OFFERING MEMORANDUM **CONFIDENTIAL**

Republic of Indonesia

US$300,000,000 6.75% Bonds due 2014

(to be consolidated, and form a single series with, the existing
US$1,000,000,000 6.75% Bonds due 2014 issued on March 10, 2004)

US$900,000,000 6.875% Bonds due 2018

(to be consolidated, and form a single series with, the existing
US$1,000,000,000 6.875% Bonds due 2018 issued on January 17, 2008)

US$1,000,000,000 7.75% Bonds due 2038

(to be consolidated, and form a single series with, the existing
US$1,000,000,000 7.75% Bonds due 2038 issued on January 17, 2008)

Offer Price for the New 2014 Bonds: 100.25%, plus accrued interest from and including March 10, 2008
Offer Price for the New 2018 Bonds: 97.25%, plus accrued interest from and including January 17, 2008
Offer Price for the New 2038 Bonds: 95.50%, plus accrued interest from and including January 17, 2008

The Republic of Indonesia (the "Republic" or "Indonesia") is offering US$300,000,000 aggregate principal amount of 6.75% Bonds due 2014 (the "New 2014 Bonds"), US$900,000,000 aggregate principal amount of 6.875% Bonds due 2018 (the "New 2018 Bonds") and US$1,000,000,000 aggregate principal amount of 7.75% Bonds due 2038 (the "New 2038 Bonds" and, together with the New 2014 Bonds and the New 2018 Bonds, the "Bonds"). The New 2014 Bonds constitute a further issuance of, and will be consolidated and form a single series with, the Republic's 6.75% Bonds due 2014 issued on March 10, 2004 in the amount of US$1,000,000,000 (the "Old 2014 Bonds" and together with the New 2014 Bonds, the "2014 Bonds"). Subject to the listing of the 2014 Bonds as described in "The Offering—Listing and Trading," the New 2014 Bonds will be fungible with, and will rank *pari passu* with, the Old 2014 Bonds. The total principal amount of the Old 2014 Bonds and the New 2014 Bonds now being issued is US$1,300,000,000. The New 2018 Bonds constitute a further issuance of, and will be consolidated and form a single series with, the Republic's 6.875% Bonds due 2018 issued on January 17, 2008 in the amount of US$1,000,000,000 (the "Old 2018 Bonds"). The New 2018 Bonds will be fungible with, and will rank *pari passu* with, the Old 2018 Bonds from and including the Issue Date. The total principal amount of the Old 2018 Bonds and the New 2018 Bonds now being issued is US$1,900,000,000. The New 2038 Bonds constitute a further issuance of, and will be consolidated and form a single series with, the Republic's 7.75% Bonds due 2038 issued on January 17, 2008 in the amount of US$1,000,000,000 (the "Old 2038 Bonds"). The New 2038 Bonds will be fungible with, and will rank *pari passu* with, the Old 2038 Bonds from and including the Issue Date. The total principal amount of the Old 2038 Bonds and the New 2038 Bonds now being issued is US$2,000,000,000. Interest on the New 2014 Bonds will be payable semi-annually in arrears on March 10 and September 10 of each year, commencing on September 10, 2008. Interest on the New 2018 Bonds and the New 2038 Bonds will be payable semi-annually in arrears on January 17 and July 17 of each year, commencing on July 17, 2008. The New 2014 Bonds will mature on March 10, 2004, the New 2018 Bonds will mature on January 17, 2018 and the New 2038 Bonds will mature on January 17, 2038. The Bonds will not be redeemable, in whole or in part, prior to maturity.

The Bonds will constitute direct, unconditional, unsecured and general obligations of the Republic without preference granted by the Republic to one above the other. The Bonds will rank equal in right of payment among themselves and with all other unsecured and unsubordinated External Indebtedness (as defined herein) of the Republic. All amounts payable under the Bonds will be backed by the full faith and credit of the Republic.

The Republic intends that the Old 2014 Bonds will be delisted from the Regulated Market "Bourse de Luxembourg" of the Luxembourg Stock Exchange (the "Regulated Market") and that the 2014 Bonds will be listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). If the 2014 Bonds are not so listed, the Republic intends to transfer the listing of the Old 2014 Notes from the Regulated Market to the Euro MTF, the alternative market of the Luxembourg Stock Exchange (the "Euro MTF") and to list the New 2014 Notes on the Euro MTF, in each case within 40 days of the issuance of the Bonds. The Old 2018 Bonds and Old 2038 Bonds are, and, upon issuance, the New 2018 Bonds and New 2038 Bonds will be, listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Admission of the Bonds to the official list of the SGX-ST is not to be taken as an indication of the merits of the Republic or the Bonds. The Bonds will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as the Bonds are listed on the SGX-ST.

The Bonds have not been registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws. The Bonds may not be offered or sold within the United States except to qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") under the U.S. Securities Act) in reliance on the exemption from registration provided by Rule 144A, and to certain persons outside the United States in offshore transactions in reliance on Regulation S ("Regulation S") under the U.S. Securities Act. Prospective investors are hereby notified that sellers of the Bonds may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of these and certain further restrictions on transfer of the Bonds, see "Plan of Distribution" and "Transfer Restrictions."

The Bonds will be represented by one or more global certificates in fully registered form, without coupons, which will be registered in the name of a nominee of The Depository Trust Company, as depository ("DTC"). It is expected that delivery of the Bonds will be made against payment on or about June 24, 2008 (the "Issue Date") through the book-entry facilities of DTC.

Beneficial interests in the Bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct or indirect participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, societe anonyme, Luxembourg ("Clearstream"). Except as described herein, definitive Bonds will not be issued in exchange for beneficial interests in global certificates.

Joint Bookrunners and Joint Lead Managers

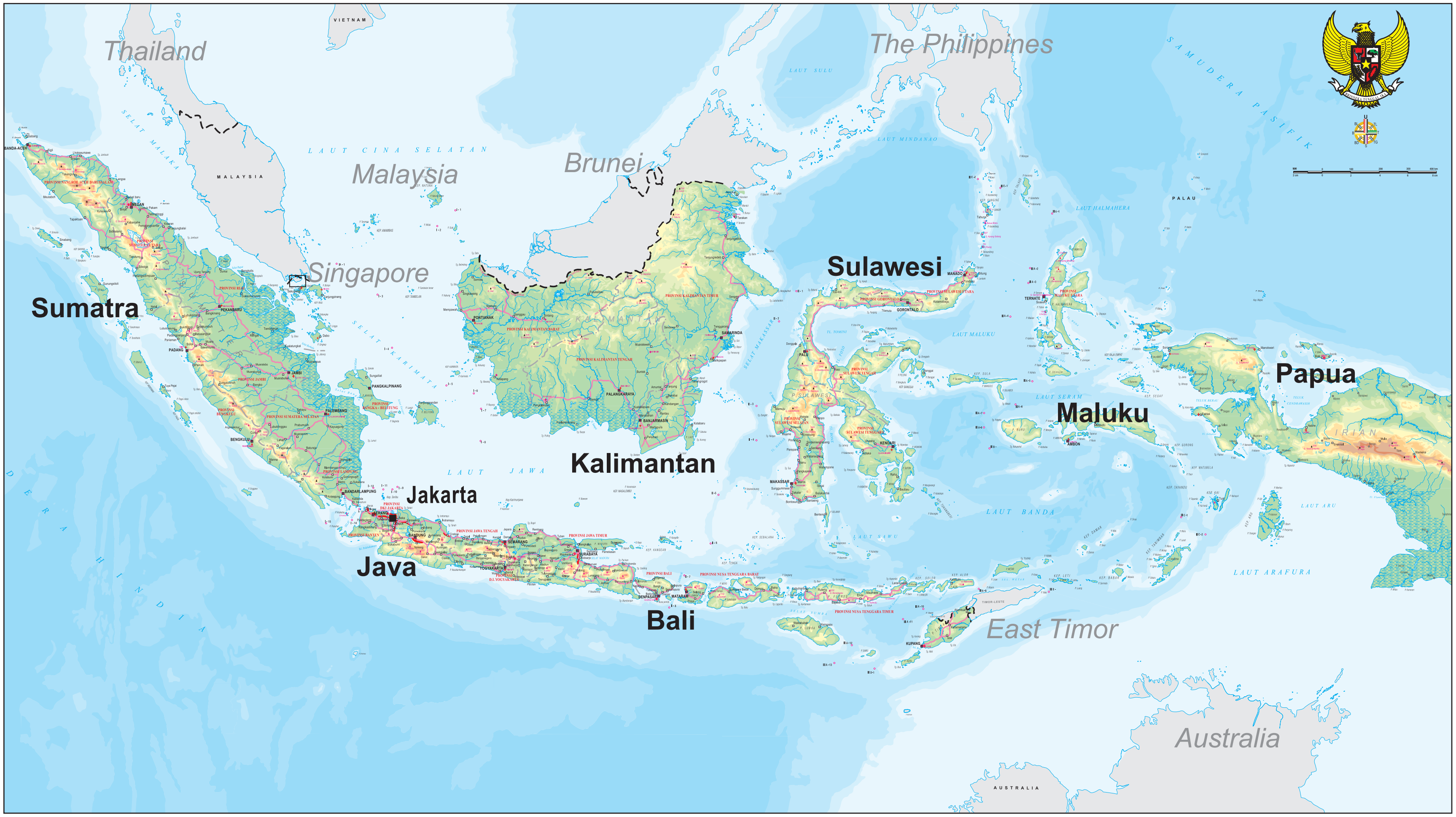
CREDIT SUISSE **DEUTSCHE BANK SECURITIES** **LEHMAN BROTHERS**

Co-Managers

PT Mandiri Sekuritas **PT Trimegah Securities Tbk.**

The date of this offering memorandum is June 17, 2008.

The Republic of Indonesia



Source: National Coordinating Agency for Surveys and Mapping, with modifications.

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The Republic accepts responsibility for the information contained in this offering memorandum. To the best of the knowledge and belief of the Republic (which has taken all reasonable care to ensure that such is the case), the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

Offers and sales of the Bonds are subject to restrictions in certain jurisdictions, details of which are set out in "Plan of Distribution" below. The distribution of this offering memorandum and the offering of the Bonds in certain other jurisdictions may also be restricted by law.

No person is authorized in connection with any offering made hereby to give any information or to make any representation other than as contained in this offering memorandum, and, if given or made, such information or representation must not be relied upon as having been authorized by the Republic or any Initial Purchaser. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy by any person in any jurisdiction in which it is unlawful for such person to make such an offering or solicitation. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date hereof.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS. SPECIFICALLY, THE INITIAL PURCHASERS MAY OVER-ALLOT IN CONNECTION WITH THE OFFERING, AND MAY BID FOR, AND PURCHASE, THE BONDS IN THE OPEN MARKET. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "PLAN OF DISTRIBUTION."

In connection with the offering, Credit Suisse Securities (Europe) Limited (the "Stabilizing Manager") (or persons acting on behalf of the Stabilizing Manager) may effect transactions which stabilize or maintain the market price of the Bonds at levels which might not otherwise prevail in the open market. Such transactions may be effected on the SGX-ST and in other jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws and regulations, including the Securities and Futures Act, Chapter 289 of Singapore and any regulations thereunder. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Such transactions, if commenced, may be discontinued at any time and shall not be effected after the earlier of (a) the date of expiry of the period of 30 calendar days from the date of commencement of trading in the Bonds on the SGX-ST or the date of expiry of the period of 60 calendar days from the date on which the earliest public announcement of the offer which states the offer price is made through the SGX-ST, whichever is the earlier, or (b) the date on which the Stabilizing Manager has bought the total nominal value of the Bonds that the Stabilizing Manager may buy to undertake such transactions (such total nominal value being not more than 20% of the aggregate principal amount of the Bonds being offered).

EXCHANGE RATES

Unless otherwise indicated, all references in this offering memorandum to "rupiah" or "Rp" are to the currency of Indonesia, those to "dollars," "U.S. dollars," "US$" or "$" are to the currency of the United States of America, those to "SDR" are to Special Drawing Rights of the International Monetary Fund ("IMF") and those to "ID" are to Islamic Dinars of the Islamic Development Bank. The middle exchange rate, the mid-point between the buy and sell rate, between the rupiah and the U.S. dollar (the "Middle Exchange Rate"), as announced by Bank Indonesia, the Indonesian central bank, for June 17, 2008 was Rp9,317 = $1.00. See "Republic of Indonesia—Foreign Exchange and Reserves" for further information regarding the exchange rate system in Indonesia. All exchange rates used in this offering memorandum (or utilized in conversions to U.S. dollars) are the relevant Bank Indonesia rates set forth below unless otherwise indicated.

The following table sets forth the Middle Exchange Rate for the last day of, and the average for, the periods indicated:

Middle Exchange Rates of Rupiah per U.S. Dollar

Year	Period End	Period Average(1)
2003	Rp8,465	Rp8,572
2004	9,290	8,985
2005	9,830	9,751
2006	9,020	9,151
2007	9,419	9,164
January 2008	9,291	9,406
February 2008	9,051	9,181
March 2008	9,217	9,185
April 2008	9,234	9,209
May 2008	9,318	9,291
June 2008 (through June 17)	9,317	9,324

Source: Bank Indonesia.

(1) For full years, the average Middle Exchange Rate is calculated based upon the Middle Exchange Rate on the last day of each month during the year indicated. For each month in 2008, the average Middle Exchange Rate is calculated based upon the daily Middle Exchange Rate during the month indicated.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements. All statements other than statements of historical facts included in this offering memorandum regarding, among other things, Indonesia's economy, fiscal condition, debt or prospects may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "continue" or similar terminology. Although Indonesia believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

DATA DISSEMINATION

Indonesia subscribes to the IMF's Special Data Dissemination Standard, which is designed to improve the timeliness and quality of information of subscribing member countries. This standard requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released or the so-called "Advance Release Calendar." For Indonesia, precise dates or "no-later-than-dates" for the release of data are disseminated three months in advance through the Advance Release Calendar, which is published on the Internet under the IMF's Dissemination Standards Bulletin Board. Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the IMF's Dissemination Standards Bulletin Board. The Internet website for Indonesia's Advance Release Calendar and metadata is located at *http://dsbb.imf.org/Applications/web/calmultiarccountry* under the search option for "Indonesia."

ENFORCEMENT

The Republic is a sovereign nation. Consequently, it may be difficult for holders of the Bonds to obtain or enforce judgments against the Republic. The Republic has irrevocably waived in the Indenture, to the fullest extent permitted by law, any immunity, including foreign sovereign immunity, from jurisdiction to which it might otherwise be entitled in any action arising out of or based on the Bonds or the Indenture, which may be instituted by the Trustee or a holder of any Bonds in any federal court in the Southern District of New York, any state court in the Borough of Manhattan, The City of New York, or in any competent court in Indonesia.

The Republic's waiver of immunity is a limited and specific waiver for the purposes of the Bonds and the Indenture and under no circumstances should it be interpreted as a general waiver by the Republic or a waiver with respect to proceedings unrelated to the Bonds or the Indenture. Furthermore, the Republic specifically does not waive any immunity in respect of:

- actions brought against the Republic arising out of or based upon U.S. federal or state securities laws;
- attachment under Indonesian law;
- present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961;
- "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963;
- any other property or assets used solely or mainly for governmental or public purposes in the Republic or elsewhere; and
- military property or military assets or property or assets of the Republic related thereto.

Because the Republic has not submitted to jurisdiction or waived its sovereign immunity in connection with any action arising out of or based on United States federal or state securities laws, it will not be possible to obtain a judgment in the United States against the Republic based on such laws unless a court were to determine that the Republic is not entitled to sovereign immunity under the Foreign Sovereign Immunities Act of 1976 with respect to such actions. The Republic may assert immunity to such actions or with respect to the property or assets described above. Investors may have difficulty making any claims based upon such securities laws or enforcing judgments against the property or assets described above.

The Republic has appointed the Representative Office of Bank Indonesia in The City of New York as its authorized agent upon whom process may be served in any action arising out of or based on any bonds issued under the Indenture, including the Bonds, or the Indenture. Such appointment is irrevocable until all amounts in respect of the principal and interest, due or to become due on or in respect of all the bonds issuable under the Indenture, including the Bonds, have been paid by the

Republic to the Trustee or unless and until a successor has been appointed as the Republic's authorized agent and such successor has accepted such appointment. The Republic has agreed that it will at all times maintain an authorized agent to receive such service, as provided above. The Representative Office of Bank Indonesia is not the agent for receipt of service of process for actions under the United States federal or state securities laws.

The Republic is subject to suit in competent courts in Indonesia. However, the Law on State Treasury (Law No. 1 of 2004) prohibits the seizure or attachment of property or assets owned by the Republic. Furthermore, a judgment of a non-Indonesian court will not be enforceable by the courts of Indonesia, although such a judgment may be admissible as evidence in a proceeding on the underlying claim in an Indonesian court. Re-examination of the underlying claim *de novo* would be required before the Indonesian court.

CERTAIN DEFINED TERMS AND CONVENTIONS

All references in this offering memorandum to the "government," unless indicated otherwise, are to the government of Indonesia.

Unless otherwise indicated, all references in this offering memorandum to (i) "tons" are to metric tons, each of which is equal to 1,000 kilograms or approximately 2,204.6 pounds, (ii) "barrels" are to U.S. barrels, each of which is equal to 159.0 liters, (iii) "LNG" are to liquefied natural gas and (iv) "LPG" are to liquefied petroleum gas. Measures of distance referred to herein are stated in kilometers, each of which is equal to 1,000 meters or approximately 0.62 miles. Measures of area referred to herein are stated in square kilometers ("km^2"), each of which is equal to approximately 0.39 square miles, or in hectares, each of which is equal to approximately 2.47 acres.

The government's Ministry of Energy and Mineral Resources publishes an average monthly and annual price for Indonesian crude oil which is commonly referred to as the Indonesian Crude Price (the "ICP"). Since July 2007, the Department of Oil and Gas of the Ministry of Energy and Mineral Resources has calculated the ICP as the sum of (i) 50.0% of the average price for Indonesian crude oil published by Platts, a division of the The McGraw-Hill Companies, and (ii) 50.0% of a crude oil price for Indonesian crude oil published by RIM Intelligence Co. of Japan for the relevant period. The government evaluates the methodology of the calculation of the ICP from time to time and, if appropriate, adjusts the formula to ensure that the ICP closely tracks world market prices for Indonesian crude oil. The government uses the ICP for various accounting and other purposes. For instance, the Ministry of Finance uses the ICP as an assumption underlying the preparation of the government budget. See "Republic of Indonesia—Government Budget."

Statistical information included in this offering memorandum is the latest official data publicly available at the date of this offering memorandum. Financial data provided in this offering memorandum may be subsequently revised in accordance with Indonesia's ongoing maintenance of its economic data. The Republic has no obligation to distribute such revised data to any holder of the Bonds.

To improve data quality and to comply with generally recognized standards for statistical reporting, beginning in 2004, Indonesia started using a revised methodology in compiling its balance of payments statistics (the "revised BOP reporting system"). Balance of payment statistics from 2004 onwards were compiled using the revised BOP reporting system. For comparison purposes, Indonesia also published balance of payment statistics for 2004 using its previous methodology for compiling its balance of payment statistics (the "previous BOP reporting system"). To ensure comparability of the balance of payment statistics presented in this offering memorandum, the Republic has presented its balance of payment statistics for 2003 using the previous BOP reporting system, its balance of payment statistics for 2004 using both the previous BOP reporting system and the revised BOP reporting system, and its balance of payment statistics for 2005, 2006 and 2007 using the revised BOP reporting system.

The revised BOP reporting system includes, among others, the following changes:

- including goods in process within the reported merchandise export and import data (under the previous BOP reporting system, these items were not recorded);
- including investment and consumption grants in the capital account data (under the previous BOP reporting system, all grants, both investment and consumption, were included in the current account data);
- recording the asset side of financial account data, which includes direct investments abroad, portfolio investments and other investments, and the investment income received from those assets within the reported services data (under the previous BOP reporting system, these amounts were not recorded);
- recording foreign direct investment ("FDI") in the oil and gas sector in direct investments (under the previous BOP reporting system, these amounts were not recorded);
- including reinvested earnings within the reported direct investment data (under the previous BOP reporting system, these items were not recorded); and
- reporting transactions by state-owned enterprises ("SOEs") in the private sector category (in the previous BOP reporting system, these transactions were reported in the government sector).

In 2006, further improvements were made to the revised BOP reporting system, and these improvements have been reflected in Indonesia's balance of payment statistics from 2005 onwards. These improvements are as follows:

- enlarging data coverage by:
    - recording repairs on goods and goods procured in ports by carrier within the reported non-oil and gas merchandise export and import data using data from Bank Indonesia's International Transaction Reporting System ("ITRS") (under the previous BOP reporting system, these items were not recorded);
    - recording goods procured in ports by carrier within the reported oil and gas export and import data (under the previous BOP reporting system, these items were not recorded); and
    - recording dividends payable to non-residents from their ownership of domestic equity securities within the reported services data using data from the ITRS (under the previous reporting system, these items were not recorded); and

- changing methodology, reporting systems and data sources by:
    - using data from reports filed by importers with customs officials to calculate merchandise imports received by companies in export-bonded zones (under the previous BOP reporting system, these items were calculated based on an interpolation method);
    - changing the estimation methods for remittances from Indonesian workers working abroad within the reported services data to reflect new government estimates of the number of Indonesians working abroad and the level of their wages or salaries;
    - using data from the Bank Indonesia's new External Debt Information System to improve estimates of Indonesia's external debt transactions (such as drawings, principal payments and interest payments), including those related to domestic securities issued abroad by residents; and
    - using data from the ITRS to estimate interest income received by non-bank residents (under the previous BOP reporting system, this item was estimated based on data from the Bank for International Settlements).

In February 2004, Bank Indonesia changed the classification system of exports from a classification system based upon a harmonized system of reporting to a classification system based upon the International Standard Industrial Classification system. As a result of this change by Bank Indonesia, the classification of certain export products has changed. For instance, exports of certain processed agricultural products, such as processed rubber products, were reclassified from exports of agricultural products to exports of manufactured products. Therefore, changes in exports by sector from 2000 to 2004 have been revised by Bank Indonesia (based upon data from the Directorate General of Customs and Excise ("DGCE")) from those figures previously published. Unless otherwise stated, all export data (including export data for periods prior to 2004) presented in this offering memorandum are calculated under the new classification system of Bank Indonesia. However, since implementation of the new reporting and classification systems has not been fully completed as of the date of this offering memorandum, the export figures contained in this offering memorandum may be subsequently revised. See "Republic of Indonesia—Foreign Trade and Balance of Payments."

In May 2004, the DGCE of the Ministry of Finance changed the reporting system for exports from a manual reporting system, under which exports were recorded by hand by DGCE officials, to a computerized reporting system in real time, under which DGCE officials report exports directly to a central database. This change has resulted in more accurate and complete reporting of exports and, therefore, an increase in the amount of reported exports.

In 2004, the Republic's central bureau of statistics, Badan Pusat Statistik ("BPS"), the government agency that compiles statistics regarding the Indonesian economy, adopted the calendar year 2000 as the base year (the "Base Year") for the calculation of Indonesia's Gross Domestic Product ("GDP") in both current and constant market prices. All GDP growth rates in this offering memorandum (in aggregate or by sector) and percentage shares of Indonesia's GDP represented by various sectors (unless otherwise noted) are based on constant market prices using the Base Year, which the Republic refers to as "real GDP."

Unless otherwise indicated, all statistical data and figures for 2007 and the first three months of 2008 are estimates based upon preliminary data and are subject to review and adjustment. In addition, all GDP, GDP-related and GDP-derived statistical data and figures for 2006 are preliminary and subject to further review and adjustment. Final GDP, GDP-related and GDP-derived data and figures for 2006 will not be announced by the BPS until the BPS publicly announces detailed preliminary GDP statistical data and figures for the full year 2008.

Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

SUMMARY

The summary highlights selected information from this offering memorandum and may not contain all of the information that may be important to you. You should read this offering memorandum in its entirety before making a decision to invest in the Bonds.

Republic of Indonesia

Indonesia, the fourth most populous country in the world, is a developing nation in Southeast Asia spread across an archipelago of more than 17,500 islands. Indonesia is undergoing rapid economic change as it continues its recovery from the severe economic shocks it suffered during the Asian financial crisis that began in mid-1997, which adversely affected several Asian countries. The Republic is simultaneously undergoing fundamental political changes as it transforms itself from a centralized authoritarian system to a participatory democracy that places greater political power in the hands of local and regional governments.

The following table sets forth certain of the Republic's principal economic indicators for the specified periods. Growth in real GDP and inflation (measured by changes in the Indonesian Consumer Price Index ("CPI")) is indicated on a year-on-year basis.

Selected Key Economic Indicators

	2003	2004	2005	2006P	2007P
National account and prices:					
Real GDP growth	4.8%	5.0%	5.7%	5.5%	6.3%
Per capita GDP (in thousands of rupiah)	9,430	10,610	12,676	15,030	17,590
Per capita GDP (in U.S. dollars)(1)	1,099	1,186	1,318	1,663	1,947
Average exchange rate (rupiah per U.S. dollar)	8,572	8,985	9,751	9,151	9,164
Inflation rate (change in CPI)	5.1%	6.4%	17.1%	6.6%	6.6%
External sector:					
Current account (% of GDP)	3.5%	0.6%	0.1%	2.9%	2.4%
Fiscal account:					
Budget surplus/(deficit) (% of GDP)	(1.7)%	(1.2)%	(0.5)%	(0.9)%	(1.3)%
External debt of the central government (in trillions of rupiah)(1)	588	618	641	610	626
Debt service ratio (% of government revenue)	26.8%	33.2%	25.8%	24.7%	23.5%

Sources: BPS, Bank Indonesia and Ministry of Finance.

P Preliminary. For 2006 and 2007, data for real GDP growth, per capita GDP in rupiah, per capita GDP in U.S. dollars, the current account as a percentage of GDP, the budget deficit as a percentage of GDP and the external debt of the central government in rupiah are preliminary. For 2007, the debt service ratio is also preliminary.

(1) Per capita GDP in U.S. dollars has been converted from rupiah into U.S. dollars and the U.S. dollar amount of external debt of the central government has been converted into rupiah at the following exchange rates: Rp8,580.1 per U.S. dollar for 2003, Rp8,944.3 per U.S. dollar for 2004, Rp9,620.4 per U.S. dollar for 2005, Rp9,039.7 per U.S. dollar for 2006 and Rp9,034.0 per U.S. dollar for 2007. These annual exchange rates are calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given year.

Indonesia historically relied on foreign lending to finance its fiscal deficit, including official development aid from foreign governments and loans from multilateral lending organizations, such as the International Bank for Reconstruction and Development ("IBRD" or "World Bank"), the Asian Development Bank ("ADB") and the Islamic Development Bank ("IDB"), bilateral lending organizations, such as the Japan Bank for International Cooperation ("JBIC"), and the Paris Club, an informal group of official-sector foreign government lenders.

Since 1998, the government has issued domestic debt as part of its program to recapitalize Indonesia's banks in the wake of the Asian financial crisis, and, in 2002, the government began a program of regularly issuing rupiah-denominated bonds in the domestic market. With the development of a regulatory framework and support from the government, a secondary market for the government's domestic debt securities has developed. As part of the government's financial management reforms, the Minister of Finance issued a ministerial decree on September 15, 2005 that set forth the government's debt management strategy through 2009. This comprehensive strategy covers policies on management of the central government's public debts, both external loans and government securities, to assure transparency and accountability. The strategy also addresses coordination between the Ministry of Finance, Bank Indonesia and the National Development Planning Agency ("Bappenas") in debt management.

The current President, President Yudhoyono, and the current Vice President, Vice President Kalla, were directly and jointly elected by the people in September 2004. The next election for President, Vice President, and members of the Assembly and House of Representatives is expected to take place in July 2009.

THE OFFERING

Issuer	The Republic of Indonesia
The Bonds	US$300,000,000 6.75% Bonds due 2014 (the "New 2014 Bonds"), US$900,000,000 6.875% Bonds due 2018 (the "New 2018 Bonds") and US$1,000,000,000 7.75% Bonds due 2038 (the "New 2038 Bonds" and, together with the New 2014 Bonds and the New 2038 Bonds, the "Bonds"). The New 2014 Bonds constitute a further issuance of, and will be consolidated and form a single series with, the Republic's 6.75% Bonds due 2014 issued on March 10, 2004 in the amount of US$1,000,000,000 (the "Old 2014 Bonds" and together with the New 2014 Bonds, the "2014 Bonds"). Subject to the listing of the 2014 Bonds as described in "The Offering—Listing and Trading," the New 2014 Bonds will be fungible with, and will rank *pari passu* with, the Old 2014 Bonds. The total principal amount of the Old 2014 Bonds and the New 2014 Bonds now being issued is US$1,300,000,000. The New 2018 Bonds constitute a further issuance of, and will be consolidated and form a single series with, the Republic's 6.875% Bonds due 2018 issued on January 17, 2008 in the amount of US$1,000,000,000 (the "Old 2018 Bonds"). The New 2018 Bonds will be fungible with, and will rank *pari passu* with, the Old 2018 Bonds from and including the Issue Date. The total principal amount of the Old 2018 Bonds and the New 2018 Bonds now being issued is US$1,900,000,000. The New 2038 Bonds constitute a further issuance of, and will be consolidated and form a single series with, the Republic's 7.75% Bonds due 2038 issued on January 17, 2008 in the amount of US$1,000,000,000 (the "Old 2038 Bonds"). The New 2038 Bonds will be fungible with, and will rank *pari passu* with, the Old 2038 Bonds from and including the Issue Date. The total principal amount of the Old 2038 Bonds and the New 2038 Bonds now being issued is US$2,000,000,000.
The Offering	The Bonds are being offered to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act and to persons outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.
Issue Price	100.25% for the New 2014 Bonds, plus accrued interest from and including March 10, 2008; 97.25% for the New 2018 Bonds, plus accrued interest from and including January 17, 2008; and 95.50% for the New 2038 Bonds, plus accrued interest from and including January 17, 2008.

Maturity Date	March 10, 2014 for the New 2014 Bonds, January 17, 2018 for the New 2018 Bonds and January 17, 2038 for the New 2038 Bonds.
Interest	The New 2014 Bonds will bear interest from and including March 10, 2008 at the rate of 6.75% per annum, payable semi-annually in arrears. The New 2018 Bonds will bear interest from and including January 17, 2008 at the rate of 6.875% per annum, payable semi-annually in arrears. The New 2038 Bonds will bear interest from and including January 17, 2008 at the rate of 7.75% per annum, payable semi-annually in arrears.
Interest Payment Dates	March 10 and September 10 of each year for the New 2014 Bonds, commencing on September 10, 2008, up to and including the applicable maturity date. The first interest payment date with respect to the New 2014 Bonds will be September 10, 2008 in respect of the period from (and including) March 10, 2008 to (but excluding) September 10, 2008. January 17 and July 17 of each year for the New 2018 Bonds and the New 2038 Bonds, commencing on July 17, 2008, up to and including the applicable maturity date. The first interest payment date with respect to the New 2018 Bonds and the New 2038 Bonds will be July 17, 2008 in respect of the period from (and including) January 17, 2008 to (but excluding) July 17, 2008.
Optional Redemption	The Bonds are not redeemable, in whole or in part, prior to their maturity. See "Description of the Bonds."
Withholding Taxes	The Republic will make all payments of principal and interest on the Bonds, to the extent permitted by law, without withholding or deducting any present or future Indonesian Taxes (as defined in "Description of the Bonds—Payment of Additional Amounts by the Republic"). If Indonesian law requires the Republic to withhold or deduct any Indonesian Taxes, the Republic will pay the holders of Bonds such additional amounts necessary to ensure that they receive the same amount as they would have received without any withholding or deduction, except in certain limited circumstances. See "Description of the Bonds—Payment of Additional Amounts by the Republic."
Ranking	The Bonds will constitute direct, unconditional, unsecured and general obligations of the Republic without preference granted by the Republic to one above the other. The Bonds will rank equal in right of payment among themselves and with all other unsecured and unsubordinated External Indebtedness (as defined in "Description of the Bonds") of the Republic. All amounts payable under the Bonds will be backed by the full faith and credit of the Republic.

Negative Pledge	Subject to certain exceptions, so long as any of the Bonds remain outstanding, the Republic will not create or permit the creation of any mortgage, charge, lien, pledge or any other security interest on any of its present or future assets or revenues, or any part thereof, to secure any Public External Indebtedness (as defined in "Description of the Bonds"), unless the Republic shall procure that all amounts payable under the Bonds are secured equally and ratably. See "Description of the Bonds—Negative Pledge."
Events of Default	Certain events will permit holders of at least 25% of the aggregate principal amount of the Bonds outstanding of a series to declare an acceleration of the principal of the Bonds of that series, together with all accrued and unpaid interest and Additional Amounts (as defined in "Description of the Bonds"). These events include default with respect to the payment of principal of, or interest on, the Bonds. The holders of more than 50% of the aggregate principal amount of the outstanding Bonds of a series may rescind a declaration of acceleration with respect to the Bonds of that series if the event or events of default giving rise to the declaration have been cured or waived. See "Description of the Bonds—Default; Acceleration of Maturity."
Collective Action Clauses . . .	The Bonds will contain provisions regarding default and acceleration and approval of amendments, modifications, changes and waivers with the consent of the holders of at least 75% of the outstanding Bonds of a series, which are commonly referred to as "collective action clauses." See "Description of the Bonds—Default; Acceleration of Maturity" and "Description of the Bonds—Meetings, Amendments and Waivers."
Use of Proceeds	The net proceeds from the issuance of the Bonds will be used by the Republic for general funding purposes of the government.
Transfer Restrictions	The Bonds have not been registered under the U.S. Securities Act and are subject to certain restrictions on transfer. See "Transfer Restrictions" and "Plan of Distribution."
Form and Denomination of the Bonds	The New 2014 Bonds will be issued in minimum denominations of US$5,000 and integral multiples of US$1,000 in excess thereof. The New 2018 Bonds and the New 2038 Bonds will be issued in minimum denominations of US$100,000 and integral multiples of US$1,000 in excess thereof. Bonds sold in reliance on Rule 144A under the U.S. Securities Act will initially be represented by one or more Rule 144A global bonds in fully registered book-entry form without interest coupons.

	Bonds sold in reliance on Regulation S under the U.S. Securities Act will initially be represented by one or more Regulation S global bonds in fully registered book-entry form without interest coupons.
Listing and Trading	The Old 2014 Bonds are currently listed on the Regulated Market "Bourse de Luxembourg" of the Luxembourg Stock Exchange (the "Regulated Market"). The Republic intends that the Old 2014 Bonds will be delisted from the Regulated Market and that the 2014 Bonds will be listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). If the 2014 Bonds are not so listed on the SGX-ST, the Republic intends to transfer the listing of the Old 2014 Bonds from the Regulated Market to the Euro MTF, the alternative market of the Luxembourg Stock Exchange (the "Euro MTF") and to list the New 2014 Bonds on the Euro MTF, in each case within 40 days of the issuance of the Bonds. The Old 2018 Bonds and the Old 2038 Bonds are, and, upon issuance, the New 2018 Bonds and the New 2038 Bonds will be, listed on the SGX-ST. All Bonds listed on the SGX-ST will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as such Bonds are listed on the SGX-ST. The New 2014 Bonds will be represented by temporary global bonds with temporary CUSIP, ISIN and Common Codes from the Issue Date until shortly after the 2014 Global Bonds are listed on the SGX-ST or the Euro MTF, at which time they will be exchanged for permanent global bonds that are fungible with the Old 2014 Bonds, which is expected to occur not later than the 40th day after the Issue Date.
Governing Law	The Indenture is, and the Bonds will be, governed by, and construed in accordance with, the laws of the State of New York.
Ratings	The Bonds are rated BB- by Standard & Poor's International Ratings, LLC ("Standard & Poor's"), Ba3 by Moody's Investor Services ("Moody's") and BB by Fitch Ratings ("Fitch"). These ratings do not constitute a recommendation to buy, sell or hold the Bonds and may be subject to revision or withdrawal at any time by the rating agencies. Prospective investors should evaluate each rating independently of any other rating of the Bonds or of other securities of the Republic.
Trustee	The Bank of New York.

USE OF PROCEEDS

Indonesia will use the net proceeds from the sale of the Bonds for general funding purposes of the government. Indonesia estimates the net proceeds (exclusive of accrued interest on the Bonds) will be approximately US$2,128,321,500, after deducting underwriting commissions and estimated expenses payable by Indonesia. See "Plan of Distribution."

REPUBLIC OF INDONESIA

Overview

Indonesia, the fourth most populous country in the world, is a developing nation in Southeast Asia spread across an archipelago of more than 17,500 islands. Indonesia is undergoing rapid economic change as it continues its recovery from the severe economic shocks it suffered during the Asian financial crisis that began in mid-1997, which adversely affected several Asian countries. The Republic is simultaneously undergoing fundamental political changes as it transforms itself from a centralized authoritarian system to a participatory democracy that places greater political power in the hands of local and regional governments.

The following table sets forth certain of the Republic's principal economic indicators for the specified periods. Growth in real GDP and inflation (measured by changes in CPI) is indicated on a year-on-year basis.

Selected Key Economic Indicators

	2003	2004	2005	2006[P]	2007[P]
National account and prices:					
Real GDP growth	4.8%	5.0%	5.7%	5.5%	6.3%
Per capita GDP (in thousands of rupiah)	9,430	10,610	12,676	15,030	17,590
Per capita GDP (in U.S. dollars)[(1)]	1,099	1,186	1,318	1,663	1,947
Average exchange rate (rupiah per U.S. dollar)	8,572	8,985	9,751	9,151	9,164
Inflation rate (change in CPI)	5.1%	6.4%	17.1%	6.6%	6.6%
External sector:					
Current account (% of GDP)	3.5%	0.6%	0.1%	2.9%	2.4%
Fiscal account:					
Budget surplus/(deficit) (% of GDP)	(1.7)%	(1.2)%	(0.5)%	(0.9)%	(1.3)%
External debt of the central government (in trillions of rupiah)[(1)]	588	618	641	610	626
Debt service ratio (% of government revenue)	26.8%	33.2%	25.8%	24.7%	23.5%

Sources: BPS, Bank Indonesia and Ministry of Finance.

[P] Preliminary. For 2006 and 2007, data for real GDP growth, per capita GDP in rupiah, per capita GDP in U.S. dollars, the current account as a percentage of GDP, the budget deficit as a percentage of GDP and the external debt of the central government in rupiah are preliminary. For 2007, the debt service ratio is also preliminary.

(1) Per capita GDP in U.S. dollars has been converted from rupiah into U.S. dollars and the U.S. dollar amount of external debt of the central government has been converted into rupiah at the following exchange rates: Rp8,580.1 per U.S. dollar for 2003, Rp8,944.3 per U.S. dollar for 2004, Rp9,620.4 per U.S. dollar for 2005, Rp9,039.7 per U.S. dollar for 2006 and Rp9,034.0 per U.S. dollar for 2007. These annual exchange rates are calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given year.

Economic developments in recent years include modest economic growth (real GDP growth of 5.7%, 5.5% and 6.3% in 2005, 2006 and 2007, respectively); a relatively stable exchange rate (averaging Rp9,751, Rp9,151 and Rp9,164 to the U.S. dollar in 2005, 2006 and 2007, respectively); and moderate levels of inflation (increases in the CPI of 6.6% in both 2006 and 2007), with the exception of 2005 when inflation accelerated to 17.1%, primarily as a result of a substantial increase in fuel prices following reductions in fuel subsidies in March and October 2005.

Indonesia historically relied on foreign lending to finance its fiscal deficit, including official development aid from foreign governments and loans from multilateral lending organizations, such as the World Bank, and the ADB, and from the Paris Club, an informal group of official sector foreign government lenders. Indonesia's budget policy at that time required that the budget deficit be financed by external aid and foreign loans from official sources. With the onset of the Asian financial crisis, the government of Indonesia received foreign loans from the IMF intended to support the Republic's balance of payments as official foreign reserves declined and the rupiah weakened. Since the crisis, Indonesia has successfully completed three rounds of rescheduling of its Paris Club debt, extending its maturity and reducing its amount. Following the earthquake and tsunami that struck Indonesia and other countries in Southeast and South Asia on December 26, 2004, the Paris Club offered a temporary suspension of debt service payments through the end of 2005 to Indonesia (as well as other countries affected by the tsunami). Through a series of bilateral agreements with the Paris Club members, Indonesia reduced its debt service payments by $2.6 billion in 2005. In 2006, the government resumed debt service payments to the Paris Club members. The government's debt service payments in 2006 and 2007 increased by $0.4 billion and $0.7 billion, respectively, compared to payments in 2005 because of both the resumption of payments on the Paris Club debt and because some of the deferrals of Paris Club payments made in 2005 that came due in 2006 and 2007. The remaining $1.5 billion of deferred debt service payments are expected to be made by the Republic through increases in scheduled debt service payments in 2008 and 2009.

Indonesia no longer relies exclusively on external borrowings. Since 1998, the government has issued domestic debt as part of its program to recapitalize Indonesia's banks, and, in 2002, the government began a program of regularly issuing rupiah-denominated bonds in the domestic market. With the development of a regulatory framework and support from the government, a secondary market for the government's domestic debt securities has developed. As part of the government's financial management reforms, the Minister of Finance issued a ministerial decree on September 15, 2005 that set forth the government's debt management strategy through 2009. This comprehensive strategy covers policies on management of the central government's public debts, both external loans and government securities, to assure transparency and accountability. The strategy also addresses coordination between the Ministry of Finance, Bank Indonesia and Bappenas in debt management.

In July and September 2004, Indonesia held its first direct presidential election. On October 20, 2004, following their victory in the September run-off election, President Susilo Bambang Yudhoyono was inaugurated as the President of the Republic and Vice President Muhammad Jusuf Kalla was inaugurated as the Vice President of the Republic. Before the recent period of political reform, Indonesia had been under a centralized authoritarian regime under President Soeharto. Soeharto served as President of the Republic from 1966 until 1998, when he resigned following widespread civil unrest. President Yudhoyono is the fourth President since Soeharto's resignation. A series of constitutional amendments adopted in the last few years has increased the level of direct democracy, decreased the influence of the military in civil government, devolved power to regional and local government authorities and sought to improve transparency of the country's judicial system. The next election for President, Vice President, and members of the Assembly and House of Representatives is expected to take place in July 2009.

Recent Developments

Recent Fiscal, Monetary and Economic Policy Developments

Revised 2008 Budget and the Government's Fiscal Policy for 2008

In August 2007, President Yudhoyono submitted a proposed budget for 2008 (the "Original 2008 Budget") to the House of Representatives which, with certain modifications, was approved by the House of Representatives in October 2007 and enacted in November 2007. In February 2008, to address changes in the assumptions underlying the Original 2008 Budget and to provide for certain adjustments in the allocation of expenditures, the President submitted a revised budget for 2008 (the

"Revised 2008 Budget") to the House of Representatives for consideration and approval. For a detailed discussion of the macroeconomic assumptions, revenues, expenditures, fiscal deficit and deficit financing estimates underlying the Revised 2008 Budget compared to the Original 2008 Budget, see "Government Budget—Revised 2008 Budget Revenues, Expenditures, Fiscal Deficit and Deficit Financing." In April 2008, the Revised 2008 Budget was approved by the House of Representatives, and, in May 2008, the Revised 2008 Budget was enacted.

The Revised 2008 Budget reflects the government's fiscal policy objectives. The Republic's fiscal policy for 2008 is designed to ensure fiscal stability and sustainability, while maintaining economic growth in order to reduce poverty and unemployment and increasing the quality of public services. Accordingly, the focus of the Republic's fiscal policy in 2008 has shifted from promoting stronger economic growth, which was the focus in the Original 2008 Budget, to maintaining fiscal stability and economic growth in response to external economic shocks. The government continues to monitor inflation, particularly in light of higher world oil, food and other commodity prices, while, through its budgeted expenditures in the Revised 2008 Budget, accelerating infrastructure development, particularly in the utilities and transportation sectors for the long-term economic development of Indonesia, and focusing on poverty alleviation and supporting relief, rehabilitation and reconstruction efforts after recent natural disasters. While endeavoring to achieve these goals, the government has maintained a prudent fiscal policy, has tightened monetary policy, has encouraged private sector participation in infrastructure development and has adopted a series of foreign investment, financial sector and banking sector reforms. See "—Monetary Policy," "—Infrastructure Development," "—New Investment Law" and "—Continued Development of Financial Sector Regulation."

The Revised 2008 Budget includes a target fiscal deficit of 2.1% of revised projected 2008 GDP, higher than the target fiscal deficit of 1.7% of original projected 2008 GDP in the Original 2008 Budget and the actual fiscal deficit of 1.3% in 2007. Total expenditures under the Revised 2008 Budget are projected to be Rp989.5 trillion, compared to Rp854.7 trillion in the Original 2008 Budget and Rp757.6 trillion in 2007. On the revenue side, the government has expressed its commitment to strengthening tax and customs administration by expanding modern tax offices (which use computer automated processing systems to reduce error, reduce corruption by minimizing the discretion of tax officers and allow for online payment of taxes), widening the tax base and improving tax collection and services. The Revised 2008 Budget has projected total revenue (including grants) of Rp895.0 trillion, compared to Rp781.4 trillion in the Original 2008 Budget and Rp707.6 trillion in 2007, and a deficit of Rp94.5 trillion, compared to Rp73.3 trillion in the Original 2008 Budget and Rp50.0 trillion in 2007. The government expects to finance the deficit under the Revised 2008 Budget primarily from domestic sources, largely through the issuance of government bonds.

