

Section 4

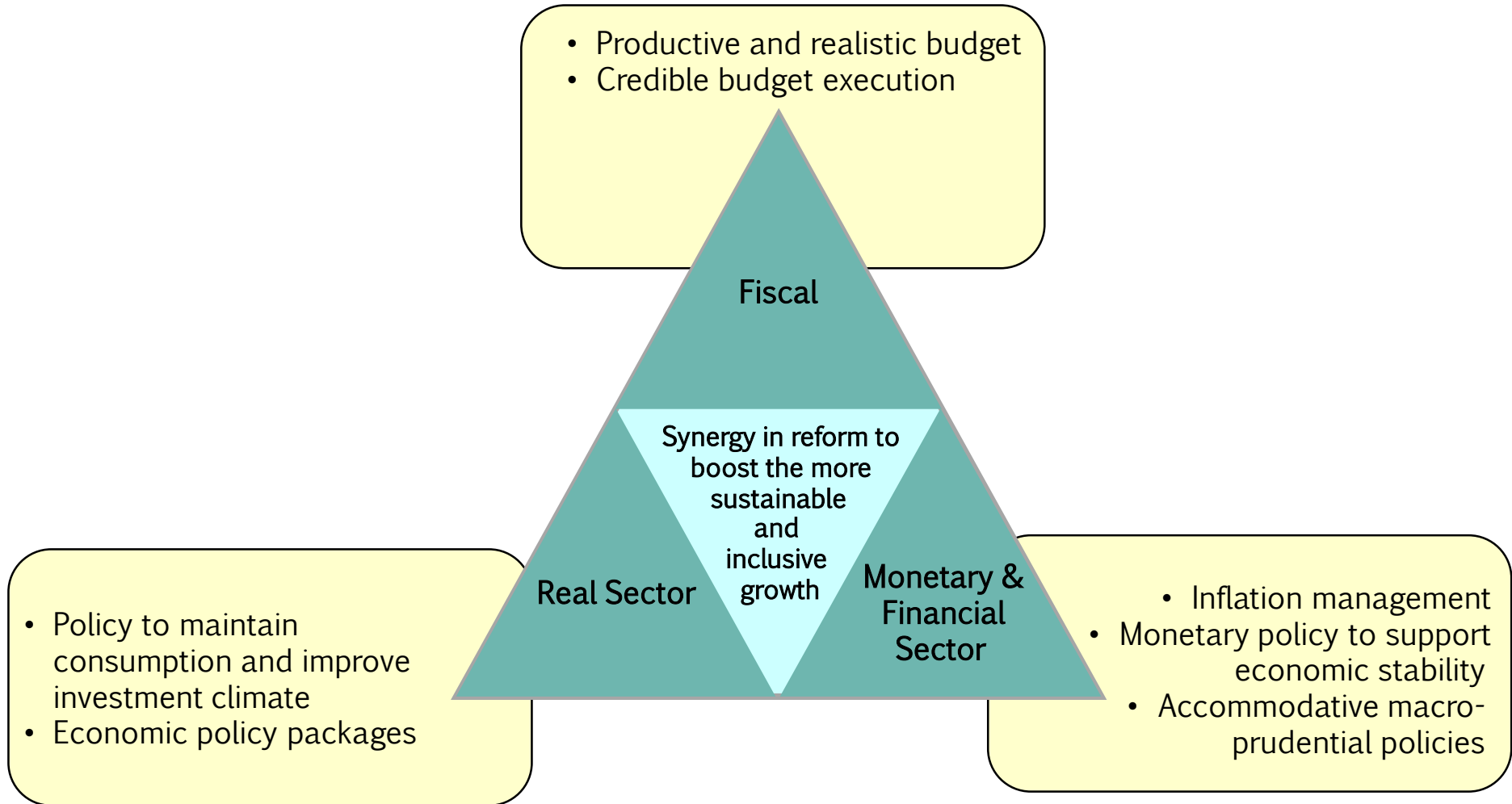


Fiscal Performance and Flexibility: More Fiscal Stimulus with Prudent Fiscal Policy



Integrated Reform to Provide Higher Quality of Economic Growth

...synergy between authorities to drive economy navigating the challenges



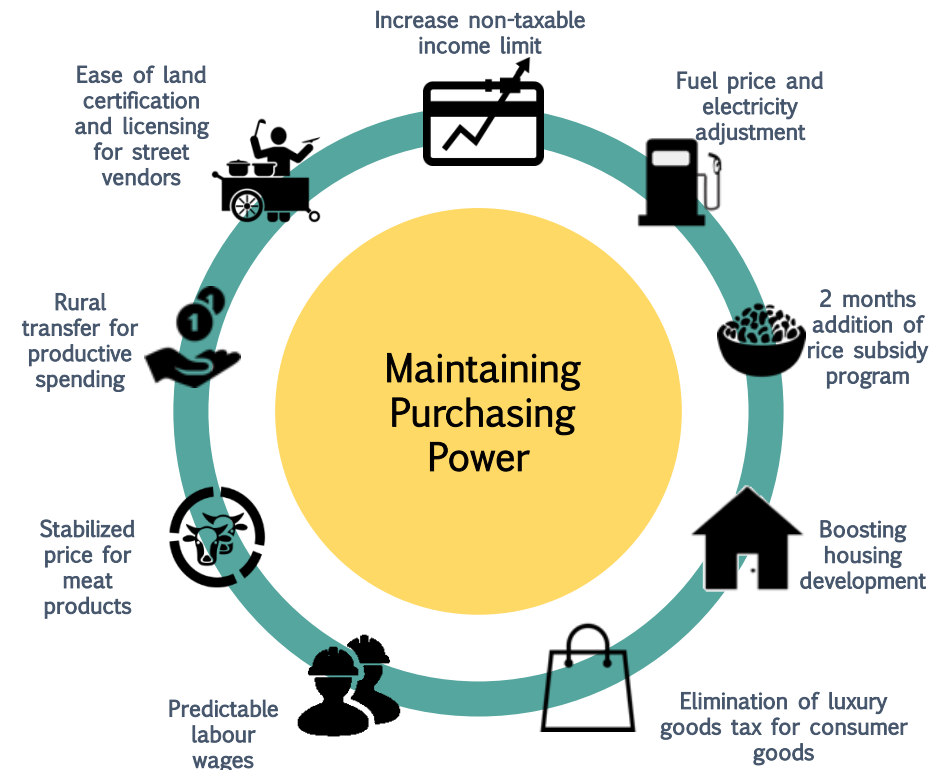
Long Term Strategies to Achieve Sustainable Growth

...stimuli to maintain purchasing power



The Virtuous Cycle of Purchasing Power Stimuli

- Consumption is still the largest contributor to Indonesia's GDP
- Private consumption has been a key factor driving Indonesia's economic growth in recent years
- The government has designed stimulus program to **maintain and enhance purchasing power** for households
- The government has **increased non-taxable income level and adjusted wage policy** to ensure that the lowest income bracket has the greatest support
- Funds are targeted at **not only to improve basic village infrastructure** but also to **create jobs** through labor intensive projects as well as other job creation programs



Long Term Strategies to Achieve Sustainable Growth

...stimuli to promote investments



Licensing Incentives



Permit & licensing simplification



Relaxation of entry visa policies



Special economic zones

Tax Incentives



Income tax relief for labor intensive industries



Tax incentives for REITs



Tax incentives on property

Business and Infrastructure Incentives



Incentives for footwear and apparel industries



Simplification of import licensing for drugs and raw food



Accelerating infrastructure development



Water management and regulation



Dwelling time optimization



Oil refinery development



Aviation sector incentives



Downstream industries



Debt To equity ratio



Integrated logistics zones



CPO fund



Support for export-oriented industries



Village-city logistics improvement



Acceleration of power infrastructure

Other Incentives



One map policy



Expansion of coverage and interest subsidy for MSME



Relaxation of negative foreign investment list

Building a Credible and Realistic Budget

...providing more certainty to all stakeholders



INDICATOR	2016	2017
	Realization ¹	APBN
Economic growth (% , <i>yoy</i>)	5.0	5.1
Inflation (% , <i>yoy</i>)	3.0	4.0
3-Month Treasury Bill (SPN) (%)	5.7	5.3
Exchange Rate (Rp/US\$)	13,305	13,300
ICP (US\$/barrel)	40	45
Oil Production (thousand barrel/day)	829	815
Gas Production (thousand barrel oil equivalent/day)	1,184	1,150

- Credible and realistic budget with 2016 outlook number used as a base for formulating the 2017 State Budget
- Tax revenue grew 3.5%, between 2015 and 2016, which includes the contribution of IDR 109.5 trillion from tax amnesty
- Improved efficiency in government expenditure
- Discipline in managing budget deficit

Description (IDR Trillion)	2016				2017	
	Revised Budget	Outlook	Realization ¹	% realization to revised budget	State budget	% growth of 2017 budget to 2016 realization
A. Revenues and grants	1,786.2	1,582.9	1,555.2	87.1%	1,750.3	12.5%
I. Domestic revenue	1,784.2	1,580.9	1,547.0	86.7%	1,748.9	13.1%
1. Tax revenue	1,539.2	1,320.2	1,284.9	83.5%	1,498.9	16.7%
2. Non tax revenue	245.1	260.7	262.0	106.9%	250.0	-4.6%
II. Grants	2.0	2.0	8.2	410.0%	1.4	-82.9%
B. Expenditure	2,082.9	1,898.6	1,860.7	89.3%	2,080.5	11.8%
I. Total Central government expenditure	1,306.7	1,195.3	1,150.2	88.0%	1,315.5	14.4%
1. Ministerial spending	767.8	672.0	680.8	88.7%	763.6	12.2%
2. Non ministerial spending	538.9	523.3	469.4	87.1%	552.0	17.6%
II. Transfer to region and village Fund	776.3	703.3	710.4	91.5%	764.9	7.7%
1. Regional transfer	729.3	659.1	663.7	91.0%	704.9	6.2%
2. Village fund	47.0	44.2	46.7	99.4%	60.0	28.5%
C. Primary balance	-105.5	-126.4	-122.7	116.3%	-109.0	-11.2%
D. Surplus (deficit)	-296.7	-315.7	-305.4	102.9%	-330.2	8.1%
% of GDP	-2.35%	-2.50%	-2.46%	104.7%	-2.41%	-2.0%
E. Financing	296.7	315.7	330.6	111.4%	330.2	-0.1%

