td>
</tr>
<tr>
<td>13</td>
<td>Motamassin National Border, East Nusa Tenggara</td>
</tr>
<tr>
<td>14</td>
<td>Skouw National Border, Jayapura, Papua</td>
</tr>
<tr>
<td>15</td>
<td>Paya Seunara Dam, Sabang, Aceh</td>
</tr>
<tr>
<td>16</td>
<td>Rajui Dam, Pidie, Aceh</td>
</tr>
<tr>
<td>17</td>
<td>Jatigede Dam, Sumedang, West Java</td>
</tr>
<tr>
<td>18</td>
<td>Bajulmati Dam, Banyuwangi, East Java</td>
</tr>
<tr>
<td>19</td>
<td>Nipah Dam, Madura, East Java</td>
</tr>
<tr>
<td>20</td>
<td>Titab Dam, Buleleng, Bali</td>
</tr>
</tbody>
</table>

### 2017

<table>
<thead>
<tr>
<th>No.</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>Soreang – Pasirkoja Toll Road, West Java</td>
</tr>
<tr>
<td>22</td>
<td>Mojokerto – Surabaya Toll Road, East Java</td>
</tr>
<tr>
<td>23</td>
<td>Tanjung Priok Access Road, DKI Jakarta</td>
</tr>
<tr>
<td>24</td>
<td>Raden Inten II Airport, Lampung</td>
</tr>
<tr>
<td>25</td>
<td>Jangkrik and North East Jangkrik Field</td>
</tr>
<tr>
<td>26</td>
<td>Nanga Badau National Border, West Kalimantan</td>
</tr>
</tbody>
</table>

### Jan - Sep 2018

<table>
<thead>
<tr>
<th>No.</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>Aruk National Border, West Kalimantan</td>
</tr>
<tr>
<td>28</td>
<td>Wini National Border, East Nusa Tenggara</td>
</tr>
<tr>
<td>29</td>
<td>Teritip Dam</td>
</tr>
<tr>
<td>30</td>
<td>Pembangunan Saluran Suplesi Daerah</td>
</tr>
<tr>
<td>31</td>
<td>Prabumulih – Kertapati Railway</td>
</tr>
<tr>
<td>32</td>
<td>Raknomo Dam</td>
</tr>
<tr>
<td>33</td>
<td>Tanju Dam</td>
</tr>
</tbody>
</table>

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

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

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

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

<table>
<thead>
<tr>
<th>Progress of 37 Priority Projects (per June 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 54% 20 projects are in construction</td>
</tr>
<tr>
<td>- 32% 5 projects are in transaction</td>
</tr>
<tr>
<td>- 14% 12 projects are in preparation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Funding Scheme of 37 Priority Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Investment Value US$ 181.6 Billion</td>
</tr>
<tr>
<td>- 51% US$92.4 billion from Private/PPP</td>
</tr>
<tr>
<td>- 39% US$71.8 billion from SOE/Regional SOE</td>
</tr>
<tr>
<td>- 10% US$17.5 billion State/Regional Budget (including G-to-G loan)</td>
</tr>
</tbody>
</table>

Exchange rate : US$ 1 = IDR 13,500

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

Recent Milestones

- **Palapa Ring**
  West package has been fully operational since April 2018.

- **Yogyakarta-Bawen Toll Road**
  Outline Business Case has been done on December 2017.

- **West Semarang Water Supply System**
  On March 2018, pre-qualification stage has resulted 4 shortlisted bidders

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

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

**Note:** This data is still going to be verified by The Executive Office of President (KSP) and Indonesia’s National Government Internal Auditor (BPKP)
Energy Sector: the Progress of 35.000 MW Program

Average economic growth of 6.7% requires 7,000 MW / year or 35,000 MW / 5 years
(Kepmen ESDM No. 0074/2015 on RUPTL 2015-2024)

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

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

17 Dec ‘14
January ‘15

Cabinet Meeting
Progress of 35,000 MW
16 Mar ‘15
4 May ‘15

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

The progress so far:
June ‘17

35,000 MW Program Distribution

<table>
<thead>
<tr>
<th>No</th>
<th>Phase</th>
<th>MW</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Operating</td>
<td>2,614</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>Construction</td>
<td>18,457</td>
<td>52</td>
</tr>
<tr>
<td>3</td>
<td>Signed Power-purchase Agreement</td>
<td>11,117</td>
<td>32</td>
</tr>
<tr>
<td>4</td>
<td>Procurement</td>
<td>2,153</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>Planning</td>
<td>958</td>
<td>3</td>
</tr>
</tbody>
</table>

Note: Progress of 35,000 MW Electricity Program as of September 2018

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)
The Government has issued Presidential Regulation No. 4/2016 on Electricity Infrastructure Acceleration to accelerate power projects.
Significant Progress on Infrastructure Projects

Improving Monitoring System on Infrastructure Projects

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

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

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

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

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

---

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

- **Infrastructure Development in order to:**
  1. Accelerate growth particularly in rural areas
  2. Support industrial development and tourism
  3. Reduce unemployment and poverty

- **Infrastructure fundraising needs:** $357.9 bn (or equivalent to IDR4,796.2 tn)


- **37 priority infrastructure projects** with an estimated cost of IDR 2,490 tn (USD 180 billion)