Reduction of Government Subsidies for Various Fuel Products, Implementation of Direct Cash Distribution Program, Increases in Food and Educational Assistance Programs and Changes to the Revised 2008 Budget Estimates

The government has historically subsidized or controlled the prices of various fuel products, including regular (low octane) gasoline, diesel and kerosene, in an effort to maintain domestic prices of these products at levels lower than prevailing world market prices. Certain fuel products, such as high octane premium gasoline, are not subsidized by the government.

On March 1, 2005 and October 1, 2005, the government reduced its subsidies on fuel products due to significant increases in global oil prices and the depreciation of the rupiah relative to the U.S. dollar. However, since 2005, the amount of the government's energy subsidy expenditures have continued to increase steadily. In 2006 and 2007, government expenditures on energy subsidies were Rp94.6 trillion and Rp116.9 trillion, or 21.5% and 23.2% of total central government expenditures, respectively. In the Original 2008 Budget, the government allocated Rp75.6 trillion, or 13.2% of total central government expenditures, for energy subsidies, based on an assumed average ICP of $60.00 per barrel for 2008. However, due to the significant increases in world oil prices and the ICP during the second half of 2007 and the first quarter of 2008, in the Revised 2008 Budget the government revised its projected amount of energy subsidies to Rp187.1 trillion, or 26.8% of total central government expenditures, based on an assumed average ICP of $95.00 per barrel for 2008.

Since submission of the Revised 2008 Budget to the House of Representatives in February 2008, global oil prices and the ICP have continued to increase significantly. The assumed average ICP of $95.00 per barrel for 2008 in the Revised 2008 Budget is lower than the average ICP of $104.76 per barrel from January 1, 2008 to May 31, 2008 and the average ICP of $103.11 in March 2008, $109.31 in April 2008 and $124.67 in May 2008. Since the average ICP in the first five months of 2008 has exceeded $95.00 per barrel, the actual energy subsidy expenditures made since January 1, 2008 have exceeded the amount that was expected to be made under the Revised 2008 Budget. In addition, the government was confronted with the prospect of continuing sharply higher fuel subsidy expenditures due to increases in the world market price for oil and the ICP. Unless policy adjustments were made, the government faced a potential fiscal deficit for 2008 well in excess of its original expectations in the Revised 2008 Budget.

Reduction of Government Subsidies for Various Fuel Products. In an effort to maintain the government's budget deficit at manageable levels in the face of substantially increasing fuel subsidy expenditures, on May 24, 2008, the government reduced the subsidies it pays for various fuel products (on a per liter basis), including regular (low octane) gasoline, diesel and kerosene, resulting in increases in the domestic prices for these fuel products. On May 24, 2008, due to the reduction in government energy subsidies, the price of regular gasoline in Indonesia increased 33.3% from Rp4,500 per liter to Rp6,000 per liter, the price of diesel increased 27.9% from Rp4,300 per liter to Rp5,500 per liter and the price of kerosene increased 25.0% from Rp2,000 per liter to Rp2,500 per liter, resulting in an average 28.7% increase in fuel prices on that date. In the weeks prior to implementation of the fuel subsidy reductions, the Republic experienced intermittent public demonstrations and protests in Jakarta and other parts of the country against the fuel price increases, and occasional public demonstrations and protests against the fuel price increases have continued to occur since then.

As a result of the implementation of the fuel subsidy reductions in May 2008, the government expects that its total energy subsidy expenditures in 2008 will be Rp200.6 trillion, based on an assumed average ICP of $110.00 per barrel for 2008, reflecting an increase of Rp13.5 trillion from the expected energy subsidy expenditures of Rp187.1 trillion in the Revised 2008 Budget, but substantially less than the Rp256.6 trillion of energy subsidy expenditures it estimates it would have spent in 2008 if it had not reduced the fuel subsidies in May 2008.

The government's current estimate of Rp200.6 trillion in fuel subsidy expenditures for 2008 is based, in part, on an assumed average ICP of $110.00 per barrel for 2008, which is lower than the average ICP of $124.67 in May 2008, and assumed consumption by the Republic of 36.2 billion liters of government-subsidized fuel products in 2008. If the average ICP for 2008 is higher than $110.00 per barrel or if the Republic's consumption of government-subsidized fuel products significantly exceeds the assumed levels in 2008, the government's total energy subsidy expenditures for 2008 would likely exceed the projected amount of Rp200.6 trillion. For example, if the average ICP for 2008 is $131.15 per barrel (based on the actual average ICP from January through May 2008 of $104.76 and an assumed average ICP from June through December 2008 of $150.00 per barrel) and fuel consumption levels are realized as projected, the government estimates that its total energy subsidy expenditures for 2008 would exceed the revised projected amount of Rp200.6 trillion by Rp82.9 trillion, bringing total energy subsidy expenditures for 2008 to Rp283.5 trillion. To the extent that the government's total energy subsidy expenditures are likely to exceed the revised projected amount of Rp200.6 trillion, the government may consider further policy measures intended to lower fuel subsidy expenditures, including further reducing fuel subsidies and accelerating implementation of its programs to limit purchases of amounts of government-subsidized fuel products and to encourage Indonesians to convert their household use of kerosene to LPG. The government has already begun implementing measures to reduce the amount of fuel products it subsidizes. See "—Efforts to Reduce Amounts of Fuel Subsidized by the Government."

Implementation of Direct Cash Distribution Program and Increases in Food and Educational Assistance Programs. To mitigate the impact of higher fuel prices on Indonesia's poorest citizens and as an integral part of the fuel subsidy reductions, the government has begun implementing new social policy measures, including a direct cash distribution program and increases in food and educational assistance to the poor.

First, the government has allocated Rp14.1 trillion under the direct cash distribution program for payments to 19.1 million low-income households (representing 76.4 million people) identified by BPS as being near or below the poverty level. Under this program, the government has begun making cash transfers of Rp100,000 per month to each eligible household. The direct cash distribution program also provides for payments of public funds to support small businesses in rural areas and one-time payments of Rp150,000 to low-ranking civil servants, members of the Indonesian military and police officers. The government expects these cash payments to boost the income of low-income citizens and contribute to increased consumer spending, thereby partially offsetting the negative effects of the fuel price increases on the economy. Second, the government has allocated an additional Rp3.4 trillion for food assistance to the poor. Under this program, the government will offer up to an additional 15 kilograms of subsidized rice per month to each eligible household until the end of 2008. Third, the government has allocated an additional Rp0.8 trillion for educational assistance to the poor.

Expected Economic Effects of the Recent Fuel Subsidy and Social Policy Measures and Changes to the Revised 2008 Budget Estimates. As a result of the fuel price increases in May 2008, the government expects that inflation in 2008 will increase to between 10.9% and 11.2%, compared to the inflation rate of 6.5% assumed in the Revised 2008 Budget. The government also expects that the real GDP growth rate in 2008 will be adversely affected by reduced consumer spending due to the fuel price increases and will decrease to between 6.0% to 6.4%, from its original assumption of 6.4% under the Revised 2008 Budget. Although the government expects that the fuel price increases will adversely impact economic growth in 2008, it also expects that increased consumer spending resulting from the direct cash distribution program will partially offset the adverse economic effects of the fuel price increases.

In light of the fiscal effects of the government's recent fuel subsidy and social policy measures, the government has revised its estimates of its revenues, expenditures, fiscal deficit and deficit financing under the Revised 2008 Budget. The key macroeconomic assumptions underlying the government's revised budget estimates are (i) a real GDP growth rate of 6.0%, compared to 6.4% as assumed in the Revised 2008 Budget, (ii) an average inflation rate of 11.2%, compared to 6.5% as assumed in the Revised 2008 Budget, (iii) an interest rate on three-month short-term SBI of 8.5%, compared to 7.5% as assumed in the Revised 2008 Budget, (iv) an average exchange rate of Rp9,000 per U.S. dollar, compared to Rp9,100 per U.S. dollar as assumed in the Revised 2008 Budget, (v) an average production by the Republic of 0.927 million barrels of oil per day, the same amount as assumed in the Revised 2008 Budget, (vi) consumption by the Republic of 36.2 billion liters of government-subsidized fuel products in 2008, compared to 35.5 billion liters of government-subsidized fuel products as assumed in the Revised 2008 Budget, and (vii) an average ICP of $110.00 per barrel for 2008, compared to an average ICP of $95.00 per barrel for 2008 as assumed in the Revised 2008 Budget.

Under its revised estimates, the government expects its total revenues and grants will increase to Rp937.8 trillion in 2008, compared to Rp895.0 trillion in the Revised 2008 Budget. Of this amount, the government expects that domestic revenues will increase to Rp934.9 trillion, compared to Rp892.0 trillion in the Revised 2008 Budget, with tax revenues increasing to Rp617.0 trillion, from Rp609.2 trillion in the Revised 2008 Budget, and non-tax revenues increasing to Rp318.0 trillion, from Rp282.8 trillion in the Revised 2008 Budget. Grants are expected to remain the same at Rp2.9 trillion. The increase in revenues is expected largely from increases in oil and gas income taxes and oil and gas royalties.

Under its revised estimates, the government expects its total expenditures will increase to Rp1,020.1 trillion in 2008, compared to Rp989.5 trillion in the Revised 2008 Budget. Of this amount, the government expects that central government expenditures will increase to Rp727.7 trillion, compared to Rp697.1 trillion in the Revised 2008 Budget. Regional expenditures, such as the balanced funds and the special autonomy and adjustment funds, are expected to remain the same at Rp292.4 trillion. The government expects that its expenditures will increase by Rp30.6 trillion in 2008, primarily due to cash transfers of Rp14.1 trillion under the direct cash distribution program, additional energy subsidies of Rp13.5 trillion, additional food and educational assistance expenditures to the poor of Rp4.2 trillion, other non-energy subsidies of Rp1.0 trillion, interest payments of Rp0.3 trillion, contingency funds for emergency programs of Rp0.8 trillion and miscellaneous expenditures of Rp2.0 trillion. Such additional expenditures are expected to be partially offset by a Rp5.3 trillion decrease in amounts allocated to a Rp8.3 trillion contingency fund established under the Revised 2008 Budget to cover additional unanticipated energy subsidy expenditures.

Due to these revisions in its estimates of its revenues and expenditures in 2008, the government has revised its projected fiscal deficit for 2008 to Rp82.3 trillion, or 1.8% of revised projected 2008 GDP, from Rp94.5 trillion, or 2.1% of projected 2008 GDP, in the Revised 2008 Budget. The government continues to expect to finance this deficit primarily from domestic sources, largely through the issuance of government bonds.

The government's revised estimate of a fiscal deficit of Rp82.3 trillion is based, in part, on an assumed average ICP of $110.00 per barrel for 2008 and assumed consumption by the Republic of 36.2 billion liters of government-subsidized fuel products in 2008. If the average ICP for 2008 is higher than $110.00 per barrel or if the Republic's consumption of government-subsidized fuel products significantly exceeds the assumed levels in 2008, the government's total expenditures for 2008 would likely exceed the revised projected amount of Rp1,020.1 trillion. Although the increased expenditures would likely be offset in part by increased revenue beyond the revised projected amount of Rp937.8 trillion, primarily due to higher oil and gas non-tax revenue and income tax from oil and gas, the net effect of higher oil prices would be an increase in the budget deficit for 2008 from the revised projected amount of Rp82.3 trillion. For example, if the average ICP for 2008 is $131.15 per barrel (based on the actual average ICP from January through May 2008 of $104.76 and an assumed average ICP from June through December 2008 of $150.00 per barrel) and all of the other budgetary assumptions are realized as projected, the government estimates that the government's total expenditures for 2008 would likely exceed the revised projected amount of Rp1,020.1 trillion by Rp84.0 trillion, bringing total expenditures for 2008 to Rp1,104.1 trillion, while the government's total revenue for 2008 would likely exceed the revised projected amount of

Rp937.8 trillion by Rp73.5 trillion, bringing total revenue for 2008 to Rp1,011.3 trillion. In this situation, the government would record a 2008 deficit of Rp92.8 trillion, or 2.0% of adjusted revised projected 2008 GDP, an increase of Rp10.5 trillion from the revised projected deficit of Rp82.3 trillion, or 1.8% of adjusted revised projected 2008 GDP. A higher budget deficit in 2008 would require additional financing. In such an event, the government may consider further policy measures intended to raise revenues and lower expenditures, including, on the revenue side, improving tax collection, imposing higher motor vehicle taxes and introducing a progressive tax on ownership of motor vehicles, and, on the expenditure side, reducing administrative spending by, and improving operational efficiency of, the government ministries, implementing additional energy saving measures at government offices, further reducing fuel subsidies and accelerating implementation of its programs to limit purchases of amounts of government-subsidized fuel products and to encourage Indonesians to convert their household use of kerosene to LPG.

The government has not yet determined whether it will submit a second revision to the Original 2008 Budget to reflect the changes in its revenues, expenditures, fiscal deficit and deficit financing resulting from its recent fuel subsidy and social policy measures to the House of Representatives for consideration and approval. However, the government is currently consulting with the House of Representatives on this matter.

Efforts to Reduce Amounts of Fuel Subsidized by the Government

In conjunction with the reduction in fuel subsidies in May 2008, the government has undertaken a number of initiatives to reduce the amount of fuel it subsidizes in an effort to reduce its energy subsidy expenditures in the future. First, the government has implemented a program to encourage low-income households to convert their daily use of kerosene for cooking to LPG. Under this program, the government has provided free or low cost stoves capable of using LPG to these low-income households. Second, the government is studying the possibility of introducing a subsidized fuel allocation program. Under the proposed program, purchases of subsidized fuel by individuals and businesses would be limited to a certain number of liters per month. If an individual or business purchases amounts of fuel in excess of its allocated amount, it would be required to pay prices for those excess liters at or near the market prices for those fuel products. The government has not yet determined the price structure it will impose for fuel purchases in excess of allocated amounts. Under the program being studied, the government would control the amount of subsidized fuel it allocates to individuals and businesses and monitor their purchases of subsidized fuel through a computerized "smart card" system. Third, the government has commenced efforts to conserve energy and reduce its own use of fuel and electricity by decreasing the use of government vehicles and reducing the use of air conditioning in government offices, among other energy saving initiatives. The government intends to continue to explore and implement other means of promoting energy conservation in the public and private sector and to encourage the development of alternative energy sources.

Monetary Policy

The Republic's current monetary policy seeks to maintain inflation within a moderate medium-term target range. Between July 5, 2005 and December 6, 2005, Bank Indonesia, the country's central bank, tightened monetary policy, raising the Bank Indonesia reference interest rate (the "BI rate") six times, from 8.50% to 12.75%. Following an assessment of the economy that took into consideration various risks to future economic performance and reductions in the inflation rate in the first quarter of 2006, beginning in May 2006, Bank Indonesia began easing monetary policy by reducing the BI rate to accelerate economic growth, while continuing to monitor inflation. On May 9, 2006, Bank Indonesia reduced the BI rate to 12.50%. From May 2006 until December 2007, Bank Indonesia reduced the BI rate an additional fourteen times until it reached 8.00%. However, in response to forecasted inflationary pressures heightened by increasing oil, food and other commodity prices since the beginning of 2008, on May 6, 2008, Bank Indonesia again tightened its monetary policy and raised the BI rate to 8.25%. On June 5, 2008, Bank Indonesia further raised the BI rate by 25 basis points to the current rate of 8.50%. In addition, to minimize the effect of exchange rate fluctuations on inflation, Bank Indonesia has intervened, and expects to continue to intervene, in the foreign exchange markets when necessary to absorb excess liquidity and dampen excessive exchange rate fluctuations.

Infrastructure Development

One of the priorities of the government is to encourage infrastructure development as a means to accelerate economic growth, support further industrial development and improve the lives and economic welfare of Indonesians by reducing unemployment and poverty. In order to promote infrastructure development, the government allocated Rp2.0 trillion in its budgets for each of 2006 and 2007 for infrastructure development and has allocated Rp2.8 trillion in the Revised 2008 Budget for investment funds, which includes funds for infrastructure development. These funds are currently managed by the Government Investment Unit but a portion of them are expected to be managed in the future by the Indonesian Infrastructure Fund, which was established on December 10, 2007. The government expects the Indonesian Infrastructure Fund to become operational by the end of 2008.

In November 2006, the government held the Indonesian Infrastructure Conference and Exhibition (the "IICE"). At the IICE, the government offered 10 major infrastructure projects for public tender valued at more than $4.4 billion, including three water treatment projects, two power generation projects, two toll road projects, two transportation sector projects and one telecommunications project. These projects are currently at different phases of development, ranging from project definition to financial negotiations between the government and the selected bidder. On May 26 and 27, 2008, the House of Regional Representatives hosted the Indonesian Regional Investment Forum (the "IRIF"), the latest in a series of infrastructure summits to promote private infrastructure investment in Indonesia. At the IRIF, approximately 200 infrastructure projects with an aggregate investment value of approximately $19 billion were offered for public tender, including the proposed Bojonegoro International Port, Cilegon-Bojonegoro tollroad, Balaraja agribusiness terminal, Kaliwungu port and industrial area and Cisolok-Cisukarame and Tampomas geothermal power plants and various water, mining and geothermal and hydroelectric power plants through the provinces of Indonesia. See "Infrastructure Development."

New Investment Law

In April 2007, a new investment law, Law No. 25 of 2007 (the "New Investment Law"), was enacted to replace both the 1967 Foreign Investment Law and the 1968 Domestic Capital Investment Law. The most significant feature of the New Investment Law is that it provides equal treatment for domestic and foreign investment, subject to limits for foreign participation in certain sectors of the economy. The New Investment Law also abolished the requirement for gradual divestment by foreign investors (formerly, there was a 30-year time limit for foreign investment), provides certainty for the extension of land titles, assures the right to appoint foreign management, prohibits nationalization without indemnification at market value and provides for unrestricted repatriation of profits and capital. Additionally, the New Investment Law contemplates certain tax incentives and certain reductions and exemptions with respect to import duties. See "Foreign Investment." The New Investment Law and government regulations adopted in April 2007 and February 2008 related to government investment in private infrastructure projects are also expected to encourage investment in infrastructure projects. See "Infrastructure Development."

Continued Development of Finance Sector Regulation

In 2007 and the first five months of 2008, the government continued working to refine and develop its regulation of the banking system and Indonesia's capital markets. Bank Indonesia introduced a number of new regulations relating to capital adequacy, loan classifications and risk management, among others, and took steps to improve the training and qualifications of its regulators. Bank Indonesia also developed a road map for the implementation of the Basel Committee for Banking Supervision's "International Convergence of Capital Measurement and Capital Standards, a Revised Framework," also known as "Basel II." See "Financial System—Strengthening the Banking System." The Capital Markets and Financial Institutions Supervisory Agency ("Bapepam-LK") sought to further strengthen the country's capital markets by issuing a revised financial sector policy package to continue the process of reform begun in 2006. Among the new policies enacted, the government has increased coordination among regulatory agencies by creating a multi-agency task force to combat illegal financial transactions, enacted tax incentives for companies to undertake initial public offerings and established a legal framework for the issuance of municipal bonds, including regulations relating to procedural and disclosure requirements. See "Financial System—Capital Markets and Capital Markets Regulation."

Recent Economic Developments

Growth of Real Gross Domestic Product

In the first quarter of 2008, Indonesia's real GDP growth rate was 6.3%, compared to the first quarter of 2007, and 2.1%, compared to the fourth quarter of 2007. Growth in real GDP in the first quarter of 2008 was fueled by increased domestic demand, despite higher prices for energy, food and other commodities. All sectors of the Indonesian economy grew in the first quarter of 2008 compared to the first quarter of 2007, with the exception of the mining and quarrying sector, which experienced a contraction of 2.3%. The transportation and communication, utilities (electricity, gas and water), financial services, construction and the trade, hotel and restaurant sectors experienced growth rates higher than the overall real GDP growth rate in the first quarter of 2008, at 19.7%, 12.1%, 8.3%, 8.3% and 7.2%, respectively. During this period, the agricultural, services and manufacturing sectors grew at slower rates than the overall real GDP growth rate.

Comparing Indonesia's real GDP growth of 2.1% in the first quarter of 2008 against the fourth quarter of 2007 on a sector-by-sector basis, the highest rate of growth was experienced in the agricultural sector, at 18.0%, primarily due to the completion of the rice harvesting season during the first quarter of 2008. Certain agricultural sub-sectors, such as plantations, forestry and fisheries, experienced negative growth during this period. In the first quarter of 2008, the financial services, utilities and transportation and communications sectors experienced growth, at 1.8%, 1.2% and 0.6%, respectively, compared to the fourth quarter of 2007. On the other hand, the construction sector contracted by 1.6% in the first quarter of 2008. The mining and quarrying sector also experienced negative growth of 1.1% in the first quarter of 2008 compared to the fourth quarter of 2007, primarily due to reduced production in the oil and gas sub-sector. During the first quarter of 2008, real GDP growth in the manufacturing and trade, hotel and restaurant sectors remained relatively constant compared to the fourth quarter of 2007.

Inflation

Indonesia's inflation rate for 2007, as measured by changes in the CPI (on a year-on-year basis), was 6.6%. In May 2008, Indonesia's inflation rate was 10.4%, compared to May 2007. The inflation rate in May 2008, measured by changes in the CPI (on a month-on-month basis), was 1.4%, compared to April 2008, which was higher than the inflation rate of 0.6% in April 2008, compared to March 2008. Higher inflation experienced by Indonesia in the first five months of 2008 reflects inflationary pressures caused by higher energy, food and other commodity prices in the world and domestic markets and increased domestic demand. In May 2008, prices for food, principally driven by increases in the price of beef, rice, chicken, fish, onions, garlic and palm oil-based cooking oil, increased at an average rate of 18.2% (on a year-on-year basis) compared to May 2007, and was the principal contributor to the increase in Indonesia's inflation rate in the first five months of 2008. Cooking oil prices rose as a result of increasing exports of crude palm oil ("CPO"), while rice prices increased due to shortages caused by adverse weather conditions in Indonesia during the planting and harvest seasons. Prices for clothing increased at an average rate of 10.9%, which was generally in line with the overall inflation rate of 10.4%. In May 2008, prices for processed food, beverages, cigarettes and tobacco increased at an average rate of 9.6%, while inflation in the education, recreation and sports sector was 9.2%. Prices for housing (including utilities) and health services in May 2008 increased at average rates of 8.6% and 8.2%, respectively, which were lower than the overall average inflation rate for May 2008. In May 2008, prices for transportation and communications goods and services rose 2.1% compared to May 2007 prices, reflecting the partial inflationary effect of fuel price increases implemented on May 24, 2008 that resulted in an average increase in fuel prices of 28.7% on that date. The government expects that inflation in 2008 will increase to between 10.9% and 11.2%, primarily as a result of these fuel price increases, compared to its original target range of 4.0% to 6.0% for 2008 and the actual annual inflation rate of 6.6% in 2007.

Balance of Payments

In the first quarter of 2008, the Republic's overall balance of payments experienced a surplus of $1.0 billion. The current account recorded a surplus of $2.8 billion in the first quarter of 2008, compared to a surplus of $2.6 billion in the first quarter of 2007. The capital account and financial account in the first quarter of 2008 recorded a deficit of $1.4 billion, compared to a surplus of $1.8 billion in the first quarter of 2007. Net errors and omissions in the first quarter of 2008 recorded a small deficit of $382 million, compared to an even smaller deficit of $25 million in the first quarter of 2007.

In the current account balance for the first quarter of 2008, the trade balance recorded a surplus as exports exceeded imports by $7.6 billion. However, this trade surplus was partially offset by a deficit in total services of $4.7 billion. In the first quarter of 2008, non-oil and gas exports of $26.4 billion exceeded non-oil and gas imports of $21.3 billion. Non-oil and gas exports and imports increased 7.9% and 24.1%, respectively, from those recorded in the fourth quarter of 2007. Oil and gas exports of $8.0 billion exceeded oil and gas imports of $5.5 billion in the first quarter of 2008. Oil and gas exports increased 3.8% from those recorded in the fourth quarter of 2007, whereas oil and gas imports remained relatively constant over the same period.

The Republic's financial account recorded a deficit of $1.5 billion in the first quarter of 2008. Although the public sector financial account registered a surplus of $2.4 billion, this surplus was offset by a deficit of $3.9 billion in the private sector financial account. The public sector financial account surplus in the first quarter of 2008 resulted mostly from the proceeds of the issuance of $2.0 billion of government bonds in January 2008. The deficit in the private sector financial account reflects reduced inflows of foreign portfolio investment in response to declining international financial markets in the first quarter of 2008. International financial markets, including in Indonesia, were adversely affected in the first quarter of 2008 by the continuing subprime mortgage crisis in the United States, the resulting tightening of global credit and negative investor perceptions of increasing global inflation driven by increases in world oil, food and other commodity prices. In addition, increased placements of foreign currency assets in overseas banks in response to stronger exports contributed to the deficit in the private sector financial account.

As of March 31, 2008, the Republic's official reserves had increased to \$59.0 billion, equivalent to 5.0 months of imports and official debt repayments, from \$56.9 billion at year-end 2007.

Rupiah Exchange Rate

In the first five months of 2008, the rupiah appreciated slightly against the U.S. dollar, from Rp9,419 per U.S. dollar as of December 28, 2007 to Rp9,318 per U.S. dollar on May 30, 2008. The rupiah strengthened against the U.S. dollar from the beginning of January 2008 until February 29, 2008, when it reached Rp9,051 per U.S. dollar, as it was supported by foreign capital inflows into portfolio investments, such as shares of Indonesian companies and Indonesian corporate bonds, during that period. In March 2008, the rupiah weakened against the U.S. dollar to Rp9,217 per U.S. dollar on March 31, 2008 as financial institutions and hedge funds announced additional losses from the troubled U.S. subprime mortgage market, leading to a further tightening of credit in the international financial markets. In April and May 2008, the rupiah depreciated slightly to Rp9,318 per U.S. dollar as of May 30, 2008 due to negative market perceptions regarding the threat of increasing domestic inflation driven primarily by increases in international oil, food and other commodity prices.

In the first five months of 2008, the rupiah fluctuated significantly against the Japanese yen and the Euro, but generally depreciated during this period, closing at Rp8,827 per ¥100 and Rp14,460 per €1.00, respectively, as of May 30, 2008, compared to Rp8,306 per ¥100 and Rp13,760 per €1.00, respectively, as of December 28, 2007.

Unemployment

Indonesia's open unemployment rate decreased to 8.5% in February 2008 from the rate of 9.1% in August 2007, reflecting continuing improvements in the Indonesian economy which occurred from late 2007 to early 2008. The number of jobs created from August 2007 to February 2008 was 2.1 million, which absorbed the 1.5 million new workers entering the labor market during that period and reduced the number of people who were actively seeking jobs by 0.6 million. As of February 2008, the working age population reached 165.6 million people, an increase of 1.5 million from August 2007. Of the working age population, 111.5 million, or 67.3%, were members of the work force, consisting of 102.1 million who were employed and 9.4 million who were actively seeking jobs, for an open unemployment rate of 8.5%. At the same time, the portion of workers who were unemployed and underemployed remained relatively stable at 8.5% and 27.5%, respectively, of the work force in February 2008, compared to 9.1% and 27.6%, respectively, in August 2007.

Avian Influenza

Indonesia is one of a number of countries to experience outbreaks of highly contagious avian influenza, and like several other countries, Indonesia has seen a substantial number of cases of bird-to-human transmission of the virus. An outbreak of avian influenza occurred in Indonesia in late 2003 and early 2004, when large numbers of birds in Indonesia, including substantial numbers of poultry, died as a result of the avian flu virus. The first human case of avian influenza in Indonesia was detected in July 2005. As of April 30, 2008, the government has reported 133 confirmed human cases of the disease in Indonesia, including 108 deaths. In spite of the implementation of avian influenza prevention and control measures, outbreaks in animals, particularly in birds, and in humans are expected to occur from time to time, as long as avian influenza remains endemic in many provinces in Indonesia. So far no human-to-human transmission or mutation of the avian influenza virus has been confirmed in Indonesia.

The government formulated a plan in December 2005 to define and coordinate the roles of the Ministry of Health, the Ministry of Agriculture and other agencies in the event of an outbreak of the disease. In conjunction with this plan, in 2006 the Ministry of Agriculture established a task force and identified nine strategies related to the vaccination of birds and control of bird movements as well as establishing local and regional avian influenza control units in affected provinces. The Ministry of Agriculture currently has 12 local disease control centers in nine of the most affected provinces and intends to establish these units in all 33 provinces. The Ministry of Agriculture also issued regulations to restrict poultry farming in residential areas. In 2007, the Ministry of Agriculture began implementing a zoning approach to improve the surveillance and reporting of avian influenza cases. Under this zoning approach, the Ministry of Agriculture has divided the country into monitoring zones, has increased focus on the zones with the highest incidence of the disease and has conducted more limited, but targeted, surveillance in low incidence zones. In January 2007, the Governor of Jakarta issued new regulations to control the husbandry and distribution of birds, which included requirements for bird breeders in Jakarta to properly dispose of their birds and to ban the breeding of birds in residential complexes in Jakarta, unless authorized by the Jakarta government. The government is working to improve public awareness of the disease and its prevention.

In addition to its domestic initiatives to prevent the spread of avian influenza within Indonesia, the government is continuing to work in cooperation with foreign governments and international organizations, including the United Nation's World Health Organization and its Food and Agricultural Organization, to monitor and control outbreaks of avian influenza.

Mudflow Accident at Sidoarjo, East Java

In May 2006, a drilling accident occurred at a gas exploration site near Sidoarjo, East Java, resulting in a mudflow of approximately 100,000 to 120,000 cubic meters per day, which has not yet been abated. The site is located in the Brantas block, which is owned jointly by Lapindo Brantas, Inc. (50% interest), a subsidiary of PT Energi Mega Persada Tbk; PT Medco E&P Brantas (32% interest), a subsidiary of PT Medco Energi Internasional Tbk; and Santos Ltd. of Australia (18% interest). Based on information collected by the Surabaya Institute of Technology, as of October 2007, the mudflow has inundated approximately 640 hectares of land and destroyed more than 8,300 houses in 12 villages, 300 hectares of rice paddies and 60 hectares of sugar cane, displaced more than 8,400 households and closed 17 schools and 15 factories, resulting in the loss of more than 1,000 jobs.

In September 2006, the government formed a task force to oversee the disaster. On April 8, 2007, President Yudhoyono issued Presidential Regulation No. 14/2007 ("Regulation 14/2007") establishing a permanent board, called the Sidoarjo Mudflow Management Board (Badan Penanggulangan Lumpur Sidoarjo), to replace this task force. The Sidoarjo Mudflow Management Board has been mandated with the task of arranging for the reconstruction and rehabilitation of areas adversely affected by the mudflow including the reconstruction of affected infrastructure. Regulation 14/2007 also stated that the government would bear certain of the costs resulting from the mudflow, including the cost of relocating a toll road, power lines and gas pipelines from the areas now inundated by mud and related land acquisition costs and the compensation costs to victims of the disaster outside a designated land area, whereas the government would hold Lapindo Brantas, Inc. and its shareholders directly responsible for all of the direct property damage, environmental costs and compensation costs caused by the catastrophe to victims of the disaster within the designated land area. In 2007, the government spent Rp20 billion in public funds for the relief, reconstruction and rehabilitation costs it has agreed to pay. Funds allocated for these costs in the Revised 2008 Budget total Rp1.1 trillion. The government estimates that the total direct and indirect costs resulting from the Sidoarjo mudflow disaster could reach Rp27.5 trillion.

December 2004 Earthquake and Tsunami and March 2005 Earthquake in North Sumatra

In December 2004, an earthquake with a magnitude of 9.0 on the Richter scale struck 150 kilometers off the coast of Aceh province, northwest of Sumatra. A resulting tsunami hit Aceh, sweeping over an 800-kilometer coastal strip. Some 130,000 people were killed and 37,000 remain missing as a result of the earthquake and the tsunami. In March 2005, an earthquake with a magnitude of 8.7 on the Richter scale hit Nias, Simeulue and southern parts of Aceh. These events caused immense social, economic and environmental devastation to areas that were already poor, and full recovery is expected to take years.

Three years after the tsunami, a total of $6.4 billion has been allocated for specific projects. The government has allocated $2.2 billion, non-governmental organizations $1.9 billion and official donors $2.3 billion. These projects are expected to meet the minimum needs in most sectors, but significant problems remain, particularly in transportation, flood control and the environment. Of the $6.4 billion allocated, $4.2 billion had been spent as of the end of 2007.

Post-tsunami relief, rehabilitation and reconstruction efforts in Aceh and Nias are nearing completion. The government has restored basic needs and services within these areas and has strengthened local facilities for further reconstruction and development. The government expects that reconstruction and development in Aceh and Nias in the future will be handled directly by the central government's ministries, the provincial government and local governments, which was the case before the tsunami occurred.

Other Natural Disasters

Indonesia has recently suffered from other natural disasters, including earthquakes and flooding. An earthquake measuring 7.9 on the Richter scale struck Bengkulu and West Sumatra on September 12, 2007, resulting in 25 deaths, numerous injuries and the evacuation of some 115,000 people. The government established a National Rehabilitation Action and Reconstruction Plan to facilitate recovery in the area over the next two years. Several regions of Indonesia were hit by floods during the 2006-2007 rainy season, including North Sumatra, Nanggroe Aceh Darussalam, Riau Province, Manggarai and Morowali. Floods in Jakarta in February 2007 caused the death of 48 people and led to the evacuation of over 500,000 people. The cost of the damages in Jakarta is estimated at Rp7 trillion. In response, the government of Jakarta conducted a review of the city design to identify ways to prevent future flooding, such as developing canals and removing houses built in the flood zone of river banks. Total government expenditures related to post-natural disaster relief efforts, rehabilitation and reconstruction (other than the expenditures related to the December 2004 earthquake and tsunami and the March 2005 North Sumatra earthquake) were Rp2.7 trillion in 2007, and the government has allocated Rp3.0 trillion in expenditures for these expenses in the Revised 2008 Budget.

Potential Withdrawal from the Organization of Petroleum Exporting Countries

The Republic has been a member of the Organization of Petroleum Exporting Countries ("OPEC") since 1962. However, since 2007, Indonesia has been a net importer of oil (determined on an annual basis). In light of the change of its status from a net exporter to a net importer of oil, in May 2008, the government announced that it was considering the withdrawal of the Republic from OPEC. The President has requested the Minister of Energy and Mineral Resources to study the financial, economic and political effects on the Republic if it were to withdraw from OPEC. Under the provisions of OPEC's Statute (April 2006 edition), no member of OPEC can withdraw from membership in OPEC without giving notice of its intention to do so to the Conference of OPEC, and any notice of withdrawal becomes effective at the beginning of the next calendar year after the date of its receipt by the Conference. As of the date of this offering memorandum, the government has not formally notified OPEC of its intention to withdraw. Since the Republic's current membership expires at the end of 2008, the government expects to decide on whether or not to withdraw from OPEC near the end of 2008.

Land and People

Area

Situated between Malaysia and the Philippines to the north and Australia to the south, the Republic of Indonesia covers a total land area of approximately 1,910,000 km^2, comprising approximately 17,500 islands (of which an estimated 957 are inhabited) and forming part of the world's largest archipelago. The main islands of Indonesia are Sumatra, Java, Bali, Kalimantan (the southern part of the island of Borneo), Sulawesi and Papua (the western part of the island of New Guinea, formerly named Irian Jaya). Indonesia extends 5,120 kilometers across the equator from Nangroe Aceh Darussalam ("Aceh") in the west to Papua in the east. Jakarta, Indonesia's capital and largest city, is located on the northern coast of the western part of Java.

Population

Indonesia had a population of approximately 226 million in 2007 and is the fourth most populous country in the world, after China, India and the United States. The population is primarily concentrated in Java (estimated at approximately 132 million in 2007), and Jakarta, the capital, is estimated to have a population of approximately 9 million in 2007. With an estimated population density of approximately 1,018 people per square kilometer in 2007, Java and the neighboring island of Madura (which is included in the province of East Java) together represent one of the most densely populated areas in the world.

Indonesia's population grew at a rate of 2.0% per annum during the 1980s and 1.5% during the 1990s. The growth rate further decreased to 1.4% per annum during the period from 2002 to 2007. The rate of growth of Indonesia's population was reduced by the successful implementation of the government's family planning program, which started in 1970. Concurrent achievements in healthcare lowered the infant mortality rate and extended average life expectancy. The government estimates that, in 2007, approximately 27.5% of the population was under 15 years of age and approximately 46.3% was under 25 years of age.

According to the 2000 census, approximately 88% of the Indonesian population is Muslim and 8% is Christian, with the remaining population consisting of Hindus, Buddhists and other religions. The population is primarily of Malay descent, but consists of more than 300 ethnic groups, including the Acehnese, Batak and Minangkabau in Sumatra; the Javanese and Sundanese in Java; the Maduresе in Madura; the Balinese in Bali; the Sasak in Lombok; the Minahasan, Makassarese, Toraja and Bugis in Sulawesi; the Dayak in Kalimantan; the Dani and Asmat in Papua. The country's population also includes people of Chinese, Arab, Eurasian, Indian and Pakistani backgrounds.

The national language of Indonesia is Bahasa Indonesia, which is based on the Malay language. English is widely used and taught in most secondary schools. In total, approximately 500 languages and dialects are spoken throughout Indonesia.

Government and Political Developments

History

Indonesia proclaimed its independence on August 17, 1945 and adopted its first constitution (the "1945 Constitution"). From 1605 until its independence, Indonesia was under almost continuous Dutch colonial rule and was known as the Netherlands East Indies. The period of Dutch administration was interrupted by a short period of British colonial rule in the 19th century and Japanese occupation from 1942 to 1945.

The Republic's independence was proclaimed by Soekarno and Mohammad Hatta, who then served as the Republic's first President and Vice President, respectively. In 1965, the Indonesian Communist Party unsuccessfully attempted to seize political power and, following this failed attempt, executive power was transferred from President Soekarno to General Soeharto in 1966. In 1967, General Soeharto was declared acting President by the Transitional Assembly (Majelis Permusyawaratan Rakyat Sementara), and in 1968, Soeharto was formally elected for the first of six five-year terms as President. Soeharto served as Indonesia's President until 1998.

In mid-1997, Indonesia, along with many other countries in the region, was affected by the Asian financial crisis, which was accompanied by the country's worst drought in 50 years, falling prices for export commodities, severe depreciation in the value of the rupiah and rapid inflation. In 1998, amid riots calling for his resignation and widespread civil unrest, President Soeharto resigned, and then-Vice President Jusuf Habibie became Indonesia's third President. In 1999, nationwide elections were held and Abdurrahman Wahid was elected President by the National Assembly (Majelis Permursyawaratan Rakyat). Following President Wahid's impeachment in 2001, then-Vice President Megawati Soekarnoputri, Soekarno's daughter, became President and Hamzah Haz, Vice President.

In July 2004 and September 2004, Indonesia's voters went to the polls to participate in the country's first direct presidential election. On October 20, 2004, following their victory in the September run-off election, President Susilo Bambang Yudhoyono was inaugurated as the President of the Republic and Vice President Muhammad Jusuf Kalla was inaugurated as the Vice President of the Republic. The next election for President, Vice President, and members of the Assembly and House of Representatives is expected to take place in July 2009.

The basic philosophy of the Indonesian people is embodied in a set of fundamental principles known as Pancasila ("five principles"), encompassing belief in one supreme God, humanity, the unity of Indonesia, democracy led by the wisdom of deliberations among representatives, and social justice for all.

Central Government

Indonesia's current form of government is based on the 1945 Constitution, as amended (the "Constitution"), under which the Republic is structured as a unitary republic. Between 1999 and 2002, the Constitution was amended four times, creating constitutional checks and balances, a separation of powers and a more direct democracy. Prior to the amendments, and throughout the period of President Soeharto's administration, Indonesia's government was highly centralized. Power during the Soeharto period was concentrated in the Presidency, and the military exerted significant influence over government including by holding a specified number of allocated seats in the legislature. The major goals of the amendments and other political reforms since the end of the Soeharto regime have been to (1) increase the level of direct democracy, (2) reduce the influence of the military in the government, (3) disperse power to regional and local government authorities, and (4) improve the transparency and integrity of the judicial system.

The Constitution vests the sovereignty of Indonesia in the country's people and establishes the Presidency, the Assembly (Majelis Permusyawaratan Rakyat), the House of Representatives (Dewan Perwakilan Rakyat), the Regional Representatives' Council (Dewan Perwakilan Daerah), the State Audit Board (Badan Pemeriksa Keuangan), the Supreme Court (Mahkamah Agung), the Constitutional Court (Mahkamah Konstitusi) and the Judicial Commission (Komisi Yudisial).

The Assembly has the authority to amend the Constitution, dismiss the President and Vice President and appoint a Vice President in the event of a vacancy in either position and the President and Vice President in the event of vacancies in both positions. The Assembly has a bicameral structure consisting of the House of Representatives, which is the principal legislative body, and the Regional Representatives' Council. The House of Representatives consists of 550 members. The Regional Representatives' Council consists of four members from each province. The Regional Representatives' Council currently has 128 members because Indonesia's 33rd province was created in October 2004, after the 2004 elections for members of the Regional Representatives' Council. The Assembly is constitutionally required to sit at least once every five years. The Assembly's decisions are taken by majority vote except for any constitutional amendment, which requires a quorum of two-thirds of the Assembly and approval of at least 50% plus one member of the Assembly.

Members of the House of Representatives are elected by a proportional representation system. The Regional Representatives' Council members are elected in non-partisan elections based on a plurality of votes within the relevant electorate. In the most recent legislative elections held in April 2004, Indonesia's voters elected members of the House of Representatives.

Each of the House of Representatives and the President has the power to initiate legislation. All legislation, including the Republic's budget, must be approved by both the House of Representatives and the President. The Regional Representatives' Council is able to initiate legislation regarding regional matters, but the House of Representatives and the President must approve it.

The current President, President Yudhoyono, and the current Vice President, Vice President Kalla, were directly and jointly elected by the people in September 2004. Recent constitutional amendments restrict the President and Vice President to a maximum of two five-year terms. The next election for President, Vice President, and members of the Assembly and House of Representatives is expected to take place in July 2009.

The President has the authority and responsibility for the conduct of the administration of the Republic, including the appointment of the cabinet, and is supreme commander of the Indonesian armed forces. The President has the right to declare war, make peace, conclude treaties with other states and to propose statutes; these presidential actions must, however, be approved by the House of Representatives before taking effect.

The President is assisted in the administration of his responsibilities by ministers who are appointed and dismissed by the President and who are responsible only to the President. President Yudhoyono's cabinet currently consists of three coordinating ministers, 20 ministers and 11 state ministers as well as two non-ministerial officials. Each of the three coordinating ministers is responsible for one of the following broad areas of policy and administration: economy; political affairs, law and security; and people's welfare.

Judicial System

The Constitution states that the Indonesian judicial system will be independent and that judicial authority is to be exercised by the courts free from any influence of non-judicial power. This judicial independence was re-affirmed under a judicial authority and powers law adopted in January 2004 (the "Judicial Powers Law"). The Constitution and the new judicial authority law stipulate that the Republic's judicial power is exercised by the Supreme Court, various lower courts and the Constitutional Court. The courts below the Supreme Court are organized by subject matter jurisdiction. These courts include the general, religious, military and administrative courts. The general district courts have jurisdiction over all cases not within the limited jurisdiction of any of the special courts. The commercial courts (which constitute part of the general courts) have jurisdiction over bankruptcy cases and intellectual property rights cases (except trade secrets). The special religious courts have jurisdiction over cases such as family law among Muslims. The special military courts have jurisdiction over cases involving military personnel. The special administrative courts have jurisdiction over actions involving certain government decisions. The Supreme Court has ultimate appellate jurisdiction over decisions rendered by the lower courts, other than decisions relating to constitutional law, and exercises limited original jurisdiction in matters specifically reserved to its authority, including the enforcement of foreign arbitral awards. The Supreme Court also has the authority to issue opinions on legal matters to various government authorities and officials, to order a court to adjudicate a particular matter or to set aside an unlawful decision. The Constitutional Court has exclusive jurisdiction with respect to questions of constitutional law.

In 2004, a law was adopted to establish a Judicial Commission (the "Judicial Commission Law") with the authority to nominate judges of the Supreme Court and the responsibility to maintain judicial integrity. Under the Judicial Commission Law, candidates for Supreme Court judgeships are proposed by the Judicial Commission to the House of Representatives, nominated by the House of Representatives and appointed by the President, and other judges are appointed by the President, acting on proposals by the Chairman of the Supreme Court. In addition to setting forth the rights of the Judicial Commission to nominate Supreme Court justices, the 2004 Judicial Commission Law gave the Judicial Commission the responsibility to supervise the activities of judges and bring enforcement actions against judges accused of breaches of judicial codes of ethics. In 2006, 31 Supreme Court justices instituted an action at the Indonesian Constitutional Court, seeking a declaration that the provisions of the Judicial Commission Law, which granted the Judicial Commission the right to oversee the activities of Supreme Court justices, were unclear and conflicted with the Constitution. After a judicial review of both laws, in August 2006, the Constitutional Court ruled that a number of the provisions of the Judicial Commission Law were unconstitutional, resulting in legal uncertainty in the application of the Judicial Commission Law as to the supervisory role and responsibilities of the Judicial Commission. The Constitutional Court ruled that the Judicial Commission had no authority to monitor the conduct and behavior of Supreme Court justices and that the provisions of the Judicial Commission Law related to the supervision of judges were constitutionally invalid and no longer binding at law. However, in its ruling, the Constitutional Court left open the possibility that the deficiencies in the supervision provisions of the Judicial Commission Law could be rectified through amendments to the law. The government expects that the House of Representatives will consider amendments to the Judicial Commission Law and other laws to remedy this situation.