1: Unaudited

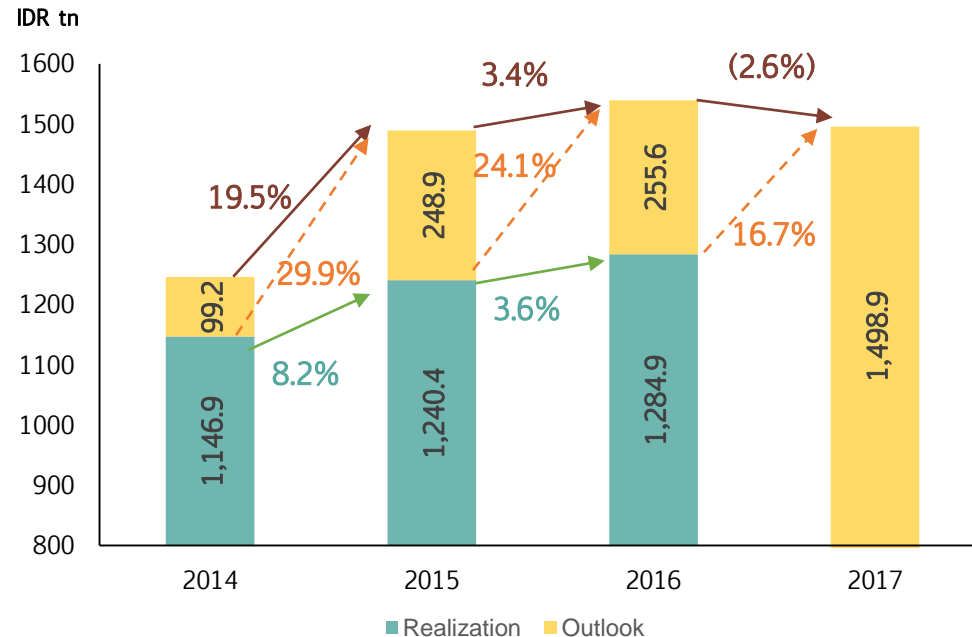
Source: Ministry of Finance

A More Realistic 2017 Tax Revenue Target

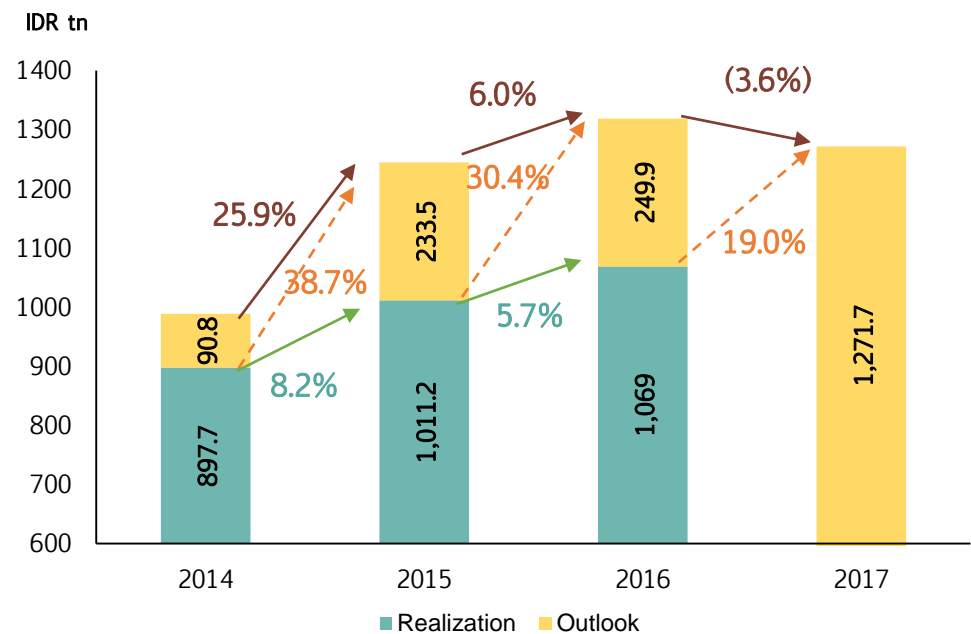
...taxation policies are directed at expanding the tax base and increase compliance



Tax Collection Target (All sources including Oil & Gas)



Non-Oil and Gas Tax Collection



-----> Realization to target growth
 -----> Target to target growth
 -----> Realization to Realization growth

2017 Main Taxation Policies

Increasing the tax base and compliance
i.e. through IT and database improvement

Providing tax incentives to support competitiveness and investment climate

Improving tax regulation i.e. through the amendment of laws

Optimizing international tax arrangement to enforce transparency

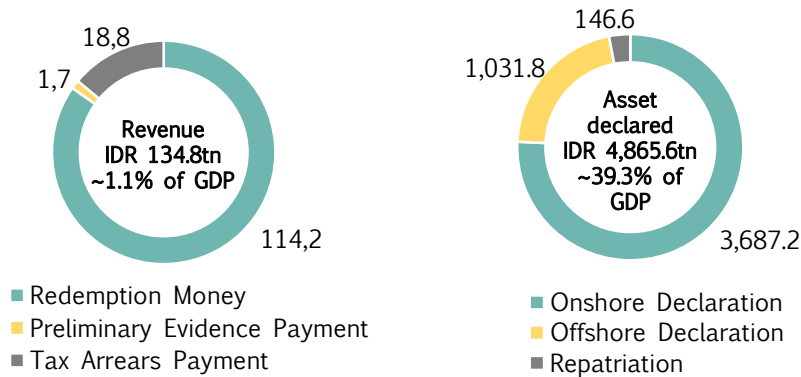
Using excises to control consumption of certain goods and minimize negative externality

Indonesian Tax Amnesty: A Success Story

...more than 965,000 taxpayers participated in the program, creating a larger tax database



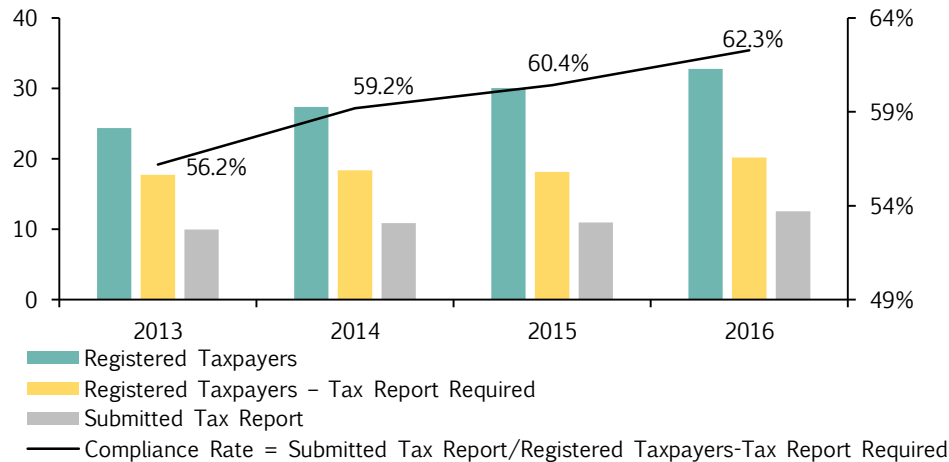
Tax Amnesty Result¹



Note: Figures in IDR trillion

1 Data as of 31 March 2017. End of tax amnesty period III

Compliance Rate in Submitting Annual Tax Report



Source: Ministry of Finance

Declaration & Repatriation (Country of Origin)

Country	Repatriation	Declaration	Total	Portion
	IDR tn	IDR tn	(Rep + Dec) IDR tn	
Singapore	83.25	741.56	824.81	70.0%
Virgin Islands	6.48	75.37	81.85	6.9%
Hong Kong	16.28	56.93	73.20	6.2%
Cayman Isl.	16.51	52.72	69.22	5.9%
Australia	1.42	41.20	42.62	3.6%

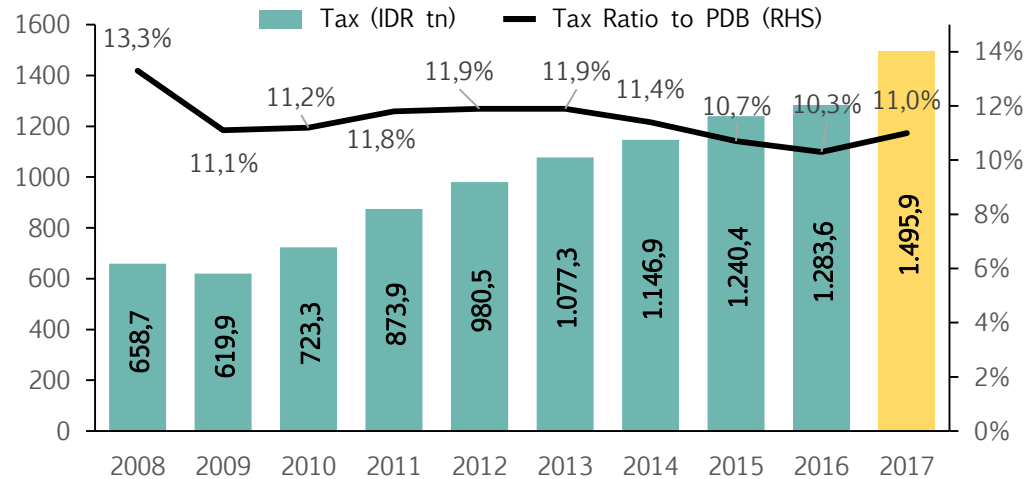
- Total assets declared in the tax amnesty program as of March 31, 2017 amounted to an equivalent of 39.3% of 2016 GDP
- Tax reform results positive impact to the broadening the tax base, as well as restoring trust between taxpayers and tax authority
- Referring to research from an independent body, Indonesia's tax amnesty is the most successful tax program in the world (based on revenue and declared assets)

More Comprehensive Tax Reform

...expected to positively impact the trajectory of the economy in both the short and long term



To Improve Tax Ratio in 2017



Optimizing the tax amnesty momentum

(last period – until March 2017– and post program benefits)

1. Intensive communication for the last period up to March 2017
2. Encouraging SMEs participation by allowing them apply the program collectively
3. Optimizing new database from tax amnesty participants
4. Improving law enforcement (through audit and investigation)