- Majority of 37 priority projects are expected to commence commercial operation by 2018 - 2022

### Establishment of PPP Unit

<table>
<thead>
<tr>
<th>Broad Objective</th>
<th>Core Mandates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Champion project preparation and acceleration of the PPP agenda in Indonesia</td>
<td>Improve quality of project selection under KPPIP – OBC criteria</td>
</tr>
</tbody>
</table>

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

### Public Private Partnership

- Certain infrastructure projects to be funded and operated through a partnership between the Indonesian government and the private sector:
  - Projects ready for auction under the PPP Scheme:
  - Toll roads projects such as Balikpapan-Samarinda and Manado-Bitung
  - Railway projects such as an express line into Soekarno-Hatta International Airport
  - Water supply projects such as the West Semarang Project

- Various government support for PPP:
  - **Project Development Facility (PDF):** Helps Government Contracting Agencies (GCAs) in project preparation and transaction
  - **Viability Gap Fund:** improves financial viability of PPP projects
  - **Government Guarantees:** Supports PPP projects’ bankability by providing sovereign guarantees
  - **Infrastructure Financing Fund:** Provided through PT SMI and IIGF
  - **Availability Payment (AP):** GCA pays private partner based of availability of infrastructure services

### SOE & Private Sector

- **Government to inject capital into SOEs:**
  - Intended multiplier effect to develop more infrastructure projects

- **Key focus areas:**
  - Infrastructure and maritime development
  - Transportation and connectivity
  - Food security

- **Medium term infrastructure developments to focus on:**
  - Water Supply
  - Airports
  - Seaports
  - Electricity and power plants
  - Housing
  - Mining

---

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

<table>
<thead>
<tr>
<th>Government Guarantee Program</th>
<th>Contingent Liabilities from Government Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Guarantee</strong></td>
<td><strong>Central Government Guarantee for Infrastructure Programs</strong></td>
</tr>
<tr>
<td>- Power (Electricity) – Full credit guarantee for PLN’s debt payment obligation under FTP 1 10,000 MW and 35GW</td>
<td>1  Coal Power Plant 10,000 MW Fast Track Program (FTP 1)</td>
</tr>
<tr>
<td>- Celan Water – Guarantee for 70% of PDAM’s debt principal payment obligations</td>
<td>2  Clean Water Supply Program</td>
</tr>
<tr>
<td>- Infrastructure - Full credit guarantee on SOE’s borrowing from international financial institution &amp; guarantee for PT SMI’s local infrastructure financing</td>
<td>3  Direct Lending from International Financial Institution to SOEs</td>
</tr>
<tr>
<td>- Toll road – Full credit guarantee for PT Hutama Karya’s debt payment obligation (Sumatra Toll Road Development)</td>
<td>4  Sumatra Toll Road</td>
</tr>
<tr>
<td>- Public Transportation (Light Rail Transit) – Full credit guarantee for PT Kereta Api Indonesia’s debt payment obligations for the development of LRT Jabodebek</td>
<td>5  Renewable energy, Coals &amp; Gas Power Plant 10,000 MW (FTP 2)</td>
</tr>
<tr>
<td><strong>Business Viability Guarantee (BVG)</strong></td>
<td>6  Public-Private Partnerships (PPP)</td>
</tr>
<tr>
<td>- Power (Electricity) – Guarantee for PT PLN’s obligations under Power Purchase Agreements with IPPs (off-take and political risk) under FTP-2 10,000MW and 35GW programs*</td>
<td>7  Regional Infrastructure Financing</td>
</tr>
<tr>
<td><strong>PPP Guarantee</strong></td>
<td>8  Light Rail Transit (LRT) Jakarta Bogor Depok Bekasi</td>
</tr>
<tr>
<td>- Infrastructure – Guarantee for Government-related entities obligations (line ministries, local governments, SOEs, local SOEs) under PPP contracts/agreements</td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Political Risk Guarantee</strong></td>
<td>As of end of March 2018; currency conversion of IDR 13,756/USD1 (March 29, 2018)</td>
</tr>
<tr>
<td>- Infrastructure – Guarantee against infrastructure risks for National Strategic Projects (Presidential Decree No.58/2017) which are not covered by other type of guarantees</td>
<td>-</td>
</tr>
</tbody>
</table>

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

Source: Ministry of Finance

*) From 2008 to Q1-2018, the Government has issued 75 guarantee documents with total value of USD28.84 billion, 5 of which (worth USD0.05 billion) have expired.
- The Maximum Guarantee Limit for the period 2018 – 2021 is set at 6% of GDP.
- The space for guarantee issuance for the period 2018-2021 is approximately IDR 1,200 trillion (cumulative).
Government Financial Facilities for PPP Projects

Financial Facilities to Attract More Private Participation

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

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

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

More Funding Schemes are on the Pipelines

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

- PINA (Non-Government Budget Infrastructure Financing)
  - Asset is owned by private sector
  - Greenfield / brownfield / operating projects

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

Scheme Characteristics

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

Scheme Characteristics

Source: Ministry of Finance
### Successful Projects Reaching Financial Close in 2016 and 2017

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

### Signed PPP Projects in 2016 and 2017

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

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

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

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

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

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

Guarantee for Regional Infrastructure Financing Provision

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

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

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