Regional Governments and Regional Autonomy

Indonesia has 33 provinces, including the special region of the capital of Jakarta. Each province is headed by a governor and consists of several subdivisions. There are two types of subdivisions, namely kabupaten, or regencies, and kota, or municipalities. Political and governmental arrangements in regencies and municipalities are generally similar, but municipalities tend to be more urban. Regencies and municipalities are divided into kecamatan, or districts, which in turn are further divided into villages. Since 2000, the number of provinces has increased from 27 to 33. Between 2001 and 2007, each of the number of regencies, municipalities, districts and villages also increased. At present, there are 376 regencies, 95 municipalities, 6,093 districts and 65,189 villages in Indonesia.

Members of the provincial legislatures and the regency and municipal councils are elected by a proportional representation system. In the most recent legislative elections held in April 2004, Indonesia's voters elected members of the provincial legislatures and the regency and municipal councils.

In 1999, two laws were enacted to provide greater autonomy to provincial, municipal and district governments and allow for revenue sharing between the central government and the regional governments. These laws revised the hierarchical relationship between the central government and the provincial, municipal and district governments. Prior to the enactment of such laws, Indonesia followed a unitary state system of government, with almost all authority resting with the national government. The two laws passed in 1999 transferred governmental authority to regional governments except authority over foreign affairs, defense, the judicial system, monetary and fiscal policy, religion and other matters of national concern. Under the laws, regional leaders at the provincial, municipal and district level are elected by and are accountable to regional legislatures, rather than to the national and regional governments. These laws also allocated a specified portion of national government revenues, including revenues from taxes and from the sale of natural resources, to the provinces, districts and municipalities. Before the implementation of these laws, the national government decided the amount of revenue allocated to each region in the annual budget. Under these laws, the regional governments were permitted to undertake onshore and offshore borrowings. Onshore borrowings were subject to the approval of the regional legislature, and offshore borrowings were subject to the approval of the regional legislature and the central government.

In 2004, the central government replaced the 1999 regional autonomy law with a new regional autonomy law. Under the 2004 regional autonomy law, the central government assumed the authority to implement general policies in all sectors of the economy and to recruit and promote civil servants and officials at the local level. The 2004 regional autonomy law also stipulates a government hierarchy under which mayors and regents are accountable to the Minister of Home Affairs, through the provincial governor in which their municipality or regency is located, as well as to their municipal or regency legislature, and the provincial governors are accountable to the President of the Republic, through the Ministry of Home Affairs, as well as to their provincial legislatures. Furthermore, regional leaders at the provincial, municipal and district level are elected directly by the people of that region.

In 2004, the government also replaced the 1999 revenue sharing law between the central government and the regional governments. Under this new revenue sharing law, the regional governments may only borrow onshore funds that originate from the central government, other regional governments, banks, non-bank financial institutions and the public. Onshore borrowings from the public must be in the form of domestic bonds, which a regional government may issue upon obtaining the approval of its regional legislature and the central government. The regional governments may also undertake certain offshore borrowings, called two-step loans (which are made through the Ministry of Finance) after obtaining approval from the Ministry of Home Affairs. Under the 2004 law, the central government is also allowed to fulfill its revenue sharing obligations to the regional governments by giving grants in the form of cash, goods or services. In 2007, the government also established a legal framework for the issuance of municipal bonds. See "Financial System—Capital Markets and Capital Markets Regulation."

The provinces of Nanggroe Aceh Darussalam (or "Aceh") and Papua enjoy special autonomy, including through special regional assemblies and courts, and receive special autonomy funds from the central government. See "—Peace Agreement, Special Autonomy and Integration Projects in Aceh," "—Special Autonomy and Activities in Papua" and "Government Budget—Fiscal Policy."

Political Parties

During the Soeharto administration, the previously existing political parties were consolidated into three parties: the Functional Group Party (Partai Golongan Karya or "Golkar"), the Indonesian Democratic Party (Partai Demokrasi Indonesia) and the United Development Party (Partai Persatuan Pembangunan). Subsequently, the formation of other political parties was permitted, and 48 political parties took part in the 1999 elections. Twenty-four political parties contested the most recent election in 2004, following which six political parties held 456 seats, or 82.9%, of the House of Representatives' 550 seats: Golkar with 128 seats (23.3% of the total); the Indonesian Democratic Party of Struggle (Partai Demokrasi Indonesia Perjuangan) with 109 seats (19.8%); the United Development Party (Partai Persatuan Pembangunan) with 58 seats (10.6%); the Democratic Party (Partai Demokrat) with 57 seats (10.4%); the National Awakening Party (Partai Kebangkitan Bangsa) with 52 seats (9.5%); and the National Mandate Party (Partai Amanat Nasional) with 52 seats (9.5%). President Yudhoyono is a member of the Democratic Party and Vice President Kalla is the chairman of Golkar.

Independent Anti-corruption Commission

In December 2004, a new law established the Corruption Eradication Commission (Komisi Pemberantasan Korupsi, or "KPK"). The primary responsibilities of the KPK are investigating and prosecuting serious cases of corruption that involve losses to the government in excess of Rp1 billion by government officials, especially judicial and law enforcement officers, and it is vested with powers to accomplish these objectives. The KPK also coordinates and supervises the anti-corruption efforts of local police and prosecutors, monitors the progress of administrative agencies in implementing policies, works to educate the public on anti-corruption issues and consults with the government on structural changes to curb official corruption. The KPK operates independently of the executive and legislative branches of the government, although its funding is provided through the normal budget process. The KPK's professional staff is comprised of police, auditors, prosecutors and non-civil servant professionals. The KPK has received over 25,000 complaints of official corruption from the public. Since beginning operations, the KPK has successfully convicted 48 high-ranking government officials, and it currently has approximately 25 additional cases in process. Since beginning operations, KPK has recovered over Rp423 billion in stolen assets, which have been deposited into the State Treasury. Most of the KPK's enforcement actions relate to allegations of bribery and budget misappropriation. Currently, the KPK prosecutes its cases in a special court established exclusively to hear corruption cases. The government believes that curbing corruption is necessary to improve the investment climate of Indonesia, and the work of the KPK is one of the primary means of addressing this problem.

Terrorism

Several bombing incidents have taken place in Indonesia, including two in Bali in October 2002 and October 2005, one at the JW Marriott Hotel in Jakarta in August 2003 and one at the Australian Embassy in Jakarta in September 2004. These bombings and the threat of further acts of terrorism have adversely affected transportation, tourism, employment and investment in the Indonesian economy. See "Principal Sectors of the Economy—Trade, Hotel and Restaurant Services" and "Gross Savings and Investment."

The government has taken measures to combat terrorism, including enacting new domestic anti-terrorism laws, establishing a Coordinating Desk for Counter-Terrorism within the Coordinating Ministry for Political, Legal and Security Affairs, amending its anti-money laundering laws, establishing a special police task force called Detasemen 88, expanding cooperation with foreign law enforcement agencies and participating in bilateral and multilateral counter-terrorism activities. Indonesia has sent police and security officers to the United States and Canada for counter-terrorism training. The Republic has become a signatory to the Association of Southeast Asian Nations ("ASEAN") Convention on Counter-Terrorism, which was signed on January 13, 2007, the U.S.-ASEAN Joint Declaration on Cooperation to Combat International Terrorism and a number of other ASEAN Joint Declarations on Cooperation to Combat International Terrorism, and it is a party or signatory to six U.N. conventions relating to international terrorism.

Peace Agreement, Special Autonomy and Integration Projects in Aceh

In August 2005, the government signed an agreement with the Free Aceh Movement, which is generally known by its Indonesian initials "GAM." The agreement ended an armed struggle with GAM, which had sought an independent Acehnese state for more than 30 years. Under the agreement, GAM renounced its claim to independence and the government agreed to an amnesty program for GAM members. As part of the amnesty program, the government released from prison approximately 1,500 GAM members and is continuing the process of reintegrating them back into society. As part of the peace process, regional elections in Aceh were held in December 2006, with voter participation of 78.2%. Dr. Irwandi Yusuf and Mohammed Nazar, both former leaders of GAM, were declared the winners of the offices of Governor and Vice Governor, respectively, each with 38.2% of the vote. The Aceh government enjoys special autonomy, including through the establishment of local political parties, special provincial government bodies and special provincial courts implementing sharia (Islamic law). The government established the Communication and Coordination Forum to act as its representative in Aceh. The government and the Aceh government have been working together on a program to reintegrate Aceh into the rest of Indonesia by funding livelihood projects to aid former GAM members and victims of violence in obtaining employment or land for farming and providing social security benefits to the disabled, for which an aggregate of Rp1.5 trillion was allotted in the government budgets for 2005, 2006 and 2007 and Rp450 billion has been allocated in the Revised 2008 Budget.

Special Autonomy and Activities in Papua

A separatist movement remains active in the province of Papua, where a small portion of the population has shown support for the Free Papua Movement, generally known by its Indonesian initials "OPM." While there have been some violent incidents involving the armed wing of the OPM, the national army and police have taken measures to maintain security and order in the province, and the government has continued its policy of promoting social welfare in Papua. Currently the government is trying to address the concerns of certain groups in Papua who were seeking greater independence by expanding the powers of the local government, making investments in infrastructure, improving judicial access, instituting affirmative action programs, working to resolve differences among local ethnic groups, increasing welfare programs and infrastructure development and fostering business growth and investment in areas populated by these groups. The province of Papua enjoys special autonomy through the establishment of a regional assembly, government protection of indigenous intellectual property rights and the recognition of indigenous courts. The government believes this welfare approach has been successful; in 2007, 850 former members of OPM who had fled to Papua New Guinea made requests to return to Indonesian Papua. Regency-level and municipality-level elections held in Papua in 2007 went smoothly with voter participation of over 60%, and both native and non-native people of Papua were elected. The government allocates special autonomy funds to the government of the province of Papua and to the local governments of the province of Papua, which totaled Rp1.8 trillion, Rp3.5 trillion and Rp4.0 trillion in 2005, 2006 and 2007, respectively. In the Revised 2008 Budget, the government has allocated Rp3.6 trillion of special autonomy funds to these provincial and local governments in Papua.

Foreign Relations and International and Regional Organizations

Diplomatic Relationships and Multilateral and Bilateral Agreements

Indonesia maintains close diplomatic relationships with neighboring countries and its major economic partners which include, among others, the ASEAN member countries, Japan, China, the Republic of Korea, the United States and the European Union.

Indonesia is a member of a number of international organizations, including the United Nations (and certain of its specialized agencies such as the United Nations Economic and Social Commission for Asia and the Pacific, the Food and Agriculture Organization, the International Labor Organization and the United Nations Education, Scientific and Cultural Organization), the IMF, the World Bank and certain World Bank-related organizations, the ADB and the IDB. Indonesia is also a member or signatory of other international groups and agreements including, among others, OPEC, the World Trade Organization ("WTO") and the Asia Pacific Economic Cooperation ("APEC") forum. The Republic is considering the possibility of withdrawing from OPEC. See "Recent Developments—Potential Withdrawal from the Organization of Petroleum Exporting Countries." On October 16, 2006, the General Assembly of the United Nations elected Indonesia as a member of the United Nations Security Council for a two-year term beginning January 1, 2007. In December 2007, Indonesia hosted the United Nations Framework Convention on Climate Change in Bali, hosting delegates from more than 180 countries to discuss potential solutions to global climate change.

Indonesia is one of the five founding members of ASEAN, an organization that was established to foster economic, social, cultural and scientific relations among its members, and is now committed to reducing trade barriers among its member countries. ASEAN now includes Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. The ASEAN member countries have made agreements on mutual assistance and cooperation in a number of areas.

ASEAN seeks to promote its competitive edge in the world market through the elimination of intra-regional tariffs and non-tariff barriers, including through the ASEAN Free Trade Area ("AFTA"), which was established in 2002. In December 1995, the ASEAN member countries, including Indonesia, entered into the ASEAN Framework Agreement on Services to promote a liberal trading framework for trade in services among member nations. To improve investment flows, the ASEAN member countries signed the Framework Agreement for an ASEAN Investment Area in October 1998 to establish the ASEAN region as a competitive investment area by January 2010 and achieve free flow of investments in the region by 2020. In the spirit of this framework, Japan and Indonesia entered into a bilateral economic cooperation agreement in August 2007.

During the October 2003 ASEAN summit conference in Bali, the leaders of the ten ASEAN member countries endorsed the Declaration of ASEAN Concord II, or the Bali Concord II, which envisions the establishment of an ASEAN Community by 2020 that consists of three pillars, namely political and security cooperation, economic cooperation and socio-cultural cooperation. The Bali Concord II also reaffirmed the ASEAN Vision 2020, which had been adopted by ASEAN in 1997, to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services and investment, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities by the year 2020. In November 2004, ASEAN adopted the "Vientiane Action Programme" to serve as a blueprint for the development of ASEAN over the next six years. The Vientiane Action Programme seeks to deepen regional integration of the ASEAN member countries and narrow the development gap between the more developed and less developed ASEAN member countries.

During the January 2007 ASEAN summit conference in Cebu, Philippines, the ASEAN member countries agreed to accelerate the development of the ASEAN Community and common trade market by advancing the targeted completion date by five years from 2020 to 2015. At the Cebu summit, ASEAN member country leaders also signed the ASEAN Convention on Counter-Terrorism, which is ASEAN's first regional anti-terrorism pact, a declaration on the protection of migrant workers within the member countries and a declaration calling for approval of an ASEAN charter, the association's first, which would formalize the decision-making procedures within the association.

The ASEAN Charter was signed at the ASEAN summit conference held in Singapore in November 2007. During the ASEAN summit conference in Singapore, the ASEAN member country leaders also signed the Blueprint on ASEAN Economic Community, which will guide implementation of the ASEAN Economic Community by 2015 to transform ASEAN into a single market and production base.

In relation to their major non-ASEAN trading partners, the ASEAN member countries (including Indonesia) also have entered into discussions and agreements with a number of countries.

In November 2002, the ASEAN member countries signed an economic cooperation agreement with China, agreeing to establish the ASEAN-China Free Trade Area ("ACFTA"). Negotiations are on-going with the aim of establishing ACFTA by 2010 for six ASEAN member countries, including Indonesia, and by 2015 for the other four ASEAN member countries. As part of these efforts, in November 2004, ASEAN and China signed the trade in goods chapter of their economic cooperation agreement. In January 2007, ASEAN and China signed the services chapter of their economic cooperation agreement, covering more than 60 services, with the goal of increasing market access for services and service providers and expanding trade in services between ASEAN and China. The ASEAN member countries and China have also agreed to work together to enter into the investment chapter of their economic cooperation agreement.

The ASEAN member countries have been conducting a series of free trade agreement negotiations with Japan, India, Australia and New Zealand, and are in the process of launching negotiations with the European Union. In addition, Indonesia is negotiating a free trade agreement with Pakistan. The ASEAN member countries are exploring the possibility of conducting free trade negotiations with the United States. Indonesia has also commenced negotiations with the United States on a bilateral investment treaty. In November 2007, ASEAN and the Republic of Korea signed free trade agreements on trade in goods and services.

ASEAN has announced that from December 2005, it will regularly convene an East Asia Summit, which, in addition to the ASEAN member countries, will include Australia, China, India, Japan, New Zealand and the Republic of Korea.

In order to strengthen its international reserves and support its balance of payments, Indonesia has entered into a swap agreement with ASEAN, as well as bilateral swap arrangements with Japan, China and the Republic of Korea. These arrangements provide Indonesia with facilities for short-term liquidity assistance of up to $14 billion (subject to certain conditions). The government believes that these arrangements will contribute to greater financial stability and economic growth within East Asia, including Indonesia. In May 2008, the ASEAN member countries plus Japan, China and the Republic of Korea (generally referred to as "ASEAN+3") agreed to supplement existing financial arrangements with a multilateral reserve pool of at least $80 billion that would be governed by a single contractual agreement and would be available to address short-term liquidity difficulties in the region. See "Foreign Exchange and Reserves—ASEAN Swap Agreement and Bilateral Swap Agreements."

Indonesia participates in the Asian Bond Market Initiative, an initiative sponsored by the ASEAN+3 group and supported by the ADB, to develop efficient bond markets in Asia. The ASEAN+3 group has also formed the East Asia Business Council, which cooperates on energy and non-traditional security issues, and since April 2005 has undertaken a study on the feasibility of an ASEAN+3 free trade arrangement, which would create a market of almost 2 billion people and would be the largest in the world.

Indonesia is also a leading member of the following organizations of developing nations: the Non-Aligned Movement, the Organization of the Islamic Conference, the Group of 77 and the Group of 15. Indonesia is the only ASEAN member country to be a member of the Group of 20, an informal forum of finance ministers and central bank governors from significant industrial and developing nations.

The following table shows Indonesia's capital participation in major international financial organizations as of December 31, 2007:

Capital Participation in International Financial Organizations

Name of Organization	Date of Admission	Capital: Subscribed	Capital: Paid in
		(in millions of U.S. dollars)	
Asian Development Bank	1966	2,863	213
International Monetary Fund[1]	1967[2]	3,282	3,282
World Bank Group			
International Bank for Reconstruction and Development	1967[2]	1,870	110
International Development Association	1967	15	—
International Finance Corporation	1968[3]	29	29
Multilateral Investment Guarantee Agency	1968	20	4
Islamic Development Bank[4]	1975	642	149
Export Financing Scheme	1992	2	1
Islamic Corporation for Insurance of Investment and Export Credit	1992	0.4	0.2
International Fund of Agricultural Development	1977	47	42
Common Fund for Commodities	1989	1	1
Bank for International Settlements	2003	60	60

Sources: Bank Indonesia and Ministry of Finance.

(1) Denominated in SDR of the IMF. Converted to U.S. dollars using the exchange rate on December 31, 2007 of $1.58025 to SDR 1.

(2) Before Indonesia rejoined the IMF and World Bank in 1967, it had become a member of these organizations in 1954 and had resigned its memberships in 1965.

(3) Before Indonesia rejoined the International Finance Corporation in 1968, it had become a member in 1956 and had resigned its membership in 1961.

(4) Denominated in Islamic dinars, or ID (ID 1 = SDR 1).

Territorial Dispute with Malaysia

In 2006, Indonesia and Malaysia agreed to use a joint commission on mapping and aids to navigation to settle any maritime territorial disputes, diffusing tensions between the two countries that arose in 2005 when the two countries publicly disagreed about oil exploration rights in an area in the Sulawesi Sea known as the "Ambalat block." The dispute over the Ambalat block was discussed by Indonesian President Yudhoyono and Malaysian Prime Minister Datuk Seri Abdullah Ahmad Badawi during a summit meeting in January 2006. At that meeting the two leaders agreed on the urgency of settling border issues and that such settlements should be achieved based on the ongoing negotiation processes in accordance with the United Nations Convention on the Law of the Sea. They also agreed not to conduct oil and gas development in the block, pending resolution of the dispute.

Economy and Gross Domestic Product

Introduction

Indonesia is a developing nation with a relatively diversified economy. The principal sectors of the economy are manufacturing, agriculture, trade, hotel and restaurant services, financial services and mining and quarrying.

The Asian financial crisis significantly altered Indonesia's economic landscape. Policy initiatives implemented to address crisis-related problems have resulted in economic growth, with real GDP growth improving from a contraction of 13.1% in 1998 to growth of 6.3% in 2007. In 2007, Indonesia's real GDP growth rate of 6.3% was the highest since the beginning of the Asian financial crisis. Largely as a result of lower levels of growth and insufficient investment, unemployment has remained a persistent problem in Indonesia, climbing to 11.2% in November 2005 before decreasing to 8.5% in February 2008, the most recent date for which data is available. Manufacturing is still the largest sector of the economy but has grown more slowly than the economy as a whole in recent years. Economic growth since the crisis has been primarily driven by consumption and exports, although increased investment has played an increasingly important role since 2004.

The following table shows key economic indicators for the years indicated:

Key Economic Indicators

	2003	2004	2005	2006[P]	2007[P]
National account and prices:					
Real GDP growth	4.8%	5.0%	5.7%	5.5%	6.3%
Nominal GDP (in billions of U.S. dollars)[(1)]	235	257	288	369	438
Per capita GDP (in thousands of rupiah)	9,430	10,610	12,676	15,030	17,590
Per capita GDP (in U.S. dollars)[(1)]	1,099	1,186	1,318	1,663	1,947
Gross national savings (% of GNP)	23.9%	24.2%	25.0%	28.3%	28.5%
Average exchange rate (rupiah/U.S. dollars)	8,572	8,985	9,751	9,151	9,164
Inflation rate (change in CPI)	5.1%	6.4%	17.1%	6.6%	6.6%
Unemployment rate[(2)]	9.7%	9.9%	11.2%	10.3%	9.1%
External sector:					
Current account (% of GDP)	3.5%	0.6%	0.1%	2.9%	2.4%
Fiscal account:					
Budget surplus/(deficit) (% of GDP)	(1.7)%	(1.2)%	(0.5)%	(0.9)%	(1.3)%
External debt of the central government (in trillions of rupiah)[(1)]	588	618	641	610	626
Total debt of the central government (in trillions of rupiah)[(1)]	1,239	1,271	1,299	1,303	1,363
Debt service ratio (% of government revenue)	26.8%	33.2%	25.8%	24.7%	23.5%

Sources: BPS, Bank Indonesia and Ministry of Finance.

P Preliminary. For 2006 and 2007, data for real GDP growth, nominal GDP in U.S. dollars, per capita GDP in rupiah, per capita GDP in U.S. dollars, gross national savings as a percentage of GNP, the current account as a percentage of GDP, the budget deficit as a percentage of GDP, the external debt of the central government in rupiah and the total debt of the central government in rupiah are preliminary. For 2007, the debt service ratio is also preliminary.

(1) Nominal GDP and per capita GDP in U.S. dollars have been converted from rupiah into U.S. dollars and the U.S. dollar amounts of external debt and total debt of the central government have been converted into rupiah at the following exchange rates: Rp8,580.1 per U.S. dollar for 2003, Rp8,944.3 per U.S. dollar for 2004, Rp9,620.4 per U.S. dollar for 2005, Rp9,039.7 per U.S. dollar for 2006 and Rp9,034.0 per U.S. dollar for 2007. These annual exchange rates are calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given year.

(2) The unemployment rates for 2003, 2004, 2005, 2006 and 2007 are based on the August 2003, August 2004, November 2005, August 2006 and August 2007 labor force surveys, respectively. As of February 2008, Indonesia's unemployment rate was 8.5%, based on the February 2008 labor force survey.

Gross Domestic Product

Indonesia was the hardest-hit economy during the Asian financial crisis, with real GDP contracting 13.1% in 1998. The economy began recovering in 2000, and annual real GDP growth measured 5.7%, 5.5% and 6.3% in 2005, 2006 and 2007, respectively. In the first quarter of 2008, real GDP growth was 6.3% compared to the first quarter of 2007. In recovering from the crisis over the last several years, Indonesia has made substantial progress towards achieving macroeconomic stability and reducing the economy's sensitivity to external shocks.

The following table shows the distribution of GDP in the Indonesian economy by expenditure for the years indicated:

Distribution of Gross Domestic Product by Expenditure
(at current market prices)

	2003	2004	2005	2006[P]		2007[P]	
	(in billions of rupiah)			(in billions of rupiah and percentages of GDP)			
GDP	2,013,675	2,295,826	2,774,281	3,339,480	100.0%	3,957,404	100.0%
Add: Imports of goods and services	465,941	632,376	830,083	855,588	25.6	1,002,507	25.3
Total supply of goods and services	2,479,616	2,928,202	3,604,365	4,195,067	125.6	4,959,911	125.3
Less: Exports of goods and services	613,721	739,639	945,122	1,036,316	31.0	1,161,956	29.4
Total domestic expenditure	1,865,895	2,188,563	2,659,243	3,158,751	94.6%	3,797,954	96.0%
Allocation of total domestic expenditure:							
Private consumption	1,372,078	1,532,888	1,785,596	2,092,656	62.7%	2,511,308	63.5%
Public consumption	163,701	191,056	224,981	288,080	8.6	329,760	8.3
Total consumption	1,535,779	1,723,944	2,010,577	2,380,736	71.3	2,841,068	71.8
Gross domestic fixed capital formation	392,789	515,381	655,854	805,470	24.1	983,831	24.9
Change in stocks (residual)[1]	(62,673)	(50,762)	(7,188)	(27,455)	(0.8)	(26,945)	(0.7)
Total domestic expenditure	1,865,895	2,188,563	2,659,243	3,158,751	94.6%	3,797,954	96.0%

Source: BPS.

P Preliminary.

(1) Includes statistical discrepancies.

In 2004, real GDP grew by 5.0%, an increase from 4.8% in 2003. Growth was mainly driven by the transportation and communication sector, which experienced growth of 13.4%, followed by the financial and construction sectors, with growth of 7.7% and 7.5%, respectively. The two largest sectors, manufacturing and trade, grew 6.4% and 5.7%, respectively. Positive growth was recorded in all sectors, except for the mining sector, which declined 4.5%, mainly due to continued lower investment in the oil and gas industry. Private consumption as a component of GDP remained relatively constant from 2003 to 2004 at approximately 68.1% of GDP in 2003 and 66.8% of GDP in 2004. However, investment grew by 14.6% in 2004, compared to 0.6% in 2003. As a percentage of GDP, investment increased from 19.5% in 2003 to 22.4% in 2004.

In 2005, real GDP grew by 5.7%, an increase from 5.0% in 2004. Growth was mainly driven by the transportation and communication sector, which experienced growth of 12.8%, followed by the trade and construction sectors, which had growth of 8.3% and 7.5%, respectively. The largest sector, manufacturing, grew by 4.6%. Positive growth was recorded in all sectors, with the lowest growth being in the agriculture sector at 2.7%. The private consumption component of GDP decreased to 64.4% in 2005 from 66.8% in 2004, while investment increased slightly to 23.6% of GDP in 2005, from 22.4% in 2004. Economic growth in the last three months of 2005 was slower than 2005 as a whole. The slower growth in the fourth quarter of 2005 was attributable primarily to the rise in fuel prices imposed by the government on October 1, 2005 and higher interest rates.

In 2006, real GDP grew by 5.5%, a decrease from 5.7% in 2005. Growth in 2006 was mainly driven by the transportation and communication sector, which experienced growth of 14.4%, followed by the construction sector, which grew by 8.3%. The largest sector of the economy, manufacturing, grew by 4.6%, below overall GDP growth in this period. Positive growth was recorded in all sectors, with the lowest growth being in the mining sector at 1.7%. The private consumption component of GDP decreased to 62.7% in 2006 from 64.4% in 2005, while investment increased to 24.1% of GDP in 2006, from 23.6% in 2005.

In 2007, real GDP grew by 6.3%, an increase from 5.5% in 2006. Positive growth was recorded in 2007 in all sectors of the Indonesian economy, with the lowest growth being in the mining sector at 2.0%. Growth in 2007 was mainly driven by the transportation and communication sector, which experienced growth of 14.4%, followed by the utilities sector, which grew by 10.4%. The largest sector of the economy, manufacturing, grew by 4.7%, below overall GDP growth in this period. The private consumption component of GDP increased to 63.5% in from 62.7% in 2006, while investment increased slightly to 24.9% of GDP in 2007 from 24.1% in 2006.

In the first quarter of 2008, real GDP grew by 6.3% compared to the same period in 2007. See "Recent Developments—Recent Economic Developments—Growth of Real Gross Domestic Product."

Inflation

Indonesia measures annual inflation by year-on-year changes in the CPI. Inflation in Indonesia reached a peak of 82.4% (on an annualized basis) in September 1998 but became relatively subdued through 2004, declining to 6.4% in that year. Higher energy prices and the decline in the value of the rupiah in 2005 caused inflation to rise to 17.1% in 2005. In 2006 and 2007, the inflation rate was 6.6% in both years, lower than in 2005, but slightly higher than in 2004. In May 2008, the Indonesian CPI (determined on a year-on-year basis) was 10.4% higher compared to May 2007, reflecting increasing oil, food and other commodity prices. See "Recent Developments—Recent Economic Developments—Inflation."

The government sets inflation targets, and the Central Bank Law of 1999 (as amended) states that the main task of the central bank, Bank Indonesia, is to achieve and maintain stability in the value of the rupiah. The government's original targeted inflation rate for 2008 was within a range between 4.0% and 6.0%. In May 2008, the government announced that inflation for 2008 was expected to be within the range of 10.9% to 11.2%, primarily due to the increase in fuel prices resulting from the reduction in fuel subsidies implemented on May 24, 2008. See "Recent Developments—Recent Fiscal, Monetary and Economic Policy Developments—Revised 2008 Budget and the Government's Fiscal Policy for 2008," "—Reduction of Government Estimates Subsidies for Various Fuel Products, Implementation of Direct Cash Distribution Program, Increases in Food and Educational Assistance Programs and Changes to the Revised 2008 Budget Estimates" and "—Monetary Policy."

In order to maintain the purchasing power of low-income households, the government administers or influences prices for key goods and services, including fuel, rice, CPO (used for cooking oil), soybeans, electricity, telephone service and water, through the use of subsidies, value-added tax (“VAT”) exemptions, export taxes, limitations on imports and other regulatory measures.

The following table shows the CPI as of the end of the periods indicated and the annual percentage change over the previous year:

Changes in Consumer Price Index

	2003	2004	2005	2006	2007
CPI (2002 average = 100)	109.83	116.86	136.86	145.89	155.50
Annual percentage year-on-year	5.1%	6.4%	17.1%	6.6%	6.6%

Source: BPS.

The following table shows inflation for individual sectors of the economy for the periods indicated, in each case compared against the previous year:

Inflation

	2003	2004	2005	2006	2007
	(in percentages)				
Overall	5.1	6.4	17.1	6.6	6.6
Food	(1.7)	6.4	13.9	12.9	11.3
Processed food, beverages and cigarettes	6.2	4.9	13.7	6.4	6.4
Housing	9.2	7.4	13.9	4.8	4.9
Clothing	7.1	4.9	6.9	6.8	8.4
Health	5.7	4.8	6.1	5.9	4.3
Education, recreation and sports	11.7	10.3	8.2	8.1	8.8
Transportation and communication	4.1	5.8	44.8	1.0	1.3

Source: BPS.

In 2004, Indonesia’s annual inflation rose to 6.4%, compared to 5.1% in 2003. The main contributors to inflation in 2004 were prices for housing, which increased by 7.4%, followed by food prices, which rose by 6.4%, and transportation and communication, which rose by 5.8%. The rises in these prices were attributable in part to the depreciation in the rupiah and increasing LPG and food prices. Prices for education, recreation and sports increased by 10.3% in 2004, primarily due to increases in education fees and school books.

In 2005, annual inflation rose to 17.1%, compared to 6.4% in 2004. Significantly higher global oil prices caused the government to reduce government fuel subsidies, thereby resulting in a substantial increase in domestic fuel prices. Fuel prices rose an average of approximately 29% in March 2005 and approximately 100% in October 2005. The increase in fuel prices resulted in CPI inflation increasing from 9.1% in September 2005 to 17.9% in October 2005. In addition to rising oil prices, higher inflation in 2005 was driven by an increase in other administered prices, such as transportation fares, cigarette duty, LPG prices and toll road tariffs. Food prices also showed a significant increase, primarily due to distribution and supply problems; these problems were the result of the fuel price hikes and oil scarcity in some areas. Rupiah depreciation also contributed to higher inflation.

In 2006, annual inflation was 6.6%, significantly lower than the 2005 inflation rate of 17.1%. A 12.9% increase in food prices was the largest contributor to the 2006 inflation rate. Prices of food increased significantly in 2006, mainly due to unfavorable weather conditions, which adversely affected agricultural production, particularly in the fourth quarter. Prices for education, recreation and sports, the next largest contributor to 2006 inflation, rose 8.1%, primarily due to increases in school fees. In 2006, prices for clothing and for processed food, beverages and cigarettes increased by 6.8% and 6.4%, respectively, generally in line with the overall inflation rate. Housing prices, primarily rent, increased by 4.8% during 2006. Prices for transportation and communication, which was the smallest contributor to inflation in 2006, grew by 1.0% in 2006. Inflation in 2006 was lower than in 2005 primarily due to the fact that the 2005 inflation rate reflected the effects of the substantial increases in fuel prices in March and October 2005. Lower inflation in 2006 also resulted from a government policy of freezing or limiting increases in government-controlled prices for certain commodities and products, such as electricity and rice, the appreciation of the rupiah and improved consumer confidence.

In 2007, Indonesia's annual inflation rate was 6.6%, which was the same as the 2006 inflation rate. Inflation in food prices, at 11.3%, remained the principal contributor to the inflation rate, mainly due to increases in the prices of cooking oil and rice. Cooking oil prices rose as a result of increasing exports of CPO, while rice prices increased due to shortages primarily in the first half of 2007 arising from adverse weather conditions experienced in 2006. Inflation of 8.8% in the price of education, recreation and sports, primarily due to increases in school fees, was also a significant contributor. Prices of processed food, beverages and cigarettes, housing and health increased at rates under the overall inflation rate, while prices of clothing increased at a rate over the overall inflation rate. The smallest contributor to inflation remained transportation and communication, for which prices rose 1.3% over this period. Prices for transportation remained relatively constant as fuel subsidies have maintained the price of fuel. Inflation in 2007 remained within the government's target range of 5% to 7% for 2007.

Indonesia's inflation rate has increased significantly in the first five months of 2008. For a discussion of inflation in the first five months of 2008, see "Recent Developments—Recent Economic Developments—Inflation."

Privatization of State-Owned Enterprises

The sale by the government of SOEs to private investors has been an important means for the government to promote private investment and to improve the efficiency, transparency, public accountability and corporate governance of the country's SOEs. The following table sets forth significant SOEs that have been fully or partially privatized since 1997, the government's interest in the SOE after the sale and the proceeds to the government and to the SOEs, respectively, from the sales of the government's shares:

State-Owned Enterprise Privatizations

State-Owned Enterprise	Year of Offering	Government Equity Interest after Offering	Proceeds to the Government	Proceeds to State-Owned Enterprise
		(in percentages)	(in billions of rupiah and millions of U.S. dollars)	
PT Aneka Tambang (Persero) Tbk	1997	65.0%	—	Rp603
PT Semen Gresik (Persero) Tbk	1998	51.0	Rp1,317	—
PT Jakarta International Container Terminal[1]	1999	51.0	—	$190
PT Terminal Petikemas Surabaya[2]	1999	49.0	—	$157
PT Telekomunikasi Indonesia (Persero) Tbk	1999	66.2	Rp3,188	—
	2001	54.3	Rp3,100	—
	2002	51.2	Rp1,100	—
PT Kimia Farma (Persero) Tbk	2001	90.8	—	Rp110
PT Indofarma (Persero) Tbk	2001	80.2	—	Rp150
PT Socfin Indonesia (Persero)	2001	10.0	$45	—
PT Indonesian Satellite Corporation Tbk	2002	14.4	$608	—
			Rp967	—
PT Tambang Batubara Bukit Asam (Persero) Tbk	2002	84.0	Rp159	Rp16
	2004	65.0	Rp180	—
PT Wisma Nusantara International (Persero)	2002	—	Rp255	—
PT Bank Mandiri (Persero) Tbk	2003	80.0	Rp2,547	—
	2004	70.0	Rp2,844	—
PT Indocement Tunggal Prakarsa Tbk	2003	—	Rp1,157	—
PT Bank Rakyat Indonesia (Persero) Tbk	2003	59.5	Rp2,512	Rp1,472
PT Perusahaan Gas Negara (Persero) Tbk	2003	65.5	Rp935	Rp1,163
	2004	61.0	Rp306	Rp16
	2006	54.6	Rp2,088	—
PT Pembangunan Perumahan (Persero)	2004	51.0	Rp60	—
PT Adhi Karya (Persero) Tbk	2004	51.0	Rp65	Rp63
PT Bank Negara Indonesia (Persero) Tbk	2007	74.9	Rp3,125	Rp3,998
PT Wijaya Karya (Persero) Tbk	2007	68.4	—	Rp775
PT Jasa Marga (Persero) Tbk	2007	70.0	—	Rp3,468

Source: Ministry of State-Owned Enterprises.

(1) Previously 100% owned by PT Pelabuhan Indonesia II (Persero), an SOE.

(2) Previously 100% owned by PT Pelabuhan Indonesia III (Persero), an SOE.

Since 1997, 20 SOEs have been privatized in part or in full, including the sale of shares in PT Telekomunikasi Indonesia (Persero) Tbk ("Telkom"), PT Perusahaan Gas Negara (Persero) Tbk, PT Bank Mandiri (Persero) Tbk ("Bank Mandiri"), PT Indonesian Satellite Corporation Tbk ("Indosat") and PT Bank Negara Indonesia Tbk. In addition, the government, through the Indonesian Bank Restructuring Agency ("IBRA") and PT Perusahaan Pengelola Aset (Persero) ("PPA"), has sold its stake in certain non-SOE entities and assets. See "Financial System—PT Perusahaan Pengelola Aset (Persero)." The Ministry of Finance recommended 15 SOEs to be privatized in 2007. Out of these fifteen companies, privatization plans for three companies were effected in 2007 upon consultation with the House of Representatives, namely PT Bank Negara Indonesia (Persero) Tbk., PT Wijaya

Karya (Persero) Tbk. and PT Jasa Marga (Persero) Tbk. For 2008, the government has submitted proposals for the partial or full privatization of 45 SOEs to the House of Representatives. The House of Representatives has approved plans by the government to sell its remaining minority equity interests, ranging from 0.38% to 36.6%, in six of these SOEs, and is currently reviewing the government's privatization plans for the remaining 39 SOEs. Some of the privatization plans of the larger SOEs, such as PT Garuda Indonesia (Persero) ("Garuda Indonesia") and PT Merpati Nusantara Airlines (Persero), two state-owned airlines, and PT Krakatau Steel, a state-owned steel mill, envision partial privatization through the issuance of new shares by the SOE to strategic investors or to the public through an initial public offering. In addition, the government is continuing to restructure and consolidate the remaining SOEs by encouraging SOEs to rely on independent financial resources and promote mergers and the formation of holding company structures.

Principal Sectors of the Economy

Indonesia's major economic sectors are manufacturing (including oil and gas), agriculture, trade, hotel and restaurant services, financial services and mining and quarrying. The manufacturing sector accounts for the largest portion of GDP.

The following two tables show GDP by sector at current market prices and constant market prices, respectively, for 2003 to 2007:

Gross Domestic Product by Major Sectors
(at current market prices)

	2003	2004	2005	2006[P]	2007[P]	
		(in billions of rupiah)			(in billions of rupiah and percentages of GDP)	
Manufacturing:						
Oil and gas	77,668	94,263	138,441	172,095	182,296	4.6%
Manufacturing (excluding oil and gas)	491,253	550,079	621,920	747,438	886,510	22.4
Total manufacturing	568,920	644,343	760,361	919,533	1,068,806	27.0
Agriculture, livestock, forestry and fisheries:						
Farm food crops	157,649	165,558	181,332	214,346	268,124	6.8
Non-food crops	46,754	49,631	56,434	63,401	84,459	2.1
Livestock and products	37,354	40,635	44,203	51,075	62,096	1.6
Forestry	18,415	20,290	22,562	30,066	35,734	0.9
Fisheries	45,612	53,011	59,639	74,335	96,822	2.4
Total agriculture, livestock, forestry and fisheries	305,784	329,125	364,169	433,223	547,236	13.8
Trade, hotel and restaurant services	335,100	368,556	431,620	501,542	590,822	14.9
Financial, insurance, real estate and business services	174,075	194,411	230,523	269,121	305,216	7.7
Mining and quarrying:						
Oil and gas	95,152	118,485	177,606	200,082	234,158	5.9
Mining and quarrying (excluding oil and gas)	72,420	86,767	131,408	166,424	206,669	5.2
Total mining and quarrying	167,572	205,252	309,014	366,505	440,826	11.1
Construction	125,337	151,248	195,111	251,132	305,216	7.7
Transport and communications	118,916	142,292	180,585	231,809	265,257	6.7
Services:						
General government	101,606	121,129	135,133	167,800	205,344	5.2
Private sector services	97,220	115,741	141,071	168,459	193,955	4.9
Total services	198,826	236,870	276,204	336,259	399,299	10.1
Electricity, gas and water supply	19,144	23,730	26,694	30,355	34,726	0.9
Total GDP	2,013,675	2,295,826	2,774,281	3,339,480	3,957,404	100.0%

Source: BPS.

[P] Preliminary.

Gross Domestic Product by Major Sectors
(at constant market prices)

	2003	2004	2005	2006[P]	2007[P]	
		(in billions of rupiah)			(in billions of rupiah and percentages of GDP)	
Manufacturing:						
Oil and gas	52,609	51,584	48,659	47,851	47,816	2.4%
Manufacturing (excluding oil and gas)	389,146	418,369	442,903	466,249	490,262	25.0
Total manufacturing	441,755	469,952	491,561	514,100	538,078	27.4
Agriculture, livestock, forestry and fisheries:						
Farm food crops	119,165	122,612	125,802	129,549	134,076	6.8
Non-food crops	38,694	38,849	39,811	41,318	42,751	2.2
Livestock and products	30,647	31,673	32,347	33,430	34,531	1.8
Forestry	17,214	17,434	17,177	16,687	16,401	0.8
Fisheries	34,668	36,596	38,746	41,419	43,828	2.2
Total agriculture, livestock, forestry and fisheries	240,387	247,164	253,882	262,403	271,587	13.8
Trade, hotel and restaurant services	256,517	271,142	293,654	312,521	338,946	17.3
Financial, insurance, real estate and business services	140,374	151,123	161,252	170,074	183,659	9.4
Mining and quarrying:						
Oil and gas	103,087	98,636	96,895	95,853	94,719	4.8
Mining and quarrying (excluding oil and gas)	64,517	61,464	68,328	72,176	76,643	3.9
Total mining and quarrying	167,604	160,101	165,223	168,029	171,362	8.7
Construction	89,622	96,334	103,598	112,234	121,901	6.2
Transport and communications	85,458	96,897	109,262	124,976	142,945	7.3
Services:						
General government	71,148	72,324	73,700	76,618	80,778	4.1
Private sector services	73,957	80,583	87,099	94,087	101,194	5.2
Total services	145,105	152,906	160,799	170,705	181,972	9.3
Electricity, gas and water supply	10,349	10,898	11,584	12,251	13,525	0.7
Total GDP	1,577,171	1,656,517	1,750,815	1,847,293	1,963,974	100.0%

Source: BPS.

P Preliminary.

Manufacturing

Indonesia's principal manufactured goods include paper, automobiles, yarn, motorcycles and pulp. Other major manufactured goods include automobile tires, assembled televisions sets and fertilizer. Manufacturing has been the largest contributor to economic growth since the 1980s. For statistical purposes, the Republic divides the manufacturing sector into the oil and gas manufacturing sub-sector, which measures the level of petroleum refining and LNG production, and the non-oil and gas manufacturing sub-sector, which measures all other manufacturing activities.

In 2005, manufacturing industries grew by 4.6%, compared with a rate of 6.4% in 2004. Non-oil and gas manufacturing increased by 5.9%, while oil and gas manufacturing decreased by 5.7%. The increase in non-oil and gas manufacturing was driven mainly by an increase in the manufacturing of transport equipment and machinery, which grew by 12.4%, and fertilizers, chemicals and rubber products, which grew by 8.8%. Oil and gas manufacturing declined in both the petroleum refinery sub-sector and LNG sub-sector, which declined by 5.0% and 6.2%, respectively.

In 2006, manufacturing industries grew by 4.6%, equal to the rate in 2005. Non-oil and gas manufacturing increased by 5.3% in 2006, primarily due to growth in the transport equipment and machinery sub-sector, which grew by 7.6%, and the food, beverages and tobacco sub-sector, which grew by 7.2%. Oil and gas manufacturing declined in both the petroleum refinery sub-sector and the LNG sub-sector, which declined by 1.7% and 1.9%, respectively.

In 2007, manufacturing industries grew by 4.7% compared to a rate of 4.6% in 2006. Non-oil and gas manufacturing increased by 5.2% during 2007, primarily due to growth in the transport, equipment and machinery sub-sector, which grew by 9.7%. Oil and gas manufacturing declined in both the petroleum refinery sub-sector and the LNG sub-sector, which declined by 0.1% and 0.2%, respectively.

The following table sets forth selected product groups within the manufacturing sector and their unit annual levels of production for the periods indicated:

Production of Selected Manufactured Goods

Product	Unit	2003	2004	2005	2006	2007[P]
Paper	Thousand tons	9,025	9,564	8,207	8,543	N/A
Cement	Thousand tons	28,951	33,042	33,917	33,106	35,033
Urea fertilizer	Thousand tons	5,702	5,644	5,829	5,660	5,926
Automobiles	Thousand units	278	422	501	296	412
Motorcycles	Thousand units	2,814	3,897	5,113	4,459	4,722
Textiles	Million units	57	55	53	58	N/A

Source: BPS.