Tax Amnesty as the Milestone of Tax Reform



Human Resources

- Improvement of the human resources and organization capacity and capability
- The establishment on tax reform task force team
- Discipline on Plan-Do-Check-Action to monitor collection



Business Process

- Stronger law enforcement
- Authorization to gather 3rd party data (banking)
- Implementation of Automatic Exchange of Information
- Simplification of tax registration



Regulation

- General Provision and Administration of Taxation Law
- VAT Law
- Income Tax Law
- Stamp Duty Law



IT Support

- Improvement of IT and communication system
- Improvement on public data access for individual data management
- Enhancement of data management

Regional Revenue and Expenditure Profile

...effective expenditure policy as a tool to promote equality across Indonesia



KALIMANTAN	
Revenue	86.0
a. Tax	32.0
b. Custom & Excise	1.1
c. Non Tax Revenue	52.9
Expenditure	93.9
a. Transfer to Region	73.7
b. Ministerial Spending	20.3
Nett	(7.9)

SUMATERA	
Revenue	141.1
a. Tax	66.9
b. Custom & Excise	6.8
c. Non Tax Revenue	70.4
Expenditure	232.3
a. Transfer to Region	176.1
b. Ministerial Spending	56.2
Nett	(88.2)

SULAWESI	
Revenue	19.7
a. Tax	16.6
b. Custom & Excise	0.6
c. Non Tax Revenue	2.5
Expenditure	104.5
a. Transfer to Region	73.3
b. Ministerial Spending	31.2
Nett	(84.8)

JAVA	
Revenue	1.143.2
a. Tax	884.9
b. Custom & Excise	161.6
c. Non Tax Revenue	96.6
Expenditure	302.8
a. Transfer to Region	201.8
b. Ministerial Spending	101
Nett	840.4

PAPUA & MALUKU	
Revenue	18.4
a. Tax	10.7
b. Custom & Excise	1.7
c. Non Tax Revenue	6.0
Expenditure	89.6
a. Transfer to Region	71.7
b. Ministerial Spending	17.9
Nett	(71.3)

BALI & NUSRA	
Revenue	15.5
a. Tax	11.7
b. Custom & Excise	1.5
c. Non Tax Revenue	2.3
Expenditure	56.4
a. Transfer to Region	39.5
b. Ministerial Spending	17.0
Nett	(40.9)

Notes:

1. Average data 2014 - 2016
2. Revenue → amount collected from certain region for central government budget
3. Expenditure → amount spent for certain region from central government budget
4. Figure in IDR trillion

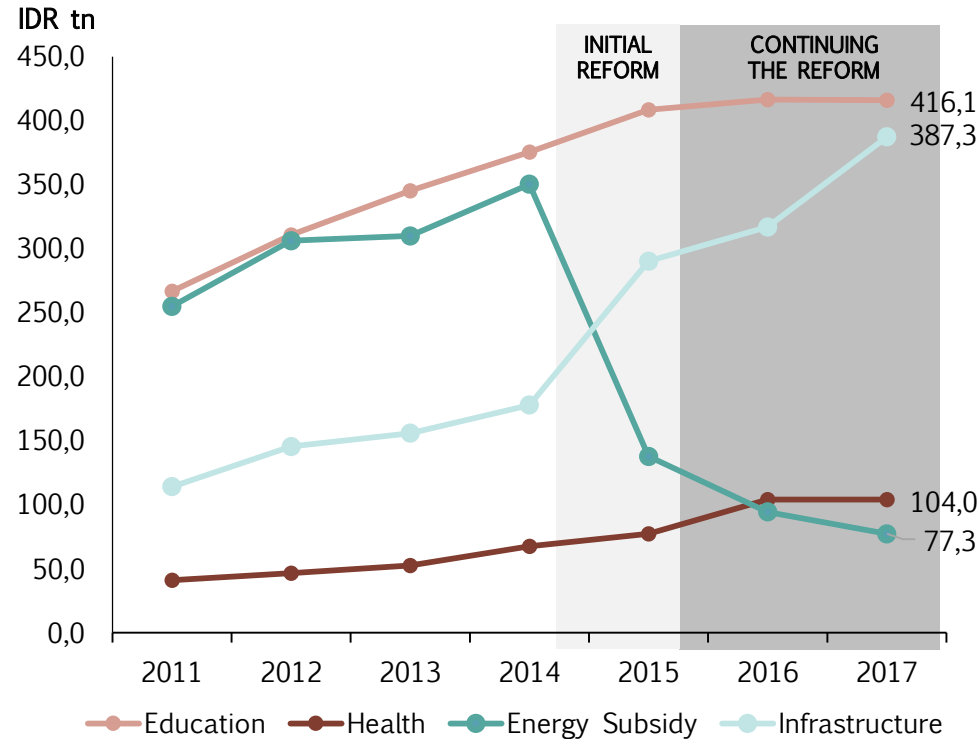
Source: Ministry of Finance

Commitment to Continue Strengthening Productive Spending

...reallocating budget to productive activities

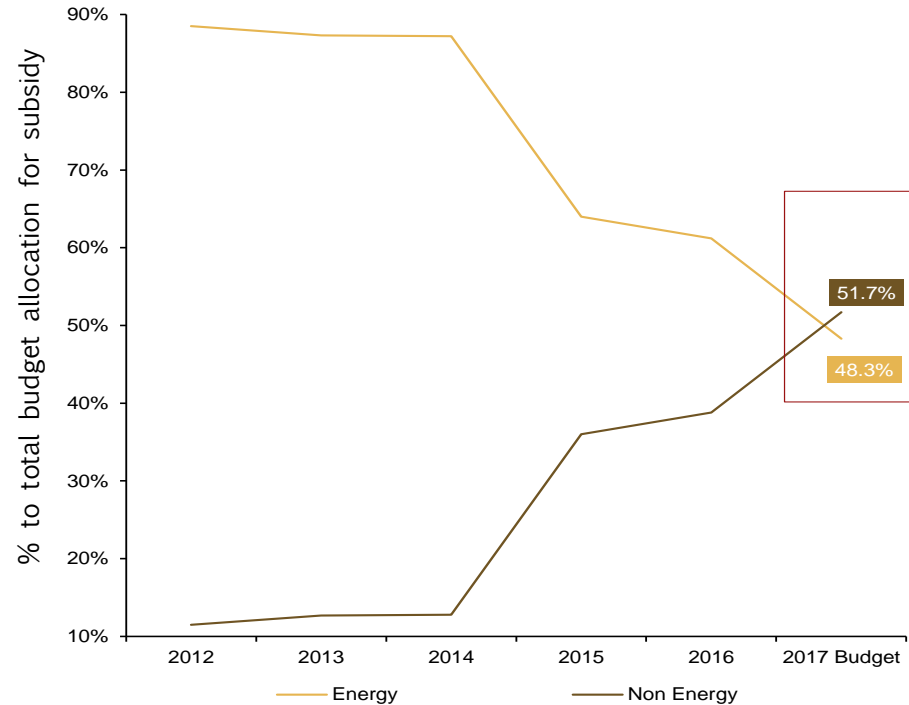


Budget Re-allocation



- Focus on **productive spending** to support growth momentum and improve basic services
- Preserving **infrastructure acceleration** and **social welfare** spending to improve equality, and maintain consumption growth

Budget allocation for subsidy



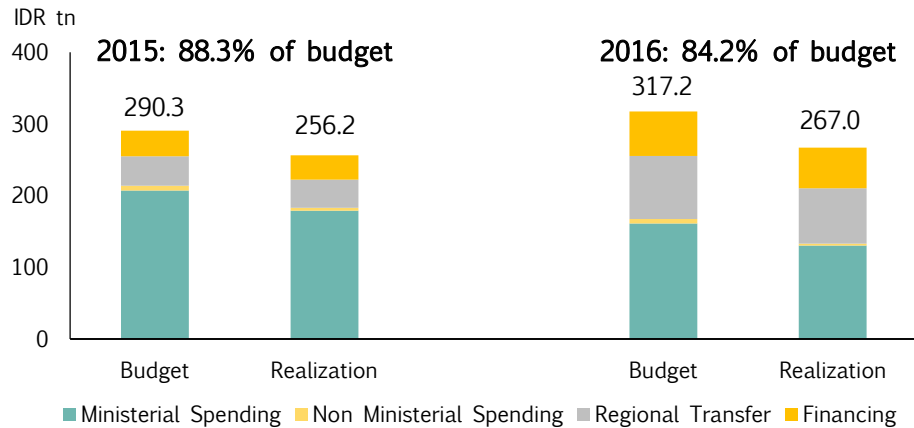
- Targeted energy subsidy in the form of 3 Kg LPG subsidies and electricity subsidy and increased non energy subsidy allocation
- Continue the improvement of intergovernmental transfer, esp. village fund, to spur growth through regions

Managing Priority Projects with 2016 Budget Consolidation

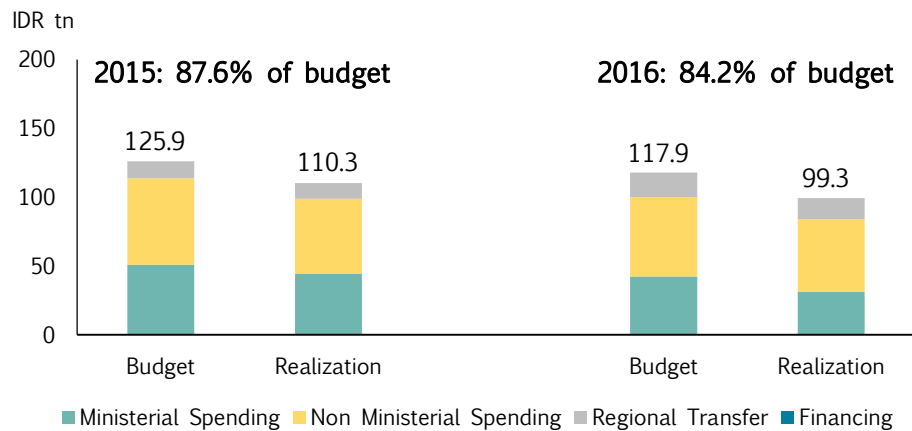
...the Government managed to accelerate infrastructure development



Infrastructure Realization



Food Security Realization



Infrastructure Development Achievement in 2016



Road Development (km)

Target: 3149.6
Realization: 2528.7



Airport

Target: 3
Realization: 3



Bridge (km)

Target: 12.9
Realization: 10.6



Railway (km)

Target: 114.9
Achievement: 114.9



Dam

Target: 37
Achievement: 37



Irrigation (km)

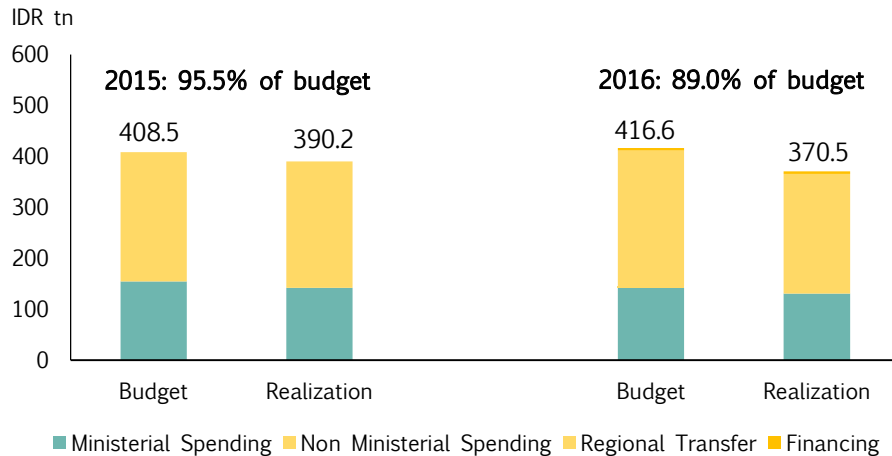
Target: 4,889
Achievement: 1,025

Education and Health Spending Well Delivered in 2016

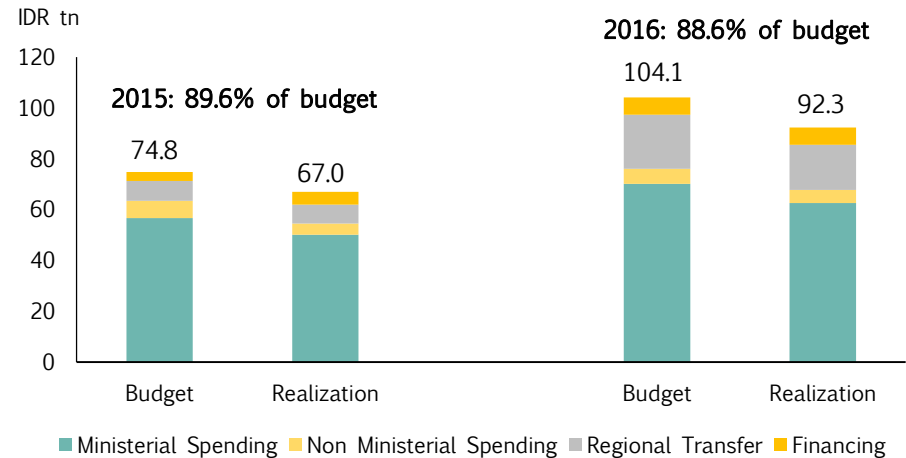
...investment to improve the quality of human capital in the long term



Education Expenditure



Health Expenditure



University scholarship for poor student (Bidikmisi)

Realization: 331.9 thousand college students

Target: 306 thousand college students



School Operational Assistance (BOS)

Realization: 8.0 million students

Target: 8.2 million students



Vaccine availability in Community Health Centre (Puskesmas)

Realization: 81.5%

Target: 92.5%



Immunization for 0 – 11 months old infant

Realization: 4,006,979 infants

Target: 4,001,210 infants



School Rehabilitation

Realization: 30,300 rooms

Target: 27,200 rooms



Indonesia Smart Card (KIP)

Realization: 19.4 million students

Target: 19.5 million students



Health Insurance Subsidy (PBI)

Realization: 91.9 million people

Target: 92.4 million people



Malaria Eradication

Realization: 247 cities

Target: 245 cities



Accredited Regional Hospital

Realization: 201 hospitals

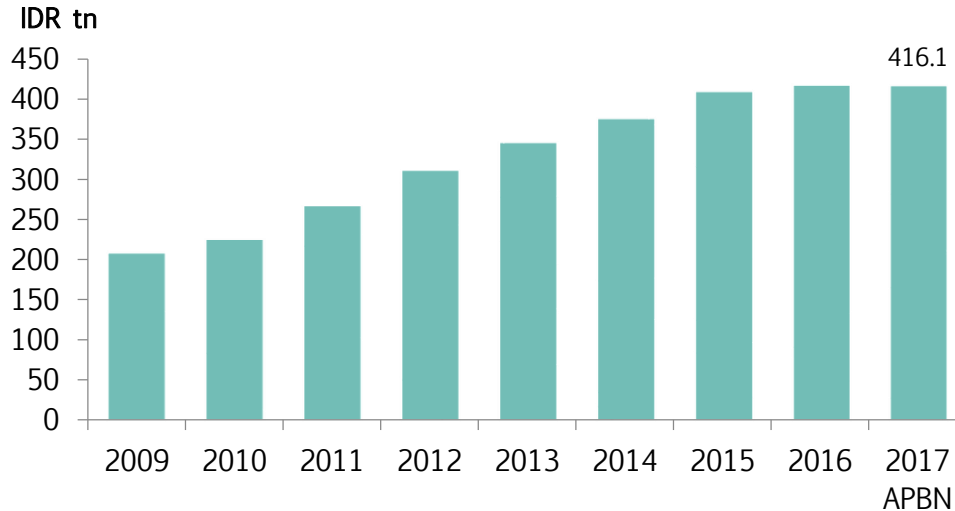
Target: n/a

Better Targeting of Subsidy Policy in 2017

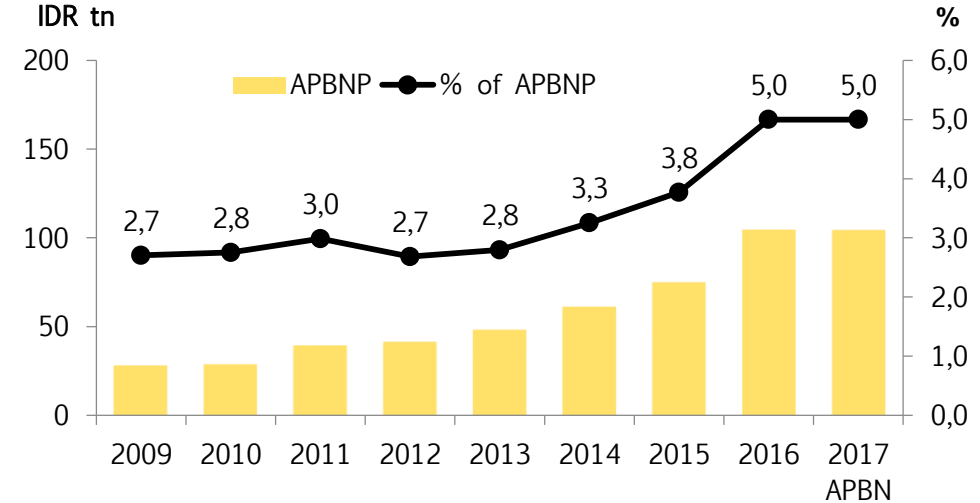
...more budget allocated to non energy subsidy and priority programs to improve basic services














Budget for Education Program



Budget for Health Program



Certification  101,100 teachers 10,200 lecturers	Indonesia Smart Card (KIP)  19.5 million students	Bidikmisi Scholarship  360.5 thousands college students
School Operational Assistance (BOS)  8.5 million students	School Rehabilitation  41,128 rooms	Operational Assistance for Colleges  107 Colleges/Universities

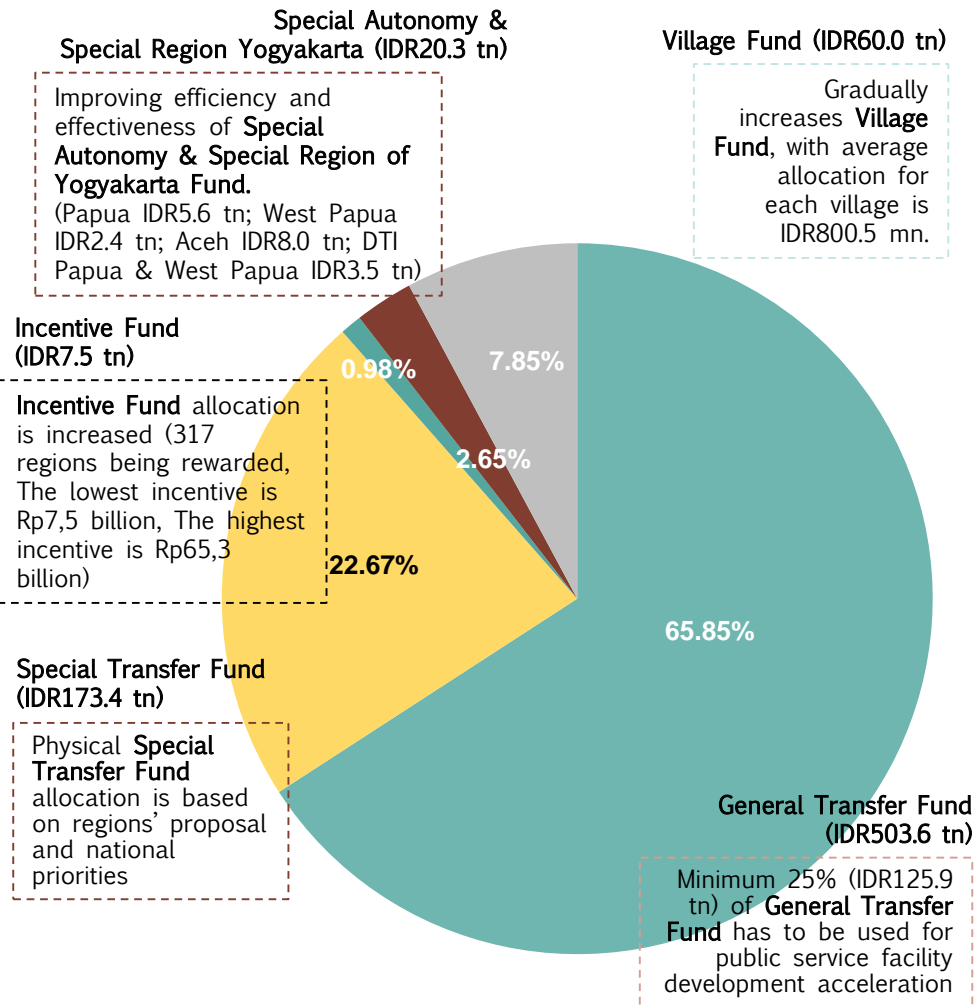
Immunization  Basic & complete immunization for 92% of 0-11 months old infants	Health Insurance Subsidy (PBI)  94.4 million people	Stunting Prevention  Stunting prevention to 29.6% of children below 2 years old
Community Health Centre (Puskesmas)  700 regencies	Family Plan Program (KB)  6.7 million people	