[P] Preliminary.

N/A Not available.

Agriculture

In 2005, the agriculture sector grew by 2.7%, lower than its growth in 2004 of 2.8%. All sub-sectors in the agriculture sector experienced lower growth in comparison with 2004, with the exception of the estate cash crops and fishery sub-sectors. Growth in the food crops sub-sector, the largest sub-sector in the agriculture sector, decreased because of a fall in harvested area from 11.9 million hectares to 11.8 million hectares. Lower growth in the livestock sub-sector resulted from increasing production costs, as the rupiah weakened and domestic oil prices increased significantly, and growth was negative in the forestry sub-sector.

In 2006, the agriculture sector grew by 3.4%, which was higher than its growth rate of 2.7% in 2005. All sub-sectors in the agriculture sector other than forestry experienced higher growth in 2006 than in 2005. The highest growth in the agriculture sector during this period was in the fishery sub-sector at 6.9%, compared to its 5.9% growth rate in 2005, as production of farmed fish continued to increase significantly. Estate cash crops, which grew at 2.5% in 2005, grew at 3.8% in 2006.

In 2007, the agriculture sector grew by 3.5%, which was slightly higher than its growth rate of 3.4% in 2006. The highest growth in the agriculture sector during this period was in the food crops sub-sector, at 3.5%, compared to growth of 3.0% in 2006, and the fishery sub-sector, at 5.8%, compared to growth of 6.9% in 2006. The growth in food crops was the result of increased rice production, mostly achieved in the second half of 2007, as agricultural areas recovered from adverse weather effects in 2006 and also due to increased availability of fertilizer. Estate cash crops also grew at 3.5% for 2007, and the livestock sub-sector grew at 3.3%. The forestry sub-sector continued to decline during this period, as increased enforcement of laws combating illegal logging affected production.

The following table sets forth production statistics for Indonesia's most important agricultural products in the years indicated.

Production of Principal Agricultural Products by Sub-sectors

	2003	2004	2005	2006	2007[P]
	(in thousand of tons)				
Food crops:					
Rice	52,138	54,088	54,151	54,455	57,052
Cassava	18,524	19,425	19,321	19,987	19,803
Corn	10,886	11,225	12,524	11,609	13,286
Sweet potato	1,991	1,902	1,857	1,854	1,875
Soybeans (shelled)	672	723	808	748	592
Peanuts (shelled)	786	837	836	838	789
Mungbean	335	310	321	316	322
Fish products:					
Capture fish	4,692	4,651	4,706	4,806	4,942
Farmed fish/aquaculture	1,224	1,469	2,164	2,683	3,089
Estate cash crops:					
Dry rubber:					
Large Plantation	396	404	432	555	578
Small Plantation	1,396	1,662	1,839	2,083	2,186
Coffee:					
Large Plantation	28	29	25	29	30
Small Plantation	645	618	616	653	657
Cacao:					
Large Plantation	64	55	55	67	74
Small Plantation	635	637	694	702	705
Tea:					
Large Plantation	123	126	130	109	96
Small Plantation	47	40	38	37	41
Sugar cane:					
Large Plantation	793	1,023	1,048	1,080	1,091
Small Plantation	839	1,029	1,194	1,227	1,239
Tobacco:					
Large Plantation	4	3	4	4	4
Small Plantation	197	162	149	142	146
Palm oil:					
Large Plantation	6,924	6,983	7,361	11,568	11,568
Small Plantation	3,517	3,847	4,501	5,783	5,805
Palm kernel:					
Large Plantation	1,436	1,536	1,619	1,619	2,314
Small Plantation	668	731	855	1,157	1,161
Livestock:					
Meat	1,873	2,020	1,817	2,063	2,170
Eggs	974	1,107	1,052	1,204	1,298
Milk(1)	553	550	536	617	637
Forestry(2):					
Logs	11,424	13,549	24,223	21,792	27,310
Sawn timber	763	433	1,472	679	525
Plywood	6,111	4,514	4,534	3,812	3,310

Sources: BPS, Ministry of Agriculture, Ministry of Marine Affairs and Fishery and Ministry of Forestry.

[P] Preliminary

(1) In millions of liters.

(2) In thousands of cubic meters.

Food Crops. Rice is the most important food crop and the main source of carbohydrates in the Indonesian diet. Rice production has been relatively stable from 2002 to 2007, growing by 1.3% in

2003 and 3.7% in 2004, but slowing to growth of 0.1% in 2005 and 0.6% in 2006 and then growing by 4.8% in 2007. In early 2004, the government imposed a ban on the importation of rice in an effort to increase the income of rice farmers and to encourage rice farmers not to sell productive rice fields to other users. This import ban contributed to the increase in rice production in 2004. However, due to several natural disasters, most notably the March 2005 earthquake and the December 2004 tsunami in Aceh, there was only a slight increase in rice production in 2005. The government, nevertheless, continued its ban on the importation of rice, except for imports of specialized categories of rice, such as rice for diabetics and glutinous rice. This import restriction and other government policies to revitalize the agriculture sector contributed to a 4.8% increase in rice production in 2007.

Soybean production increased significantly in 2004 as domestic demand for soybean products grew. This upward trend continued in 2005, with an 11.8% increase over the previous year. However, soybean production decreased by 7.4% in 2006 and 20.9% in 2007 due to competition for land use from other crops, notably corn. Peanut production increased from 2003 to 2004 as domestic demand for peanuts grew, remained relatively stable from 2004 to 2006 but decreased 5.9% in 2007 due to competition for land use from other crops, such as corn. Corn production grew steadily from 2003 to 2005 due to higher demand and increased use of hybrid corn varieties but declined in 2006 due to flooding in some production areas. Corn production increased 14.4% in 2007 due to higher demand. Production of cassava increased during 2006, as domestic and international demand for cassava grew, particularly as a raw material for biofuel but decreased in 2007 due to competition for land use from other crops. Production of sweet potatoes and mungbean has remained stable in the last few years.

Fishing. The Indonesia fisheries sector, which includes both capture and aquaculture, plays an important role in the national economy. Productive fishing grounds within Indonesia are located in the South China Sea, the Makassar Strait, the Flores Sea, the Banda Sea, the Arafura Sea, the Tomini Bay, the Maluku Sea and the Indian Ocean. In recent years, fishery products from aquaculture, particularly shrimp, have become important export commodities. From 2003 to 2007, production of farmed fish/aquaculture increased approximately 152% from 1.2 million tons in 2003 to 3.1 million tons in 2007. The largest increase in the farmed fish/aquaculture sub-sector in 2007 was in marine culture, which had average growth of 62.2% from 2003 to 2007. The increase in marine culture production was primarily due to increased production of seaweed which is a relatively easy commodity to grow with a relatively short average harvesting period of 45 days.

From 2003 to 2007, total fish production increased an average of 8% each year, from approximately 5.9 million tons in 2003 to approximately 8.0 million tons in 2007. The country's exports of fish and aquatic products consist of shrimp, skipjack, tuna and other fish and aquatic species such as grouper, tilapia, abalone, seaweeds, sea cucumber, pearls and other mollusks. From 2003 through 2007, although the export volume of fishery products increased an average of 0.2% per year, export revenues increased an average of 9.5% per year. Export revenues from fishery products were $1.6 billion in 2003 and $2.3 billion in 2007. The lesser rate of growth in export revenues of fishery products from 2003 to 2007, compared to the growth rate of export volumes, was due mainly to decreases in export prices that resulted from increased international competition. In 2007, export volume of fishery products declined as average prices increased, as a result of a focus on higher economic value fish and value-added seafood products.

Estate Cash Crops. Palm oil is the Republic's most important cash crop, followed by rubber and sugar cane. Large plantations produce the majority of palm oil, palm kernel and tea, while rubber, cacao, tobacco, sugar cane and coffee are produced primarily by small holders. Exports of palm oil and rubber and, to a lesser extent, coffee and cacao are significant sources of foreign exchange revenue. From 2003 to 2007, the non-food crops sub-sector increased from Rp38,694 billion to Rp42,751 billion, an average growth of 2.5% per year. Palm oil production increased 46.3% in 2006 but remained flat in 2007 due to increases in land area cultivated and higher productivity spurred by high demand for palm oil products in the domestic and international markets. Sugar cane production and cacao production each increased 1.0% in 2007. Rubber production has steadily increased since 2003 and grew 4.8% in 2007 because of higher prices and higher demand for natural rubber products. In 2007, production of rubber, cacao, palm oil, palm kernel and sugar cane was 2.8 million tons, 779 thousand tons, 17.4 million tons, 3.5 million tons and 2.3 million tons, respectively. In 2007, production of palm kernel increased by 25.2% over 2006, primarily due to higher market prices for palm kernel.

Livestock. Livestock contributed 11.4% of the total agriculture output in 2007 and has maintained a relatively stable portion of total agriculture output since 2003. Growth of livestock output has averaged around 3.0% per year from 2003 to 2007. Livestock production is steadily increasing and is expected to increase along with income levels. Meat production increased by 5.2% from 2,063 thousand tons in 2006 to 2,170 thousand tons in 2007. Egg production increased by 7.8% from 1,204 thousand tons in 2006 to 1,298 thousand tons in 2007. Milk production increased by 3.2% from 617 thousand liters in 2006 to 637 thousand liters in 2007. In 2007, the per capita level of meat, egg and milk consumption was 6.6 kilograms, 5.3 kilograms and 11.0 kilograms, respectively.

Forestry. Indonesia's forestry sector experienced rapid expansion following the late 1960s, when development of Indonesia's forests first began on a large scale. Principal tropical hardwood resources are located in Kalimantan, Sumatra, Papua and Sulawesi. Although the development of Indonesia's tropical forests is important to the country's continued development, the preservation of those forests and the establishment of long-term sustainable forest management and renewable forestry resources through the establishment of reforestation programs are also government concerns. Currently, logging companies are only permitted to conduct selective cutting, and they are required to pay reforestation and royalty fees to the government based on the quantity of logs harvested. The logging companies are also required to implement reforestation programs on their forestry concessions. From 1993 to 2002, in this increasingly regulated environment, the export value of processed wood products decreased at an average annual rate of 13.2%. However, beginning in 2002, prices stabilized. The export value of processed wood was $3.3 billion in 2004, $3.1 billion in 2005, $3.3 billion in 2006 and $3.1 billion in 2007. While the export value of processed wood has remained relatively stable, in 2007 the production volume of logs increased by approximately 25% compared to 2006 due to the increase in the number of forest management licenses issued by the government in 2007 and the implementation of a program by the Ministry of Forestry to encourage log production. In 2007, production of sawn timber and plywood decreased due to the obsolescence of production equipment owned by certain companies producing sawn timber and plywood.

Transportation and Communications

In 2005, the transportation and communications sector grew by 12.8% mainly due to higher growth in the communication sub-sector. The transportation sub-sector, however, experienced slower growth of 6.3%, compared to 8.8% in 2004. Substantially higher fuel prices in 2005, passed on to consumers in the form of fuel surcharges, led to a lower number of passengers. Compared to other transportation modes, the sea transport sub-sector grew by 8.8% in 2005, compared to 3.6% in 2004. Air transport grew at a higher rate than the transportation sub-sector in general, 10.4%, but at a lower rate than in previous years. From 2003 to 2005, air transport grew at an average annual rate of 13.1% due to a continuing shift in consumer preferences to air travel and due to increased domestic tourism.

In 2006, the transportation and communications sector grew by 14.4%, with growth rates for the transportation sub-sector and communications sub-sector of 6.6% and 26.4%, respectively. Growth in the transportation sub-sector was fueled by growth in air transport, sea transport and transportation services, which grew by 7.2%, 10.7% and 7.1%, respectively. Growth in air transport in 2006 was due to increased demand for domestic air transport and international air transport. In 2006, demand for domestic passenger air transport, international passenger air transport and international cargo air transport grew 18.1%, 10.2% and 25.2%, respectively, compared to 2005. Railway transport grew by 6.4% in 2006 after declining in each year from 2001 to 2005. Strong demand for mobile communications was the primary contributor to the significant growth rate of the communications sub-sector in 2006, as reflected by an increase in the number of mobile phone subscribers from approximately 47 million at the end of 2005 to approximately 64 million at the end of 2006.

In 2007, the transportation and communications sector grew by 14.4%, with growth rates for the transportation sub-sector and communications sub-sector of 2.8% and 29.5%, respectively. Growth in the transportation sub-sector was fueled by growth in air transport and road transport, which grew 8.3% and 3.6%, respectively, offset by a 2.7% decline in sea transport. Growth in air transport in 2007 reflects strong demand for air travel. Strong demand for mobile communications was the primary contributor to the significant growth rate of the communications sub-sector in 2007, as reflected by an increase in the number of mobile phone subscribers from approximately 64 million at the end of 2006 to approximately 84 million at the end of September 2007.

Trade, Hotel and Restaurant Services

The trade, hotel and restaurant services sector recorded growth of 8.3% in 2005, mainly due to the contribution from the trade services sub-sector, which recorded growth of 8.8%. Growth in this sector was higher in the first half of 2005 and slowed in the second half, as trading activities weakened. The hotel and restaurant services sub-sectors attained slower growth of 6.2% and 5.9%, respectively, in 2005, down from 7.9% and 6.1%, respectively, in 2004. One reason for the slower growth in the hotel and restaurant services sub-sectors was fewer international tourist arrivals, as travelers became more concerned about security issues.

In 2006, the trade, hotel and restaurant services sector recorded growth of 6.4%, primarily due to growth in foreign and wholesale trade. Restaurant services grew at 5.8% in 2006, roughly in line with growth in the overall trade, hotel and restaurant services sector. Hotel services grew at a slightly lower rate of 5.2%, reflecting lower domestic tourism and international tourist arrivals resulting from continuing security concerns following the second Bali bombing in October 2005.

In 2007, the trade, hotel and restaurant services sector recorded growth of 8.5%, compared to 2006, primarily due to growth in the trade services sub-sector of 8.9%, which was due to continuing growth in foreign trade. Restaurant services grew at 6.8% during 2007. Hotel services grew at a rate of 5.3%.

Financial Services

Financial services was the most severely affected sector of the economy during the Asian financial crisis. In 1998, this sector contracted by more than one quarter of its value. Financial services have rebounded since then, and have experienced growth in each of the past several years. The financial services sector includes both banks and non-bank financial institutions such as insurance companies, pension funds, finance companies, venture capital companies, securities companies, mutual funds, credit guarantee companies and pawnshops. See "Financial System—Banks and Other Financial Institutions" for more information on the financial services sector.

In 2005, the financial services sector grew 6.7%, decreasing from growth of 7.7% in 2004. As interest rates and inflation increased in 2005, growth in bank financial services and non-bank financial services were lower, at 4.5% and 8.4%, respectively. However, growth in other services related to building rental and business services remained high, with growth rates of 6.7% and 9.3%, respectively. The banking sub-sector maintained a 38.3% share of the financial services sector in 2005.

In 2006, the financial services sector grew 5.5%, decreasing from growth of 6.7% in 2005. The slower growth in financial services was due to a decrease in the net interest margin and slower loan growth due to slower economic activity following the fuel price hike in October 2005, resulting in bank financial services growth of 1.6% in 2006. Non-bank financial services grew by 7.2%, decreasing from growth of 8.4% in 2005, while growth in other services related to building rental and business services grew by 8.5% and 9.5%, respectively. The banking sub-sector maintained a 35.6% share of the financial services sector in 2006.

In 2007, financial services grew at a rate of 8.0%, increasing from growth of 5.5% in 2006. The higher growth rate was mainly due to higher net interest margin and higher overall economic growth, resulting in bank financial services growth of 8.0%. The higher net interest margin was triggered by the downward trend in deposit rates, which was steeper than the decline in lending rates. Non-bank financial institutions, such as consumer financing institutions and leasing companies, also benefited from the decline in interest rates and the increase in overall economic growth. Non-bank financial services grew by 8.1%, an increase from growth of 7.2% in 2006, while growth in other services related to building rental and business services declined to 7.9% and 8.2%, respectively. The banking sub-sector maintained a 34.6% share of the financial services sector in 2007.

Mining and Quarrying

Indonesia produces a number of natural resources including oil, gas, coal and other minerals, and their exploitation has made an important contribution to the country's economic growth. The mining and quarrying sector is dominated by the oil and gas sub-sector. The dominance of the oil and gas sub-sector has declined steadily over each of the past five years as a percentage of the mining and quarrying sector, from 61.5% in 2003 to 55.3% in 2007. Because the oil and gas sub-sector still comprises over half of the mining and quarrying sector, recent declines in the oil and gas sub-sector have had a significant negative impact on the overall growth rate of the mining and quarrying sector.

Although oil and gas production has declined over the past several years, due primarily to decreased investment in the sub-sector, oil and gas are still Indonesia's largest exports, contributing approximately 21.1% of total exports in 2007 and approximately 26.5% of government domestic revenues (inclusive of income tax revenue from the oil and gas sub-sector) in the Revised 2008 Budget. Indonesia is no longer a net exporter of oil. In 2007, Indonesia received $24.9 billion from the export of oil and gas. See "Foreign Trade and Balance of Payments—Exports and Imports." Because products in the mining and quarrying sector are internationally traded commodities with prices set by the world markets, the performance of this sector on a year-to-year basis is determined primarily by international market prices. Investment levels are important to the sector's longer term performance, however.

In 2005, the mining and quarrying sector increased by 3.2%. The non-oil and gas mining sub-sector increased by 12.2% in 2005 compared to a contraction of 8.0% in 2004. In contrast, the production of oil and gas experienced another year of lower output, due to lower production from existing oil fields and insufficient exploration and development of new oil and gas fields.

In 2006, the mining and quarrying sector experienced the lowest growth of any major sector of the Indonesian economy at 1.7%. The non-oil and gas mining sub-sector grew 4.8%, primarily fueled by the strong growth of the coal industry. The quarrying sub-sector also grew briskly during 2006, at 8.3%. The oil and gas sub-sector declined 1.1% in 2006 due to the closure of depleted wells and low investment in exploration and development.

In 2007, the mining and quarrying sector again experienced the lowest growth of any major sector of the Indonesian economy, at 2.0%. The non-oil and gas mining sub-sector grew 5.5%, primarily fueled by increased production of coal, bauxite and nickel ore. The quarrying sub-sector increased at 8.6% in 2007. Reported production volumes in the quarrying sub-sector increased in 2007 due, in part, to changes in the central government's reporting system for mineral and metal production under which the provincial and local governments began reporting to the central government amounts of certain minerals and metals, such as nickel and bauxite, produced under regional and local mining licenses. The oil and gas sub-sector declined 1.2% during 2007. The oil and gas sub-sector has continued to experience difficulties due to the closure of depleted wells and low investment in exploration and development.

Oil and Natural Gas. Indonesia has been a member of OPEC since 1962 and is the sole OPEC member in the Asia-Pacific region. However, the Republic is considering the possibility of withdrawing from OPEC. See "Recent Developments—Potential Withdrawal from the Organization of Petroleum Exporting Countries."

Prior to 2001, Pertamina, the state-owned oil and gas company, had exclusive rights over the country's oil and gas industry, including exploration, exploitation, refining, processing, transportation and marketing. However, pursuant to the Oil and Natural Gas Law, which was adopted in 2001, the government ended Pertamina's monopoly over the oil and gas industry and converted Pertamina from a state-owned monopoly with regulatory authority into a state-owned limited liability company. The purpose of the 2001 law was to accelerate investment, optimize production and increase competition in the distribution and sale of oil and natural gas. The law also created two independent supervisory agencies, the Oil and Gas Upstream Activity Board (Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi or "BP Migas"), which regulates "upstream" oil and natural gas production, including the exploration, exploitation, production and export of oil and natural gas, and the Oil and Gas Downstream Regulatory Board (Badan Pengatur Kegiatan Hilir Minyak dan Gas Bumi or "BPH Migas"), which regulates "downstream" distribution of gasoline, including transport of oil and natural gas, pricing and small scale consumers. The 2001 law provides greater flexibility to the government in structuring production sharing contracts. Previously, the division of production between the government and private companies was required to comply with statutory requirements, but now the production sharing arrangement can be decided in light of geological conditions of the block covered by the contract. Private companies, including foreign companies, can participate in either exploration and production of oil and gas by entering into production sharing contracts or engaging in downstream business activities. In September 2005, the Republic entered into a 30-year production sharing contract with Exxon Mobil Corp, Pertamina and other parties to develop the Cepu block, which is estimated to contain oil resources of approximately 600 million barrels and natural gas resources of approximately 1.7 billion cubic feet. The September 2005 contract replaced a contract that had expired in 2004. In March 2006, the same parties entered into a joint operating agreement and an organization agreement, and, in July 2006, BP Migas entered into additional agreements with the parties, starting the process of developing the Cepu block. The Republic expects production to begin in the Cepu block before the end of 2008. In November 1998, the Republic entered into a 30-year production sharing contract with Inpex Masela Limited to explore and develop the Masela natural gas field, which is estimated to contain natural gas resources of approximately 6.3 trillion cubic feet. The Masela oil field project is still in the exploration stage.

Since November 2005, Pertamina no longer has a monopoly in the downstream sector and other market participants have begun marketing oil and gas products.

The following table sets forth crude oil production by source for the periods indicated:

Crude Oil Production by Source(1)

	2003	2004	2005	2006	2007
	(in millions of barrels)				
Pertamina(2)	35	35	35	38	48
Production sharing contracts(3)	384	366	353	329	300
Total	419	401	388	367	348

Source: Ministry of Energy and Mineral Resources.

(1) Includes production of natural gas condensate.

(2) In 2003, Pertamina became a state-owned limited liability company.

(3) Most of the production under production sharing contracts is provided to Pertamina.

Despite rising oil prices, Indonesia's oil production has declined in the last five years from 419 million barrels in 2003 to 348 million barrels in 2007. These decreases were due mainly to a substantial drop in oil exploration investments caused in part by regulatory uncertainty and delays in equipment repairs.

The following table sets forth Indonesia's crude oil exports by source for the periods indicated:

Crude Oil Exports(1)

	2003	2004	2005	2006	2007
	(in millions of barrels)				
Production sharing contracts(2)	189(3)	144	127	90	99
Government and government-designated(4)	—	35	32	37	34
Total	189	179	159	127	133

Source: Ministry of Energy and Mineral Resources.

(1) Includes exports of natural gas condensate.

(2) Most of the production under production sharing contracts is provided to Pertamina.

(3) Includes 41 million barrels of oil exported directly by Pertamina.

(4) Beginning in 2004, exports by Pertamina and entities designated by BP Migas are reported together.

The following table sets forth the average price of Indonesian crude oil, as measured by the ICP, for the periods indicated:

Average Price of Indonesian Crude Oil

	2003	2004	2005	2006	2007
	(in U.S. dollars per barrel)				
ICP(1)	28.77	37.58	53.40	64.26	72.31

Source: Directorate General of Oil and Gas, Ministry of Energy and Mineral Resources.

(1) For a description of the ICP, see "Certain Terms and Conventions."

The average monthly ICP has risen significantly since January 1, 2008 in line with rising international oil prices. See “Recent Developments—Recent Fiscal, Monetary and Economic Policy Developments—Reduction of Government Subsidies for Various Fuel Products, Implementation of Direct Cash Distribution Program, Increases in Food and Educational Assistance Programs and Changes to the Revised 2008 Budget Estimates.”

The following table sets forth natural gas production by source for the periods indicated:

Natural Gas Production by Source(1)

	2003	2004	2005	2006	2007
	(in billions of cubic feet)				
Pertamina(2)	320	367	362	350	285
Production sharing contracts(3)	2,835	2,663	2,623	2,604	2,520
Total	3,155	3,030	2,985	2,954	2,805

Source: Ministry of Energy and Mineral Resources.

(1) Includes LPG.

(2) In 2003, Pertamina became a state-owned limited liability company.

(3) Most of the production under production sharing contracts is provided to Pertamina.

Natural gas production has declined since 2003 as existing gas fields have declined in production at a greater rate than compensated by the development of new gas fields due to low levels of investment in natural gas production infrastructure.

As of January 1, 2007, the Ministry of Energy and Mineral Resources estimated oil reserves to be approximately 8.4 billion barrels and natural gas reserves to be approximately 165 trillion cubic feet, based on information from BP Migas and oil and gas contractors in Indonesia.

Minerals. Indonesia’s major mineral products are tin, nickel, bauxite, copper and coal. The majority of the country’s mineral production is exported, accounting for approximately 10.5% of all exports in 2007, respectively, compared to an average of 8.3% from 2003 to 2006. Most of the mining activity in Indonesia is conducted by three state-owned companies: PT Tambang Timah (Persero) Tbk, a tin mining company; PT Tambang Batubara Bukit Asam (Persero) Tbk, a coal mining company; and PT Aneka Tambang (Persero) Tbk, a company that mines all minerals other than tin and coal. Under Indonesian foreign investment rules, foreign companies may participate in the exploration and development of minerals as partners in joint ventures with private Indonesian companies.

The table below sets forth selected production statistics for the mining sector:

Production of Principal Mineral Products

	2003	2004	2005	2006[P]	2007[P]
Tin ore concentrate (thousands of metric tons)	72	73	78	81	91
Nickel ore (thousands of wet metric tons)[(1)]	4,395	4,095	2,546	4,354	10,175
Bauxite (thousands of metric tons)[(1)]	1,263	1,331	1,082	1,502	12,055
Copper ore concentrate (thousands of dry metric tons)	3,238	2,810	3,554	2,938	2,815
Coal (thousands of metric tons)	112,787	129,165	152,205	196,000	211,913
Iron sand concentrate (thousands of wet metric tons)	245	90	32	6	5
Gold (metric tons)	141	93	143	86	118
Silver (metric tons)	285	263	329	261	269

Source: Ministry of Energy and Mineral Resources.

[P] Preliminary.

(1) Under Indonesia law, regional governments are permitted to grant licenses for nickel and bauxite mining. Prior to 2007, some regional government authorities did not report nickel and bauxite production amounts to the central government. As a result, nickel and bauxite production amounts for years prior to 2007 may be understated. As of 2007, the regional government authorities regularly report nickel and bauxite production amounts to the central government.

Tin. PT Tambang Timah (Persero) Tbk is the largest tin producer in Indonesia. Indonesia's tin-ore deposits are concentrated in the Belitung and Bangka group of islands located off the eastern coast of Sumatra.

Nickel. Indonesia has some of the world's largest reserves of nickel ore, located primarily in Sulawesi, Gebe Island in the north Moluccas and west Papua. Two companies are currently mining nickel: PT Aneka Tambang (Persero) Tbk in Pomala, southeast Sulawesi, and PT International Nickel Indonesia Tbk in Soroako, south Sulawesi.

Bauxite. Indonesia's principal bauxite reserves are located on Bintan Island near Singapore and in west Kalimantan.

Copper. Copper deposits are found in Papua, Sumatra, Java and Sulawesi. The only copper producing companies currently operating in Indonesia are PT Freeport Indonesia and PT Newmont Nusa Tenggara.

Coal. Indonesia's coal industry has grown dramatically in recent years as the country has diversified its energy sources, decreasing its dependence on oil and making greater use of coal in electricity generation. Coal production has increased from 112.8 million tons in 2003 to 211.9 million tons in 2007. Most of the coal produced in Indonesia is exported. The majority of coal production that is consumed domestically is used for the generation of electricity.

Gold. Gold exploration in Indonesia has fluctuated in recent years. In 2005, 2006 and 2007, gold production in Indonesia was 143 tons, 86 tons and 118 tons, respectively. Substantially all of Indonesia's gold is exported.

Labor and Employment

Labor

The industrial relations environment in Indonesia has changed dramatically since 1998. After three decades of labor union repression, political reforms and democratization beginning in 1998 have resulted in improved labor rights and freedom for labor to organize. Changes in this environment have also created an opportunity for greater worker participation in the determination of their work conditions and standards. However, these changes have also created new and significant challenges in industrial relations and more frequent labor disputes.

The following table sets forth the proportion of the employed labor force in each sector of the economy for the years from 2003 through February 2008, together with the actual number employed in each sector as of February 2008:

Employment by Sector of the Economy

Sector	August 2003	August 2004	November 2005	August 2006	August 2007	February 2008	
	(in percentages)					(in millions and percentages)	
Agriculture, livestock, forestry and fisheries	46.4%	43.3%	44.0%	42.1%	41.2%	42.7	41.8%
Mining and quarrying	0.8	1.1	1.0	1.0	1.0	1.0	1.0
Manufacturing	12.4	11.8	12.7	12.5	12.4	12.4	12.2
Electricity, gas and water supply	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Construction	4.4	4.8	4.9	4.9	5.3	4.7	4.6
Trade, hotel and restaurant services	18.6	20.4	19.1	20.1	20.6	20.7	20.3
Transport and communications	5.3	5.8	6.0	5.9	6.0	6.0	5.9
Financial, insurance, real estate and business services	1.4	1.2	1.2	1.4	1.4	1.4	1.4
Services	10.6	11.2	11.0	11.9	12.0	12.8	12.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	102.0	100.0%

Source: BPS, National Labor Force Survey.

From August 2003 to August 2004, Indonesia's open unemployment rate rose from 9.7% to 9.9%. The number of jobs created in that period was lower than the twelve prior months, at 0.9 million compared to 1.2 million. Job creation was insufficient to absorb the 1.2 million new workers entering the labor market in the period. As of August 2004, the working age population reached 153.9 million people compared to 151.4 million in August 2003. Of the working age population, 104.0 million, or 67.5%, were members of the work force, consisting of 93.7 million who were employed and 10.3 million who were actively seeking jobs, for an open unemployment rate of 9.9%. The portion of workers who were either unemployed or underemployed was 36.7% of the work force, which was lower than the percentage in 2003. The increasing unemployment in 2004 was partly driven by layoffs in several manufacturing industries, including textiles and footwear, and at SOEs involved in the aerospace industry.

Indonesia's open unemployment rate increased to 11.2% in November 2005. The number of jobs created between August 2004 and November 2005 was 0.2 million, significantly less than in previous years, and job creation was insufficient to absorb the 1.9 million new workers entering the labor market in this period. As of November 2005, the working age population reached 158.5 million people, an increase of 4.6 million from August 2004. Of the working age population, 105.9 million, or 66.8%, were members of the work force, consisting of 94.0 million who were employed and 11.9 million who were actively seeking jobs, for an open unemployment rate of 11.2%. At the same time, the portion of workers who were either unemployed or underemployed was 38.5% of the work force, an increase from 36.7% in August 2004. Despite higher economic growth in 2005 compared to 2004, unemployment and underemployment increased primarily due to constrained growth in labor-intensive industries. In addition, due to significant wage increases in 2005, worker wages relative to the cost of capital increased, prompting many manufacturers to replace workers with machinery or alternative production methods.

Indonesia's open unemployment rate decreased to 10.3% in August 2006, reflecting improvements in the Indonesian economy which occurred in late 2005 through mid-2006. The number of jobs created from November 2005 to August 2006 was 1.5 million, which absorbed the 0.5 million new workers entering the labor market during that period and reduced the number of people who were actively seeking jobs by 1.0 million. As of August 2006, the working age population reached 160.8 million people, an increase of 2.3 million from November 2005. Of the working age population, 106.4 million, or 66.2%, were members of the work force, consisting of 95.5 million who were employed and 10.9 million who were actively seeking jobs, for an open unemployment rate of 10.3%. At the same time, the portion of workers who were either unemployed or underemployed was 37.6% of the work force, compared to 38.5% as of November 2005. Unemployment decreased in 2006 as macroeconomic conditions stabilized and economic growth increased.

Indonesia's open unemployment rate decreased to 9.1% in August 2007, reflecting continuing improvements in the Indonesian economy which occurred in late 2006 through mid-2007. The number of jobs created from August 2006 to August 2007 was 4.5 million, which absorbed the 3.6 million new workers entering the labor market during that period and reduced the number of people who were actively seeking jobs by 0.9 million. As of August 2007, the working age population reached 164.1 million people, an increase of 3.3 million from August 2006. Of the working age population, 109.9 million, or 67.0%, were members of the work force, consisting of 99.9 million who were employed and 10.0 million who were actively seeking jobs, for an open unemployment rate of 9.1%. At the same time, the portion of workers who were unemployed and underemployed remained relatively stable at 9.1% and 27.6% of the work force, compared to 10.3% and 27.4% in August 2006.

Indonesia's open unemployment rate decreased to 8.5% in February 2008, reflecting continuing improvements in the Indonesian economy which occurred from late 2007 to early 2008. See "Recent Developments—Recent Economic Developments—Unemployment."

Despite improvements in recent years, unemployment is expected to remain a problem in Indonesia if economic growth and job creation fail to keep pace with population growth.

Four important changes in labor policy have occurred within the last several years. First, the Trade Union Law, enacted in 2000, sets out certain industrial relations rights and provides support for formulating collective labor agreements and establishing trade unions within companies. Second, the new Manpower Law was enacted in March 2003, reaffirming the core International Labor Organization conventions and regulating minimum wages, dismissals and severance entitlements, and employment contracts. The Manpower Law also establishes clearer rules on union representation in collective bargaining at the enterprise level. Third, the Industrial Disputes Resolution Law, which was enacted in January 2004 and became effective in January 2006, prescribes procedures for resolving disputes and establishing new specialized labor courts. These three laws provide a modest, positive contribution to the overall policy environment and improve certainty in the industrial relations framework. Fourth, a new law relating to migrant workers was adopted in October 2004. The new law aims to regulate the movement of, and protect, Indonesian migrant workers through the establishment of a special government agency overseeing the placement of migrant workers.

Regional governments have the power to establish minimum wage requirements. In 2003 and 2004, regional governments increased minimum wages in line with inflation. In January 2005, minimum wages were adjusted by an average of 10.7%, which was above the 2004 inflation rate of 6.4%. In January 2006, minimum wages were adjusted by an average of 18.7%, which was above the 2005 inflation rate of 17.1%. In January 2007, minimum wages were adjusted by an average of 11.6%, which was above the inflation rate of 6.6% in 2006. In January 2008, minimum wages were adjusted by an average of 10.5%, which was above the inflation rate of 6.6% in 2007.

Pension and Health Funds

The pension system in Indonesia consists of compulsory and voluntary pension funds. The compulsory system includes health insurance for government employees (not including employees of SOEs) administered by PT Askes (Persero), pension plans for government employees (not including employees of SOEs) administered by PT Taspen (Persero), old age savings for the armed forces administered by PT Asabri and old age security for private sector and SOE employees (in companies that meet minimum requirements stipulated in the relevant law) administered by PT Jamsostek (Persero).

The establishment of pension funds for non-government employees is regulated by a 1992 law that provides for the establishment of two types of pension funds: employer pension funds, which are provided by a private employer to its employees, and financial institution pension funds, which are chosen and obtained by an employee from a financial institution. In addition, the law and several government regulations and decrees specify the types of assets that these pension funds may acquire, as well as the permissible allocation of investments among assets and asset classes. See "Financial System—Banks and Other Financial Institutions."

In October 2004, the government adopted a law establishing a national social security system ("SJSN"), a national program designed to ensure social protection and welfare to all Indonesian citizens. When implemented, the SJSN will provide health, accident, retirement, old age and death benefits to employees and is funded by defined contributions from the employee and employer, while payments to lower income persons are funded by the government. The Ministry of Finance is in the process of preparing the implementing regulations to establish the SJSN.

Income Distribution

The following table shows income distribution as of the end of the periods indicated:

Income Distribution
(percentage of total national income)

	2003	2004	2005	2006	2007
Lowest 40%	20.6%	20.8%	18.8%	19.8%	19.1%
Middle 40%	37.1%	37.1%	36.4%	38.1%	36.1%
Highest 20%	42.3%	42.1%	44.8%	42.1%	44.8%
Gini Index	0.32	0.32	0.36	0.33	0.36

Source: BPS.

The Gini index is a measure of income distribution that ranges between 0.0 and 1.0, with higher numbers indicating greater inequality. In practice, the lowest values do not go below 0.2; the highest ones may reach 0.6.

Income distribution improved during the Asian financial crisis, as the manufacturing sector suffered the greatest losses, and the agricultural sector performed relatively well by comparison. In addition, the depreciated rupiah provided better returns to primary commodities producers. Because agriculture and primary commodities producers tend to be concentrated in rural areas with lower income levels, the Asian financial crisis reduced income disparity somewhat across different regions and different sectors of society. Income distribution, as measured by the Gini index, has remained relatively constant from 2003 through 2007.

Infrastructure Development

The Asian financial crisis placed a great strain on Indonesia's infrastructure. During that period, the overall quality of the nation's infrastructure decreased as public spending in real terms was reduced and many planned private infrastructure projects were suspended or cancelled. Although the Asian financial crisis has ended, Indonesia continues to face major challenges in improving its infrastructure at the same time it seeks to consolidate and accelerate its economic recovery, improve its international competitiveness and increase access to basic public services. One of the priorities of the government is to encourage infrastructure development as a means to accelerate economic growth, support further industrial development and improve the lives and economic welfare of Indonesians by reducing unemployment and poverty. In order to promote infrastructure development, the government allocated Rp2.0 trillion in each of 2006 and 2007 for infrastructure development and, in 2008, expects to allocate a portion of the Rp2.8 trillion designated for investment funds, which includes funds for infrastructure development, in the Revised 2008 Budget for infrastructure development. These funds are currently managed by the Government Investment Unit but a portion of them are expected to be managed in the future by the Indonesian Infrastructure Fund, which was established on December 10, 2007. The government expects the Indonesian Infrastructure Fund to become operational by the end of 2008.

Because the government has projected that Indonesia's infrastructure investment requirements are in excess of expected available public sector funding, the government intends to fund the gap through greater private sector participation. In November 2006, the government held the IICE. At the IICE, the government offered 10 major infrastructure projects (the "model projects") for public tender valued at more than $4.4 billion, including three water treatment projects, two power generation projects, two toll road projects, two transportation sector projects and one telecommunications project. These projects are currently at different phases of development, ranging from project definition to financial negotiations between the government and the selected bidder. On May 26 and 27, 2008, the House of Regional Representatives hosted the IRIF, the latest in a series of infrastructure summits to promote private infrastructure investment in Indonesia. At the IRIF, approximately 200 infrastructure projects with an aggregate investment value of approximately $19 billion were offered for public tender, including the proposed Bojonegoro International Port, Cilegon-Bojonegoro tollroad, Balaraja agribusiness terminal, Kaliwungu port and industrial area and Cisolok-Cisukarame and Tampomas geothermal power plants and various water, mining and geothermal and hydroelectric power plants through the provinces of Indonesia.

Prior to 2006, the government had taken the position that it would not provide any guarantees or other direct credit support for infrastructure projects undertaken by the private sector. The lack of such support was a contributing factor to the low level of infrastructure project development in Indonesia since the Asian financial crisis. In May 2006, the Ministry of Finance established a Risk

Management Unit under its new Fiscal Policy Office to oversee the implementation of a new government policy of sharing certain risks, such as political risk, project performance risk and product offtake risk, and to approve direct government credit support for infrastructure projects. Under this new policy, the government has agreed to grant credit support for certain major new infrastructure projects, including the 10,000 MW power plants program of PT Perusahaan Listrik Negara (Persero) ("PLN"), the state-owned electricity company, the Trans-Java Toll Road Project, the Jakarta Outer Ring Road II Toll Road Project and the Jakarta Monorail Project. See "Public Debt—Contingent Liabilities."

Since February 2006, the government has also introduced or implemented a number of sector-specific reforms to encourage infrastructure development, including the requirement that the relevant ministries prepare long-term master infrastructure development plans for their sector. The government has adopted new implementing regulations related to roads, railways, shipping, aviation and utilities and has fostered the establishment of self-regulatory bodies in the toll road, oil and gas, telecommunications and water supply sectors. In 2006, the government established a new working team to address land acquisition problems, which has been a main obstacle to toll road development projects. As of the end of 2007, this working team had been allocated Rp600 billion of the infrastructure funds managed by the Government Investment Unit, and the government expects to allocate an additional Rp844 billion of infrastructure funds to the working group in 2008.

In April 2007, the government also enacted the New Investment Law, which is expected to encourage investment overall, including investment in infrastructure projects. In April 2007 and February 2008, the government adopted regulations designating the types of financial instruments through which the government could utilize public funds to make direct and indirect investments in infrastructure projects. See "Foreign Investment."

Transportation

Indonesia consists of more than 17,500 islands, and the transportation network relies more on sea and air transportation services than do most other countries of comparable size. In terms of land transportation, Indonesia possesses 330,601 kilometers of roads, consisting of 34,628 kilometers of national roads, 47,835 kilometers of provincial roads and 283,322 kilometers of district roads. Most road networks in and around major cities are heavily congested, while many inter-urban and rural road networks are in poor condition and are in need of repair. Public funds for road maintenance and construction are insufficient, and the government is encouraging private participation and investment in building toll roads, mostly in Java, Sumatra and Sulawesi. Indonesia currently possesses 606 kilometers of toll roads connecting population centers. Indonesia also possesses 6,982 kilometers of railways, of which 4,360 kilometers are in operation. The land transportation system also includes 420 bus stations, which are serviced by 19,194 inter-provincial buses. In terms of sea transportation, Indonesia has 2,125 ports, 105 of which serve as international ports to facilitate export-import cargo traffic. Indonesia operates 187 airports, of which 24 are international airports. International flights into and out of Indonesia are serviced by 27 international airlines, while the domestic market is serviced by 17 airlines.

Currently, several toll road projects are being developed in Indonesia. From 2005 to 2007, approximately 14.4 kilometers of the Jakarta Outer Ring Road Project was completed. The government expects that construction of the remaining segments of the Jakarta Outer Ring Road Project will be completed in 2009. In 2008, a 12.8 kilometer segment of the Trans-Java Toll Road Project has been completed so far. The government expects that the remaining segments of the Trans-Java Toll Road Project will be completed in 2009. The ten model projects introduced at the IICE include two toll road projects and two transportation facility projects. The Solo-Kertosono Toll

Road is planned to be 177 kilometers and to cost approximately $853 million, and the government expects that 118 kilometers of the road will be constructed by the private sector and 59 kilometers will be constructed by the government. The Medan-Kualanamu-Tebing Tinggi Toll Road in Sumatra is planned to be 60 kilometers and cost approximately $462 million. To accelerate implementation of this project, the local government authorities have proposed dividing the project into two phases. Under that proposal, it is expected that phase 1 would entail construction of 20 kilometers of road at a cost of $163 million. The two transportation facilities included among the model projects are the Margagiri-Ketapang ferry terminal connecting Java and Sumatra, which is estimated to cost $246 million, and the expansion of the seaport at Teluk Lamong near Surabaya, which is estimated to cost $179 million. In addition, railway projects are expected to be developed in the provinces of Aceh, North Sumatra, West Sumatra and South Sumatra, as well as in Java and Jakarta starting in 2008. These railway projects are expected to be funded by the government. In 2008, construction began on the Aceh railway project and certain segments of the Java railway project. The government expects construction of most of these railway projects to be completed by the end of 2010. The government is also studying the feasibility of railway projects in Kalimantan, Sulawesi and Papua and an elevated train and subway system in Jakarta.

Electricity

Indonesia has gradually been opening electric power services to competition from the private sector. In 1990, the government converted PLN from an agency with a social purpose to a limited liability company with a profit motive. Private investment in power plants has been permitted since 1992. The Asian financial crisis affected the electric power sector and forced the government to reevaluate a number of independent power producer contracts. Growth in electricity consumption averaged 6.8% per year between 2003 and 2007.

In 2002, Indonesia enacted a new electricity law, which required significant changes in the electricity sector. Under this law, open competition for power generation was to be introduced by 2007. The law required an end to PLN's monopoly on electricity distribution within five years, after which time private companies (both foreign and domestic) would be permitted to sell electricity directly to consumers. However, all companies would need to use PLN's existing transmission network. In December 2004, the Constitutional Court annulled the 2002 electricity law on the grounds that competition in the Indonesian electricity industry contradicted Article 33 of the Constitution, which states that the government should control businesses affecting the lives of a majority of the Indonesian people. The Constitutional Court further held that (1) all contracts or permits that had been entered into or issued under the 2002 electricity law would remain valid until their expiration, (2) the previous electricity law of 1985 would be reinstated and (3) the government would need to prepare a new electricity law which was consistent with Article 33 of the Constitution. The annulment of the 2002 electricity law did not affect existing independent power producers because they are required to be connected to PLN's electricity grids. In light of these developments, the government drafted a new electricity law and submitted it to the House of Representatives for consideration in March 2006. Currently, the government is still in discussions with the Parliament regarding the draft.

Indonesia now has an installed electrical generating capacity of approximately 29 gigawatts, with 84% coming from thermal (oil, gas and coal) sources, 11% from hydropower, 3% from geothermal sources and 2% from renewable sources. PLN owns about 86% of the installed capacity, and the rest belongs to private sector entities. Indonesia's demand for power is expected to grow at a rate of 7.1% per year during the period of 2006 to 2026. To meet this demand, Indonesia will require additional power generation capacity of approximately 89.7 gigawatts by 2026. In June 2006, the Ministry of Energy and Mineral Resources launched the National Electricity General Plan 2006–

2026 to coordinate electricity development for each region. The electricity sector faces numerous challenges in its development, including (1) a mismatch between the availability of primary energy resources, which are located mostly outside Java and Bali, and demand for electricity, which mostly comes from Java and Bali, (2) the country's heavy dependence on oil for power generation despite the abundance of coal resources within the country and (3) the limited availability of government funds and other resources to finance the construction of new power plants and transmission and distribution networks.