Budget Allocation Between Central & Local Government Improves

...promoting better quality of budget spending from local government



2017 Transfer to Regions and Village Funds



Transfer to Regions/Village Funds & Ministerial Spending

IDRtn	2013	2014	2015	2016	2017 Budget
Transfer to Region	513.3	573.7	602.4	663.7	704.9
Village Fund	-	-	20.8	46.7	60.0
Total Intergovernmental Transfer	513.3	573.7	623.1	710.4	764.9
Ministerial Spending	582.9	577.2	732.1	680.8	763.6

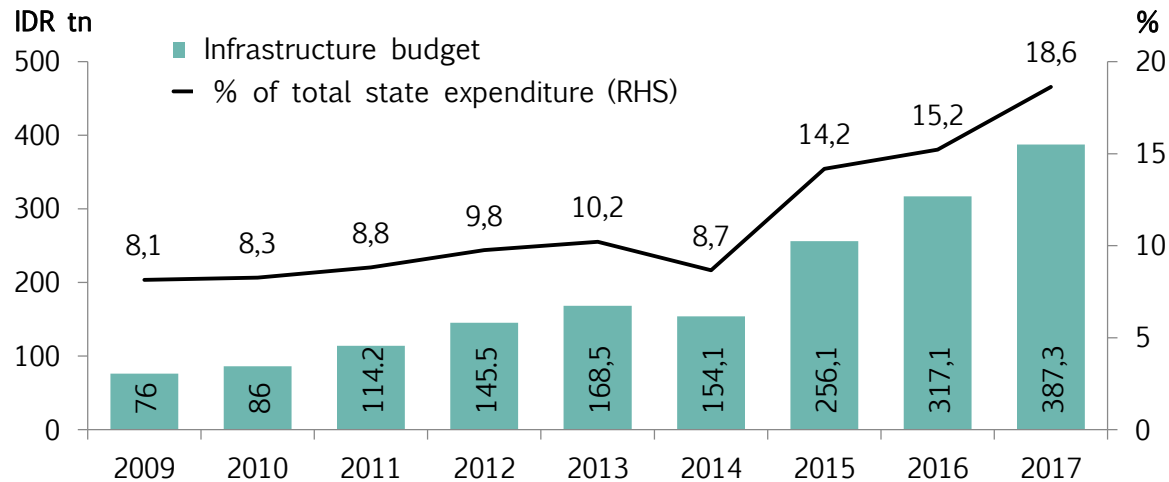
- Implementation of policy to allocate spending to regions
- 2017 budget has **higher allocation** of Transfer to Region / Village Fund compared to the Ministerial Spending
- **Minimum 25% of general transfer fund** has to be used for public service infrastructure

Policy of Infrastructure Spending and Transfer to Regions

...developing the nation through targeted spending

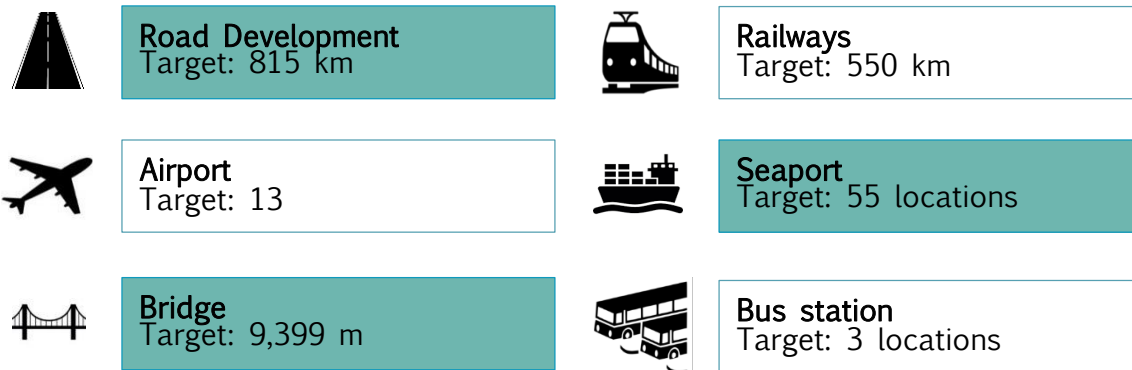


Infrastructure Budget Allocation



In 2017, minimum 25% of general transfer fund has to be used for public service infrastructure

2017 Construction Target



Source: Ministry of Finance

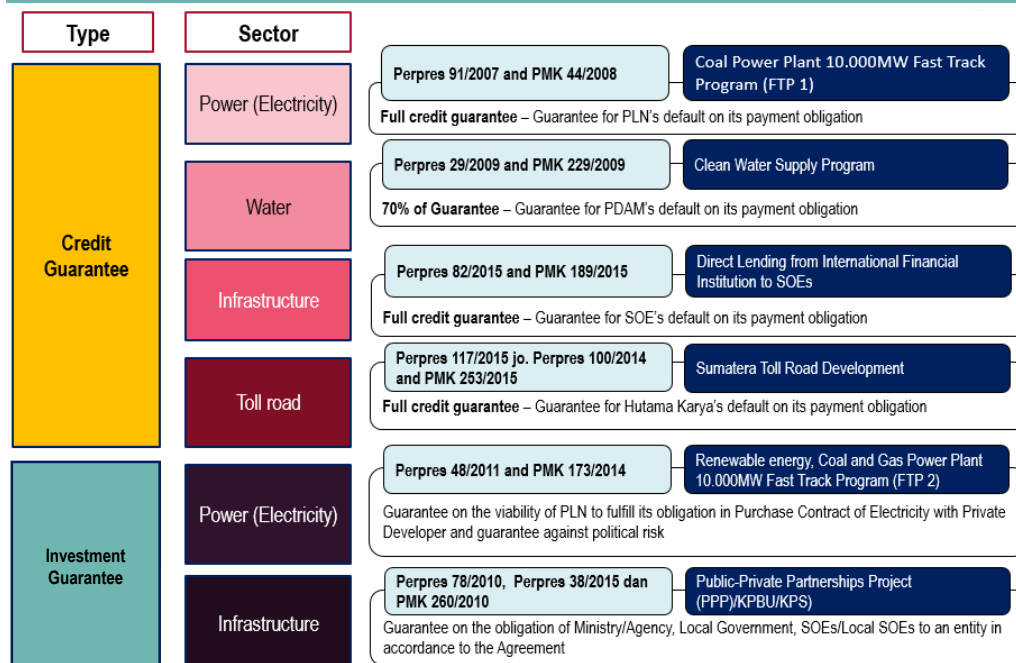
2017 Infrastructure Budget Allocation (IDR billion) and 2016 realization

Java	Maluku & Papua
2016 : 3,229.4 2017 : 3,257.8 2016 : 461,1 2017 : 1,147.5	2016 : 3,749.1 2017 : 3.686.3 2016 : 1,680.2 2017 : 1,941.7
Kalimantan	Sulawesi
2016 : 2,889.9 2017 : 3,641.6 2016 : 597.9 2017 : 634.5	2016 : 2,694.4 2017 : 4,117.1 2016 : 606.2 2017 : 1,042.6
Sumatera	Bali & Nusa Tenggara
2016 : 3,895.4 2017 : 3,545.7 2016 : 1,044.8 2017 : 1,320.4	2016 : 661.3 2017 : 1,207.3 2016 : 101.1 2017 : 308.2

Management of Contingent Liabilities



Government Guarantee Program and Portfolios 2008 - Present



Central Government Guarantee for Infrastructure Programs (as of December, 2016)		Guarantee Documents	Committed Guarantee Amount (USD bn)	Exposure/ Outstanding (USD bn)
1	Coal Power Plant 10.000 MW Fast Track Program 1	36	6.96	3.47
2	Clean Water Supply Program	10	0.02	0.01
3	Direct Lending from International Financial Institution to SOEs	2	1.1	0.23
4	Sumatera Toll Road Development	3	0.2	0.07
5	Renewable Energy, Coal and Gas Powerplant/Fast Track Program 2	12	11.91	1.47
6	Public Private Partnership Project (PPP)	1	3.2	0.83
Total		64	23.4	6.08

Maximum Guarantee Limit



- *Maximum Guarantee Limit* defines the maximum amount of new guarantees allowed to be issued during a certain period.
- Taking into account current combined portfolio of government debt and guarantees, *Maximum Guarantee Limit* for the period of 2014 – 2017 is set at 2,57% of GDP.
- The guarantee limit can be reviewed and adjusted from time to time

Reporting



- Contingent Liabilities is stated as one of fiscal risk sources in Financial Notes of National Budget (APBN) FY 2016.
- DG of Budget Financing and Risk Management regularly issues publication of Central Government Debt Profile, in which information regarding government guarantee also included in Part 7 of the publication.