In its infrastructure development initiatives, the government has placed special emphasis on the development of power generation plants, particularly coal-fired power plants, in order to reduce dependence on oil for power generation. One of the government's ten model projects introduced at the IICE is a power generation project, the 1,320 MW central Java coal-fired power plant. Additionally, the government has instructed PLN to accelerate its construction of coal power plants with an aggregate capacity of 10,000 MW and associated transmission lines, the total value of which is estimated at Rp105.4 trillion and for which the government has pledged certain credit support. See "Public Debt—Contingent Liabilities." As of June 4, 2008, PLN has entered into construction contracts in relation to 24 of the power plants comprising the 10,000 MW power plants program, and the government expects construction of these plants to be completed by the end of 2010. The aggregate value of the construction contracts is approximately $7.5 billion. PLN has secured rupiah-denominated financing of approximately Rp12,975 billion and U.S. dollar-denominated financing of $3.5 billion for 17 of these projects. The government has agreed to grant credit support for the 10,000 MW power projects program. See "Public Debt—Contingent Liabilities." Higher levels of investment in transmission and distribution lines and facilities will also be required to meet expected demand. The government expects that from 2006 to 2026 the electricity sector will require $90.4 billion in investment for electricity generation, $8.7 billion in investment for electricity transmission and $5.1 billion in investment for electricity distribution. However, electric power tariffs are politically sensitive, and current rates may be insufficient to generate funds for the investment necessary for planned expansion of the electric power system. Many outer-island regions already suffer intermittent power outages, and power shortages could become a serious problem on the islands of Java and Bali as well. In January 2006, the government introduced new regulations to reduce the consumption of oil by encouraging the consumption of natural gas, biofuels and other alternative energy sources.

Telecommunications

Throughout the 1990s, the Indonesian telecom sector was dominated by Telkom as the sole operator for local and domestic long-distance services and Indosat as the sole operator for international long-distance service. To support fair competition and a level playing field and to improve service quality, the government ended the monopoly era in basic telephony services through early termination of the exclusive rights of Telkom and Indosat. The transition towards full competition was made in steps, with limited competition in the form of a duopoly policy introduced for local service in 2002 and expanded to domestic long-distance and international service in 2003. In 2007, approximately 75% of the country's mobile phone subscribers used either Telkom or Indosat. In November 2007, the Business Competition Supervisory Commission ("KPPU"), Indonesia's antitrust regulator, held that Temasek Holdings (Private) Limited of Singapore ("Temasek"), a minority shareholder in both Telkom and Indosat, had used its cross-ownership to cause the companies to charge excessive tariffs. The KPPU ordered Temasek to divest its holdings in one of the companies. Temasek appealed the ruling to the Central Jakarta District Court. On May 9, 2008, the Central Jakarta District Court upheld the decision of the KPPU and ordered Temasek to divest its holdings in one of the companies or reduce its holdings in both companies by 50.0%. On May 21, 2008, Temasek appealed the ruling of the Central Jakarta Commercial Court to the Indonesian Supreme Court.

The Asian financial crisis greatly slowed installation of new fixed lines, with the annual fixed line increase dropping from double to single digits. After reaching its lowest point in 2000, the telecom sector has increased since 2001. The number of mobile phone subscribers increased from approximately 18 million in 2003 to approximately 30 million in 2004. In 2005, the number of mobile phone subscribers increased to approximately 47 million, while the number of fixed mobile services subscribers was approximately 4.7 million. Fixed mobile services are wireless mobile services which are confined by the service provider to a certain designated coverage area and do not provide for roaming services to areas outside the designated coverage area. In 2006, the number of mobile phone subscribers increased to approximately 64 million, while the number of fixed mobile services subscribers was approximately 6 million. As of September 30, 2007, the number of mobile phone subscribers was approximately 84 million, while the number of fixed mobile services subscribers increased to approximately 10 million.

Telecommunications penetration remains low by international standards, with combined fixed line and fixed mobile services penetration of 8.4% and mobile service penetration of 37.6%, each as of September 30, 2007. To address this problem, the government has maintained a Universal Service Obligation ("USO") program since mid-2003. Originally funded by the national budget, a government decree was enacted in July 2005 requiring the contribution of 0.75% of telecommunications operators' gross income to the USO program. By 2010, more than 38,400 villages are expected to be included in the USO program. To ensure the sustainability of this program, the government designed a program of service-based contracts with multi-year funding. Under this program, regions under the USO program have been divided into 11 regional blocks and the government will select a development agent for each area through a tender process open to all telecommunications licensees that contribute to the USO program.

In January 2006, the government also issued regulations on third generation (3G) mobile phone systems, including those related to the auctioning of 3G licenses. In February 2006, the government awarded 3G network operating licenses to PT Excelcomindo Pratama Tbk, Indosat and PT Telekomunikasi Selular (a subsidiary of Telkom known as Telkomsel), bringing the total number of 3G operators in Indonesia to five. In September 2007, the government began a tender process to select new operators for local, domestic long distance and international long distance telephone services and announced the selection of PT Bakrie Telecom Tbk as the third IDD operator in Indonesia.

Water

Approximately 72% of the urban population and 52% of the rural population, or a total of approximately 132 million people, have access to clean water supply. Sanitation conditions in Indonesia are relatively underdeveloped, which may affect the quality of surface and groundwater. Sanitation services are still limited to approximately 82% of the urban population, or 88 million people, and approximately 60% of the rural population, or 69 million people. Population growth is expected to put increasing pressure on the existing water supply and sanitation systems.

The government has undertaken programs and activities to improve access to clean water supply and sanitary conditions, in order to fulfill demand for these services and to meet the targets for a clean water supply it has set for 2015. To overcome problems facing the water sector, including relatively low investment, lack of comprehensive legislation covering the sector, a low rate of community and private sector involvement and low quality of management, the government has issued policies designed to improve service coverage, managerial quality and capacity for water services and to increase the involvement of communities, private entities and international support agencies in the sector. The ten model projects introduced at the IICE include three water supply projects, in Bandung and Tangerang, West Java, and in Dumai, Riau Province, which are estimated to cost $31 million, $34 million and $44 million, respectively. Currently, the Tangerang water supply project is in the negotiation stage and the two other water supply projects are still in the planning stages.

Indonesia has developed an irrigation network covering 7.5 million hectares, but due to poor operations and maintenance and shortage of funds for rehabilitation and disaster recovery, 28% of the irrigation network is in poor condition. In 2004, a new water resources law provided the basis for reform in water resources management, including conservation, water-related disaster management, strengthening the role of water user associations and district governments and providing a stronger legal basis for the role of government, the public, SOEs and the private sector in water resources management.

Gross Savings and Investment

The following table sets forth Indonesia's national savings and investments and the difference between them in absolute amounts and as a percentage of GDP for the years indicated:

National Savings and Investments

	2003	2004	2005	2006[P]	2007[P]
	(current prices in trillions of rupiah)				
Government:					
Savings	76.4	85.0	66.8	74.7	85.5
Investment	111.5	108.8	81.2	104.7	134.3
Surplus/(deficit)	(35.1)	(23.8)	(14.4)	(30.1)	(48.8)
Private:					
Savings	385.9	444.4	591.7	830.1	993.1
Investment	281.3	406.6	574.6	700.7	849.5
Surplus/(deficit)	104.5	37.8	17.1	129.4	143.5
Total:					
Savings	462.3	529.4	658.6	904.8	1,078.6
Investment	392.8	515.4	655.9	805.5	983.8
Surplus/(deficit)	69.5	14.0	2.7	99.3	94.7
	(in percentages of GDP)				
Government:					
Savings	3.8%	3.7%	2.4%	2.2%	2.2%
Investment	5.5	4.7	2.9	3.1	3.4
Surplus/(deficit)	(1.7)%	(1.0)%	(0.5)%	(0.9)%	(1.2)%
Private:					
Savings	19.2%	19.4%	21.3%	24.9%	25.1%
Investment	14.0	17.7	20.7	21.0	21.5
Surplus/(deficit)	5.2%	1.6%	0.6%	3.9%	3.6%
Total:					
Savings	23.0%	23.1%	23.7%	27.1%	27.3%
Investment	19.5	22.4	23.6	24.1	24.9
Surplus/(deficit)	3.5%	0.6%	0.1%	2.9%	2.4%
GDP (in trillions of rupiah)	2,013.7	2,295.8	2,774.3	3,339.5	3,957.4
Current account (in billions of U.S. dollars)	8,106	1,564	278	10,836	10,365
Average exchange rate (rupiah per U.S. dollar)[1]	8,572	8,940	9,713	9,167	9,140
Current account balance (% of GDP)	3.5	0.6	0.1	2.9	2.4

Source: Bank Indonesia

[P] Preliminary.

(1) Official average exchange rate for the relevant period published by Bank Indonesia in its quarterly or annual report.

In the 30 years prior to the Asian financial crisis, investment and exports had been the prime sources of economic growth. During that period, the investment-to-GDP ratio averaged around 25%. That ratio fell to near 20% after the crisis. In the years leading up to the Asian financial crisis, Indonesia's gross domestic savings fell short of investment by an average of approximately 2% to 3% of GDP. The savings-investment gap was financed by foreign savings through net capital inflow. Declining investment and increasing net exports (declines in imports exceeding declines in exports) led to surpluses of savings over investment in 2001 and 2002. This continued surplus reflected limited domestic investment and continued transfer of national savings abroad (net capital outflow).

In 2003, the savings-investment surplus declined to 3.5% of GDP, from 4.0% in 2002. This lower surplus was, in part, due to the increasing deficit in the government sector, from 1.3% of GDP in 2002 to 1.7% in 2003, and a slightly declining surplus in the private sector, from 5.3% of GDP in 2002 to 5.2% in 2003. The rising deficit in the government sector was attributable to rising expenditures on capital investment. The declining surplus in the private sector was mainly due to slower growth in private savings driven by lower interest rates combined with a slight increase in private investment.

In 2004, the savings-investment surplus declined to 0.6% of GDP, from 3.5% in 2003. The lower surplus was due, in part, to a lower surplus in the private sector, which was partially offset by a lower deficit in the government sector. The private sector surplus decreased from 5.2% of GDP in 2003 to 1.6% of GDP in 2004, mainly as a result of a significant increase in private investment. Private investment increased due to lower costs of borrowing in 2004 compared to 2003. Slower growth in private savings was driven by a further decline in interest rates on bank deposits. As the result of budget consolidation, the government sector deficit decreased, from 1.7% of GDP in 2003 to 1.0% of GDP in 2004, as government savings increased at a faster rate than government investment. Government savings increased significantly in 2004 due to the budget consolidation efforts undertaken by the government to tighten its current spending, increase its current revenues and lower the government budget deficit.

In 2005, the savings-investment surplus continued to decline to 0.1% of GDP, compared to 0.6% of GDP in 2004. The lower surplus was due to a reduction in the savings-investment surplus in the private sector, which was partially offset by a lower deficit in the government sector. The decrease in the private savings-investment surplus resulted from higher private investment activities.

In 2006, the savings-investment surplus increased to 2.9% of GDP. The private sector recorded a surplus of 3.9% of GDP, an increase from 0.6% of GDP in 2005, primarily as a result of higher savings. During this same period, the government sector deficit increased to 0.9% of GDP in 2006, compared with 0.5% in 2005, primarily as a result of a decrease in government savings due to increased government spending in an effort to stimulate the economy.

In 2007, the savings-investment surplus decreased to 2.4% of GDP. The private sector surplus increased to 3.6% of GDP despite an increase in private investment. The government sector recorded a deficit of 1.2% of GDP for 2007 as a result of higher government subsidies.

Foreign Investment

In 1973, the Republic established the Indonesia Investment Coordinating Board (Badan Koordinasi Penanaman Modal or "BKPM") to accelerate economic growth by attracting foreign capital investment. BKPM's main function is to implement the government's objectives for investment in the country. Reflecting its goal of reducing unemployment and poverty, the government has announced that it will encourage foreign investment in the agriculture sector, in resource-intensive industries and in labor-intensive projects by reducing the time necessary to acquire approvals. The government has also announced a policy goal of raising the value-added component of products from foreign-invested enterprises, including by expanding the number of foreign-invested projects devoted to resource processing.

In 2004, the government adopted measures to promote FDI and improve the investment climate in the country. Among these measures was a presidential decree that centralized all approvals for FDI under the BKPM as part of the government's efforts to streamline the licensing procedures and simplify the foreign investment approval process, which previously had required the approval of regional or local government agencies, depending on the nature of the proposed foreign investment. The government also adopted a law facilitating negotiation and settlement of labor disputes between workers and employers in an effort to discourage strikes. The government adopted this regulation to address concerns from foreign investors that Indonesian labor laws unduly favored workers.

In April 2007, the New Investment Law was enacted to replace both the 1967 Foreign Investment Law and the 1968 Domestic Capital Investment Law. The most significant feature of the new law is that it provides equal treatment for domestic and foreign investors, subject to limits for foreign participation in certain sectors of the economy (the "Negative List"). The New Investment Law also abolishes the requirement for gradual divestment by foreign investors (formerly, there was a 30-year time limit for foreign investment), extends the validity of land titles, assures the right to appoint foreign management, prohibits nationalization without indemnification at market value and provides for unrestricted repatriation of profits and capital. Any disputes with regard to foreign investment arising between foreign investors and the government can be settled through deliberation and international arbitration if agreed upon between the parties. Additionally, the New Investment Law contemplates certain tax incentives and certain reductions and exemptions with respect to import duties.

The government has issued several regulations for the implementation of the New Investment Law, one of which is a presidential regulation establishing the Negative List, which enumerates business activities that are closed to foreign investment and business activities that are open only if certain conditions are met. The business activities closed to foreign investment include, among others, gambling and casino operations, public broadcasting, alcoholic beverages, forestry, marine affairs, fisheries and certain chemical production activities. The Negative List also provides a clearer and more detailed list of business activities that are conditionally open to foreign investors, subject to satisfaction of certain conditions relating to partnership arrangements, capital ownership, location and qualification for special licenses or permits. These include, among others, production of cigarettes, processed foods and handicrafts, for which foreign investors must have local partners, and oil and geothermal services, engineering procurement and construction, power generation, and installment and maintenance of electrical equipment, for which foreign investors may own up to 95% of the equity.

In June 2006, the Republic and the Republic of Singapore signed the Framework Agreement on Economic Cooperation in the islands of Batam, Bintan and Karimun to develop those three islands, located in the Riau archipelago approximately 50 kilometers south of Singapore, into special economic zones. The development of the special economic zones will be conducted by the Republic and the Republic of Singapore working together through two bodies, the Joint Steering Committee and the Joint Working Group. The special economic zones are expected to develop a legal infrastructure to promote investment, including reduced or eliminated taxes and streamlined regulatory and immigration procedures. In 2007, the government established Batam, Bintan and Karimun as free trade zones. Realized FDI in Batam, Bintan and Karimun in 2006 and 2007 was $12.0 million and $52.8 million, respectively and approved FDI in Batam, Bintan and Karimun in 2006 and 2007 was $462 million and $10.0 billion, respectively.

Foreign Investment in Indonesia

Foreign investment in Indonesia is divided into direct investments, portfolio investments and other investments, and information about these types of investments is included in the Republic's reports on its balance of payments. To improve the quality of Indonesia's balance of payment statistics, and to comply with generally recognized standards of statistical reporting, in 2004, Indonesia started compiling its balance of payment statistics using the revised BOP reporting system. For comparison purposes, Indonesia has also published its balance of payment statistics for 2004 using the previous BOP reporting system. The data in the tables below for 2004 have been presented under both the previous BOP reporting system and the revised BOP reporting system and for subsequent periods using only the revised BOP reporting system. See "Certain Defined Terms and Conventions."

Foreign Investment in Indonesia

	2003[(1)]	2004[(1)]	2004[(2)]	2005[(2)]	2006[(2)]	2007[(2)P]
	(in millions of U.S. dollars)		(in millions of U.S. dollars)			
Direct investments:						
Equity capital	1,483	1,265	2,138	7,812	4,616	7,549
Other capital	(2,080)	(242)	(242)	524	298	(621)
Total direct investments	(597)	1,023	1,896	8,336	4,914	6,928
Portfolio investments:						
Equity securities	1,130	2,043	2,043	(165)	1,898	3,559
Debt securities	1,121	1,093	2,013	5,435	4,210	6,422
Total portfolio investments	2,251	3,136	4,056	5,270	6,108	9,981
Other investments	(2,604)	(1,546)	(2,030)	(803)	(2,204)	(289)
Total foreign investment	(949)	2,612	3,922	12,803	8,818	16,620

Source: Bank Indonesia.

P Preliminary.

(1) Data compiled using the previous BOP reporting system.

(2) Data compiled using the revised BOP reporting system.

Foreign Direct Investment

The Asian financial crisis in Indonesia was accompanied by unstable socio-political conditions that substantially reduced FDI in the following years. Following the end of the Soeharto era in 1998, new political freedoms encouraged workers to establish unions and demand higher salaries and better working conditions. These claims were accommodated by the government through higher minimum wages and more generous work benefits. During the same period, to increase their revenues, local governments made the business licensing system more complicated and imposed local taxes that distorted the short-term trade and raised tax barriers beyond their administrative boundaries. These trends have reduced international competitiveness. To address these issues, the Ministry of Home Affairs has reviewed many local regulations to determine if they were inconsistent with national law or the public interest. As a result of this process, as of May 23, 2008, the Ministry of Home Affairs had issued recommendations for the revocation or revision of a total of 1,002 regional government regulations and had revoked or revised 252 of these regulations.

FDI includes equity investment (either "green field" or cross-border mergers or acquisitions) and loans of FDI investors (headquarters or affiliated companies) to their Indonesian affiliates. The following table sets out the amounts of direct investments in Indonesia by non-residents:

Direct Investments

	2003[(2)]	2004[(2)]	2004[(3)]	2005[(3)]	2006[(3)]	2007[(3)P]
	(in millions of U.S. dollars)		(in millions of U.S. dollars)			
Equity capital[(1)]	1,483	1,265	2,138	7,812	4,616	7,549
Other capital:						
Disbursements	1,681	2,595	2,595	1,637	3,649	5,460
Debt repayments	(3,761)	(2,837)	(2,837)	(1,113)	(3,351)	(6,081)
Total other capital	(2,080)	(242)	(242)	524	298	(621)
Total direct investments	(597)	1,023	1,896	8,336	4,914	6,928

Source: Bank Indonesia.

P Preliminary.

(1) Includes privatization and banking restructuring.

(2) Data compiled using the previous BOP reporting system.

(3) Data compiled using the revised BOP reporting system.

Indonesia's FDI has been relatively low since 1997, and showed a net outflow during the crisis period through 2001. However, FDI has increased in the last four years, primarily as a result of the privatization of SOEs, asset sales from bank restructuring and increases in loan disbursements. Although FDI recorded a small deficit of $0.6 billion in 2003, FDI increased to a surplus of $1.0 billion in 2004 under the previous BOP reporting system. Under the revised BOP reporting system, net FDI inflows were $1.9 billion in 2004, $8.3 billion in 2005 and $4.9 billion in 2006. In 2007, FDI posted a surplus of $6.9 billion, primarily due to increases in disbursements and equity capital, which more than offset increases in debt repayments.

In 2003, there was an FDI net outflow of $597 million primarily due to a decrease in loan disbursements. Net FDI reversed again in 2004 from the previous year's deficit to a net inflow of $1.9 billion (or $1.0 billion under the former BOP reporting system), due in part to an increase in foreign investor confidence as a result of the successful completion of the general elections and the election of a new government. This surplus was attributable to an increase in loan disbursements by 54% to $2.6 billion, partly received by Indonesian companies from their affiliates abroad. In 2005, the significant increase in net FDI inflows to $8.3 billion was due primarily to the acquisition of PT H.M. Sampoerna Tbk ("HMS") by Philip Morris International ("PMI") for approximately $4.8 billion. This transaction increased net FDI inflows by $3.2 billion and decreased portfolio investments by $2.4 billion. This change in portfolio investment resulted from the purchase by PMI of publicly traded shares of HMS that were owned by foreign investors.

In 2006, net FDI posted a net inflow of $4.9 billion (including $0.8 billion in investments in the oil and gas sector), which was lower than the $8.3 billion net inflow in 2005. However, excluding the effects of the HMS transaction in the 2005 figures, the FDI net inflow was higher in 2006 compared to 2005. Disbursements in 2006 increased to $3.6 billion compared to $1.6 billion in 2005. Debt repayments increased to $3.4 billion compared with $1.1 billion in 2005.

In 2007, net FDI posted a net inflow of $6.9 billion (including $2.4 billion in investments in the oil and gas sector), which was higher than the $4.9 billion net inflow in 2006. This net inflow arose from an increase in reinvested earnings by FDI companies, the establishment of the Batam, Bintan and Karimun special economic zones, the approval of a greater number of foreign investment applications and the creation of tax incentives for investment, as well as an increase in the acquisition of domestic companies by foreign investors, including an acquisition by Tata Power Company Ltd. (India) of a 30% stake in coal companies owned by PT Bumi Resources Tbk. Disbursements in 2007 increased to $5.5 billion compared to $3.6 billion in 2006. Debt repayments increased to $6.1 billion in 2007 compared to $3.4 billion in 2006.

Using the revised BOP reporting system, net direct investment, which represents the difference between direct investment in Indonesia by foreign investors and direct investment abroad by Indonesian investors, recorded a net outflow of $1.5 billion in 2004, a net inflow of $5.3 billion in 2005, a net inflow of $2.2 billion in 2006 and a net inflow of $2.1 billion in 2007. From 2004 through 2006, direct investments outside Indonesia by Indonesian investors consistently declined, from a net outflow of $3.4 billion in 2004 to a net outflow of $3.1 billion in 2005 and a net outflow of $2.7 billion in 2006. See "Foreign Trade and Balance of Payments—Balance of International Payments." However, in 2007 direct investment outside Indonesia increased, leading to a net outflow of $4.8 billion in 2007, due to growing interest and capability among domestic investors to expand their businesses overseas.

Foreign Portfolio Investment

The following table sets out the amounts of portfolio investments in Indonesia by non-residents:

Portfolio Investments

	2003(1)	2004(1)	2004(2)	2005(2)	2006(2)	2007(2)P
	(in millions of U.S. dollars)		(in millions of U.S. dollars)			
Equity securities:						
Inflows	2,357	6,367	6,367	7,315	8,179	15,361
(Outflows)	(1,227)	(4,325)	(4,325)	(7,480)	(6,281)	(11,802)
Net equity securities	1,130	2,043	2,043	(165)	1,898	3,559
Debt securities (net)	1,121	1,093	2,013	5,435	4,210	6,422
Total portfolio investments	2,251	3,136	4,056	5,270	6,108	9,981

Source: Bank Indonesia.

P Preliminary.

(1) Data compiled using the previous BOP reporting system.

(2) Data compiled using the revised BOP reporting system.

After incurring a large net outflow at the onset of the Asian financial crisis, Indonesia's foreign portfolio investment ("FPI") deficit turned into a net inflow in 2002 and has been increasing since, reflecting higher confidence in Indonesia's economy. Since 2001, the net inflow has increased steadily to $2.3 billion in 2003 and $3.1 billion in 2004. Under the revised BOP reporting system, Indonesia's FPI net inflow was $4.1 billion in 2004 and increased to $5.3 billion in 2005, $6.1 billion in 2006 and $10.0 billion in 2007.

In 2004, Indonesia's FPI recorded a net inflow of $4.1 billion, primarily due to a significant increase in foreign transactions on the stock exchange and other debt securities transactions. The net inflow for equity transactions was $2.0 billion, and net purchases of debt securities were approximately $2.0 billion, in each case significantly higher than the level of the previous year. The increase in equity transactions was due to asset sales under the Indonesian bank restructuring program and additional privatizations. Asset sales under the bank restructuring program included divestments by the government of equity interests in PT Bank Danamon Indonesia Tbk, PT Bank Niaga Tbk, PT Bank Permata Tbk and PT Bank Internasional Indonesia Tbk. The divestment of SOEs through the privatization program in 2004 encouraged foreign investors to make further investments in Indonesian securities.

In 2005, Indonesia recorded a net FPI inflow of $5.3 billion after experiencing a large outflow in the second quarter of 2005, primarily as a result of the purchase of $2.4 billion of equity securities in the second quarter of 2005 as a part of the purchase of HMS by PMI, which was executed through the Jakarta Stock Exchange in May 2005.

In 2006, FPI registered a net inflow of $6.1 billion, higher than the net inflow of $5.3 billion in 2005. This increase was caused by strong foreign demand for domestic equities coupled with lower outflows of equity securities. Inflows relating to debt securities decreased to $4.2 billion in 2006 from $5.4 billion in 2005.

In 2007, FPI recorded a net inflow of $10.0 billion, a significant increase from the net inflow of $6.1 billion in 2006. The key components of this inflow were purchases of government bonds, Bank Indonesia Certificates ("SBI") and equity securities. Despite outflows of $1.5 billion in the fourth quarter of 2007, following the subprime mortgage crisis in the United States, debt securities particularly in the form of government bonds and SBI recorded a net inflow of $5.3 billion in 2007. Meanwhile, equity securities recorded a net inflow of $3.6 billion in 2007 compared to $1.9 billion in 2006.

Using the revised BOP reporting system, net portfolio investment, which represents the difference between portfolio investment in Indonesia by foreign investors and portfolio investment abroad by Indonesian investors, recorded net inflows of $4.4 billion in 2004, $4.2 billion in 2005, $4.2 billion in 2006 and $5.5 billion in 2007. Portfolio investments abroad by Indonesian investors recorded a net inflow of $353 million in 2004, a net outflow of $1.1 billion in 2005, a net outflow of $1.9 billion in 2006 and a net outflow of $4.5 billion in 2007. See "Foreign Trade and Balance of Payments—Balance of International Payments."

Other Foreign Investment

The following table sets out the amounts of other investments in Indonesia by non-residents, mainly consisting of loans received and paid:

Other Investments

	2003[2]	2004[2]	2004[3]	2005[3]	2006[3]	2007[3]P
	(in millions of U.S. dollars)		(in millions of U.S. dollars)			
Bank sector:						
Disbursements	4,106	6,089	6,087	2,513	1,513	1,060
Debt repayments	(4,175)	(5,646)	(5,646)	(3,812)	(1,100)	(990)
Total bank sector	(69)	441	441	(1,299)	413	70
Corporate sector:						
Disbursements	1,908	3,112	3,020	5,513	6,008	8,147
Debt repayments	(3,933)	(3,123)	(2,908)	(4,489)	(6,807)	(7,016)
Total corporate sector	(2,025)	(11)	112	1,024	(800)	1,132
Others (net)[1]	(509)	(1,976)	(2,584)	(529)	(1,818)	(1,490)
Total other investments	(2,604)	(1,546)	(2,030)	(803)	(2,204)	(289)

Source: Bank Indonesia.

P Preliminary.

(1) Includes public sector.

(2) Data compiled using the previous BOP reporting system.

(3) Data compiled using the revised BOP reporting system.

Net outflows of other investments reached a peak of almost $4.4 billion in 2001 and have subsequently declined. In more recent years, disbursements of banking and corporate loans have increased significantly as a result of better access to international markets along with increased market confidence in the Indonesian economy. In 2005, there was an exceptional decline in net outflows of other investments due to the government's agreement with the Paris Club to defer interest and principal payments in 2005 following the December 2004 tsunami disaster. As the government's debt repayments to the Paris Club members resumed in 2006, net outflows of other investments increased to $2.2 billion, compared to net outflows $803 million in 2005. In 2007, the net outflows of other investments declined to $289 million, primarily due to an increase in net inflows to the corporate sector.

Using the revised BOP reporting system, net other investments, which represents the difference between other investments in Indonesia by foreign investors and other investments abroad by Indonesian investors, recorded net outflows of $1.0 billion in 2004, $9.4 billion in 2005, $3.8 billion in 2006 and $4.9 billion in 2007. Other investments abroad by Indonesian investors in the form of trade credits, loans, currencies and deposits recorded a net inflow of $1.0 billion in 2004, a net outflow of $8.6 billion in 2005, a net outflow of $1.6 billion in 2006, and a net outflow of $4.6 billion in 2007. See "Foreign Trade and Balance of Payments—Balance of International Payments."

Direct Investment Approvals

Foreign Direct Investment

Under Indonesian law, most direct equity investments by foreign persons are subject to approval by the BKPM, regardless of the size of the investment. The BKPM reviews requests for approval based on criteria established by the particular ministry that regulates the sector in which the foreign investor seeks to invest. Upon receiving approval, a foreign investor may complete the investment, but is not obligated to do so. Because the BKPM calculates the amount of approved and realized foreign direct investment using different criteria than that used by Bank Indonesia, the data regarding approved and realized foreign direct investments is not comparable to those under "—Foreign Investment in Indonesia."

The following table sets forth the amount of approved FDI by sector of the economy for the periods indicated:

Approved Foreign Direct Investment by Sector(1)

	2003	2004	2005	2006	2007P
	(in millions of U.S. dollars)				
Primary sector:					
Food crop and plantation	130	170	424	776	1,211
Livestock	14	39	22	53	36
Forestry	95	300	129	14	17
Fishery	27	132	15	105	213
Mining	37	72	797	332	817
Total primary sector	303	713	1,387	1,280	2,294
Secondary sector:					
Food industries	517	716	704	1,036	1,726
Textiles industries	131	408	139	164	275
Leather goods and footwear industries	37	20	81	34	135
Wood industries	246	16	108	138	224
Paper and printing industries	1,300	70	228	1,171	6,883
Chemical and pharmaceutical industries	5,036	3,464	2,888	1,536	15,269
Rubber and plastic industries	78	182	168	102	208
Non-metal minerals industries	712	51	365	785	319
Metal machinery and electronic industries	330	1,021	696	2,924	1,613
Medical precision and optical instruments, watches and clocks	5	3	25	2	8
Motor vehicle and other transport equipment	197	433	610	399	501
Other industry	93	56	77	33	63
Total secondary sector	8,682	6,440	6,099	8,324	27,224
Tertiary sector:					
Electricity, gas and water supply	363	276	23	1,180	1,447
Construction	902	959	1,698	2,561	1,709
Trade and repair	493	627	647	1,176	782
Hotels and restaurants	615	616	284	268	355
Transportation, storage and communications	4,592	588	3,107	295	4,807
Real estate, industrial estates and business activities	16	340	161	74	1,124
Other services	339	213	234	507	404
Total tertiary sector	7,320	3,619	6,154	6,061	10,628
Total	16,305	10,772	13,640	15,665	40,146

Source: BKPM.

P Preliminary

(1) Excludes foreign investment in oil and natural gas projects, banking, non-bank financial institutions, insurance and leasing. Includes Indonesian shares in joint venture projects and planned borrowing by the projects.

Foreign investment approvals have tended to fluctuate from year to year. In 2004, approved FDI decreased by 33.9% to $10.8 billion from $16.3 billion in 2003. The total value of FDI approvals in 2005 was $13.6 billion, an increase of 26.6% compared to 2004. In 2006, approved FDI increased by 14.9% to $15.7 billion from $13.6 billion in 2005, due mainly to increases in investments in approved FDI in the food industry, the paper and printing industries, the metal machinery and electronic industries, the utilities sub-sector (such as electricity, gas and water supply), the construction sub-sector and the trade and repair sub-sector. These increases in 2006 were partially offset by a decrease in approved FDI in the chemical and pharmaceutical industries and the transportation, storage and communications industries. The total value of FDI approvals in 2007 was $40.1 billion compared to $15.7 billion in 2006. The increase was due to a large increase in the value of projects approved, especially in the chemical and pharmaceutical industries, the paper and printing industries and the transport, storage and communications sub-sector.

In the five-year period from 2003 through 2007, the primary areas of approved foreign investment projects were the chemical and pharmaceutical industries (29.2%), the transportation, storage and communications sub-sector (13.9%), the paper and printing industries (10.0%), the construction sub-sector (8.1%) and the metal machinery and electronic industries (6.8%).

The following table sets forth the amount of realized FDI by sector of the economy for the periods indicated:

Realized Foreign Direct Investment by Sector(1)

	2003	2004	2005	2006	2007P
	(in millions of U.S. dollars)				
Primary sector:					
Food crop and plantation	219	161	172	352	219
Livestock	1	20	53	19	46
Forestry	—	—	119	31	—
Fishery	1	5	6	33	25
Mining	32	122	53	99	310
Total primary sector	254	309	402	533	599
Secondary sector:					
Food industries	319	574	603	340	704
Textiles industries	152	166	71	424	132
Leather goods and footwear industries	3	13	48	52	96
Wood industries	158	4	91	59	128
Paper and printing industries	9	415	10	747	673
Chemical and pharmaceutical industries	282	614	1,153	265	1,612
Rubber and plastic industries	100	81	399	113	158
Non-metal minerals industries	43	108	66	95	28
Metal machinery and electronic industries	438	313	523	955	714
Medical precision and optical instruments, watches and clocks	5	13	3	—	11
Motor vehicle and other transport equipment	311	403	360	439	412
Other industry	57	101	180	117	30
Total secondary sector	1,876	2,805	3,507	3,605	4,697
Tertiary sector:					
Electricity, gas and water supply	77	6	69	105	119
Construction	106	386	922	144	449
Trade and repair	307	673	384	434	491
Hotels and restaurants	80	90	180	111	136
Transportation, storage and communications	2,668	104	2,947	647	3,305
Real estate, industrial estates and business activities	1	35	208	254	65
Other services	77	166	299	144	489
Total tertiary sector	3,316	1,459	5,008	1,840	5,054
Total	5,445	4,572	8,917	5,977	10,350

Source: BKPM.

P Preliminary

(1) Excludes foreign investment in oil and natural gas projects, banking, non-bank financial institutions, insurance and leasing. Includes Indonesian shares in joint venture projects and planned borrowing by the projects.

The amount of approved foreign investment realized has fluctuated over the past five years, decreasing from $5.4 billion in 2003 to $4.6 billion in 2004, increasing to $8.9 billion in 2005, decreasing to $6.0 billion in 2006 and increasing to $10.4 billion in 2007. In the five-year period from 2003 through 2007, the primary areas of realized approved foreign investment projects were the transportation, storage and communications sub-sector (27.4%), the chemical and pharmaceutical industries (11.1%), the metal machinery and electronic industries (8.3%), the food industries (7.2%), the trade and repair sub-sector (6.5%), the construction sub-sector (5.7%) and the motor vehicle and other transport equipment industries (5.5%).

Domestic Direct Investment

In addition to direct equity investments by foreign persons, BKPM also approves certain types of domestic direct investments. The following table sets forth the amount of approved domestic direct investment by sector of the economy for the periods indicated:

Approved Domestic Direct Investment by Sector(1)

	2003	2004	2005	2006	2007P
	(in billions of rupiah)				
Primary sector:					
Food crop and plantation	2,026	1,920	4,273	7,994	20,353
Livestock	107	—	66	718	616
Forestry	177	—	140	53	—
Fishery	5	3	15	2	830
Mining	660	1,381	982	437	3,346
Total primary sector	2,975	3,304	5,476	9,205	25,145
Secondary sector:					
Food industries	6,164	11,864	8,073	13,789	17,918
Textiles industries	3,529	1,477	710	1,279	1,024
Leather goods and footwear industries	9	2	24	34	12
Wood industries	560	140	308	732	185
Paper and printing industries	178	1,790	6,022	82,465	83,516
Chemical and pharmaceutical industries	30,415	5,130	2,674	24,281	33,334
Rubber and plastic industries	352	1,630	2,998	1,868	831
Non-metal minerals industries	700	313	3,904	1,667	4,495
Metal machinery and electronic industries	1,329	773	1,339	5,458	2,087
Medical precision and optical instruments, watches and clocks	6	—	—	—	1
Motor vehicle and other transport equipment	1,043	199	753	149	807
Other industry	125	1,124	3	32	24
Total secondary sector	44,411	24,441	26,808	131,753	144,234
Tertiary sector:					
Electricity, gas and water supply	681	8,798	6,276	7,232	13,316
Construction	2,698	2,809	1,538	3,028	1,223
Trade and repair	124	224	603	500	611
Hotels and restaurants	1,499	1,450	4,050	8,914	1,418
Transportation, storage and communications	2,502	2,130	2,375	1,930	1,231
Real estate, industrial estates and business activities	755	—	—	1	482
Other services	186	1,646	3,451	203	1,217
Total tertiary sector	8,446	17,057	18,294	21,809	19,498
Total	55,832	44,802	50,577	162,767	188,876

Source: BKPM.

P Preliminary

(1) Excludes domestic investment in oil and natural gas projects, banking, non-bank financial institutions, insurance, leasing, mining in terms of contracts of work, coal mining in terms of contracts of work, coal mining in terms of agreements of work, investments in which licenses were issued by a technical/sectoral agency, portfolio as well as household investment.

In 2004, approved domestic direct investment decreased by 19.8% to Rp44.8 trillion from Rp55.8 trillion in 2003. In 2005, approved domestic direct investment increased by 12.9% to Rp50.6 trillion from Rp44.8 trillion in 2004. The total value of domestic direct investment approvals in 2006 increased significantly to Rp162.8 trillion from Rp50.6 trillion in 2005, due mainly to a large increase in the value of projects approved in the paper and printing industries, the chemical and pharmaceutical industries, the hotels and restaurants sub-sector and the food crop and plantation industries. The total value of domestic approvals in 2007 was Rp188.9 trillion compared to Rp162.8 trillion in 2006, an increase of 16.0%. The increase was due mainly to a large increase in the value of projects approved in the food crop and plantation industries, the mining industries, the food industries and the electricity, gas and water supply industries, which was partially offset by decreases in the value of projects approved in the metal machinery and electronic industries, the hotels and restaurants sub-sector and the construction industries.

The following table sets forth the amount of realized domestic direct investment by sector of the economy for the periods indicated:

Realized Domestic Direct Investment by Sector(1)

	2003	2004	2005	2006	2007P
	(in billions of rupiah)				
Primary sector:					
Food crop and plantation	78	507	3,071	3,443	3,529
Livestock	30	20	108	116	145
Forestry	453	—	993	20	9
Fishery	34	—	5	0	3
Mining	16	449	1,400	21	691
Total primary sector	610	976	5,577	3,600	4,377
Secondary sector:					
Food industries	3,680	3,653	4,491	3,315	5,372
Textiles industries	249	70	1,641	82	228
Leather goods and footwear industries	1	25	15	4	59
Wood industries	356	889	199	709	39
Paper and printing industries	99	206	9,733	1,871	14,548
Chemical and pharmaceutical industries	1,363	4,285	1,945	3,249	1,168
Rubber and plastic industries	53	445	619	254	565
Non-metal minerals industries	—	525	775	218	124
Metal machinery and electronic industries	549	547	1,152	3,334	3,542
Medical precision and optical instruments, watches and clocks	141	—	—	—	—
Motor vehicle and other transport equipment	58	20	285	117	609
Other industry	37	—	79	—	37
Total secondary sector	6,586	10,663	20,932	13,152	26,290
Tertiary sector:					
Electricity, gas and water supply	—	—	—	88	746
Construction	506	1,883	2,386	539	2,111
Trade and repair	487	374	92	346	143
Hotels and restaurants	68	79	269	180	128
Transportation, storage and communications	3,511	1,221	638	1,228	286
Real estate, industrial estates and business activities	95	1	47	46	—
Other services	384	215	724	1,611	798
Total tertiary sector	5,051	3,771	4,156	4,037	4,212
Total	12,247	15,409	30,665	20,788	34,879

Source: BKPM.

P Preliminary

(1) Excludes domestic investment in oil and natural gas projects, banking, non-bank financial institutions, insurance, leasing, mining in terms of contracts of work, coal mining in terms of contracts of work, coal mining in terms of agreements of work, investments in which licenses were issued by a technical/sectoral agency, portfolio as well as household investment.

The amount of approved domestic investment realized has fluctuated over the past five years, increasing from Rp12.2 trillion in 2003 to Rp15.4 trillion in 2004, increasing to Rp30.7 trillion in 2005, decreasing to Rp20.8 trillion in 2006 and increasing to Rp34.9 trillion in 2007. In the five-year period from 2003 through 2007, the primary areas of realized domestic investment projects were the paper and printing industries (23.2%), the food industries (18.0%), the chemical and pharmaceutical industries (10.5%), food crop and plantation industries (9.3%), the metal machinery and electronic industries (8.0%), the construction sub-sector (6.5%) and the transportation, storage and communications sub-sector (6.0%).

Foreign Trade and Balance of Payments

Membership in International and Regional Free Trade Agreements

The government supports the liberalization of international trade and investment through its membership in several international and regional trade organizations. Indonesia is a founding member of ASEAN, which has served as the forum for the negotiation of a number of regional agreements, and Indonesia has participated in several of these agreements. Indonesia is a signatory to the General Agreement on Tariffs and Trade of 1947 and is a founding member of the WTO. Indonesia is also a member of the APEC forum, one of the goals of which is to promote liberalization of international trade and investment. The ASEAN member countries have been conducting a series of free trade agreement negotiations with Japan, India, Australia and New Zealand, and are in the process of launching negotiations with the European Union. The ASEAN member countries are also exploring the possibility of conducting free trade negotiations with the United States. In November 2007, ASEAN and the Republic of Korea signed free trade agreements on trade in goods and services. In addition, Japan and Indonesia entered into a bilateral economic cooperation agreement in August 2007. See "Foreign Relations and International and Regional Organizations."

Exports and Imports

The following table shows Indonesia's exports and imports for the periods indicated:

Exports and Imports(1)

	2003	2004	2005	2006	2007P
	(in millions of U.S. dollars)				
Exports:					
Oil and gas exports (f.o.b.)	15,234	16,285	20,243	22,950	24,872
Non-oil and gas exports (f.o.b.)	48,875	54,482	66,753	80,578	93,142
Total exports (f.o.b.)	64,109	70,767	86,996	103,528	118,014
Total imports (c&f)	(42,243)	(54,827)	(75,525)	(80,346)	(92,779)
Balance of trade	21,866	15,939	11,471	23,182	25,236

Source: Bank Indonesia.

P Preliminary.

(1) Indonesia's trade statistics, which are used as a basis for the balance of payment statistics, are complied by Bank Indonesia and differ in coverage and timing from similarly titled data compiled by BPS.

A combination of depreciation of the rupiah, rising interest rates and economic contraction during the early period of the Asian financial crisis affected imports more quickly than exports. The time lag between the fall in imports and the decline in exports was the main reason for improvement in Indonesia's trade balance in the beginning of the crisis. To correct past distorted trade and industrial policies, the government reduced nominal and effective rates of protection and eliminated non-tariff barriers. Transparent policies on the privatization of SOEs were adopted to promote efficiency through transfers of technology and improvements in corporate governance and corporate culture.

Over the five years from 2003 through 2007, Indonesia's total exports increased by approximately 84.1%, through growth in oil and gas exports of 63.3% and growth in non-oil and gas exports of 90.6%. Indonesia's total imports grew by approximately 119.6% from 2003 to 2007, higher than exports.

In 2003, both exports and imports rebounded. Although imports grew at a faster rate than exports in percentage terms in 2003, in absolute terms the increase in the amount of exports of $4.9 billion exceeded the increase in the amount of imports of $3.9 billion in 2003, thereby having a positive impact on Indonesia's trade surplus in 2003.

In 2004, exports grew by 10.4% due to increased trade volumes, particularly for coal, nickel and crude palm oil, metal products and rubber products, and higher world commodity prices, while imports grew by 29.9% as a result of higher economic growth and increased purchases of foreign capital goods for investment. Consequently, in 2004, Indonesia's trade surplus decreased to $15.9 billion from $21.9 billion in 2003.

Escalation of world prices for energy and non-oil and gas commodities increased the value of Indonesia's exports and imports in 2005. In 2005, the growth of oil and gas exports and non-oil and gas exports were high at 24.3% and 22.5%, respectively. The growth of oil and gas exports was due to a surge in oil prices, which, during 2005, peaked at approximately $69 per barrel in August. Indonesia's trade balance surplus, however, decreased to $11.5 billion in 2005 as imports grew much faster than exports. In 2005, imports grew at a rate of 37.8% compared to 22.9% for exports. Import values, particularly of oil and gas, increased significantly due to global oil price hikes, growing domestic fuel demand and limited domestic refinery capacity. To cope with the increasing fiscal burden of fuel subsidies on the government budget, the government reduced government fuel subsidies and increased domestic fuel prices on October 1, 2005.

In 2006, Indonesia recorded a trade surplus of $23.2 billion, more than double the surplus of $11.5 billion in 2005. Total export value in 2006 increased by 19.0% to $103.5 billion, from $87.0 billion in 2005, as world economic growth strengthened and world prices for oil and many non-oil and gas export commodities continued to increase. Total import value grew at the lower rate of 6.4% in 2006 to $80.3 billion, from $75.5 billion in 2005, as the fuel price hikes in October 2005 negatively affected domestic consumption and investment demand in 2006. Among non-oil and gas imports, only imports of consumer goods continued to grow strongly in 2006.

During 2007, Indonesia recorded a trade surplus of $25.2 billion, an increase from a surplus of $23.2 billion in 2006. Sustained demand and higher global oil and other commodity prices supported the increase of total export value by 14.0% in 2007. During 2007, total import value grew by 15.5% compared to growth of 6.3% in 2006 due to high growth in domestic consumption and imports of raw materials used for the manufacture of goods for export. Although exports grew more slowly than imports, in absolute terms the increase in total export value was larger than the increase in total import value.

The following table sets forth Indonesia's exports by major commodity groups for the periods indicated:

Exports by Sector

	2003	2004	2005	2006	2007[P]
	(in millions of U.S. dollars)				
Agricultural products:					
Coffee	273	274	522	590	627
Tea	100	63	118	52	73
Spices	203	150	158	191	254
Tobacco	48	44	290	58	61
Cacao	410	360	645	627	620
Shrimp and prawns	928	802	833	992	918
Others	787	736	305	948	1,181
Total agricultural products	2,750	2,430	2,870	3,458	3,734
Mineral products:					
Copper	1,924	1,755	3,488	4,700	4,428
Nickel	62	106	139	220	615
Coal	2,054	2,677	4,343	6,156	6,977
Bauxite	20	17	24	59	106
Others	85	82	17	212	264
Total mineral products	4,145	4,637	8,010	11,346	12,390
Manufactured products:					
Textiles and textile products	7,294	7,507	8,554	9,626	9,848
Processed wood products	3,247	3,164	2,940	3,363	3,029
Palm oils	2,521	3,353	3,708	4,873	7,571
Chemicals	1,576	1,896	4,450	2,729	3,461
Metal products	887	1,787	561	3,091	9,594
Electrical appliances	3,205	3,396	9,774	4,500	7,971
Cement	92	100	184	222	196
Papers	2,061	2,171	3,238	2,892	3,365
Rubber products	2,146	2,878	793	5,528	6,057
Others	18,952	21,166	21,668	28,949	25,926
Total manufactured products	41,981	47,416	55,872	65,774	77,018
Oil and gas:					
LNG, LPG and natural gas	7,765	8,680	10,720	12,039	12,376
Crude oil	5,841	5,833	7,259	7,911	9,380
Oil products	1,628	1,772	2,264	3,000	3,116
Total oil and gas	15,234	16,285	20,243	22,950	24,872
Total exports	64,109	70,767	86,996	103,528	118,014

Source: Bank Indonesia.

[P] Preliminary.

Exports of goods have increased over the last five years. As a proportion of total exports, manufactured products have decreased slightly from 65.5% of total exports in 2003 to 65.3% in 2007. Indonesia faces increasing competition in labor-intensive sectors such as textiles, clothing and footwear from countries such as China and Vietnam. The proportion of exports of goods represented by mineral products increased significantly from 6.5% in 2003 to 10.5% in 2007, in line with higher non-fuel commodity prices. The proportion of exports of goods represented by oil and gas has declined over the same period from 23.8% in 2003 to 21.1% in 2007, and that of agricultural products has declined from 4.3% in 2003 to 3.2% in 2007. In 2007, exports of goods grew 14.0% compared to 2006. Within exports of goods, non-oil and gas exports rose 15.6% and oil and gas exports rose 8.4%, in each case compared to 2006.

In 2003, exports of goods increased 8.4% from 2002 levels to $64.1 billion. This increase was primarily due to higher prices in both oil and gas products and non-oil and gas commodities. The average export price of oil reached approximately $28.60 per barrel and helped maintain the value of oil and gas exports despite a decline in oil production. In 2003, oil and gas exports, which accounted for 23.8% of total exports in 2003, compared to 21.7% in 2002, increased 18.5% from 2002 levels and was the primary contributor to the 2003 increase in exports. Non-oil and gas exports experienced lower volume growth due to several factors, among them weak export competitiveness, lack of domestic investment and strong competition in international markets. Due to high commodity prices, however, Indonesian non-oil and gas exports still recorded growth of 5.5% in 2003. Exports of manufactured products, which represented 65.5% of total exports in 2003, increased 5.4% from 2002, primarily due to increases in exports of electrical appliances, chemicals, palm oil and rubber products. Agricultural exports increased 4.2% in 2003, fueled by shrimp and prawns, spices and coffee exports. Further growth in exports of copper, nickel and coal fueled a 7.7% increase in mineral product exports, which represented 6.5% of total exports in 2003.

In 2004, exports increased by 10.4% to $70.8 billion from $64.1 billion in 2003. Non-oil and gas exports increased by 11.5% to $54.5 billion, compared to $48.9 billion in 2003. This increase in non-oil and gas exports was mainly attributable to a 12.9% increase in manufactured products exports, to $47.4 billion from $42.0 billion in 2003, and an 11.9% increase in mineral products exports, to $4.6 billion from $4.1 billion in 2003. Manufacturing exports increased due to strong export growth of palm oil, rubber products, metal products, paper and textiles. Palm oil exports increased by 33.0% to $3.4 billion in 2004 due to increased production and higher world demand, especially from India, China and The Netherlands. Export volumes of rubber products, metal products, paper and textiles increased in 2004 due to higher world demand. In the mining sector, mineral products experienced growth, due to significant increases in export volumes, and higher world prices, of coal and nickel. The increase in mineral products exports was partially offset by an 8.8% reduction in copper exports caused by a decline in copper production. Agricultural products exports decreased 11.7% in 2004 due to weakening exports of cacao and shrimp. Production of shrimp decreased in 2004 due to a virus affecting shrimp stocks in several production facilities, difficulties financing production expansion in the industry and inadequate training of shrimp pond operators. Cacao exports decreased due to declining production as a result of a pest attack in Sulawesi. In addition to export volume and price increases, non-oil and gas exports increased in 2004 due to changes in the DGCE's reporting system for exports. See "Certain Defined Terms and Conventions." Since this new system was implemented in May 2004, the average value of non-oil and gas exports has increased to $4.9 billion per month, compared to $4 billion per month under the previous reporting system. Oil and gas exports in 2004 increased by 6.9% to $16.3 billion, compared to $15.2 billion in 2003. The export price of oil increased significantly in 2004, to an average of $36.80 per barrel, which increased the value of Indonesia's oil and gas exports, despite a decline in oil and gas production to approximately 1.09 million barrels per day in 2004, compared to 1.14 million barrels per day in 2003. In addition, LNG, LPG and natural gas exports increased by 11.8% in 2004, to $8.7 billion from $7.8 billion in 2003, due to increased world demand for natural gas products, particularly from Japan, the Republic of Korea and Taiwan.

In 2005, total exports grew 22.9% to $87.0 billion from $70.8 billion in 2004. Non-oil and gas exports increased by 22.5% to $66.8 billion from $54.5 billion in 2004. The increase in non-oil and gas exports was a result of a 72.7% increase in mineral products exports, a 18.1% increase in agricultural products exports and a 17.8% increase in manufactured products exports. Within non-oil and gas exports, exports of manufactured products contributed 64.2%, exports of mineral products contributed 9.2% and agricultural products contributed 3.3% of total exports. Increases in global energy prices and non-fuel commodities prices contributed to increases in the value of Indonesia's major non-oil and gas exports in 2005. Almost all the major agricultural products, such as shrimp, cacao, coffee and tobacco, experienced positive growth in 2005. The increase in shrimp exports was attributable to higher prices. For exports of mineral products, significant increases in copper, coal, and bauxite export values were driven by higher export volumes and prices of these minerals in 2005. Increases in exports of manufactured products resulted from increases in exports of electrical appliances, chemicals, textile and textile products, papers and palm oil. The upward trend of global oil prices raised oil and gas exports by 24.3% in 2005. The export price of oil increased significantly to an average of $52.0 per barrel, contributing to a 24.4% increase in the value of crude oil exports.

In 2006, Indonesia's exports increased by 19.0% to $103.5 billion from $87.0 billion in 2005. Non-oil and gas exports grew 20.7% compared to 2005, to $80.6 billion. The increase in non-oil and gas exports resulted from a 41.6% increase in mineral products exports, a 20.5% increase in agricultural products exports and a 17.7% increase in manufactured products exports compared to 2005. Exports of agricultural products and mineral products increased as a result of greater global demand for these products and higher global non-fuel commodities prices. Within agricultural products exports, the increase in coffee exports was due to higher volumes and prices, while the increase in shrimp exports was attributable to higher prices. Within mineral products exports, higher copper and coal exports were driven by higher prices and increasing global demand for these commodities. The increase in manufactured products exports was due to increases in exports of palm oils, textile and textile products, metal products and rubber products. Higher exports of textile and textile products, metal products and rubber products were driven by both higher export volumes and prices. The increase in palm oil exports primarily resulted from increasing global prices. Oil and gas exports also increased by 13.4% in 2006. The export price of oil increased significantly in 2006, to an average of $62.5 per barrel.

In 2007, Indonesia's exports increased by 14.0% to $118.0 billion compared to $103.5 billion in 2006. Non-oil and gas exports grew by 15.6%, compared to 20.7% in 2006. During 2007, the increase in non-oil and gas exports resulted from a 17.1% increase in manufactured products exports, a 9.2% increase in mineral products exports and an 8.0% increase in agricultural products exports, each compared to 2006. Among major export commodities, exports of mineral products and certain manufactured products, such as textiles and CPO, increased mainly due to higher prices. This price increase was affected by higher demand, mainly from China, and the depreciation of the U.S. dollar, which resulted in higher U.S. dollar prices for commodities. Other manufactured products exports, including rubber products and chemicals, increased due to a combination of higher prices and larger export volumes. Oil and gas exports in 2007 increased 8.4% compared to 2006, which was lower than its growth in 2006 of 13.4%, despite an increase in oil prices. This was mainly due to the decline in gas exports, as a result of lower gas production and higher domestic gas consumption. The average price of Indonesia's oil exports in 2007 was $70.1 per barrel, compared to $62.5 per barrel in 2006. Oil production averaged 0.95 million barrels per day in 2007, lower than 1.0 million barrels per day in 2006, as a result of a decline in production capacity.

The following table sets forth Indonesia's exports by country of destination for the periods indicated:

Exports by Destination

	2003	2004	2005	2006	2007[P]
	(in millions of U.S. dollars)				
Africa	1,255	1,301	1,669	1,996	2,466
Americas:					
United States	7,602	8,153	9,722	11,223	11,517
South America	525	655	935	1,316	1,513
Canada	390	460	468	543	552
Others	320	331	372	407	443
Total Americas	8,836	9,598	11,497	13,489	14,025
Asia:					
ASEAN:					
Singapore	5,813	6,732	7,887	9,114	10,614
Malaysia	2,346	2,727	3,413	4,248	5,268
Thailand	1,108	1,485	2,326	2,826	3,222
Philippines	965	1,410	1,441	1,447	1,890
Vietnam	558	568	652	1,060	1,357
Cambodia	51	56	89	107	121
Myanmar	68	56	73	148	272
Brunei Darussalam	31	28	36	39	42
Laos	—	1	2	4	4
Total ASEAN	10,941	13,065	15,919	18,993	22,790
Japan	14,308	15,757	18,788	22,561	25,234
Republic of Korea	4,814	4,714	7,416	8,043	8,134
China	3,480	5,108	6,860	8,742	10,199
India	1,726	2,147	2,912	3,589	4,964
Hong Kong	1,286	1,296	1,464	1,721	1,749
Taiwan	1,220	1,473	2,539	2,793	2,681
Saudi Arabia	409	375	526	641	947
Pakistan	306	405	629	777	890
Iraq	17	50	86	72	12
Others	4,066	4,018	3,059	3,755	4,944
Total Asia	42,573	48,406	60,201	71,687	82,544
Australia/Oceania	2,496	2,465	2,793	3,373	4,323
Europe:					
European Union:					
Germany	1,461	1,739	1,782	2,042	2,324
Netherlands	1,425	838	2,148	2,633	2,831
United Kingdom	1,140	1,546	1,282	1,446	1,465
Belgium and Luxembourg	889	623	988	1,144	1,315
Italy	766	837	958	1,213	1,401
France	696	1,209	614	721	803
Others	2,048	1,527	2,360	2,960	3,409
Total European Union	8,424	8,320	10,131	12,159	13,548
Eastern Europe	305	236	—	—	—
Russia	108	138	204	269	317
Others	113	303	501	555	791
Total Europe	8,949	8,996	10,836	12,983	14,656
Total exports	64,109	70,767	86,996	103,528	118,014

Source: Bank Indonesia.

[P] Preliminary.

Over the past five years, Japan, the United States, Singapore, the Republic of Korea and China have consistently remained Indonesia's largest destinations for exports, together representing 55.7% of all exports in 2007. Of these five countries, China has become an increasingly important export market for Indonesia in recent years, despite the fact that China is a primary competitor in both the international and domestic markets for many of Indonesia's products. The share of exports to Japan fell from 22.3% of total exports in 2003 to 21.4% in 2007, exports to the United States fell from 11.9% of total exports in 2003 to 9.8% in 2007, exports to Korea fell from 7.5% of total exports in 2003 to 6.9% in 2007 and exports to Singapore remained relatively constant from 9.1% of total exports in 2003 to 9.0% in 2007. Among other countries in Southeast Asia, Malaysia and Thailand have increased their share of Indonesian exports from 3.7% and 1.7% in 2003, to 4.5% and 2.7%, respectively, in 2007. If ASEAN were taken as a whole, it would have been Indonesia's second largest export market in 2007 (after Japan), and its share would have increased from 17.1% in 2003 to 19.3% in 2007. If Europe were taken as a whole, it would have been Indonesia's second largest export market in 2007 (after Japan) and its third largest export market in 2007, if ASEAN were taken as a whole, although Europe's share has declined from 14.0% in 2003 to 12.4% in 2007.

The following table sets forth Indonesia's imports by major commodity groups for the periods indicated:

Imports by Sector

	2003	2004	2005	2006	2007[P]
	(in millions of U.S. dollars)				
Consumer goods:					
Foods and beverages (primary)	324	476	407	583	797
Foods and beverages (processed)	807	866	1,162	1,305	2,070
Passenger car	146	304	480	436	337
Transport equipment not for industry	13	35	237	220	241
Durable consumer goods	175	322	484	574	1,048
Semi-durable consumer goods	294	378	620	754	1,496
Non-durable consumer goods	472	649	747	1,014	1,104
Military equipment and others	92	95	26	657	814
Total consumer goods	2,321	3,125	4,165	5,543	7,907
Raw materials and auxiliary goods:					
Processed raw materials	14,911	18,892	22,992	25,539	28,593
Primary raw materials	2,201	2,623	2,554	2,737	3,155
Spare parts for transportation equipment	2,918	3,195	4,299	3,724	4,237
Spare parts for capital goods	3,105	3,746	10,238	10,630	11,334
Food and beverages (mainly for industry)	1,644	1,871	1,347	1,355	2,010
Processed food and beverages	724	715	811	916	991
Processed fuel and lubricants	157	202	278	154	172
Primary fuel and lubricants	4	16	14	31	10
Total raw materials and auxiliary goods	25,665	31,260	42,533	45,085	50,502
Capital goods:					
Capital goods (excluding transportation equipment)(1)	5,217	6,807	9,033	9,292	10,672
Passenger cars	202	368	480	436	337
Transportation equipment for industry(2)	334	1,178	1,897	2,419	2,489
Total capital goods	5,753	8,354	11,411	12,147	13,498
Oil and gas	8,504	12,089	17,417	17,571	20,872
Total imports	42,243	54,828	75,525	80,346	92,779

Source: Bank Indonesia.

P Preliminary.

(1) Includes power plant equipment, tractors and agriculture equipment.

(2) Includes railway equipment, ships and aircraft.

Imports of goods have grown steadily over the last five years. As a proportion of total imports of goods, raw materials have declined from 60.8% of total imports of goods in 2003 to 54.4% 2006, whereas consumer goods have increased from 5.5% of total imports of goods in 2003 to 8.5% in 2006. The relative level of capital goods has increased, from 13.6% of the 2003 total to 14.6% of the 2007 total. The proportion of oil and gas imports has risen over the same period from 20.1% in 2003 to 22.5% in 2007. Indonesia's imports tend to fluctuate in conjunction with exports because imports of goods, particularly in the raw material and capital goods categories, are widely used as inputs in the production of export-oriented products.

In 2003, imports of goods increased 10.3% from $38.3 billion in 2002 to $42.2 billion. Imports of goods increased in all major sectors except consumer goods. Imports of raw materials, which accounted for 60.8% of total imports of goods, increased by 10.0%, imports of oil and gas, which accounted for 20.1% of total imports of goods, increased by 17.4% and imports of capital goods, which accounted for 13.6% of total imports of goods, increased by 15.8%. In the case of raw materials, the increase was due to an upturn in exports. Imports of consumer goods, which accounted for 5.5% of total imports of goods fell by 16.5%.

In 2004, imports of goods increased by 29.9% from $42.2 billion in 2003 to $54.9 billion. Imports of goods increased across the board in all major sectors in line with increased domestic demand for imported products and increased capital investment in the country. Non-oil and gas imports increased by 26.7% to $42.7 billion in 2004 from $33.7 billion in 2003. The largest increase in non-oil and gas imports came from raw materials imports, which increased by 21.8% and accounted for 57.0% of total 2004 imports due to an increase in demand primarily for food, passenger cars and consumer goods. Capital goods imports, which accounted for 15.2% of imports in 2004, increased by 45.2% due to increased investment in manufacturing industries and significantly higher purchases of transportation equipment. Higher personal consumption and a government policy to import more food in 2004 fueled demand for imported consumer goods, which grew by 34.6% to $3.1 billion in 2004 and accounted for 5.7% of total 2004 imports. Oil and gas imports increased by 42.2% from $8.5 billion in 2003 to $12.1 billion in 2004. The increase in oil and gas imports was primarily due to higher domestic consumption of fuel due to higher economic growth and lower domestic production. Oil production decreased from an average of 1.138 million barrels per day in 2003 to 1.086 million barrels per day in 2004.

In 2005, total imports of goods increased by 37.7% to $75.5 billion, compared to $54.8 billion in 2004. Driven by a strong domestic economy in the first half of 2005 and higher import prices, non-oil and gas imports increased by 36.0% to $58.1 billion. Imports of raw materials and auxiliary goods, which accounted for 56.3% of total imports, grew by 36.1% in 2005. Imports of capital goods, which include products such as plants, engines and transportation equipment for industries, accounted for 15.1% of total imports in 2005. Imports of capital goods increased by 36.6% in 2005 to $11.4 billion, due to higher levels of domestic investment and production activities. Imports of consumer goods, which accounted for 5.5% of total imports in 2005, increased by 33.3% in the same year to $4.2 billion as a result of higher imports of processed food and beverages. In 2005, oil prices surged, reaching $69 per barrel by the end of August. Higher oil prices led to a 44.1% increase in Indonesia's oil and gas imports in 2005. Fuel imports continued to rise during the first nine months of 2005 and then decreased following the government's decision to increase domestic fuel prices substantially on October 1, 2005. Oil production decreased from an average of 1.086 million barrels per day in 2004 to 1.054 million barrels per day in 2005.

Because of the moderate pace of economic growth in 2006, total imports of goods in 2006 increased by only 6.4% to $80.3 billion from $75.5 billion in 2005. Compared to 2005, non-oil and gas imports in 2006 grew 8.0%, while oil and gas imports increased by 0.9%. The growth of raw materials and auxiliary goods imports, which accounted for 56.1% of total imports in 2006, increased by 6.0%. Imports of capital goods, which accounted for 15.1% of imports in 2006, increased by 6.4%, significantly slower than the growth of 36.6% in the previous year, due to decreased demand for domestic investment. Imports of consumer goods, which accounted for 6.9% of total imports in 2006, increased by 33.1% as a result of higher personal consumption of primary and processed food and beverages. The impact of domestic fuel price hikes in October 2005 continued to depress domestic fuel consumption in 2006, leading to only a small increase of 0.9% in oil and gas imports. Oil production decreased from an average of 1.05 billion barrels per day in 2005 to 1.01 billion barrels per day in 2006.

Import growth accelerated in 2007 as a result of growing domestic demand. Total imports of goods grew by 15.5% to $92.8 billion, compared to $80.3 billion in 2006. Non-oil and gas imports grew by 14.5% compared to 2006, lower than its growth of 8.0% in 2006, in line with stronger domestic demand and higher levels of consumption and investment. Imports of raw materials and auxiliary goods grew to $50.5 billion (or 54.4% of total imports) in 2007 compared with $45.1 billion in 2006. Imports of capital goods increased to $13.5 billion (or 14.5% of total imports) in 2007 compared with $12.1 billion in 2006. Consumer goods imports increased to $7.9 billion (or 8.5% of total imports) in 2007 compared with $5.5 billion in 2006. In addition, the value of oil and gas imports increased by 18.8% compared to 2006, higher than its growth of 0.8% in 2006, mainly due to higher fuel consumption in 2007. Oil production averaged 0.95 million barrels per day in 2007, lower than the 1.0 million barrels per day in 2006, as a result of a decline in production capacity.

The following table sets forth Indonesia's imports by country of origin for the periods indicated:

Imports by Place of Origin

	2003	2004	2005	2006	2007[P]
	(in millions of U.S. dollars)				
Africa	1,269	1,653	2,181	2,178	2,510
Americas:					
United States	3,494	4,055	4,290	4,576	5,540
South America	716	989	1,175	1,221	1,535
Canada	444	818	749	713	1,071
Others	45	35	64	96	75
Total Americas	4,699	5,898	6,278	6,606	8,221
Asia:					
ASEAN:					
Singapore	4,787	6,907	15,447	16,742	17,070
Thailand	2,183	2,866	2,630	3,787	4,571
Malaysia	1,448	1,878	3,961	2,974	3,712
Vietnam	232	104	123	258	657
Philippines	246	279	458	445	534
Myanmar	21	20	26	21	32
Brunei Darussalam	4	5	8	4	4
Cambodia[(1)]	2	1	2	2	5
Total ASEAN	8,923	12,060	22,655	24,233	26,585
Japan	6,411	7,385	10,303	9,275	9,423
China	3,546	4,974	6,310	7,579	9,925
Republic of Korea	2,058	2,321	3,272	3,425	3,760
Taiwan	1,129	1,420	1,847	1,879	2,169
Saudi Arabia	1,156	1,445	1,954	2,005	2,308
India	869	1,227	1,075	1,429	1,749
Hong Kong	305	323	1,281	1,633	1,917
Pakistan	62	61	76	66	66
Others	3,843	5,013	7,093	7,071	8,758
Total Asia	28,301	36,230	55,868	58,596	66,660
Australia/Oceania	2,195	3,099	3,243	3,849	3,777
Europe:					
European Union:					
Germany	1,617	2,174	2,160	2,149	2,637
Italy	469	604	622	616	756
Netherlands	507	545	458	618	621
United Kingdom	634	853	738	714	786
France	636	704	716	1,184	1,639
Belgium and Luxembourg	250	314	356	349	384
Others	806	1,403	1,584	2,094	3,128
Total European Union	4,919	6,597	6,632	7,724	9,951
Russia	162	280	442	469	443
Eastern Europe	79	103	—	—	—
Others	620	967	879	924	1,217
Total Europe	5,779	7,947	7,953	9,117	11,611
Total imports	42,243	54,828	75,525	80,346	92,779

Source: Bank Indonesia.

[P] Preliminary.

1) Includes Laos

By country of origin, over the five years from 2003 to 2007, most of Indonesia's imports (approximately 50% of total imports) came from five countries: Singapore, Japan, China, the United States and Thailand. During this five year period, however, the composition of imports from these countries has changed significantly. The share of imports from Japan declined from 15.2% in 2003 to 10.2% in 2007. On the other hand, the share of imports from Singapore increased significantly from

11.3% in 2003 to 18.4% in 2007. As a result, Singapore has replaced Japan as Indonesia's largest source of imports. The increase in the share of imports from Singapore resulted from increases in the importation of organic chemical products and plastics from Singapore. The share of imports from the United States declined from 8.3% in 2003 to 6.0% in 2007. Indonesia's main imports from the United States have been automobiles and other vehicles and manufacturing machinery. Thailand's share of imports declined from 5.2% in 2003 to 4.9% in 2007. Meanwhile, the share of Indonesia's imports from the European Union countries, which accounted for approximately 11.6% of total imports in 2003, declined to 10.7% in 2007.

Balance of Payments

Balance of payments figures measure the relative flow of goods, services and capital into and out of a country as represented in the current account and the capital account. The current account tracks a country's trade in goods, services, income and current transfer transactions. The capital account covers all transactions involving capital transfers and acquisition or disposition of non-produced, financial and non-financial assets. A balance of payments surplus indicates a net inflow of foreign currencies, while a balance of payments deficit indicates a net outflow of foreign currencies.

In order to improve the quality of Indonesia's balance of payment statistics, and to comply with generally recognized standards of statistical reporting, Indonesia started compiling its balance of payment statistics using the revised BOP reporting system. Indonesia's balance of payment statistics from 2004 onwards have been compiled using the revised BOP reporting system. For comparison purposes, Indonesia also published balance of payment statistics for 2004 using the previous BOP reporting system. To ensure comparability of its balance of payment statistics presented in this offering memorandum, the Republic has presented its balance of payment statistics for 2003 using the previous BOP reporting system, its balance of payment statistics for 2004 using both the previous BOP reporting system and the revised BOP reporting system, and its balance of payment statistics for 2005, 2006 and 2007 using the revised BOP reporting system. See "Certain Defined Terms and Conventions."

Balance of Payments for 2003 and 2004 Using the Previous BOP Reporting System. The following table sets forth the Republic's balance of payments for 2003 and 2004 compiled using the previous BOP reporting system:

Balance of Payments[1]

	2003	2004
	(in millions of U.S. dollars)	
Current account:		
Merchandise trade:		
Exports (f.o.b.):		
Non-oil and gas exports	48,875	54,482
Oil and gas exports	15,234	17,685
Total exports	64,109	72,167
Imports (f.o.b.):		
Non-oil and gas imports	(31,723)	(39,456)
Oil and gas imports[2]	(7,823)	(11,159)
Total imports	(39,546)	(50,615)
Services (net):		
Non-oil and gas services[3]	(11,285)	(13,155)
Oil and gas services	(5,171)	(5,289)
Total services	(16,456)	(18,444)
Current account	8,106	3,108
Capital account:		
Public Sector:		
Official inflows:		
Consultative Group for Indonesia ("CGI") inflows[4]	1,625	1,375
Non-CGI inflows[5]	545	2,391
Total official inflows	2,170	3,766
Debt repayment[6]	(3,004)	(5,543)
Total official capital	(833)	(1,777)
Private Sector:		
Foreign direct investment[7]	(597)	1,023
Other private and miscellaneous capital[8]	481	3,367
Total private capital	(116)	4,390
Capital account	(949)	2,612
Total (current account and capital account)	7,157	5,720
Errors and omissions (net)	(3,502)	(5,412)
Overall balance	3,654	309
Monetary movements[9]	(3,654)	(309)
Changes in reserve assets	(4,257)	(24)
"of which" transactions[10]	—	674
International Monetary Fund:		
Purchases	1,959	—
Repurchases	(1,356)	(983)
Net	603	(983)
Reserve asset position	36,296	36,320

Source: Bank Indonesia.

(1) Data compiled using the previous BOP reporting system. The calculation of export and import figures included in the balance of payments data compiled by Bank Indonesia differs in coverage and timing from the data on export/import trade compiled by BPS.

(2) Includes imports of oil and other goods by oil and gas companies.

(3) Includes interest payments on public external debt, profit transfers from FDI projects and transportation services.

(4) Includes CGI disbursements and export credit facilities from CGI member countries and special loans from The Export-Import Bank of Japan.

(5) Includes loans from non-CGI member countries and commercial borrowings.

(6) Principal repayments of direct government debt. Includes repayments of debt contracted by SOEs.

(7) Net figure includes private sector loans associated with FDI.

(8) Represents all capital movements not elsewhere specified. Does not include net borrowings of SOEs.

(9) A negative amount denotes an accumulation of assets (increase in official international reserves).

(10) Since January 2004, Bank Indonesia has provided changes in reserve assets data based on transaction data only for balance of payments purposes. "Of which" transactions represent changes in reserves assets for reasons other than pure transactions, such as changes in exchange rates.

In 2003, the balance of payments surplus decreased by 27.3% to $3.7 billion. The decline in surplus was attributable primarily to a 3.6% growth in the current account surplus to $8.1 billion, and to the decline in the capital account deficit to $0.9 billion. The 8.4% increase in total exports of $4.9 billion was largely offset by the 10.9% increase in total imports of $3.8 billion and the 4.9% increase in the net services deficit of $0.8 billion. The widening in the net services deficit was primarily caused by a 1.5% increase to $2.7 billion in freight charges on imports, in line with rising total imports in the same period.

Growth in non-oil and gas exports in 2003 was 5.5%, supported by improvements in the competitive advantage of certain products such as electronic goods, chemicals, palm oil, rubber products and mining products (especially copper and coal), as well as by the opening of markets for Indonesia's exports in Central and Eastern European countries, South Asian countries and China. Non-oil and gas imports increased by 9.4% in 2003, driven mainly by capital and raw material goods requirements relating to domestic activities. During 2003, an average oil export price of approximately $28.60 per barrel was sufficient to keep total exports growing by 8.4%.

In 2003, the capital account deficit in official capital was higher than in 2002 as a result of higher undisbursed program loans, which were mainly associated with Indonesia's failure to meet the agreed policy and performance standards set by foreign creditors. This occurred despite lower loan repayments, which declined in part due to rescheduling of Paris Club debt. In 2003, net private capital declined slightly. Net foreign direct investment inflows registered a substantial deficit due to high debt repayments by foreign direct enterprises to their affiliated companies abroad. This deficit was partly offset by improvement in portfolio inflows that increased rapidly in the second half of 2003, attributable in part to the successful privatization of several SOEs and banks. By the end of 2003, the Republic's official reserves increased to almost $36.3 billion, or the equivalent of 7.1 months of imports and official debt repayments.

In 2004, the balance of payments recorded a slight surplus of $309 million. The decline in the Republic's 2004 balance of payments surplus was primarily attributable to a 61.7% decline in the current account surplus, from $8.1 billion in 2003 to $3.1 billion in 2004. In 2004, a 12.6% increase in total exports of $8.1 billion was more than offset by a 28.0% increase in total imports of $11.1 billion and a 12.1% increase in the net services deficit of $2.0 billion. The decline in the Republic's current account surplus of $5.0 billion was partially offset by a $3.6 billion increase in the capital account in 2004, from a capital account deficit of $949 million in 2003 to a capital account surplus of $2.6 billion in 2004.

Non-oil and gas exports in 2004 increased by 11.5%, from $48.9 billion in 2003 to $54.5 billion in 2004, due to increased exports of manufactured products, particularly palm oil, metal products and rubber products, and mineral products, particularly coal. Non-oil and gas exports increased in 2004, in part, through the implementation of a new export reporting system by the DGCE in May 2004. See "Certain Defined Terms and Conventions" and "—Exports and Imports." Non-oil and gas imports increased by 24.4%, from $31.7 billion in 2003 to $39.4 billion in 2004, primarily as a result of increases in imports of capital and raw material goods due to higher economic growth and greater investment in machinery and equipment.

Oil and gas exports in 2004 were $17.7 billion, representing an increase of 16.1% over oil and gas exports of $15.2 billion in 2003. In 2004, oil export prices increased significantly to an average of $36.81 per barrel, which contributed to Indonesia's export growth in that year. During the same period, oil and gas imports increased by 42.7%, from $7.8 billion to $11.2 billion. The widening in the net service deficit was primarily caused by a 57.7% increase in freight charges, to $4.3 billion, on imports, in line with the rising level of imports during the same period and increases in freight rates.

In 2004, the Republic's capital account improved significantly, from a capital account deficit of $949 million in 2003 to a capital account surplus of $2.6 billion in 2004. In 2004, total official inflows increased by $1.6 billion as a $0.3 billion decrease in CGI inflows was more than offset by a $1.9 billion increase in non-CGI inflows, primarily inflows related to increased export credit facilities for Indonesian companies. In 2004, principal repayments of government debt increased by $2.5 billion to $5.5 billion. In 2003, debt repayments were lowered through a Paris Club rescheduling. However, due to Indonesia's termination of its IMF program in 2003, it was no longer eligible for Paris Club reschedulings and its debt repayment obligations increased in 2004. In addition, undisbursed program loan levels were higher in 2004 because, in part, the Republic failed to meet agreed policy and performance targets required by those foreign lenders.

In the private sector portion of the capital account, in 2004, net FDI inflows improved significantly to a surplus of $1.0 billion, compared to a net FDI deficit of $0.6 billion in 2003. The increase in net FDI resulted from increased disbursements of loans from parent companies abroad to their subsidiaries and affiliates in Indonesia. Other private sector capital inflows increased significantly, to $3.4 billion in 2004 compared to $0.5 billion in 2003 primarily due to increased purchases of Indonesian securities, particularly equities on the Jakarta Stock Exchange, by foreign investors.

By the end of 2004, the Republic's official reserves increased to slightly over $36.3 billion, the highest year-end level since the onset of the Asian financial crisis in 1997, or the equivalent of 5.5 months of imports and official debt repayments.

Balance of Payments from 2004 to 2007 Using the Revised BOP Reporting System. The following table sets forth the Republic's balance of payments for 2004, 2005, 2006 and 2007 compiled using the revised BOP reporting system:

Balance of Payments[1]

	2004	2005	2006	2007[P]
	(in millions of U.S. dollars)			
Current account:				
Exports (f.o.b.):				
Non-oil and gas exports	54,482	66,753	80,578	93,142
Oil and gas exports	16,285	20,243	22,950	24,872
Total exports	70,767	86,996	103,528	118,014
Imports (f.o.b.):				
Non-oil and gas imports	(39,456)	(53,431)	(57,703)	(66,094)
Oil and gas imports[2]	(11,159)	(16,030)	(16,165)	(19,202)
Total imports	(50,615)	(69,461)	(73,868)	(85,296)
Services (net):				
Non-oil and gas services[3]	(14,273)	(10,730)	(12,392)	(15,298)
Oil and gas services	(4,316)	(6,526)	(6,433)	(7,055)
Total services	(18,589)	(17,256)	(18,825)	22,353
Total current account	1,564	278	10,836	10,365
Capital account	—	333	350	546
Financial account:				
Public sector:				
Portfolio investments	2,251	4,826	4,514	5,270
Other investments:				
Official inflows:				
CGI in flows[4]	1,375	1,133	1,402	1,327
Non-CGI in flows[5]	1,144	4,134	2,186	2,677
Total official inflows	2,519	5,266	3,588	4,004
Debt repayment[6]	(5,214)	(6,114)	(6,084)	(6,367)
Total other investments	(2,695)	(846)	(2,496)	(2,363)
Total public sector financial account	(443)	3,978	2,019	2,907
Private sector:				
Direct investments[7]:				
Abroad	(3,408)	(3,065)	(2,703)	(4,790)
Within Indonesia	1,896	8,336	4,914	6,928
Total direct investments	(1,512)	5,271	2,211	2,139
Portfolio investments:				
Assets	353	(1,080)	(1,933)	(4,459)
Liabilities	1,804	444	1,593	4,711
Total portfolio investments	2,157	(636)	(340)	253
Other private and miscellaneous capital[8]:				
Assets	985	(8,646)	(1,588)	(4,596)
Liabilities	665	45	292	2,074
Total other private and miscellaneous capital	1,650	(8,601)	(1,296)	(2,522)
Total private sector financial account	2,295	(3,967)	575	(131)
Total financial account	1,852	12	2,594	2,774
Total (current account, capital account and financial account)	3,415	623	13,780	13,689
Errors and omissions (net)	(3,106)	(179)	729	(973)
Overall balance	309	444	14,510	12,715
Monetary movements[9]	(309)	(444)	(14,510)	(12,715)
Changes in reserve assets	(24)	1,596	(7,862)	(14,334)
"of which" transactions[10]	674	663	(6,902)	(12,715)
International Monetary Fund:				
Purchases	—	—	—	—
Repurchases	(983)	(1,107)	(7,608)	—
Net	(983)	(1,107)	(7,608)	—
Reserve asset position	36,320	34,724	42,586	56,920

Source: Bank Indonesia.

[P] Preliminary.

(1) Data compiled using the revised BOP reporting system. The calculation of export and import figures included in the balance of payments data compiled by Bank Indonesia differs in coverage and timing from the data on export/import trade compiled by BPS.

(2) Includes imports of oil and other goods by oil and gas companies.

(3) Includes interest payments on public external debt, profit transfers from FDI projects and transportation services.

(4) Includes CGI disbursements and export credit facilities from CGI member countries and special loans from The Export-Import Bank of Japan.

(5) Includes loans from non-CGI member countries and commercial borrowings.

(6) Principal repayments of direct government debt. Includes repayments of debt contracted by SOEs.

(7) Net figure includes private sector loans associated with FDI.

(8) Represents all capital movements not elsewhere specified. Excludes portfolio investment. Does not include net borrowings of SOEs from 2001 to 2003.

(9) A negative amount denotes an accumulation of assets (increase in official international reserves).

(10) Since January 2004, Bank Indonesia has provided changes in reserves assets data based on transaction data only for balance of payments purposes. "Of which" transactions represent changes in reserves assets for reasons other than pure transactions, such as changes in exchange rates.

In order to improve the quality of Indonesia's balance of payment statistics, and to comply with generally recognized standards for statistical reporting, in 2004, Indonesia revised the methodology for compiling its balance of payment statistics. The revisions to BOP statistics started from the beginning of 2004. See "Certain Defined Terms and Conventions."

In 2005, the Republic's overall balance of payments experienced a slightly larger surplus of $444 million, compared to $309 million in 2004. The current account recorded a surplus of $278 million, compared to $1.6 billion in 2004, the capital account and financial account recorded a surplus of $345 million, compared to a surplus of $1.9 billion in 2004. Net errors and omissions in 2005 recorded a small deficit of $179 million, compared to a deficit of $3.1 billion in 2004. The current, capital and financial account surpluses in 2005 declined significantly to $623 million, compared to $3.4 billion in 2004. In the third quarter of 2005, there was pressure on the overall balance of payments, and this was attributable primarily to the negative impact of rising oil prices and increases in the U.S. federal funds rate on the current account and the financial account, respectively.

In Indonesia's 2005 current account balance, the trade balance recorded a surplus as exports exceeded imports by $17.5 billion. However, this trade surplus was largely offset by a deficit of $17.3 billion in total services. Non-oil and gas exports reached $66.8 billion in 2005, an increase of 22.5% compared to $54.5 billion in 2004. The significant increase in non-oil and gas exports was attributable to strong demand for primary products, such as copper, crude palm oil, coal and rubber, and manufactured products, such as processed wood, chemical, textiles and textile products and electrical appliances. Non-oil and gas imports reached $53.4 billion in 2005, an increase of 35.4% over 2004. The increase in non-oil and gas imports, especially imports of capital goods and raw materials, was generally in line with increases in domestic investment and exports. Oil prices increased significantly in 2005 to an average of $52 per barrel, contributing to growth in exports and imports of oil and gas. Oil and gas exports reached $20.2 billion in 2005, an increase of 24.3% over oil and gas exports in 2004. Oil and gas imports increased by 43.7% in 2005 to $16.0 billion. The deficit in the trade balance for oil was more than offset by the surplus in the trade balance for gas in

2005. Meanwhile, total services for 2005 recorded a deficit of $17.3 billion, a slight decrease from a $18.6 billion deficit in 2004.

Indonesia's financial account recorded a small surplus of $12 million in 2005, compared to a surplus of $1.9 billion in 2004. Although the public sector financial account registered a surplus of $4.0 billion, compared to a deficit of $443 million in 2004, this public sector financial account surplus was offset by a deficit of $4.0 billion in the private sector financial account in 2005. The private sector financial account recorded a surplus of $2.3 billion in 2004. The public sector financial account surplus in 2005 resulted mostly from the proceeds of the issuance of $1 billion of government bonds in April 2005 and an agreement with Paris Club member countries to defer $2.7 billion in principal and interest payments following the December 2004 tsunami. The private sector financial account deficit in 2005 was primarily attributable to increases in the amount of private assets transferred abroad.

In 2005, the Republic's official reserves decreased to $34.7 billion, equivalent to 4.4 months of imports and official debt repayments, from $36.3 billion at year-end 2004.

In 2006, the Republic's overall balance of payments recorded a surplus of $14.5 billion, compared to $444 million in 2005. The current account recorded a surplus of $10.8 billion, compared to a surplus of $278 million in 2005. The capital account and financial account recorded a surplus of $2.9 billion, compared to a surplus of $345 million in 2005. Net errors and omissions in 2006 recorded a surplus of $729 million, compared to a deficit of $179 million in 2005. The current, capital and financial account surpluses in 2006 increased significantly to $13.8 billion, compared to $623 million in 2005. In the first half of 2006, growth slowed as a result of an increase in domestic fuel prices, but recovered in the second half of 2006. The recovery was driven by increased domestic demand, particularly consumer demand, and supported by increases in public spending in the second half of the year. Exports recorded high growth in line with worldwide economic growth, increased international demand for commodities and higher commodities prices. Domestic demand was constrained in 2006 and there was a resulting decrease in imports.

Indonesia recorded a $10.8 billion surplus in its current account in 2006, due principally to its strong export performance and weakened import demand. World economic growth in 2006 contributed positively to Indonesia's export performance during this period. Export volumes and prices of major non-oil and gas commodities, such as rubber products, copper, coal, crude palm oil, machinery, electronics, chemicals and textile and textile products, increased significantly during this period. As a result, the total value of non-oil and gas exports grew by 20.7% in 2006. The value of oil and gas exports in 2006 recorded strong growth of 13.4%, despite lower domestic crude oil production, primarily due to higher global oil prices during the period. The value of non-oil and gas imports in 2006 grew at a lower rate than non-oil and gas exports at 8.0%, and much lower than the 35.4% growth rate of non-oil and gas imports in 2005. The slower growth of imports in 2006 was due to weak domestic consumption and investment. Imports of raw materials and capital goods recorded the lowest growth at 6.0% and 6.5% respectively, while imports of consumption goods grew at 33.1%. The value of oil and gas imports in 2006 increased by only 0.8%, due mainly to lower domestic fuel consumption.

In 2006, Indonesia's services account recorded a deficit of $18.8 billion, higher than the $17.3 billion deficit recorded in 2005. The services account deficit in 2006 was caused by strong foreign demand for Indonesian equity securities, government bonds and SBIs, which increased dividend and interest payments to foreign holders of those securities.

The capital account surplus increased by 5.1% to $350 million in 2006, compared to $333 million in 2005, primarily due to foreign donations and investment grants related to the December 2004 earthquake and tsunami in Aceh and the May 2006 earthquake near Yogyakarta.

Indonesia's financial account recorded a surplus of $2.6 billion in 2006, compared to $12 million in 2005. The public sector financial account recorded a surplus of $2.0 billion, lower than the surplus of $4.0 billion in 2005, which was mainly due to a deferral of $2.7 billion in principal and interest payments coming due in 2005. In 2006, official inflows from the CGI and other official sources were $3.6 billion and official debt repayments were $6.1 billion. Portfolio investments in the public sector financial account of $4.5 billion included the sale of $2 billion in government bonds to foreign investors in March 2006. The private sector financial account improved significantly in 2006 and recorded a surplus of $575 million, compared to a deficit of $4.0 billion in 2005. This improvement reflects the strong foreign demand for Indonesian securities and other portfolio investments in 2006. FPI recorded a net inflow of $1.6 billion in 2006, higher than the net inflow of $0.4 billion in 2005. Net inflows of FPI increased in 2006 primarily as a result of foreign investment in the domestic stock market following decreases in the BI rate during the same period. FDI inflows, reported as direct investments in the private sector financial account, recorded a surplus of $4.9 billion in 2006, lower than the surplus of $8.3 billion in 2005. See "Foreign Investment—Foreign Investment in Indonesia—Foreign Direct Investment."

At the end of 2006, the Republic's official reserves increased significantly to $42.6 billion, compared to $34.7 billion at the end of 2005.

In 2007, GDP grew at 6.3% compared to 5.5% in 2006. In line with the stronger economic environment, domestic consumption, imports and investment all increased. Exports also continued to grow, supported by high oil and commodity prices. As a result of the stronger domestic economy in 2007, the Republic's overall balance of payments recorded a surplus of $12.7 billion, lower than the $14.5 billion surplus recorded in 2006. The current account recorded a surplus of $10.4 billion in 2007, compared to a surplus of $10.8 billion in 2006, the capital account and financial account recorded a surplus of $3.3 billion in 2007, compared to a surplus of $2.9 billion in 2006. Net errors and omissions in 2007 recorded a deficit of $1.0 billion, compared to a surplus of $729 million in 2006. The current, capital and financial account surpluses in 2006 and 2007 was slightly lower at $13.7 billion in 2007 compared to $13.8 billion in 2006.