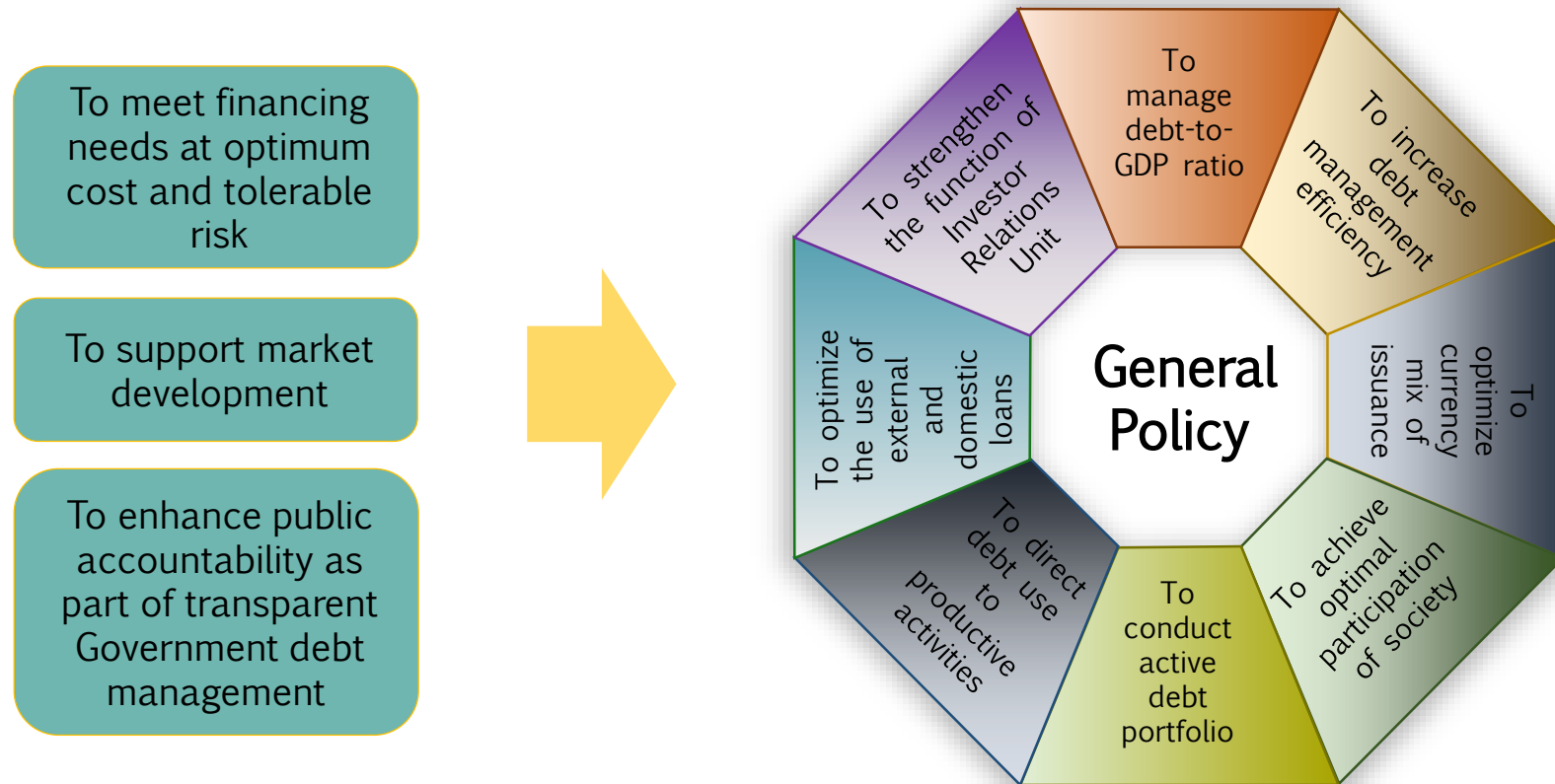
Role of IIGF as Ring Fencing



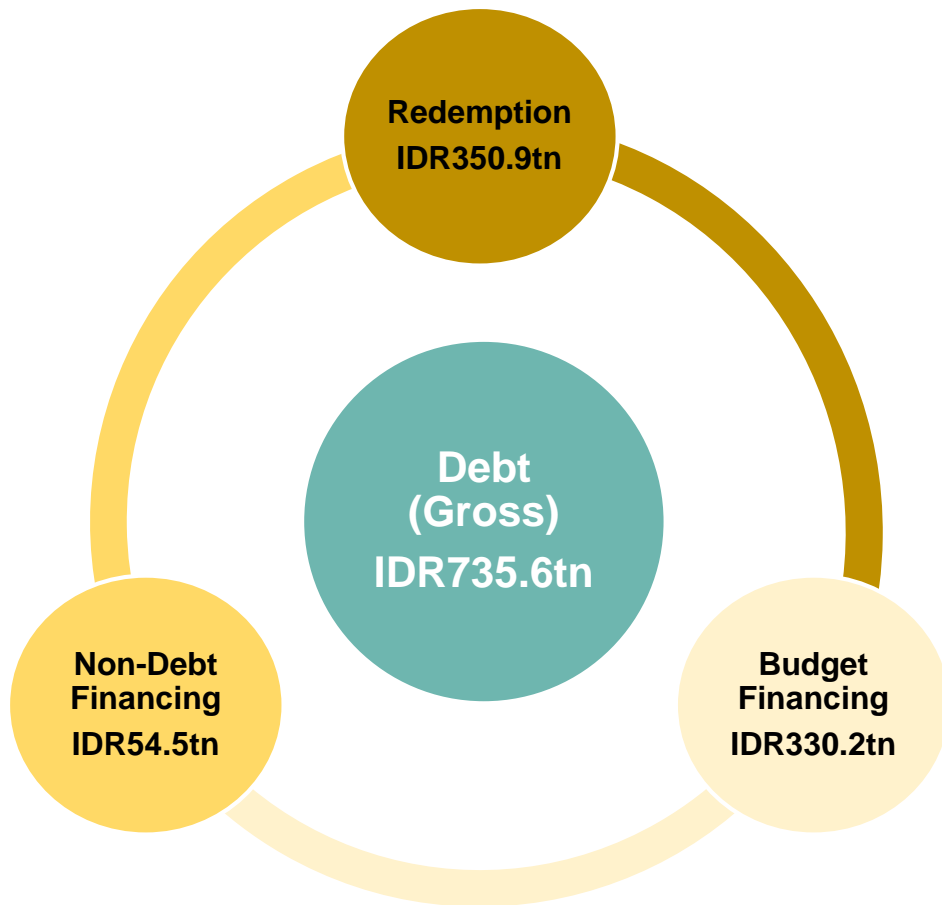
- IIGF serves as Government's single window for appraisal and processing/structuring of guarantees.
- IIGF is established to satisfy the following objectives:
 - To provide a political risk guarantee for PPP Infrastructure Projects.
 - To improve creditworthiness and quality of PPP infrastructure projects by providing a credible guarantee on political risk.
 - To improve the governance and transparency of guarantee provisions.
 - To protect Government contingent liability vis-à-vis guarantees (**ring-fencing the contingent liability exposure of the State Budget**).

- Central Government Guarantees are carefully provided to meet various item of infrastructure programs
- At the end of 2016, total guarantee committed are USD23.4 bn (eq. IDR314.3 tn) for those 6 programs, and outstanding/exposure were USD6.08 bn (eq. IDR81.7 tn)

Financing Policy 2017: General Objective & Policy



Budget Financing Breakdown in 2017



Breakdown of budget financing	IDR tn	USD bn
Government debt (net)	384.7	28.9
Government securities (net)	400.0	30.0
Domestic loans (net)	1.5	0.1
Foreign loans (net)	-16.8	-1.3

Government Securities: Indicative Financing Plan for 2017

...prudent and sustainable fiscal management



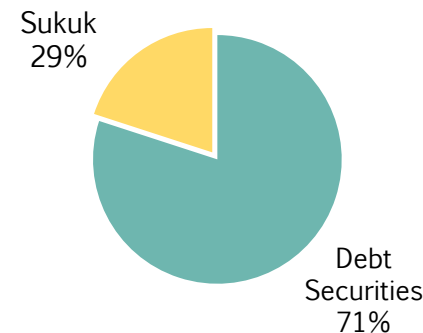
Instruments	Indicative Target (IDR tn)
	2017 Budget
Government Securities (Net)	399,993
Redemption	162,842
Cash Management	119,000
Buyback	3,000
Government Securities (Gross)	684,835
Composition	
Domestic	79%
Auction	93%
Non-Auction	7%
International Bond	21%

Front Loading Issuance For Budget Financing

- Pre-funding to optimize cost ahead of potential Fed rate hike
- Anticipate developments in global environment
- Government Securities target for 1st semester 2017 is 57.4 % from gross issuance target
- Government Securities target in Rupiah for 1st semester 2017 is 42.7% from gross issuance target

Domestic Bonds	
Weekly Auction:	
Conventional securities	24 x
Islamic securities	24 x
Non-Auction:	
Retail bonds	
Private Placement	Based on request

Government Issuance Targets



International Bonds

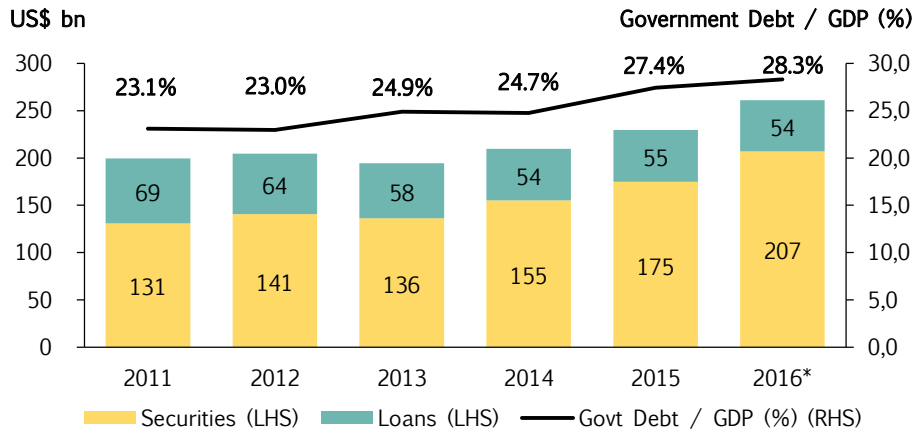
- Issuance of international bonds as a complement to avoid crowding out the domestic market consists of USD, YEN or EURO global bonds;
- International bond issuance can be maximized up to 25% from gross target, depends on financing need