In 2007, Indonesia recorded a current account surplus of $10.4 billion, slightly lower than the surplus of $10.8 billion recorded in 2006. The lower current account surplus was in line with the stronger domestic demand that was reflected in the higher growth of imports relative to exports in 2007. Meanwhile, improved non-oil and gas export performance was supported by world economic growth as reflected in rising export commodity prices. Export volumes and prices of major non-oil and gas commodities, such as crude palm oil, textiles, rubber products, nickel, copper, machinery, paper and chemicals, increased significantly during this period. As a result, the total value of non-oil and gas exports grew by 15.6% in 2007 compared to 2006. The value of oil and gas exports recorded lower growth than non-oil and gas exports at 8.4% during 2007, primarily due to lower domestic crude oil production. Increased domestic consumption and investment resulted in a 14.5% growth in non-oil and gas imports in 2007, significantly higher than the 8.0% growth rate in 2006. Non-oil and gas imports increased in all major categories in line with the growing domestic demand. The largest increase in non-oil and gas imports in 2007 came from consumption goods, which increased by 42.6%, followed by imports of raw materials, which grew by 12.0%, and imports of capital goods, which grew by 11.1%. The value of oil and gas imports in 2007 increased by 18.8% compared to an increase of 0.8% in 2006, mainly due to higher fuel consumption.

In 2007, Indonesia's services account recorded a deficit of $22.4 billion, higher than the $18.8 billion deficit in 2006. The services account deficit in 2007 was mainly caused by the increase in freight in import, increase in profit transfer abroad and strong foreign demand for Indonesian equity securities, government bonds and SBIs, which increased dividend and interest payments to foreign holders of those securities.

The capital account surplus increased by 56.0% to $546 million in 2007, compared to $350 million in 2006, primarily due to foreign donations and investment grants.

Indonesia's financial account recorded a surplus of $2.8 billion in 2007, which was an increase from the financial account surplus of $2.6 billion recorded in 2006. The public sector financial account recorded a surplus of $2.9 billion in 2007, compared to a surplus of $2.0 billion in 2006. During 2007, official inflows from loans from bilateral and multilateral institutions and other official sources of funds were $4.0 billion and official debt repayments were $6.4 billion. Portfolio investments in the public sector financial account recorded a significant surplus of $5.3 billion, including the sale of $1.5 billion in government bonds to foreign investors in February 2007. Also included in this surplus were the purchases of government rupiah-denominated bonds and SBI by foreign investors, which purchases were driven by the liquid international financial market condition, positive interest rate differentials and sustained macro-economic stability. Indonesia experienced significant outflows in portfolio investments of $1.5 billion in the fourth quarter of 2007 following the subprime mortgage crisis in the United States.

The private sector financial account in 2007 recorded a deficit of $131 million, compared to a surplus of $575 million in 2006. Among the main components of private sector financial account, direct investment and portfolio investment recorded surpluses, while other investment recorded a deficit in 2007. Net direct investment had a surplus of $2.1 billion in 2007, slightly lower than the surplus of $2.2 billion in 2006. Direct investment into Indonesia increased from $4.9 billion in 2006 to $6.9 billion in 2007, primarily as a result of the reinvestment of earnings by FDI companies, the establishment of the Batam, Bintan and Karimun special economic zones, the approval of a greater number of foreign investment applications and the creation of tax incentives for investment, as well as the hike in acquisition of domestic companies by foreign investors. However, direct investments outside Indonesia increased significantly in 2007, from $2.7 billion in 2006 to $4.8 billion in 2007, mainly due to increased investment by Indonesian mining companies in affiliate companies outside of Indonesia in order to expand mining production of natural resources. Portfolio investment recorded a surplus of $253 million in 2007, compared to a deficit of $340 million in 2006. This surplus was partly due to the divestment of SOEs, such as PT Bank Negara Indonesia (Persero) Tbk, through the sale of shares on the Jakarta Stock Exchange. Other investments recorded a deficit of $2.5 billion compared to a deficit of $1.3 billion in 2006, due to increases in currency and deposits held by non-bank financial institutions and private enterprises.

As of December 31, 2007, the Republic's official reserves were $56.9 billion, a significant increase from the Republic's official reserves of $42.6 billion at end of 2006. See "Foreign Exchange and Reserves—International Reserves."

In the first quarter of 2008, the Republic's overall balance of payments experienced a surplus of $1.0 billion. The current account recorded a surplus of $2.8 billion in the first quarter of 2008, compared to a surplus of $2.6 billion in the first quarter of 2007. The capital account and financial account in the first quarter of 2008 recorded a deficit of $1.4 billion, compared to a surplus of $1.8 billion in the first quarter of 2007. Net errors and omissions in the first quarter of 2008 recorded a small deficit of $382 million, compared to an even smaller deficit of $25 million in the first quarter of 2007. In the first quarter of 2008, the Republic's official reserves increased to $59.0 billion, equivalent to 5.0 months of imports and official debt repayments, from $56.9 billion at year-end. For a discussion of Indonesia's balance of payments in the first quarter of 2008, see "Recent Developments—Recent Economic Developments—Balance of Payments."

Financial System

Liquidity Supports, Government Guarantee and Deposit Insurance

At the beginning of the Asian financial crisis, a number of Asian currencies suffered exchange rate shocks. In Indonesia, the crisis triggered by these exchange rate shocks developed rapidly because of the openness of the economy and its reliance on the external sector. The effect was further exacerbated by existing structural weaknesses in the economy. As pressure on the rupiah grew, in August 1997 Bank Indonesia abandoned its managed floating exchange rate system and adopted a free-floating system. See "Foreign Exchange and Reserves—Exchange Rates." At the same time, Bank Indonesia raised interest rates to support the value of the rupiah. These interest rate hikes and the tightening of liquidity exerted severe pressure on the country's banking and non-banking sectors. Concerns over the possibility of another round of bank closures and the absence of any deposit insurance program led to bank runs and a flight from unsound to relatively sound banks. Continued pressure on the rupiah induced the government to launch an across-the-board stabilization and reform policy in November 1997. This policy was formulated and implemented with technical and financial assistance from the IMF, the World Bank, the ADB and others.

At the onset of the Asian financial crisis, Bank Indonesia injected large amounts of liquidity support to keep banks from default and to keep the country's payment system functioning. In January 1999, total liquidity support issued by Bank Indonesia to 48 commercial banks stood at Rp151.0 trillion. In February 1999, Rp144.5 trillion of that amount was replaced by government-issued promissory notes.

When the introduction of liquidity support was unable to stop runs on banks, the government in January 1998 announced a blanket guarantee for depositors and creditors of all Indonesian-incorporated banks. Unlike a deposit insurance program, which typically provides a guarantee only to depositors, this program also included a guarantee of the claims of non-depositor creditors and applied to obligations denominated in both foreign currency and rupiah. The government guarantee program covered both on-balance sheet and off-balance sheet liabilities of banks. Issuance of the guarantee was intended to reduce uncertainty and allow time for the government to begin an orderly restructuring of the banking sector. To maintain public confidence in the banking system, the government repeatedly extended the guarantee program for commercial banks and rural credit banks.

In September 2005, a new law establishing a deposit insurance agency, the Indonesian Deposit Insurance Corporation ("IDIC"), became effective and the IDIC became fully operational. The IDIC is responsible for protecting bank depositors. Under the deposit insurance law, the government through the IDIC will guarantee third party deposits, but not inter-bank claims, up to Rp100 million.

Under the deposit insurance law, every bank in Indonesia must become a participant of the deposit insurance program. The number of banks participating in the system as of December 31, 2007 was 2,054, consisting of 130 commercial banks, 1,814 rural banks and 110 sharia-based rural banks. Since the IDIC commenced operations, it has handled claims from 11 rural banks whose licenses were revoked by Bank Indonesia. The total nominal value of the 7,528 deposit accounts at those 11 rural banks as of December 31, 2007 was Rp46.4 billion. The IDIC has paid insurance claims to customers of these 11 rural banks, representing 1,264 deposit accounts (or 16.8% of the total number of deposit accounts) having a nominal value of Rp45.3 billion (or 97% of the total nominal value of all of the deposit accounts at these banks).

As of December 31, 2007, the total assets of the IDIC amounted to Rp10.3 trillion, which is a 43.0% increase over its total assets of Rp7.2 trillion as of December 31, 2006. The largest component of the assets of the IDIC are bonds issued by Bank Indonesia and the government, which amounted to Rp10.1 trillion (or 99% of its total assets) as of December 31, 2007.

In order to strengthen the capacity of the IDIC to deal with banks that potentially pose a systemic risk to the Indonesian banking and financial system, coordination mechanisms have been established in a memorandum of understanding among the IDIC, Bank Indonesia and the Ministry of Finance.

PT Perusahaan Pengelola Aset (Persero)

IBRA was established in January 1998, in response to the Asian financial crisis, as an autonomous agency under the auspices of the Ministry of Finance. Its two main functions were to supervise banks in need of restructuring and to manage the assets acquired by the government in the course of bank restructuring. Upon the closure of IBRA at the end of its five-year mandate in February 2004, the government established PT Perusahaan Pengelola Aset (Persero), or PPA, a state-owned asset management company, to hold and manage remaining assets previously owned by IBRA and not subject to other claims. PPA is owned by the Republic and managed by the Ministry of Finance, and is scheduled to be dissolved in February 2009. As of March 31, 2008, PPA has sold, on behalf of the Ministry of Finance: ownership interests in PT Bank Permata Tbk to strategic investors as well as through market placements on the Jakarta Stock Exchange; minority interests in PT Bank Danamon Indonesia Tbk, PT Bank Niaga Tbk, PT Bank Central Asia Tbk, PT Bank Internasional Indonesia Tbk and PT Bank Lippo Tbk to investors through market placements; shares in PT Bank Tabungan Pensiunan Nasional Tbk through an initial public offering and shares and other interests in PT Dipasena Citra Darmaja and in PT Bali Nirwana Resort through an open tender process. Through these divestments and other asset management proceeds, PPA earned Rp15.8 trillion.

The following table sets forth information regarding the recent divestment of equity interests in certain Indonesian banks by PPA during the period from 2004 to March 31, 2008:

Divestments by PPA

Indonesian Bank	Month of Divestment	Equity Interest Divested	Proceeds to the Government
		(in percentages)	(in trillions of rupiah)
PT Bank Permata Tbk	November 2004	51.0	2.8
	December 2004	20.0	1.2
	September 2006	25.9	1.8
PT Bank Danamon Tbk	November 2004	10.0	1.7
	August 2005	10.5	2.7
PT Bank Niaga Tbk	December 2004	16.3	0.6
	April 2005	5.2	0.2
PT Bank Internasional Indonesia Tbk	January 2005	15.3	1.3
	November 2006	5.2	0.5
PT Bank Central Asia Tbk	September 2005	5.0	2.2
PT Bank Lippo Tbk	November 2006	0.0[1]	0.0
PT Dipasena Citra Darmaja	May 2007	100.0	0.7
PT Bali Nirwana Resort	July 2007	77.3	0.5
PT Bank Tabungan Pensiunan Nasional Tbk	March 2008	28.4	0.8

Source: PPA.

(1) PPA divested 0.000015% of PT Bank Lippo Tbk

Strengthening the Banking System

The government's policies for the banking sector since the Asian financial crisis have emphasized the recovery and strengthening of the banking system. Steps taken towards recovery include the government blanket guarantee, the exchange offer program, the recapitalization program and loan restructuring. Strengthening measures implemented during the same period include improving the country's financial infrastructure, promoting good corporate governance and improving the bank regulatory and supervisory framework.

As a follow-up to the banking restructuring program and to help prepare banks to address the challenges of globalization, in early 2004, Bank Indonesia unveiled a blueprint for the country's banking sector reform program in the following ten years known as the Indonesian Banking Architecture (the "Architecture"). The Architecture sets forth a vision to enhance the strength, soundness and efficiency of the Indonesian banking system for financial stability and the promotion of national development, based on six principles: an effective regulatory system, a sound banking structure, strengthened internal conditions, an independent and effective supervisory system, the implementation of supporting infrastructure and the protection and empowerment of customers. The Architecture forms the basis for detailed planning for the implementation of each of the six principles through 2014. Also, as part of the Architecture, Bank Indonesia has upgraded its banking regulations to be broadly consistent with the 25 Basel Core Principles for Effective Banking Supervision promulgated by the Bank for International Settlements. Indonesia is now in compliance with 23 of the 25 core principles. Bank Indonesia is continuing its effort to meet the international standards and fully comply with all the core principles.

The Architecture envisions two or three Indonesian banks operating on an international scale and having total capital exceeding Rp50 trillion each; another three to five national banks having a broad scope of business and operating nationwide with total capital between Rp10 trillion and Rp50 trillion each; and 30 to 50 banks with operations focused on particular business segments according to the capability and competence of each bank, possessing capital of between Rp100 billion and Rp10 trillion each. Under the Architecture, the new minimum capital requirement for the existing commercial banks will be Rp100 billion by the year 2010. However, rural credit banks and other banks of limited scope will be able to continue to serve their customers, with capital of less than Rp100 billion each. The government expects the number of Indonesian commercial banks, which was 130 as of December 31, 2007, to decrease as it promotes consolidation in the banking sector through mergers and acquisitions in line with the Architecture.

Bank Indonesia has undertaken numerous reforms to advance the goals of the Architecture since its creation in 2004. As part if its efforts to improve the regulatory system and promote independent and effective supervision, Bank Indonesia has issued rules providing for increased supervision of banks' risk management policies and the development of an "early warning system," strengthened the certification requirements for Bank Indonesia's examiners involved in risk management and established a debtor information system as well as a risk management certification agency jointly supervised by Bank Indonesia and the National Agency for Professional Certification.

To strengthen the overall structure of the banking system, Bank Indonesia has issued regulations governing the treatment of foreign debt and establishing principles for the issuance of asset backed securities, created a uniform loan classification system to regulate asset quality, revised the methods of weighting risk for loans extended to small-scale enterprises, small mortgages and civil service and military employees and retirees, and redefined and adjusted legal lending limits and related party transaction restrictions applicable to banks. Bank Indonesia has also worked to respond to changes in the banking environment, by providing greater access for Islamic banking in conventional commercial banks and authorizing the special treatment of loans provided to people affected by natural disasters in Aceh, North Sumatra and Yogyakarta.

To improve internal controls at banks, Bank Indonesia has strengthened the certification requirements for commercial bankers involved in risk management and implemented stronger good corporate governance rules for commercial banks.

To protect customers, Bank Indonesia has required banks to provide greater transparency and information on banking products and restricted the use of bank customers' personal data. To empower bank customers, Bank Indonesia issued rules requiring banks to establish standard customer complaint mechanisms and dispute resolution forums for customer disputes in addition to other forms of non-judicial dispute resolution.

Additionally, to implement the Architecture's goal of promoting consolidation in the banking system, Bank Indonesia offers incentives for banks undertaking a merger or consolidation, including: extension of the time period in which banks must satisfy minimum liquidity reserves; temporary exemptions from lending limits to allow banks to incur sufficient debt to make acquisitions; eased requirements for opening branch offices; reimbursement for consultant fees incurred during due diligence; requiring banks to obtain license to become a foreign exchange bank; and a temporary waiver for the implementation of certain corporate governance procedures post acquisition or merger.

In 2007, Bank Indonesia introduced regulations relating to:

- the determination of banks' minimum capital requirements and the frequency for monitoring compliance with those requirements;

- how market and other risks affect minimum capital requirements;

- further clarifications on the application of the uniform loan classification system; and

- expansion of the scope of the information that is provided by the credit bureaus.

Also in 2007, Bank Indonesia focused on personnel improvement for bank supervision and regulation. To improve competency levels, Bank Indonesia now requires supervision and regulation personnel to complete training courses and pass examinations measuring their expertise in their relevant areas.

In 2007, Bank Indonesia developed a road map for the implementation of the Basel Committee for Banking Supervision's "International Convergence of Capital Measurement and Capital Standards, a Revised Framework," also known as "Basel II." The roadmap sets forth a plan for the introduction of regulations to implement Basel II over the next five years.

In April 2008, Bank Indonesia announced it is intending to issue new regulations relating to the following:

- lowering the risk weighting used to calculate the risk-weighted assets of small business loans (KUK) guaranteed by credit insurance meeting certain criteria;

- lowering the risk weighting used to calculate the risk weighting of corporate bonds;

- raising the legal lending limit for groups of non-bank related debtors;
- establishing new regulations streamlining certain licensing and reporting procedures of banks, regulating cooperation by banks, simplifying procedures for a bank's self liquidation, prohibiting interference by bank shareholders in the bank's operational issues and regulating the inscription of a bank's name and logo and type of bank office at each office of the bank;
- implementing certain Basel II standards; and
- setting criteria that ratings and ratings agencies must satisfy in order to be recognized by Bank Indonesia.

The health of Indonesia's banking sector has improved significantly since the Asian financial crisis. See "—Bank Assets and Liabilities" and "—Non-Performing Loans."

Anti-Money Laundering Regime

In June 2001, the Financial Action Task Force on Money Laundering, an organization established by developed countries to combat money laundering, placed Indonesia on its "blacklist" of non-cooperative countries and territories (the "NCCT list"). In an effort to combat money laundering activities within Indonesia, in 2002, Bank Indonesia promulgated "Know Your Customer" regulations. Later that year, the government enacted an anti-money laundering law (which was amended in 2003), followed by the establishment of a financial intelligence unit, the Center for Financial Transaction Analysis and Reporting ("PPATK"). Separately, in 2003, the Capital Market Supervisory Board (Badan Pengawas Pasar Modal, or "Bapepam") issued its own "Know Your Customer" regulations for parties involved in capital market activities. PPATK has made arrangements to cooperate on investigations into suspect financial transactions with the Capital Market and Financial Institutions Supervisory Agency ("Bapepam-LK"), Bank Indonesia and certain directorates of the Ministry of Finance, as well as with the National Police and the Attorney General's Office. PPATK has also launched a nationwide program to educate relevant audiences on potential money laundering activities. As a result of its continuing efforts to eradicate money laundering within Indonesia, on February 11, 2005, Indonesia was removed from the NCCT list. Although removed from the NCCT list in 2005, Indonesia has continued to strengthen its anti-money laundering laws and regulations and increase enforcement. In August 2006, the Ministry of Finance adopted a new decree regarding the implementation of "Know Your Customer" principles which requires non-bank financial institutions to comply with anti-money laundering regulations, such as the requirement to report suspicious financial and cash transactions to the PPATK. The decree also sets forth the types of non-bank financial institutions that are obligated to make such reports and the criteria for branch offices of non-bank financial institutions which are obligated to have special officers responsible for implementing the "Know Your Customer" principles. PPATK and the Republic's other financial regulatory agencies have continued to take actions to eradicate money laundering. As of March 31, 2008, PPATK has referred 556 money laundering cases to the police and prosecutors, and has been involved in more than 200 cases of cooperation involving financial intelligence with other countries.

Bank Indonesia

Bank Indonesia is the central bank of the Republic of Indonesia and the only institution in the Republic with responsibility for monetary policy. Following the Asian financial crisis, the government enacted the Central Bank Law in 1999 to ensure the independence of Bank Indonesia in pursuing its objectives in monetary, banking and payment systems policies. The Central Bank Law stipulates two key principles—the achievement of rupiah stability and Bank Indonesia's freedom from interference.

The Central Bank Law states that "the objective of Bank Indonesia is to achieve and maintain the stability of the rupiah." Rupiah stability can be measured in terms of its value vis-à-vis either domestic or external goods. Rupiah stability relative to domestic goods is reflected in the inflation rate, while stability relative to external goods is represented by the exchange rate of the rupiah against other currencies. Market conditions determine the rupiah exchange rate, consistent with the floating exchange rate system adopted by Bank Indonesia in August 1997. See "Foreign Exchange and Reserves—Exchange Rates." Bank Indonesia may, however, continue to use its policy instruments to minimize exchange rate fluctuations.

To help Bank Indonesia achieve its objective, the Central Bank Law grants Bank Indonesia a high degree of independence (1) to formulate and implement monetary policy, (2) to regulate and safeguard the payment system and (3) to regulate and to supervise banks.

In January 2004, the Central Bank Law was amended. The amendment, among other things, provides that Bank Indonesia shall conduct monetary policy to achieve an inflation target as determined by the government in consultation with Bank Indonesia. It also provides for the creation of the Bank Indonesia Supervisory Board (the "Supervisory Board") to assist the House of Representatives in conducting oversight of Bank Indonesia's internal financial management. The Supervisory Board comprises five members chosen by the House of Representatives and appointed by the President for three-year tenures. The January 2004 amendment also stipulates that Bank Indonesia is the lender of last resort to ensure the stability of the financial system.

Under the Central Bank Law, Bank Indonesia's banking supervision function was originally to be transferred to a new independent agency by the year 2002. The January 2004 amendments to the Central Bank Law extended this deadline to December 31, 2010.

Bank Indonesia, as a separate legal entity from the government, has its own assets and its own liabilities. The foreign exchange reserves held by Bank Indonesia are recorded on the assets side of the Bank Indonesia balance sheet, while certain items of foreign debt (such as loans from the IMF) are liabilities of Bank Indonesia.

The following table sets forth the balance sheet of Bank Indonesia and was prepared in accordance with the Monetary and Financial Statistics Manual published by the IMF, as of the dates indicated.

Balance Sheet of Bank Indonesia(1)

	As of December 31,				
	2003	2004	2005	2006	2007
	(in billions of rupiah)				
Assets					
Foreign assets	319,842	342,026	343,898	385,820	538,775
Claims on public sector	246,637	273,670	286,756	280,806	264,474
Claims on private sector	43,676	33,736	23,963	23,175	13,001
Other assets	(17,699)	(10,812)	18,686	71,328	152,758
Total assets	592,456	638,620	673,303	761,129	969,008
Liabilities					
Monetary liabilities	166,473	199,446	239,823	297,080	379,582
Foreign exchange demand deposits	7,751	6,736	8,499	7,844	9,944
Foreign liabilities	93,858	97,254	93,755	7,884	7,862
Government accounts	72,418	47,050	47,608	14,887	15,405
Bank Indonesia certificates (SBI)	136,519	144,548	121,325	242,001	281,163
Capital and reserves	35,207	36,686	35,421	50,058	67,398
Other liabilities	80,230	106,900	126,872	141,375	207,654
Total liabilities	592,456	638,620	673,303	761,129	969,008

Source: Bank Indonesia.

(1) Calculated treating Bank Indonesia as monetary regulator. Figures would differ if Bank Indonesia was accounted for as a commercial entity.

Banks and Other Financial Institutions

The Indonesian financial system consists of banks and non-bank financial institutions. Non-bank financial institutions consist of insurance companies, pension funds, finance companies, venture capital companies, securities companies, mutual funds, credit guarantee companies and pawn shops. As of December 31, 2007, the assets of Indonesian banks comprised 74.7% of the total assets of the Indonesian financial system. The following table sets forth the total number of financial institutions in operation and their share of total assets of the financial system as of December 31, 2007:

Indonesian Financial Institutions

	Number of Institutions	Assets (in trillions of rupiah)	Percentage of Total Assets
Banking:			
Commercial banks	130	1,986.5	73.7%
Rural credit banks	1,817	27.7	1.0
Total banking	1,947	2,014.2	74.7%
Insurance:			
Life insurance	46	100.6	3.7%
General insurance	93	28.0	1.0
Social insurance(1)	5	97.0	3.6
Reinsurance	4	1.4	0.1
Total insurance	148	227.0	8.4%
Pension funds:			
Financial institution pension funds	26	9.2	0.3%
Employer pension funds	262	82.1	3.0
Total pension funds	288	91.3	3.4%
Finance companies(2)	217	127.3	4.7%
Venture capital companies	60	3.0	0.1
Securities companies(3)(4)	169	132.3	4.9
Mutual funds (collective investment schemes, not institutions)	473	92.2	3.4
Credit guarantee companies	2	1.1	0.0
Pawn shops	1	7.3	0.3
Total	3,305	2,695.7	100.0%

Sources: Ministry of Finance and Bank Indonesia.

(1) Social insurance encompasses worker social security programs and insurance for civil servants and the armed forces.

(2) Finance companies provide financing for leasing, factoring, consumer finance and credit cards.

(3) Excludes 46 securities companies that are not members of a securities exchange but act as broker-dealers.

(4) Excludes the assets of customers of the securities companies.

Indonesian banks are divided into two categories: commercial banks and rural credit banks. Both commercial and rural credit banks may operate either under conventional banking principles or under sharia (Islamic law) principles. The number of banks in Indonesia has dropped substantially since the Asian financial crisis, as insolvent banks were closed or merged with other banks. There were 239 commercial banks at the end of 1996, and, as of December 31, 2007, there were 129 commercial banks with 9,560 offices, consisting of five state-owned banks, 71 private national banks (35 of which are licensed to conduct foreign exchange transactions), 25 regional development banks and 28 joint venture and foreign banks. In addition to the commercial banks, there were 1,817 rural credit banks operating throughout the country as of December 31, 2007. As of December 31, 2007, there were three sharia commercial banks, 26 sharia divisions of commercial banks and 114 sharia divisions of rural credit banks.

As of December 31, 2007, there were 148 insurance and reinsurance companies with business licenses to operate in Indonesia, consisting of 46 life insurance companies, 93 non-life insurance companies, five companies administering social insurance programs and four reinsurance companies. Gross premiums collected by the insurance industry reached Rp77.8 trillion in 2007, an increase of 48.4% from the previous year's figure of Rp52.4 trillion. Gross premiums have averaged an annual growth of approximately 23.3% over the five years from 2003 to 2007. Total assets of the insurance industry as of December 31, 2007 were Rp227.0 trillion, an increase of 29.7% over the total assets of Rp174.9 trillion as of December 31, 2006. The total investments of the insurance industry as of December 31, 2007 were Rp200.5 trillion, an increase of 31.1% over the figure of Rp152.9 trillion as of December 31, 2006. In addition, there are three companies administering insurance for civil servants and for the military and the police.

The Ministry of Finance is responsible for regulation and supervision of the insurance industry. Development of this sub-sector since the Asian financial crisis required the implementation of more robust regulatory requirements and, in particular, improved capital requirements. For the purpose of financial soundness of insurance companies, a 2003 decree of the Ministry of Finance that became effective in 2005 requires each insurance company, including reinsurance companies, to continuously maintain a ratio of risk-weighted assets to risk-weighted liabilities of at least 120%. In September 2006, the Indonesian Insurance Mediation Agency (Badan Mediasi Asuransi Indonesia or "BMAI") commenced operations. The BMAI is an independent body established to provide mediating services to insured persons and insurance policy holders that are dissatisfied with claim rejections. The BMAI was created under a 1999 law on arbitration and alternative dispute resolution mechanisms. The BMAI was established through the initiative of the insurance industry, including insurance industry associations, with the support of the government.

Pension funds are divided into two categories: employer pension funds and financial institution pension funds. Employer pension funds may be run either as defined benefit plans or as defined contribution plans, while financial institution pension funds may only be run as defined contribution plans. As of December 31, 2007, there were 288 pension funds actively operating including 262 employer pension funds and 26 financial institution pension funds. At the end of 2007, net assets of pension funds totaled Rp91.3 trillion, compared to Rp77.7 trillion at the end of 2006. The investment portfolios of the pension funds consist largely of corporate and government bonds, followed by bank deposits, stocks, land and buildings, mutual funds and other types of investments. As pension funds have grown their preferences for portfolio investment has shifted from short-term investments to longer term investments.

Indonesia's other non-bank financial institutions include finance companies, which provide financing through leasing, factoring, credit cards and consumer finance. As of December 31, 2007, there were 217 such finance companies with total assets of Rp127.3 trillion.

Bank Assets and Liabilities

The following table sets forth the consolidated balance sheets of the commercial banks as of the dates indicated:

Consolidated Balance Sheet of Commercial Banks[1]

	As of December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(in billions of rupiah)				
Assets					
Reserve assets[2]	72,251	88,033	114,357	145,487	195,818
Foreign assets	77,340	68,202	118,731	93,924	70,907
Claims on the central government, official entities and SOEs	368,686	335,449	337,228	336,667	353,160
Claims on the private sector	434,253	549,303	684,932	772,353	970,598
Other assets	215,364	174,701	155,090	262,033	299,752
Total assets	1,167,894	1,215,688	1,410,338	1,610,464	1,890,235
Liabilities					
Demand deposits[3]	128,037	144,328	157,522	210,032	277,141
Time and savings deposits:					
Time deposits	347,970	347,190	450,306	502,624	527,022
Savings deposits	244,437	296,646	281,743	334,384	439,370
Total time and savings deposits	592,407	643,836	732,049	837,008	966,392
Foreign exchange accounts	139,152	135,600	188,946	183,933	215,907
Foreign liabilities	31,458	49,327	55,791	58,595	77,117
Government accounts	38,970	37,130	49,416	57,151	48,598
Credits from Bank Indonesia	10,971	11,932	11,757	10,650	8,828
Capital and equity[4]	112,141	131,590	144,289	172,342	202,239
Other liabilities	114,758	61,945	70,568	80,753	94,013
Total liabilities	1,167,894	1,215,688	1,410,338	1,610,464	1,890,235

Source: Bank Indonesia.

(1) Includes the balance sheets of the state-owned commercial banks.

(2) Includes cash in vault and deposits with Bank Indonesia.

(3) Includes deposits of the government.

(4) Includes reserves and the profit/loss accounts of the commercial banks.

As of December 31, 2007, the four state-owned banks (Bank Mandiri, PT Bank Rakyat Indonesia (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk and PT Bank Tabungan Negara (Persero)) together controlled approximately 37.0% of the total assets of the banking system, approximately 33% of these assets were controlled by 11 other large commercial banks and the 115 remaining banks controlled the remaining 30% of these assets.

The portfolios of the commercial banks have continued to shift from government bonds to commercial loans as a result of growing investor confidence in the private sector, increased demand for consumer loans and declines in interest rates resulting in lower returns on government bonds. As of December 31, 2007, government bonds comprised approximately 13% of the assets of banks compared with approximately 16% as of December 31, 2006. As of December 31, 2007, commercial loans represented approximately 53% of the assets of banks, compared with approximately 49% as of December 31, 2006. Operating income from government bonds represented approximately 14% of the income of banks in 2007, compared with approximately 18% in 2006. Operating income from commercial loans represented approximately 52% of the income of banks in 2007, compared with approximately 49% in 2006.

Most time deposits in the banking sector are short-term, denominated in terms of one or three months. In 2007, time deposits increased by approximately 5%, compared with an increase of 12% in 2006. Time deposits grew more slowly in 2007 than in 2006 primarily due to lower time deposit interest rates in 2007.

The recent decline in domestic interest rates also induced the growth of commercial loans. In 2007, commercial loans by banks increased by about 26%. This increase outpaced the increase in banks' capital. Banks' capital increased by about 17%, allowing banks to maintain their capital adequacy ratio at a relatively high average level of around 20%.

The following table shows the average capital adequacy ratio of the banking system for the years 2003 through 2007:

Average Capital Adequacy Ratios

	2003	2004	2005	2006	2007
	(in percentages)				
Average Capital Adequacy Ratio	19.4	19.4	19.3	20.5	20.4

Source: Bank Indonesia.

Capital adequacy ratios have remained relatively high, in part because despite a decline in the amounts of government bonds held by banks, banks continue to hold significant amounts of such bonds, as described above.

Non-Performing Loans

One legacy of the Asian financial crisis has been a rise in NPLs in many countries within the region, including Indonesia. In Indonesia, as economic performance in the non-financial sector suffered, many businesses defaulted on their commercial bank loans. Structural weaknesses in the country's banking system at that time also increased Indonesian banks' exposure to NPLs. High levels of connected lending (lending made either directly or indirectly to related individuals or business groups) worsened problems of commercial banks' NPL exposure. While various disciplinary measures were introduced to prevent unsound lending practices, problems persisted due mainly to the structure of private national banks' ownership, which tended to concentrate ownership in a few related groups or individuals. In closely held family-owned banks, there was no clear separation between ownership and management. Furthermore, relatively low managerial skills in the banking industry led to weakening earning asset quality and rising risk exposure. These problems were aggravated by weaknesses in internal supervision and information systems of Indonesian banks, which resulted in a failure to monitor, detect and resolve NPLs, as well as excessive risk exposure. These weaknesses further limited banks' ability to anticipate and overcome the emergence of the Asian financial crisis. As a result, NPL levels more than tripled between 1997 and 1998, with gross NPLs reaching 48.6% of total loans in December 1998 and NPLs net of provisions reaching 34.7%.

NPL levels in Indonesian banks have improved steadily from 1998. Gross NPLs declined from 48.6% in December 1998 to 32.8% in December 1999, and fell further to 18.8% in December 2000 and 12.1% in December 2001. This decline was mainly due to the write-offs of NPLs (made possible in large part by the bank recapitalization program), restructuring and settlement of credits and transfer of credits to IBRA, as well as extension of new credits. Similarly, net NPL levels dropped sharply from 34.7% in December 1998 to 7.3% in December 1999, declining further to 5.8% in

December 2000 and 3.6% in December 2001. The quality of bank credits, as reflected in the nominal value and the ratio of NPLs, improved further from 2002 through 2004 due to the extension of new credit, credit restructuring and additional write-offs.

Bank Indonesia introduced a regulation on uniform loan classification in January 2005. Under this regulation, banks are required to apply the same classification to all loans extended by multiple banks to the same debtor or projects. The uniform classification requirement also applies to loans extended by a bank to finance multiple projects of the same debtor. If there are differences in assessments of loans or earning assets quality, all assessments must be adjusted to conform to the lowest quality assessment that has been applied. Additionally, since the beginning of 2005, Indonesian banks have been required to calculate their NPLs using new international best practices-based standards that require banks to classify as "non-performing" all loans to any borrower if any of that borrower's loans are non-performing. Under regulations issued in April 2007, banks nationwide are required to apply the same uniform loan classification system to all loans meeting either one of two criteria: loans greater than Rp10 billion that are made to one borrower or one similar project, and loans between Rp500 million and Rp10 billion that are made to one of the 50 largest debtors of the lending bank.

Primarily because of the implementation of these new standards and greater prudence on the part of banks, as of the end of December 2006, the gross and net NPL ratio declined to 7.0% and 3.6%, compared with 8.3% and 4.8%, respectively, at the end of December 2005. The gross and net numbers of NPLs continued to decline during 2007 reaching 4.6% and 1.9%, respectively, with the gross NPL ratio below the target threshold ratio of 5.0%. The number of banks with gross NPL ratios above the indicative threshold of 5.0% declined from 51 banks as of year-end 2002 to 22 banks as of December 31, 2007. The NPLs of those 22 banks represented 73.4% of the total NPLs and 1.8% of the total assets in the Indonesian banking system as of December 31, 2007.

The following table shows the gross and net NPL ratios as of the end of each period indicated:

Non-Performing Loans Ratios

	2003	**2004**	**2005(1)**	**2006(1)**	**2007(1)**
			(in percentages)		
Gross NPL ratio	8.2	5.8	8.3	7.0	4.6
Net NPL ratio	3.0	1.7	4.8	3.6	1.9

Source: Bank Indonesia.

(1) Ratios calculated under the revised methodology.

The following table sets forth information regarding loans issued by commercial banks by risk category and type of loan:

Risk Classification of Aggregate Assets of Commercial Banks by Type of Loans(1)(2)

	As of December 31, 2007			
	Working Capital Loans	Consumer Loans	Investment Loans	Total
	(in trillions of rupiah)			
Pass	487.17	252.24	160.68	900.09
Special Mention	26.18	21.67	13.30	61.15
Substandard	3.63	1.06	1.19	5.88
Doubtful	1.84	1.22	0.44	3.50
Loss	14.42	6.37	10.61	31.40
Total	533.24	282.56	186.22	1,002.02

Source: Bank Indonesia.

(1) Bank Indonesia asset classification guidelines take into account various criteria, among them timely payment. Loans being paid on time are rated "Pass;" loans overdue by less than three months, six months and nine months are rated "Special Mention," "Substandard" and "Doubtful," respectively; and loans that are more than nine months in arrears are rated "Loss."

(2) Not including credit that is channeled by commercial banks from international sources to domestic projects.

In line with the trend of declining NPL ratios, outstanding commercial bank loans are primarily classified as "Pass."

Capital Markets and Capital Markets Regulation

Indonesia's economy has traditionally relied predominantly on the banking sector to finance growth. The ownership structure of companies in Indonesia is characterized by concentrated ownership, family-owned businesses and controlling shareholders. Companies with these types of ownership structures often seek financing from banks rather than from capital markets. The availability of subsidized loans from state-owned banks prior to 1991 also gave companies less incentive to seek funding from the capital markets. As of December 31, 2007, the banking sector accounted for approximately 75% of financial system assets, whereas non-bank financial institutions, such as insurance companies, pension funds, finance and securities companies and mutual funds, accounted for approximately 25%. To finance the higher levels of growth that the government seeks to achieve, credits from the banking sector need to grow substantially. Diversifying sources of finance is an important element of the government's efforts to reduce economic vulnerability and strengthen the financial sector.

In 1976, the government established the Bapepam to develop and regulate the country's capital markets. The first shares were listed on the Jakarta Stock Exchange ("JSX") in 1977; later, the official name of Bapepam was changed to Capital Market Supervisory Agency (Badan Pengawas Pasar Modal, still "Bapepam") to reflect the shift in emphasis from development to regulation and supervision. The promulgation of the Capital Market Law in 1995 provided the Indonesian capital markets with a sound legal foundation and extended Bapepam authority in the fields of regulation, development, supervision and law enforcement. The law also clarifies the authority and responsibilities of self-regulatory organizations, capital market institutions and professionals and firms conducting business in the capital markets. According to the Capital Market Law, Bapepam is responsible for the guidance, regulation and day-to-day supervision necessary to implement orderly, fair and efficient capital markets and to protect the interests of investors and the public. As part of the ongoing reorganization of the Ministry of Finance, and in an effort to centralize regulation and strengthen oversight of the non-bank financial sector, the government, approved a merger of Bapepam with the Ministry of Finance's Directorate General of Financial Institution ("DJLK"). In 2006, the two agencies were merged into a single new unit called the Capital Markets and Financial Institutions Supervisory Agency ("Bapepam-LK"). Bapepam-LK assumed the responsibilities previously held by DJLK and Bapepam.

In mid-2007, when the troubled U.S. subprime mortgage market began causing turmoil in the global markets, the JSX Composite Index fell to a low of 1,908.64 in August 2007, or 20.5% below its record high of 2,401.14 in July 2007, as investors reduced their holdings in riskier assets, including investments in emerging market assets such as rupiah-denominated securities. By October 2007, the JSX Composite Index had recovered to its pre-subprime mortgage crisis level.

On October 30, 2007, the shareholders of the JSX and the Surabaya Stock Exchange ("SSX") agreed to a plan to merge the exchanges into a single new entity, the Indonesian Stock Exchange ("IDX"). The merger was completed on November 30, 2007. The following table sets forth key indicators regarding the JSX, SSX and the new IDX and the respective securities traded on them as of the dates indicated:

JSX and SSX Stock Exchanges

	JSX	SSX
Market capitalization (in billions of rupiah)[1]	1,913,205	1,548,582
Average daily transaction volume (in billions of rupiah)[2]	4,178,036	24,071
Listed shares (in millions of shares)[1]	1,064,264	706,100
Average daily transaction volume (in million of shares)[2]	4,256	33

Source: Bapepam-LK.

(1) Data as of November 30, 2007.

(2) Data for January 1, 2007 through November 30, 2007.

IDX Stock Exchange

	IDX
Market capitalization (in billions of rupiah)[1]	1,988,326
Listed shares (in millions of shares)[1]	1,128,174

Source: Bapepam-LK.

(1) Data as of December 28, 2007.

On December 28, 2007, the IDX composite stock price index closed at 2,745.83, compared with 1,805.52 for the JSX composite stock price index on December 28, 2006, representing an increase of 52.1% during the year. The IDX composite stock price index is based on the same criteria and comparable to the JSX composite stock price index, which it succeeded.

On May 30, 2008, the IDX composite stock price index closed at 2,444.35, compared with 2,745.83 for the IDX composite stock price index on December 28, 2007, representing a decrease of 11.0% during the first five months of 2008. Market prices of the shares of Indonesian publicly listed companies, particularly companies operating in the consumer and financial sectors, declined in the first five months of 2008, in part, as a result of foreign investors reducing their holdings in riskier assets, including investments in emerging market assets such as rupiah-denominated securities, negative market perceptions of the effects of high global oil prices on Indonesian corporates and market pessimism regarding the growth prospects for the U.S. and global economies in the near to medium term.

In 2007, 24 companies undertook initial public offerings and listed their shares on the IDX (or, before November 30, 2007, the JSX or the SSX), raising approximately Rp17.2 trillion. In the first three months of 2008, five Indonesian companies undertook initial public offerings and listed their shares on the IDX, raising approximately Rp1.6 trillion. In 2007, 25 publicly listed companies undertook rights offerings for new shares, raising approximately Rp30.2 trillion, and, in the first three months of 2008, five companies undertook rights offerings for new shares, raising approximately Rp44.6 trillion.

The following table sets forth certain information on the corporate bond market in Indonesia as of the dates or for the periods indicated:

Corporate Bonds Outstanding

	2003	2004	2005	2006	2007
Listed bond issuers, at year-end	136	152	159	162	175
Listed Islamic bonds, at year end	6	13	16	17	20
Total outstanding value of rupiah-denominated bonds (in billions), at year-end	45,465	61,300	62,891	67,805	84,553
Total outstanding value of U.S. dollar-denominated bonds (in millions), at year-end	105	105	105	105	105
Trading volume (in billions of rupiah)	14,244	17,347	23,947	33,438	69,612

Sources: Bapepam-LK and Ministry of Finance.

Indonesian corporate bonds have been traded more actively since 2003, helped by declining SBI interest rates and favorable tax treatment for listed bonds. Trading volume for corporate bonds increased by 21.8%, from Rp14.2 trillion in 2003 to Rp17.3 trillion in 2004, by 38.0% to Rp23.9 trillion in 2005, by 39.6% to Rp33.4 trillion in 2006 and by 108.2% to Rp69.6 trillion in 2007. Total outstanding amount of rupiah-denominated bonds increased by 34.8% from Rp45.5 trillion in 2003 to Rp61.3 trillion in 2004, by 2.6% in 2005 to Rp62.9 trillion, by 7.8% in 2006 to Rp67.8 trillion and by 24.7% in 2007 to Rp84.6 trillion.

In 2007, there were 45 public bond offerings by Indonesian companies, raising approximately Rp31.4 trillion for these companies. In the first three months of 2008, there were 11 public bond offerings by Indonesian companies, raising approximately Rp8.7 trillion.

Government bonds are also actively traded in the capital markets. The amount of rupiah-denominated government bonds outstanding has steadily increased from 2003 through 2007, totalling Rp390 trillion at year-end 2003, Rp399 trillion at year-end 2004, Rp400 trillion at year-end 2005, Rp419 trillion at year-end 2006 and Rp476 trillion at year-end 2007. Since resuming its bond-issuing activities, the government has taken a number of steps to promote the development of sound government bond markets. See "Public Debt—Development of the Secondary Market for Domestic Securities of the Government."

The following table sets forth certain information regarding the mutual fund industry in Indonesia as of the dates indicated:

Mutual Funds

	As of December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
Number of funds	186	246	328	403	445
Number of unit holders	171,712	299,063	254,660	202,991	301,361[1]
Number of Islamic mutual funds	3	10	16	21	25
Number of IDX-traded mutual funds	—	—	—	—	2
Net asset value (in billions of rupiah)	69,478	104,038	29,406	51,620	92,191

Sources: Bapepam-LK and Ministry of Finance.

(1) As of November 30, 2007.

Mutual funds were first introduced in Indonesia in 1996, but it took several years for them to become popular with investors. Between late 2001 and 2004, mutual funds experienced unprecedented growth. During 2003, total net asset value grew 48.9% to Rp69.5 trillion from Rp46.6 trillion in 2002; and during 2004, total net asset value grew a further 49.7% to Rp104.0 trillion. Lower interest rates on bank deposits in 2003 and 2004 encouraged investment in mutual funds, while favorable tax treatment for new mutual funds with less than five years of history also attracted investors. In 2004, 84.2% of mutual fund assets were invested in fixed income debt securities, of which 62.7% were invested in government debt securities.

However, in 2005, the total net asset value of mutual funds declined by 71.7% to Rp29.4 trillion, and the percentage of mutual fund assets invested in fixed income debt securities declined during this period to approximately 44.7%, 36.6% of which were invested in government debt securities. In 2005, higher interest rates made investments in bonds less attractive, and many investors redeemed their investment in fixed income mutual funds. The decrease of net asset value (caused by lower bond prices) triggered extremely large redemptions in fixed income mutual funds that forced fund managers to sell bonds in their portfolios. These sales of bonds, in turn, led to lower liquidity in the bond markets, since there was an over-supply of sellers, and this further negatively affected bond prices, which in turn resulted in a further significant decline in the net asset value of fixed-income mutual funds.

In 2006, the total net asset value of mutual funds increased by 75.5% to Rp51.6 trillion as of December 31, 2006, from Rp29.4 trillion as of December 31, 2005. The percentage of mutual fund assets invested in fixed income debt securities declined in 2006 to approximately 32.3% as of December 31, 2006. Approximately 63.6% of the net asset value of fixed income debt mutual funds as of December 31, 2006 was invested in government securities, a substantial increase from the level as of December 31, 2005.