Average Time to Maturity (ATM) for Government Securities:
6-8 years

Disciplined and Sophisticated Debt Portfolio Management

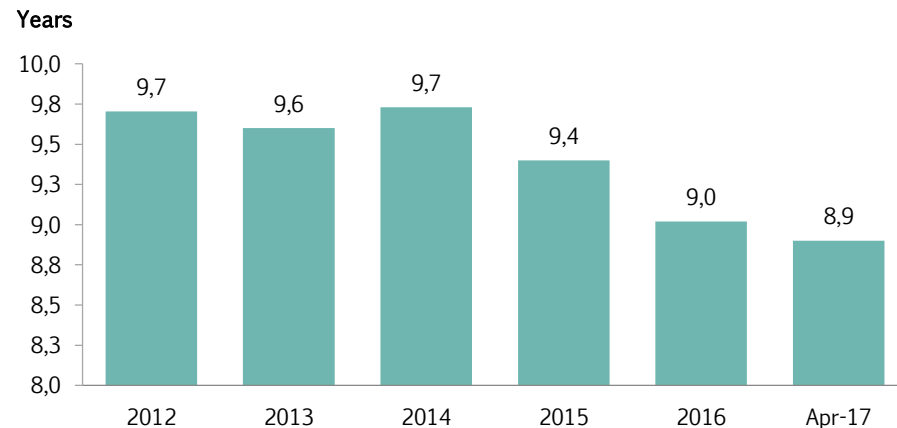


Stable Debt to GDP Ratio Over the Years



Source: Ministry of Finance

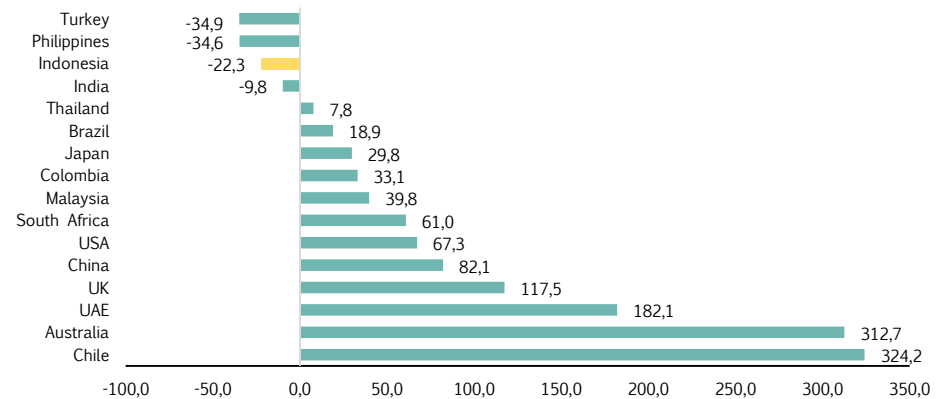
Weighted Average Debt Maturity of ~8.9 Years**



Source: Ministry of Finance

Remarkable Debt Reduction Initiative Over the Past 10 Years

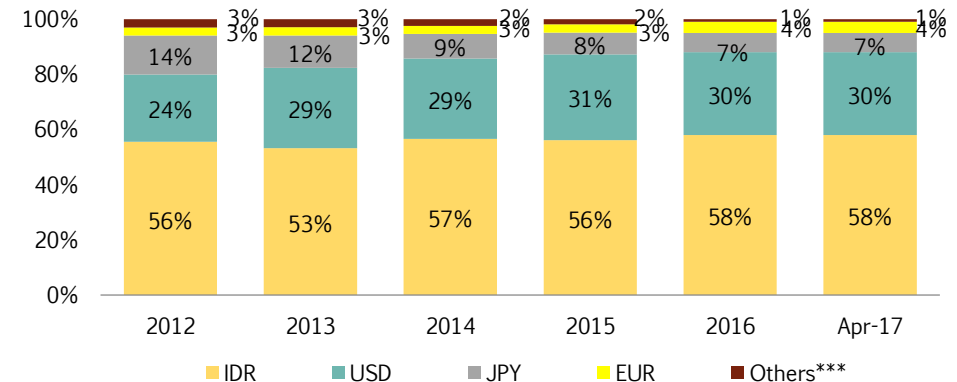
Change in Debt to GDP Ratio (2006 – 2016) (%)



Source: IMF World Economic Outlook Database, April 2017

Well Diversified Across Different Currencies

% of Yearly Issuance



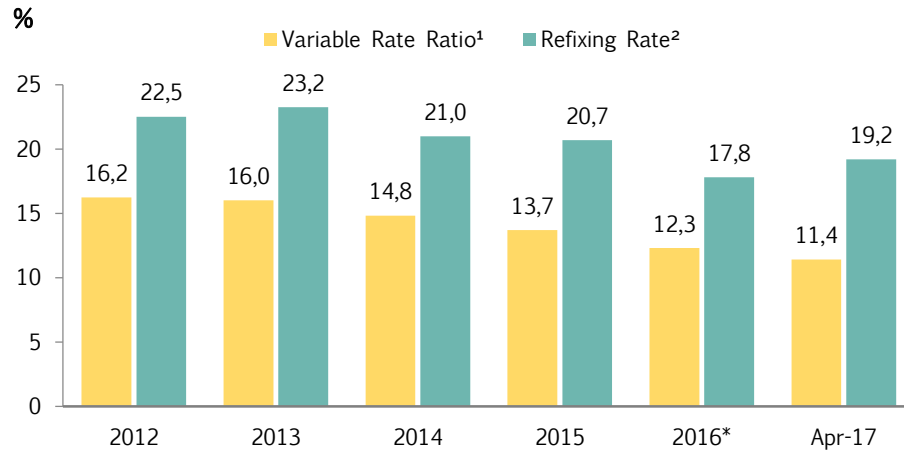
Source: Ministry of Finance

* Based on 2016 realization, ** Using GDP assumption in 2016 R-Budget, ***SDR, AUD, and other

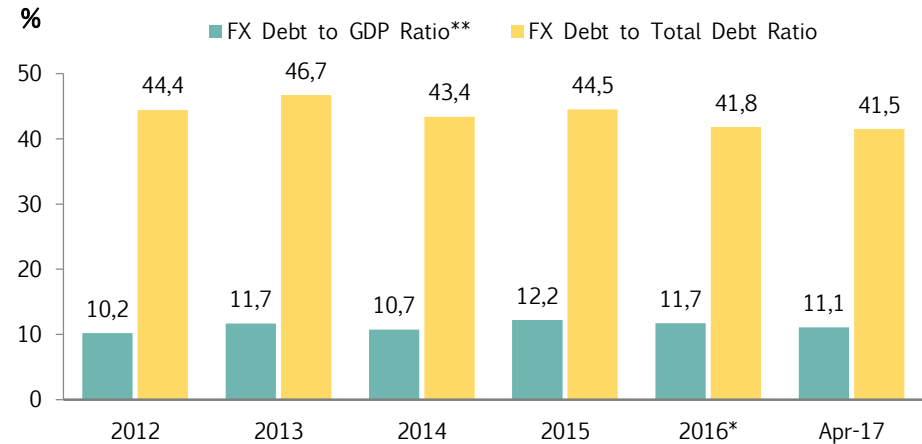
Well Balanced Maturity Profile With Strong Resilience Against External Shocks



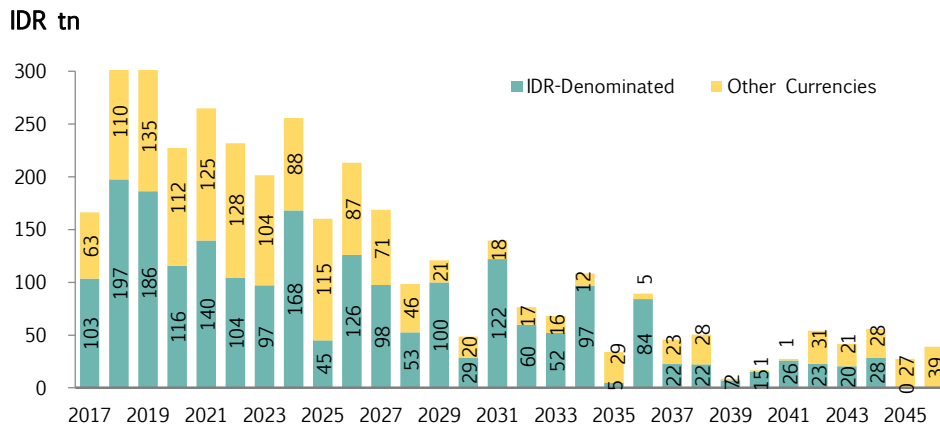
Declining Interest Rate Risks



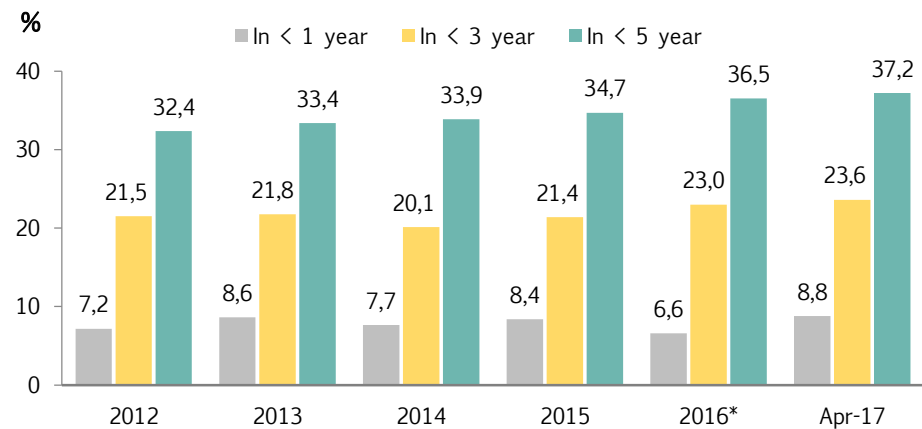
Declining Exchange Rate Risks



Debt Maturity Profile



Upcoming Maturities (Next 5 Years)



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

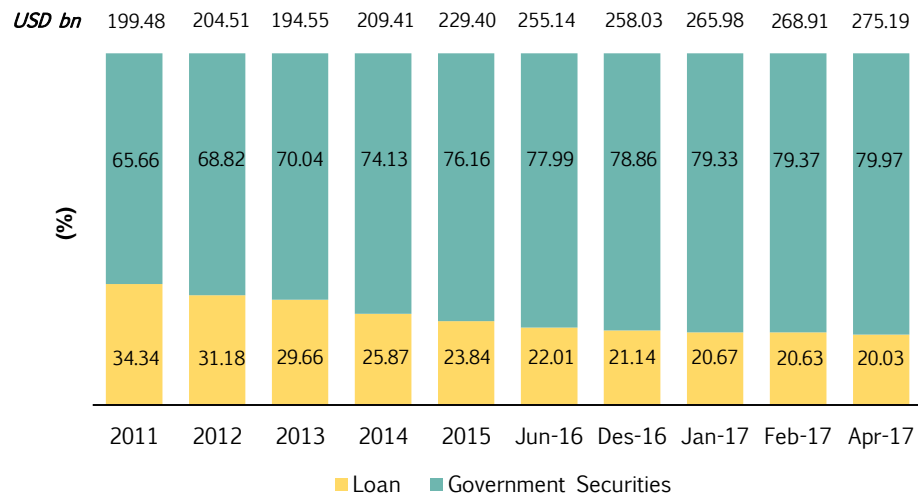
² Refixing Rate ratio is defined as ratio between debt instruments with variable rate + debt instruments with fixed rate maturing in 1 year divided by total debt instruments (variable + fixed rates)

*Preliminary Figures **Using GDP assumption in 2017 Budget.

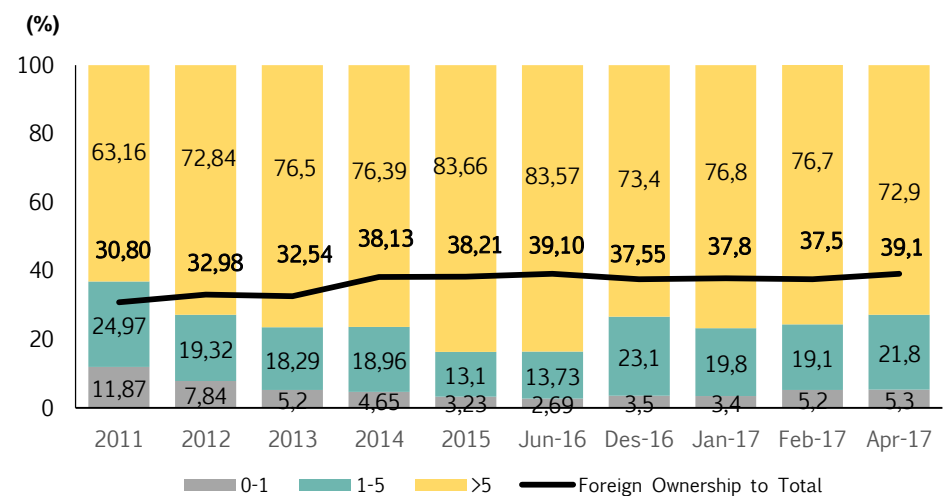
Profile of Total Central Government Debt



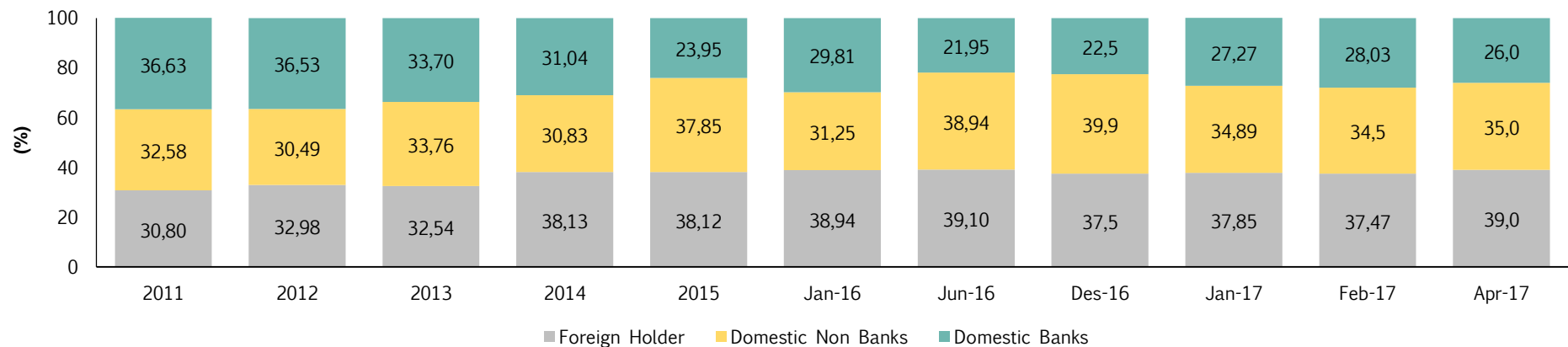
Government Debt Outstanding



Foreign Ownership of Government Securities at Longer Tenors



Holders of Government IDR Bonds – Composition April 2017



Ownership of IDR Tradable Central Government Securities



(IDR tn)

Description	Dec-14		Dec-15		Jun-16		Dec-16		Mar-17	
Banks*	375.55	31.04%	350.07	23.95%	361.54	21.95%	399.46	22.53%	491.93	25.79%
Govt Institutions (Bank Indonesia**)	41.63	3.44%	148.91	10.19%	150.13	9.12%	134.25	7.57%	69.98	3.67%
Bank Indonesia (gross)					149.07	9.05%	157.88	8.90%	176.63	9.26%
GS used for Monetary Operation					-1.05	-0.06%	23.63	1.33%	106.65	5.59%
Non-Banks	792.78	65.52%	962.86	65.87%	1135.18	68.93%	1239.57	69.90%	1345.68	70.54%
Mutual Funds	45.79	3.78%	61.60	4.21%	76.44	4.64%	85.66	4.83%	90.11	4.72%
Insurance Company	150.60	12.45%	171.62	11.74%	214.47	13.02%	238.24	13.43%	250.96	13.16%
Foreign Holders	461.35	38.13%	558.52	38.21%	643.99	39.10%	665.81	37.55%	745.82	39.10%
Foreign Govt's & Central Banks	103.42	8.55%	110.32	7.55%	118.53	7.20%	120.84	6.81%	135.21	7.09%
Pension Fund	43.30	3.58%	49.83	3.41%	64.67	3.93%	87.28	4.92%	87.41	4.58%
Individual	30.41	2.51%	42.53	2.91%	48.90	2.97%	57.75	3.26%	62.34	3.27%
Others	60.51	5.00%	78.50	5.37%	86.72	5.27%	104.84	5.91%	109.04	5.72%
Total	1,209.96	100%	1,461.85	100%	1,646.85	100%	1,773.28	100%	1,907.59	100%

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.

Government Securities Realization



(IDR mn)

*Adjusted with issuance related to cash management realization

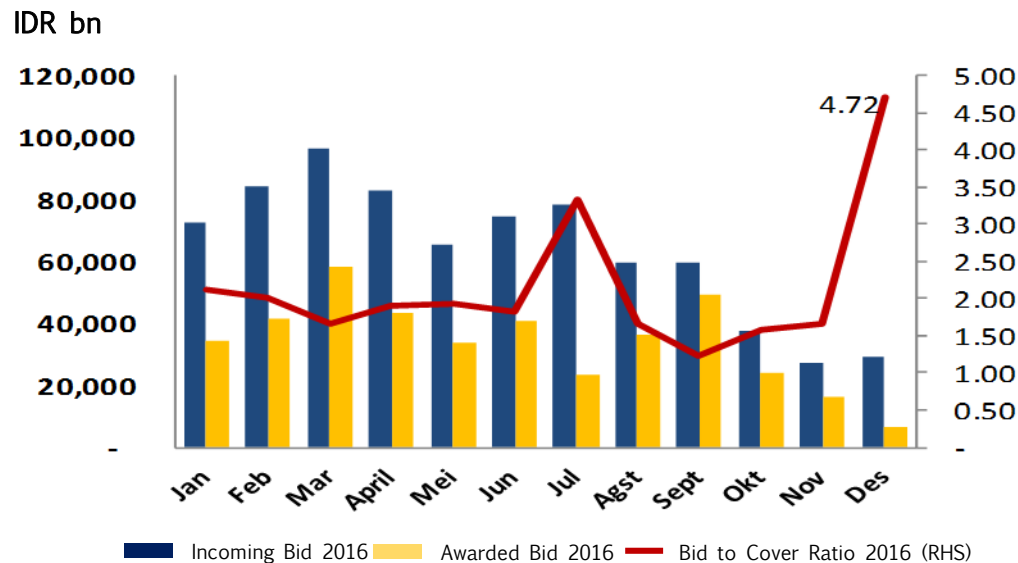
	Budget 2017	Budget Realization (a.o. April 27 th , 2017)	% Realization to Budget 2017
Government Securities Net	399,992,586	206,511,694	51.63%
Government Securities Maturing in 2017 and Buyback	284,842,264	101,918,581	35.78%
Issuance Need for 2017*	684,834,850	308,430,275	45.04%
Government Debt Securities (GDS)		204,053,508	
Domestic GDS		156,130,000	
-Coupon GDS		72,230,000	
-Conventional T-Bills		83,900,000	
-Private Placement		-	
-Retail Bonds		-	
International Bonds		47,923,508	
-USD GMTN		47,197,500	
-Euro GMTN		-	
-Samurai Bonds		-	
-Domestic USD Bonds		726,008	
Government Islamic Debt Securities		104,376,767	
Domestic Government Islamic Debt Securities		64,407,767	
- IFR/PBS/T-Bills Sukuk (Islamic Fixed Rated Bond/Project Based Sukuk)		48,370,457	
- Retail Sukuk		14,037,310	
- Private Placement		2,000,000	
Global Sukuk		39,969,000	

Positive Response of Government Securities Issuance in 2016



	Global Conventional Bond		Global Sukuk		Euro-Denominated Bonds		Samurai Bonds	
Tenure	10 yr	30 yr	5 yr	10yr	7 yr	12 yr	3 yr	5 yr
Pricing Date	December 8 th , 2015		March 29 th , 2016		June 14 th , 2016		June 21 st , 2016	
Nominal	US\$ 2.25 bn	US\$ 1.25 bn	US\$0.75 bn	US\$1.75 bn	EUR 1.5 bn	EUR 1.5 bn	JPY62 bn	JPY38 bn
Coupon Rate	4.75%	5.95%	3.40%	4.55%	2.625%	3.750%	0.83%	1.16%
Yield	4.80%	6.00%	3.40%	4.55%	2.772%	3.906%	0.83%	1.16%
Incoming Bid	US\$8.1 bn		US\$8.6 bn		EUR 8.4 bn		JPY100 bn	

Increasing Incoming Bids in 2016's Government Securities Issuance



- The average incoming bids in 2016 was IDR18.81tn/auction, higher than 2015 (IDR14.05tn/auction);
- The average awarded bids in 2016 was IDR9.44tn/auction, higher than 2015 (IDR6.75tn/auction);
- Bid to cover ratio of government securities issuance in 2016 was 1.99 times (2015 was 2.08 times).