As of December 31, 2007, the total net asset value of mutual funds increased significantly by 78.6% from Rp51.6 trillion as of December 31, 2006 to Rp92.2 trillion as of December 31, 2007, due primarily to higher equity prices, a lower SBI rate and improved macroeconomic conditions. The percentage of mutual fund assets invested in fixed income debt securities declined in 2007 to approximately 20.2% as of December 31, 2007, compared to 32.3% as of December 31, 2006. Approximately 59.4% of the net asset value of mutual funds investing in fixed income debt securities as of December 31, 2007 was invested in government securities, a slight decrease from the level of 63.6% as of December 31, 2006. Although the total net asset value of fixed income mutual funds increased slightly from December 31, 2006 to December 31, 2007, lower bond prices triggered a decrease in the percentage of the total net asset value of all mutual funds as of December 31, 2007 represented by the net asset value of fixed income mutual funds, from 36.4% as of December 31, 2006 to 22.3% as of December 28, 2007.

In 2007, a new financial product was introduced in the Indonesian mutual fund industry; namely, the exchange-traded index mutual fund. As of December 31, 2007, there were two exchange-traded index funds: (i) an equity index fund based on the LQ-45 Index of the 45 Indonesian publicly listed companies with the most liquid public floats on the IDX and (ii) a bond index fund. The total net asset value of these two index mutual funds as of December 31, 2007 was approximately Rp582.3 billion.

Bapepam-LK has introduced rules to strengthen its supervisory and enforcement capacity over Indonesia's capital markets and to promote sound and transparent capital markets. Over the past few years, Bapepam-LK has also exercised its authority over listed companies by issuing new regulatory guidelines to make corporate management and audit committees more directly responsible for financial reports, as well as issuing rules on public offerings by shareholders and procedures for conducting quasi-reorganizations. Bapepam-LK also issued revised regulations on the content of listed companies' annual reports, and required issuers of debt securities to publicly release all ratings of their debt securities.

In 2004, Bapepam (the predecessor agency of Bapepam-LK) issued a series of new regulations and revisions to existing regulations, including those which relate to the mutual fund industry. In particular, to enhance the development of Indonesia's mutual fund industry, Bapepam issued regulations governing the scope of mutual fund advertising, increasing the responsibilities of mutual fund managers and strengthening the legal protections for mutual fund investors. In addition, as part of its initiative to encourage the development of a vibrant mutual fund industry in Indonesia, Bapepam revised a regulation to provide mutual fund managers with a price reference for determining the fair market value of fixed income securities traded over the counter. Bapepam also issued new rules in 2004 setting stricter corporate governance standards for directors and commissioners of Indonesian public companies.

In July 2005, Bapepam issued new guidelines for capital protected funds, guaranteed funds and index funds, three types of mutual funds that are already well developed in the international mutual fund industry. The introduction of new types of funds should provide investors more choices to suit their investment objectives. In 2006, Bapepam-LK had approved registration statements for the public offering of 78 capital protected funds.

In 2006, as a response to the decline in the total net asset value of the mutual funds industry in 2005, Bapepam-LK issued nine new regulations and revised two existing regulations related to the licensing, registration and responsibilities of mutual fund selling agents and mutual fund representatives and to the development of the local bond markets by establishing price discovery mechanisms and integrated trade reporting in both the stock exchange and over-the-counter markets. Bapepam-LK also issued new guidelines for exchange-traded funds in 2006. These guidelines set forth a form of collective investment contract so that units of all types of investments funds, including protected funds, guaranteed funds and index funds, could be traded on the stock exchanges. Bapepam-LK also promulgated new regulations designed to enhance transparency in bond pricing mechanisms by providing for the establishment of bond pricing agencies, whose role will be to issue reference prices based on the fair market value of fixed-income securities.

In July 2006, the government and Bank Indonesia issued a financial sector policy package to maintain and strengthen stability in the financial sector, to increase market confidence, to diversify funding sources for the business sector and to improve market efficiency for the financial sector by promoting competition among banks, non-bank financial institutions and the capital markets. The package included 55 policy actions jointly implemented by Bank Indonesia, Bapepam-LK, the IDIC, the Ministry of State-Owned Enterprises and the Coordinating Ministry for Economic Affairs.

Some of the policy actions undertaken under the financial sector policy package have been designed to help strengthen the financial sector. For instance, to enhance the performance of Indonesia's state-owned banks, the government conformed the regulations for resolving NPLs for state-owned banks to those that apply to commercial banks. The financial sector policy package also includes policies designed to support the development of capital markets products, such as bond repurchase agreements, for the purpose of diversifying the sources of funding for business activities in Indonesia. For example, in November 2006, Bapepam-LK issued a regulation regarding the accounting treatment for bond repurchase agreements, and in December 2006 Bank Indonesia opened a trading facility for bond repurchase agreements.

In June 2007, the government and Bank Indonesia issued a revised financial sector policy package to continue the process of reform begun in 2006. The package set forth 43 actions to be completed in the next year, 19 of which had been implemented as of the end of October 2007. Among the new policies enacted, the government has increased coordination among regulatory agencies by creating a multi-agency task force to combat illegal financial transactions. In order to encourage the growth of Indonesian capital markets, it enacted tax incentives for companies to undertake initial public offerings.

In 2007, to permit regional and local governments to broaden their sources of funding, Bapepam-LK established a legal framework for the issuance of municipal bonds, including regulations relating to procedural and disclosure requirements. The government believes that this regulatory framework will enhance the ability of local governments to fund development projects and enhance economic growth. In addition to municipal bond and sharia-compliant securities rules, in 2007 Bapepam-LK has issued several other rules and rule revisions in various areas, including the licensing of securities companies, enhanced anti-money laundering laws for the capital market industry, the regulation of securities pricing agencies and know-your-customer rules.

In February 2008, Bapepam-LK adopted regulations governing the formation, management and governance of private equity funds within Indonesia, and the registration of those funds with Bapepam-LK. As of March 31, 2008, no Indonesian private equity funds have been formed and registered with Bapepam-LK.

In the first five months of 2008, Bapepam-LK issued six new capital markets regulations. On February 14, 2008, Bapepam-LK issued three new regulations, two of which set new professional standards for accountants and appraisers involved in capital markets transactions registered with Bapepam-LK and one of which established a legal framework for the offering of participation interests in collective investment contracts. On April 10, 2008, Bapepam-LK issued three new regulations related to increasing the quality and transparency of the recruitment process for candidate commissioners of self-regulatory organizations, such as the IDX, the securities clearing agencies and the securities depositaries.

As the largest Muslim country in the world, Indonesia has been engaged in an initiative to establish a legal framework for the development of an investor market in Indonesia for sharia-compliant securities, which are securities that comply with the tenets of Islamic legal principles. Bapepam-LK has issued various regulations on the form and issuance of sharia-compliant securities and mutual funds to enhance the growth of the sharia-compliant securities industry and to provide alternative mutual fund products to investors within Indonesia as well as to attract Muslim investors from outside of Indonesia. In addition, in April 2008, the government adopted Law No. 19 of 2008, which has established a legal framework for the government to issue sharia-compliant securities.

Monetary Policy

Monetary Policy

The Republic adopted three elements of monetary policy following the Asian financial crisis in 1997. First, inflation targeting was adopted as the anchor of monetary policy. Second, a floating exchange rate system was introduced. The Republic may intervene in the foreign exchange market; the objective of its intervention is not to achieve a particular exchange rate level but to avoid excessive volatility. Third, the banking restructuring process was given higher priority. The above three policy measures have resulted in lower interest rates, which in turn have helped ease the debt burden of both the public and corporate sectors.

The government began to issue bonds in the domestic market in 1998. Bank Indonesia issues SBIs in open market operations to adjust the country's money supply. SBIs are issued in one-month and three-month maturities, and SBI discount rates are determined by the market through a biweekly auction of SBIs, which Bank Indonesia influences by controlling the supply of SBIs made available in these biweekly auctions. SBI rates are used as references by Bank Indonesia in determining its policy interest rate and the financial sector uses SBI rates as references to determine deposit and loan rates. The first SBIs were issued in 1984. SBIs, which are issued by Bank Indonesia in its role as formulator and implementer of the Republic's monetary policy, are not considered liabilities of the Republic. Accordingly, SBIs are not reflected in the government debt discussions in this offering memorandum. See "Financial System—Bank Indonesia."

In 1998, during the hyperinflationary period of the Asian financial crisis, the government implemented strict control measures over base money supply and net domestic assets. As a result of the tight monetary stance initiated in 1998, interest rates rose sharply. Inflation has moderated since 1998, mainly as a result of a more stable exchange rate and a better controlled base money supply. Inflation as measured by changes in the CPI dropped from 77.6% in 1998 to 2.0% in 1999, then climbed back up to 9.4% in 2000 and 12.6% in 2001, before declining to 10.0% in 2002 and 5.1% in 2003. In 2004, the CPI raised materially to a level of 6.4% and in 2005 to 17.1% due to government increases in domestic fuel prices.

Lower inflation and exchange rate stability enabled Bank Indonesia to bring one-month SBI interest rates down from a peak of around 70.7% in August 1998 to 38.4% by December 1998 and 12.5% by December 1999. Bank Indonesia allowed SBI rates to increase again to 14.5% by December 2000 and 17.6% by December 2001. These higher rates were aimed at absorbing excess liquidity in the economy in line with achieving Bank Indonesia's base money supply target and controlling inflation. Bank Indonesia then brought SBI rates down to 12.9% by December 2002 and into single digits at 8.3% by December 2003. By December 2004, SBI rates declined to 7.4%.

In 2005, as higher inflationary pressures threatened macroeconomic stability, Bank Indonesia tightened its monetary policy and increased the BI rate to curb inflationary pressure.

In July 2005, Bank Indonesia enhanced its monetary policy framework by incorporating a new inflation targeting framework. This enhanced monetary policy framework has four fundamental elements: the use of the Bank Indonesia rate as an operational target; a forward looking monetary policy decision process; a more transparent communication strategy; and enhanced policy coordination with the government. These efforts are aimed at enhancing the effectiveness of money policy and achieving price stability.

Historically, Bank Indonesia adjusted its monetary policy to achieve and maintain price stability, as its primary objective, by targeting base money supply levels. Prior to June 9, 2008, Bank Indonesia targeted changes in the SBI interest rate, rather than base money, through the BI rate. However, to provide clearer information to the financial system regarding the goals of, and changes in, Bank Indonesia's monetary policy, as of June 9, 2008 Bank Indonesia targets changes in the overnight interbank interest rate, rather than the SBI interest rate. Bank Indonesia may also intervene in the foreign exchange markets to help adjust liquidity and minimize excessive exchange rate fluctuations.

Due to the inflationary pressures caused by fuel price increases, on March 8, 2005, Bank Indonesia announced that it would continue to pursue a tight monetary policy by absorbing excess liquidity and increasing interest rates gradually and measuredly. In line with this policy and the implementation of a new monetary policy framework, Bank Indonesia raised the BI rate three times from July to September 2005, from 8.50% to 10.00%. The decision to raise rates was based primarily on increasing global oil prices and the rise in the U.S. federal funds rate, as well as the weakening value of the rupiah.

Following the fuel price increases that took effect on October 1, 2005, which added to inflationary pressure, Bank Indonesia further raised the BI rate to 11.0% in October 2005, to 12.25% in November 2005, and to 12.75% in December 2005. These increases were taken to minimize the impact that the October fuel price increases would have on inflation, to curb inflationary pressures in upcoming quarters, and to provide guidance to the market on the plans of Bank Indonesia to achieve the medium-term inflation target. In addition, Bank Indonesia strengthened its monetary management operations by monitoring and managing daily market liquidity through fine-tuning operations; raising reserve requirements for banks (which are the loan-to-deposit ratios of the banks), and providing swap facilities for certain specified hedging purposes.

The upward movement in the BI rate that began in October 2005 was followed by increases in the time deposit and lending rates of banks. One-month and three-month time deposit rates increased to 12.0% and 11.8%, respectively, as of December 31, 2005 from 10.4% and 9.4%, respectively, in October 2005. As deposit rates increased, working capital and investment lending rates increased to 16.2% and 15.7%, respectively, in December 2005, from 15.2% and 14.9%, respectively, in October 2005.

From January 2006 until April 2006, Bank Indonesia's monetary policy continued to be aimed at reducing the high inflation caused principally by increased fuel prices in 2005, when inflation was 17.1%, to the targeted range for 2006 of 7% to 9%. By the end of April 2006, stable macroeconomic conditions were restored, the rupiah had appreciated and the rate of inflation had declined. As a result, on May 9, 2006, Bank Indonesia decided to ease its monetary policy and reduced the BI rate from 12.75% to 12.50%. Through the remainder of 2006 and into 2007, Bank Indonesia continued to ease its monetary policy and gradually reduced the BI rate from 12.50% on May 9, 2006 to 12.25% on July 6, 2006, to 11.75% on August 8, 2006, to 11.25% on September 5, 2006, to 10.75% on October 5, 2006, to 10.25% on November 7, 2006, to 9.75% on December 7, 2006, to 9.50% on January 4, 2007, to 9.25% on February 6, 2007, to 9.00% on March 6, 2007, to 8.75% on May 8, 2007, to 8.5% on June 7, 2007, to 8.25% on July 5, 2007 and to 8.00% on December 6, 2007. Inflation in 2006 was 6.6%, under the targeted range, while inflation in 2007 was 6.6%, within the targeted range of 5% to 7%.

Since the beginning of 2008, inflationary pressures in Indonesia have increased, primarily due to the effects of increasing world oil, food and other commodity prices. In May 2008, the Indonesian CPI (determined on a year-on-year basis) was 10.4% compared to May 2007. See "Recent

Developments—Recent Economic Developments—Inflation.” In response to forecasted inflationary pressures, Bank Indonesia has recently tightened its monetary policy, raising the BI rate to 8.25% on May 6, 2008 and to the current rate of 8.50% on June 5, 2008. See “Recent Developments—Recent Fiscal, Monetary and Economic Policy Developments—Monetary Policy.”

Effective September 2005, Bank Indonesia raised bank reserve requirements up to 5.0% (depending on the bank’s loan to deposit ratio), raised its deposit rate for U.S. dollar deposits by 1.25% to 4.25% and raised the Bank Indonesia Facility rate (a seven day liquidity instrument) by 1.0% to 8.5%. To stabilize the rupiah, Bank Indonesia has intervened, and expects to continue to intervene, in the domestic foreign exchange market when necessary. In addition, Bank Indonesia has enhanced its monitoring of commercial banks’ foreign exchange activities.

The average annual interest rate for working capital loans from commercial banks was 18.3% at the end of 2002 and declined to 13.0% as of December 31, 2007. The average annual interest rate for investment loans was 17.8% at the end of 2002 and declined to 13.75% as of December 31, 2007.

Money Supply

Bank Indonesia tracks several different measures of money supply. Base money (“M0”) includes currency (bank notes and coins in circulation) and demand deposits of commercial banks at Bank Indonesia. Narrow money (“M1”) consists of currency plus rupiah-denominated demand deposits in commercial banks, interbank transfers for customers which have not cleared through the banking system and matured (but uncollected) time deposits at commercial banks. Broad money (“M2”) consists of M1 plus quasi-money, which includes time deposits and savings deposits in rupiah and deposits in foreign currencies.

The following table sets forth the money and quasi-money supply for the periods indicated:

Money and Quasi-Money

	Money					Domestic Assets			
End of Period	Base Money (M0)	Currency	Demand Deposits	Total (M1)	Quasi-Money	Foreign Assets (Net)	Claims on Government (Net)(1)	Claims on Business Sectors	Other Items (Net)(2)
	(in billions of rupiah)								
2003	166,474	94,542	129,257	223,799	731,893	271,820	479,013	466,828	(261,969)
2004	199,446	109,265	144,553	253,818	779,709	263,647	498,019	615,804	(343,943)
2005	239,781	124,316	157,589	281,905	921,310	313,082	498,901	738,842	(347,610)
2006	297,080	151,009	210,064	361,073	1,021,001	413,265	506,488	837,071	(374,750)
2007	379,582	183,419	277,423	460,842	1,182,361	524,703	497,478	1,040,996	(419,974)

Source: Bank Indonesia.

(1) Claims on the government are included net of the government’s deposits with the banking system.

(2) Includes capital accounts, SDR allocations and inter-system accounts.

M0 increased 19.8% to Rp199 trillion in 2004. M1 increased 13.4% in 2004 to Rp254 trillion, while M2 increased 8.1% to Rp1,034 trillion. In 2004, M2 grew at the same rate as 2003, mainly as a result of declining growth in M1 which was offset by increasing growth in quasi-money. The increasing growth rate of quasi-money was mainly due to a significant increase in saving deposits as people shifted their funds from time deposits into saving deposits as the interest rates on time deposits fell in 2004.

In 2005, M0 increased 20.2%, mainly due to the rise in commercial bank transferable deposits at Bank Indonesia, which increased in line with higher minimum reserve requirements. The increasing demand for base money is attributable to the expansion in net claims of the central government and other net items due to central bank monetary operations. In 2005, M1 increased 11.1% to Rp281.9 trillion and M2 increased 16.4% to Rp1,203 trillion. The increased growth of quasi-money and demand deposits were the main reasons for the growth in M2. As the deposit rate increased, there was a shift from demand and saving deposits to time deposits. In addition to these factors, the increase in M2 was supported by credit, business sector and households.

In 2006, M0 increased 23.9%, mainly due to an increase in the demand deposits of commercial banks at Bank Indonesia. In 2006, M1 increased 28.0% to Rp361 trillion and M2 increased 14.9% to Rp1,382 trillion. An increase in demand deposits, particularly from the accounts of regional governments, was the main reason for higher growth in M1. The growth of M2 was mainly due to growth in quasi-money, mainly saving deposits. In addition to these factors, the increase in M2 came from increasing credit to businesses and consumers.

In 2007, M0 increased 27.8%, due to an increase in the amount of currency in circulation. In 2007, M1 increased 27.6% to Rp461 trillion while M2 also increased 18.9% to Rp1,643 trillion. The growth in M1 was due to both increases in demand deposits at commercial banks as well as currency in circulation. The growth in M2 was mainly due to growth in quasi-money, mainly savings deposits as well as to increased credit provided to businesses and consumers.

Government Budget

Fiscal Policy

Since 2001, the focus of the government's fiscal policy has been to promote fiscal consolidation and reduce government debt gradually in order to achieve fiscal sustainability. As a result of the overall macro economic situation and current policy challenges, since 2006, the government has also focused fiscal policy on providing a modest degree of stimulus to the overall economy, within the constraints of the government's overall fiscal situation.

In August 2007, President Yudhoyono submitted the Original 2008 Budget to the House of Representatives, which, with certain modifications, was approved by the House of Representatives in October 2007 and enacted in November 2007. In February 2008, to address changes in the assumptions underlying the Original 2008 Budget and to provide for certain adjustments in the allocation of expenditures, the President submitted the Revised 2008 Budget to the House of Representatives for consideration and approval. In April 2008, the Revised 2008 Budget was approved by the House of Representatives, and, in May 2008, the Revised 2008 Budget was enacted.

The Revised 2008 Budget reflects the government's fiscal policy objectives. The Republic's fiscal policy for 2008 is designed to ensure fiscal stability and sustainability, while maintaining economic growth in order to reduce poverty and unemployment and increasing the quality of public services. Accordingly, the focus of the Republic's fiscal policy in 2008 has shifted from promoting strong economic growth, which was the focus of the Original 2008 Budget, to maintaining fiscal stability and economic growth in response to external economic shocks. The government continues to monitor inflation, particularly in light of higher world oil, food and other commodity prices, while, through its budgeted expenditures in the Revised 2008 Budget, accelerating infrastructure development, particularly in the utilities and transportation sectors for the long-term economic development of Indonesia, and focusing on poverty alleviation and supporting relief, rehabilitation and reconstruction efforts after recent natural disasters. While endeavoring to achieve these goals, the government has maintained a prudent fiscal policy, has tightened monetary policy, has encouraged private sector participation in infrastructure development and has adopted a series of foreign investment, financial sector and banking sector reforms. See "Recent Developments—Recent Fiscal, Monetary and Economic Policy Developments," "Monetary Policy" and "Infrastructure Development."

The Revised 2008 Budget includes a target fiscal deficit of 2.1% of revised projected 2008 GDP, higher than the target fiscal deficit of 1.7% of original projected 2008 GDP in the Original 2008 Budget and the actual fiscal deficit of 1.3% in 2007. Total expenditures under the Revised 2008 Budget are projected to be Rp989.5 trillion, compared to Rp854.7 trillion in the Original 2008 Budget and Rp757.6 trillion in 2007. On the revenue side, the government has expressed its commitment to strengthening tax and customs administration by expanding modern tax offices (which use computer automated processing systems to reduce error, reduce corruption by minimizing the discretion of tax officers and allow for online payment of taxes), widening the tax base and improving tax collection and services. The Revised 2008 Budget has projected total revenue (including grants) of Rp895.0 trillion, compared to Rp781.4 trillion in the Original 2008 Budget and Rp707.8 trillion in 2007, and a deficit of Rp94.5 trillion, compared to Rp73.3 trillion in the Original 2008 Budget and Rp49.8 trillion in 2007. The government expected to finance the deficit under the Revised 2008 Budget primarily from domestic sources, largely through the issuance of government bonds.

For a detailed discussion of the macroeconomic assumptions, revenues, expenditures, fiscal deficit and deficit financing estimates underlying the Revised 2008 Budget compared to the Original 2008 Budget, see "—Revised 2008 Budget Revenues, Expenditures, Fiscal Deficit and Deficit Financing."

Certain expenditures in the Revised 2008 Budget are aimed at supporting national economic activities designed to maintain growth, create and expand employment and reduce poverty. In addition, the government's budget allocation policy is aimed at maintaining national stability, streamlining government operational activities and increasing the quality of services to the public. Certain allocations in the Revised 2008 Budget are directed to: (1) investment expenditures, especially for basic infrastructure designed to accelerate investment and support national economic activities; (2) social assistance, primarily for the provision of basic services to the community, for education and health, and for increasing efforts to improve equity; (3) improving the income and welfare of civil servants and retirees; (4) increasing the quality of services and efficiency of government operational activities; (5) provision of subsidies to assist in stabilizing the prices of goods and services at levels affordable by the community; and (6) fulfillment of obligations to make interest payments on debt.

Indonesia transfers a significant proportion of central government revenue to regional and local governments. Under a law adopted in 1999, which was revised in 2004, the central government transfers funds under five schemes: "revenue sharing funds," which return a percentage of certain tax and natural resource revenues generated in a particular region to that region; "general allocation funds," based on net annual central government revenues (after subtracting revenue sharing amounts) and distributed based on regional and local fiscal gaps (the differences between fiscal need and fiscal capacity); "specific allocation funds," for specific project proposals submitted by regional governments such as programs related to education, health and infrastructure and which, together with revenue sharing funds and general allocation funds are called "balanced funds;" "special autonomy funds," which support Aceh and Papua provinces; and "adjustment funds," which fund federal government policies and projects throughout the country. In 2005, 2006 and 2007, 29.5%, 33.9% and 33.4%, respectively, of total expenditures were, and, in the Revised 2008 Budget, 29.6%

of total expenditures are expected to be, payments to regional and local governments through balanced, special autonomy and adjustment funds.

Central Government Finances

The following table sets forth information regarding the revenues and expenditures of the central government for the periods indicated:

Central Government Revenues and Expenditures

	2003	2004	2005	2006	2007
			(in trillions of rupiah)		
Revenue and grants:					
Domestic revenue:					
Tax revenue	242.0	280.6	347.0	409.2	491.0
Non-tax revenue	98.9	122.5	146.9	227.0	215.1
Total domestic revenue	340.9	403.1	493.9	636.2	706.1
Grants	0.5	0.3	1.3	1.8	1.7
Total revenue and grants	341.4	403.4	495.2	638.0	707.8
Expenditures:					
Current expenditures	186.9	236.0	N/A(1)	N/A(1)	N/A(1)
Development expenditures	69.2	61.5	N/A(1)	N/A(1)	N/A(1)
Total central government expenditures	256.2	297.5	361.2(1)	440.0(1)	504.4(1)
Transfers to regions:					
Balanced funds	111.1	122.9	143.2	222.1	244.0
Special autonomy and adjustment funds	9.2	6.9	7.2	4.0	9.3
Total transfers to regions	120.3	129.7	150.5	226.2	253.3
Total expenditures(2)	376.5	427.2	509.6	667.1	757.6
Primary balance(3)	30.2	38.7	50.8	49.9	30.0
Surplus/(deficit)	(35.1)	(23.8)	(14.4)	(29.1)	(49.8)
Financing:					
Domestic financing	34.6	51.9	21.4	56.0	66.3
Foreign financing	0.5	(28.1)	(10.3)	(26.6)	(23.9)
Total financing(4)	35.1	23.8	11.1	29.4	42.5

Source: Ministry of Finance.

N/A Not available.

(1) Current expenditures and development expenditures were merged in budget accounting reforms enacted in 2005.

(2) Realized expenditures calculated by the Ministry of Finance in 2005 and 2006 differed by Rp(2.0) trillion and Rp0.9 trillion, respectively, from the figures calculated by line ministries and such discrepancies have been subtracted and added, respectively, to the totals for such years.

(3) Primary balance represents revenues minus expenditures excluding interest expenditures.

(4) In 2005, total financing of Rp11.1 trillion was insufficient to finance the budget deficit of Rp14.4 trillion, and the government drew down on its reserves to cover the difference of Rp3.3 trillion. In 2006, total financing of Rp29.4 trillion exceeded the budget deficit of Rp29.1 trillion, and the government added the difference of Rp0.3 trillion to its reserves. In 2007, total financing of Rp42.5 trillion was insufficient to finance the budget deficit of Rp49.8 trillion, and the government drew down on its reserves to cover the difference of Rp7.3 trillion.

Central Government Revenues. The following table sets forth central government revenues by category for the periods indicated:

Central Government Revenues

	2003	2004	2005	2006	2007
	(in trillions of rupiah)				
Domestic Revenue:					
Tax revenue:					
Domestic taxes:					
Income tax:					
Oil and gas	19.0	22.9	35.1	43.2	44.0
Non-oil and gas	96.1	96.6	140.4	165.6	194.4
Total income tax	115.0	119.5	175.5	208.8	238.4
Value-added tax (VAT)	77.1	102.6	101.3	123.0	154.5
Land and building tax	8.8	11.8	16.2	20.9	23.7
Duties on land and building transfer	2.1	2.9	3.4	3.2	6.0
Excises	26.3	29.2	33.3	37.8	44.7
Other taxes	1.7	1.9	2.1	2.3	2.7
Total domestic taxes	230.9	267.8	331.8	396.0	470.1
International trade taxes:					
Import duties	10.9	12.4	14.9	12.1	16.7
Export tax	0.2	0.3	0.3	1.1	4.2
Total international trade taxes	11.1	12.7	15.2	13.2	20.9
Total tax revenue	242.0	280.6	347.0	409.2	491.0
Non-tax revenue:					
Natural resources:					
Oil	43.0	63.1	72.8	125.1	93.6
Gas	18.5	22.2	30.9	32.9	31.2
General mining	2.0	2.5	3.2	6.8	5.9
Forestry	3.7	3.4	3.2	2.4	2.1
Fishery	0.3	0.3	0.3	0.2	0.1
Total natural resources	67.5	91.5	110.5	167.5	132.9
Profit transfer from SOEs	12.6	9.8	12.8	21.5	23.2
Other non-tax revenue	18.8	21.2	23.6	36.5	45.3
Government share from Bank Indonesia profit(1)	—	—	—	1.5	13.7
Total non-tax revenue	98.9	122.5	146.9	227.0	215.1
Total domestic revenue	340.9	403.1	493.9	636.2	706.1
Grants	0.5	0.3	1.3	1.8	1.7
Total revenue and grants	341.4	403.4	495.2	638.0	707.8

Source: Ministry of Finance.

(1) Represents amounts in excess of Bank Indonesia's capital ratio requirements, which excess amounts are transferred to the central government to be used for repayments of certain central government obligations to Bank Indonesia.

With the exception of 2006, since 2003, revenues from non-oil and gas income taxes have exceeded revenues from natural resources. Revenues from VAT also exceeded revenues from natural resources from 2003 through 2007, with the exception of 2005 and 2006. Together, these accounted for an average of 70.8% of total domestic revenue annually from 2003 through 2007. These three sources of revenue plus excise taxes and income tax on oil and gas accounted for an average of 83.9% of total domestic revenue annually from 2003 through 2007.

In 2007, realized tax revenues of Rp491.0 trillion were 99.8% of the government's revised budget target of Rp492.0 trillion for the year. Realized domestic tax revenues of Rp470.1 trillion for 2007 were 99.1% of the government's revised budget target of Rp17.5 trillion for the year, while international trade tax revenues of Rp20.9 trillion were 119.9% of the government's revised budget target. Realized non-tax revenues in 2007 were Rp215.1 trillion, or 108.5% of the government's budgeted amount of Rp198.3 trillion. Total realized revenues and grants of Rp707.8 trillion for 2007 were 102.0% of the government's revised budget target of Rp694.1 trillion.

Central Government Expenditures. The following table sets forth the expenditures of the central government for the periods indicated:

Central Government Expenditures(1)

	2003	2004
	(in trillions of rupiah)	
Current expenditures:		
Personnel expenditures	47.7	52.7
Material expenditures	15.0	15.5
Interest payments:		
Domestic debt	46.4	39.6
Foreign debt	19.0	22.8
Total interest payments	65.4	62.5
Subsidies:		
Energy subsidies	33.8	71.3
Non-energy subsidies	10.1	20.2
Total subsidies	43.9	91.5
Other current expenditures	15.0	13.7
Total current expenditures	186.9	236.0
Development expenditures:		
Rupiah financing	50.3	48.0
Project financing	18.9	13.4
Total development expenditures	69.2	61.5
Transfers to regions:		
Balanced funds:		
Revenue sharing funds	31.4	37.9
General allocation funds	77.0	82.1
Specific allocation funds	2.7	2.8
Total balanced funds	111.1	122.9
Special autonomy and adjustment funds	9.2	6.9
Total transfers to regions	120.3	129.7
Total expenditures	376.5	427.2

Source: Ministry of Finance.

(1) Beginning in 2005, these categories have been reclassified and direct comparison with the reclassified data is no longer meaningful for 2005, 2006 and 2007. For 2005, 2006 and 2007, see table below.

Central Government Expenditures[1]

	2005	2006	2007
	(in trillions of rupiah)		
Central government expenditures:			
Personnel expenditures	54.3	73.3	90.4
Material expenditures	29.2	47.2	54.5
Capital expenditures	32.9	55.0	64.3
Interest payments:			
Domestic debt	42.6	54.9	54.1
Foreign debt	22.6	24.2	25.7
Total interest payments	65.2	79.1	79.8
Subsidies:			
Energy subsidies	104.5	94.6	116.9
Non-energy subsidies	16.3	12.8	33.3
Total subsidies	120.8	107.4	150.2
Grants expenditures	—	—	—
Social expenditures	24.9	40.7	49.8
Other expenditures	34.0	37.4	15.4
Total central government expenditures	361.2	440.0	504.4
Regional expenditures:			
Balanced funds:			
Revenue sharing funds	50.5	64.9	62.9
General allocation funds	88.8	145.7	164.8
Specific allocation funds	4.0	11.6	16.2
Total balanced funds	143.2	222.1	244.0
Special autonomy and adjustment funds:			
Special autonomy funds	1.8	3.5	4.0
Adjustment funds	5.5	0.6	5.3
Total special autonomy and adjustment funds	7.2	4.0	9.3
Total regional expenditures	150.5	226.2	253.3
Total expenditures	509.6	667.1	757.6

Source: Ministry of Finance.

(1) Presented under reclassified expenditure categories.

In 2007, the government's actual public expenditures were Rp757.6 trillion, equivalent to 100.7% of the year's revised budgeted amount of Rp752.4 trillion. Central government expenditures in 2007 were Rp504.4 trillion, 101.2% of the revised budgeted amount of Rp498.2 trillion. Total subsidies in 2007 were Rp150.2 trillion, or 143.0% of the revised budgeted amount of Rp105.1 trillion, primarily due to increases in energy subsidies as a result of high oil prices and an increase in non-energy subsidies due to higher tax subsidies. Tax subsidies are taxes borne by the government that are paid to the Directorate General of Taxation of the Ministry of Finance by other government ministries and agencies, such as the VAT exemption on imported wheat, imported wheat flour and cooking oil, income taxes on the government's royalties from natural gas production, taxes paid by Pertamina and the VAT exemption for imported oil exploration equipment. Because the aggregate amount of these tax subsidies is included in the domestic tax revenues of the government, there is no net effect on the government's budget deficit from these tax subsidies. In 2005, 2006 and 2007, the government's tax subsidies were Rp6.2 trillion, Rp1.9 trillion and Rp17.1 trillion, respectively. Total regional expenditures in 2007 were Rp253.3 trillion, or 99.6% of the revised budgeted amount of Rp254.2 trillion.

The following table sets forth, by percentage, the allocation of central government development expenditures by sector for the periods indicated:

Development Expenditures by Sector[1]

	2003	2004
	(in percentages)	
Economy:		
Transportation and communications	13.2%	14.8%
Agriculture and forestry	12.7	13.5
Energy	5.6	4.1
Mining and industry	1.3	1.0
Other economic services	3.7	2.8
Total economy	36.5	36.2
Housing and settlement	7.8	3.8
Education	23.9	22.1
General government	21.1	26.6
Health	7.6	7.1
Recreation and religion	0.6	0.5
Social security and welfare	2.5	3.7
Total	100.0%	100.0%

Source: Ministry of Finance.

(1) This data is no longer available, as development expenditures were merged into government expenditures to produce one category for central government expenditures, with effect from 2005.

With effect from 2005, the various sectors of central government development expenditures were merged and re-classified by function, as set forth in the following table:

Allocation of Central Government Development Expenditures by Function

	2005	2006	2007[B]	2008[B]
	(in percentages)			
General Public Services	70.8%	64.4%	60.3%	65.0%
Defense	6.0	5.6	6.0	2.4
Public Order and Safety	4.3	5.4	5.4	2.7
Economic Affairs	6.5	8.7	10.2	11.1
Environmental Protection	0.4	0.6	1.3	1.2
Housing and Community Amenities	1.2	1.2	2.0	2.5
Health	1.6	2.8	3.4	3.0
Tourism and Culture	0.2	0.2	0.3	0.2
Religion	0.4	0.3	0.4	0.2
Education	8.1	10.3	10.1	11.2
Social Protection	0.6	0.5	0.6	0.6
Total	100.0%	100.0%	100.0%	100.0%

P Preliminary

B Figures for 2007 are from the revised 2007 budget which was enacted by the government in September 2007 and replaced the original 2007 budget enacted by the government in October 2006, and figures for 2008 are from the Original 2008 Budget. As of the date of this offering memorandum, actual figures for 2007 expenditures and figures under the Revised 2008 Budget are not available.

Deficit Financing. The following tables set forth, by amount, information on deficit financing for the periods indicated:

Deficit Financing[1]

	2003	2004
	(in trillions of rupiah)	
Domestic financing:		
Domestic bank financing	10.7	25.7
Domestic non-bank financing:		
Privatization	7.3	3.5
Asset recovery	19.7	15.8
Government bonds (net)	(3.1)	6.9
Total domestic non-bank financing	23.9	26.1
Total domestic financing	34.6	51.9
Foreign financing:		
Gross drawing:		
Program loan	1.8	5.1
Project loan	18.6	13.4
Total gross drawing	20.4	18.4
Amortizations	(19.8)	(46.5)
Total foreign financing	0.5	(28.1)
Total financing	35.1	23.8

Source: Ministry of Finance.

(1) Beginning 2005, these categories have been reclassified and direct comparisons with the reclassified data is no longer meaningful. For 2005, 2006 and 2007, see table below.

Deficit Financing

	2005	2006	2007
	(in trillions of rupiah)		
Domestic financing:			
Domestic bank financing	(2.6)	18.9	8.4
Domestic non-bank financing:			
Privatization[1]	—	0.4	0.3
Assets recovery	6.6	2.7	2.4
Government capital participation[1]	(5.2)	—	—
Government bonds (net)	22.6	36.0	57.2
Infrastructure funds	—	(2.0)	(2.0)
Total domestic non-bank financing	23.9	37.1	57.9
Total domestic financing	21.4	56.0	66.3
Foreign financing:			
Gross drawing:			
Program loan	12.3	13.6	19.6
Project loan	14.6	12.5	14.5
Total gross drawing	26.8	26.1	34.1
Amortizations	(37.1)	(52.7)	(57.9)
Total foreign financing	(10.3)	(26.6)	(23.9)
Total financing	11.1	29.4	42.5

Source: Ministry of Finance.

(1) Beginning in 2006, "privatization" includes "government capital participation."

Actual public expenditures and transfers to regions in 2007 were Rp757.6 trillion, while actual revenues and grants were Rp707.8 trillion. The government financed this deficit of approximately Rp49.8 trillion through net bond issuances of Rp57.2 trillion, domestic bank financing of Rp8.4 trillion, proceeds from asset recoveries of Rp2.4 trillion, privatizations of Rp0.3 trillion and a drawdown of Rp7.3 trillion on its reserves. The increase in financing from these sources were partially offset by a net amortization outflow of foreign financing (other than bonds) of Rp23.9 trillion and government capital participation for an infrastructure fund of Rp2.0 trillion.

Revised 2008 Budget Revenues, Expenditures, Fiscal Deficit and Deficit Financing

On August 16, 2007, President Yudhoyono delivered the Original 2008 Budget to a plenary session of the House of Representatives. The main targets of the Original 2008 Budget were to promote strong economic growth, while ensuring fiscal sustainability. The Original 2008 Budget was approved by the House of Representatives in October 2007 and was enacted in November 2007.

In February 2008, to accommodate certain changes in the assumptions underlying the Original 2008 Budget and to make certain adjustments in the allocation of expenditures, the President submitted the Revised 2008 Budget to the House of Representatives for consideration and approval. In April 2008, the Revised 2008 Budget was approved by the House of Representatives, and, in May 2008, the Revised 2008 Budget was enacted. The Republic's fiscal policy for the Revised 2008 Budget is designed to ensure fiscal stability and sustainability, while maintaining economic growth in order to reduce poverty and unemployment. For further information regarding the government's fiscal policy underlying the Revised 2008 Budget, see "—Fiscal Policy."

The key macroeconomic assumptions underlying the Revised 2008 Budget are:

- a real GDP growth rate of 6.4%, compared to 6.8% in the Original 2008 Budget;
- an average inflation rate of 6.5%, compared to 6.0% in the Original 2008 Budget;
- an interest rate on three-month short-term SBI of 7.5%, the same interest rate on three-month short-term SBI as assumed in the Original 2008 Budget;
- an average exchange rate of Rp9,100 to $1.00, the same average exchange rate as assumed in the Original 2008 Budget;
- average production by the Republic of 0.927 million barrels of oil per day, compared to 1.034 million in the Original 2008 Budget; and
- an average ICP of $95.00 per barrel for 2008, compared to an average ICP of $60.00 per barrel in the Original 2008 Budget.

In light of the fuel subsidy and social policy measures adopted in May 2008, the government has revised the assumptions underlying the Revised 2008 Budget and the estimates of its revenues, expenditures, fiscal deficit and deficit financing in 2008. See "Recent Developments—Recent Fiscal, Monetary and Economic Policy Developments" and "—Reduction of Government Subsidies for Various Fuel Products, Implementation of Direct Cash Distribution Program, Increases in Food and Educational Assistance Programs and Changes to the Revised 2008 Budget Estimates." The following discussion compares the expected revenues, expenditures, fiscal deficit and deficit financing under the Revised 2008 Budget against the Original 2008 Budget without accounting for the effects of the recent fuel subsidy and social policy measures.

Central Government Revenues. The following table sets forth the budgeted revenues of the government, by amount and as a percentage of original projected 2008 GDP and revised projected 2008 GDP, as set forth in the Original 2008 Budget and in the Revised 2008 Budget:

Central Government Revenues

	Original 2008 Budget (in trillions of rupiah and percentages of original projected 2008 GDP)		Revised 2008 Budget (in trillions of rupiah and percentages of revised project 2008 GDP)	
Domestic revenue:				
Tax revenue:				
Domestic taxes:				
Income tax:				
Oil and gas	41.6	0.9%	53.6	1.2%
Non-oil and gas	264.3	5.9	251.4	5.6
Total income taxes	306.0	6.8	305.0	6.8
Value added tax	187.6	4.2	195.4	4.4
Land and building tax	24.2	0.5	25.3	0.6
Duties on land and building transfer	4.9	0.1	5.4	0.1
Excises	44.4	1.0	45.7	1.0
Other taxes	2.9	0.1	3.4	0.1
Total domestic taxes	570.0	12.7	580.2	12.9
International trade taxes:				
Import duties	17.9	0.4	17.8	0.4
Export tax	4.1	0.1	11.2	0.2
Total international trade taxes	22.0	0.5	29.0	0.6
Total tax revenue	592.0	13.2%	609.2	13.6%
Non-tax revenue:				
Natural resources:				
Oil and gas	117.9	2.6%	182.9	4.1%
Non oil and gas	8.3	0.2	9.8	0.2
Total natural resources	126.2	2.8	192.8	4.3
Profit transfer from SOEs	23.4	0.5	31.2	0.7
Other non-tax revenue	37.6	0.8	58.8	1.3
Total non-tax revenue	187.2	4.2%	282.8	6.3%
Total domestic revenue	779.2	17.4%	892.0	19.9%
Grants	2.1	—	2.9	0.1
Total revenue and grants	781.4	17.4%	895.0	20.0%

Source: Ministry of Finance.

In the Revised 2008 Budget, total revenues and grants are estimated to be Rp895.0 trillion, compared to Rp781.4 trillion in the Original 2008 Budget. The Revised 2008 Budget assumes that revenues from tax will increase to Rp609.2 trillion, or the equivalent of 13.6% of revised projected 2008 GDP, compared to Rp592.0 trillion, or 13.2% of original projected 2008 GDP, in the Original 2008 Budget. The increase in tax revenue is expected largely from increases in oil and gas income tax as a result of higher oil and gas prices, in VAT as a result of continued economic growth and inflation and in export taxes as a result of higher exports and export prices. Non-tax revenues are forecast in the Revised 2008 Budget to increase to Rp282.8 trillion, compared to Rp187.2 trillion in the Original 2008 Budget, due to a Rp66.6 trillion increase in non-tax revenues from natural resources, particularly oil and gas royalties, a Rp7.8 trillion increase in profits transferred from state-owned enterprises and a Rp21.2 trillion increase in other non-tax revenues. Grants are projected to increase slightly to Rp2.9 trillion in the Revised 2008 Budget, compared to Rp2.1 trillion in the Original 2008 Budget.

Central Government Expenditures. The following table sets forth the budgeted expenditures of the government, by amount and as a percentage of original projected 2008 GDP and revised projected 2008 GDP, as set forth in the Original 2008 Budget and in the Revised 2008 Budget:

Central Government Expenditures

	Original 2008 Budget (in trillions of rupiah and percentages of original projected 2008 GDP)		Revised 2008 Budget (in trillions of rupiah and percentages of revised projected 2008 GDP)	
Central government expenditures:				
Personnel expenditures	128.3	3.0%	N/A[(1)]	N/A[(1)]
Material expenditures	69.4	1.6	N/A[(1)]	N/A[(1)]
Capital expenditures	95.4	1.4	N/A[(1)]	N/A[(1)]
Interest payments:				
Domestic debt	62.7	1.5	65.8	1.5
Foreign debt	28.6	0.6	29.0	0.6
Total interest payments	91.4	2.6	94.8	2.1
Subsidies:				
Energy subsidies	75.6	1.7	187.1	4.2
Non-energy subsidies	22.3	0.5	47.3	1.1
Total subsidies	97.9	2.2	234.4	5.2
Grant expenditures	—	—	—	—
Social expenditures	66.2	1.5	N/A[(1)]	N/A
Other expenditures	25.0	0.6	32.1	0.7
Total central government expenditures	573.4	12.8%	697.1[(2)]	15.5%
Regional expenditures:				
Balanced funds:				
Revenue sharing funds	66.1	1.5%	77.7	1.7%
General allocation funds	179.5	4.0	179.5	4.0
Special allocation funds	21.2	0.5	21.2	0.5
Total balanced funds	266.8	6.0	278.4	6.2
Special autonomy and adjustment funds:				
Special autonomy funds	7.5	0.2	7.5	0.2
Adjustment funds	6.9	0.2	6.5	0.1
Total special autonomy and adjustment funds	14.4	0.3	14.0	0.3
Total regional expenditures	281.2	6.5%	292.4	6.5%
Total expenditures	854.7	19.1%	989.5	22.1%

Source: Ministry of Finance.

N/A Not available.

(1) In the Revised 2008 Budget, Rp335.8 trillion has been allocated to personnel expenditures, material expenditures, capital expenditures and social expenditures. However, the allocation of such amount among the four categories, which is based on the working budgets approved for each of the line ministries and government agencies, has not been finalized by the government as of the date of this offering memorandum.

(2) This amount includes the Rp335.8 trillion which has been allocated in the 2008 Revised Budget for personnel expenditures, material expenditures, capital expenditures and social expenditures.

The Revised 2008 Budget calls for total expenditures of Rp989.5 trillion, or 22.1% of revised projected 2008 GDP, an increase of 15.8% compared to Rp854.7 trillion, or 19.1% of original projected 2008 GDP, in the Original 2008 Budget. This increase is mainly due to higher energy and non-energy subsidies and, to a lesser extent, interest payments and higher transfers to regional and local governments. Total central government expenditures (including interest payments and subsidies) are projected to increase 21.6% from Rp573.4 trillion, or 12.8% of original projected 2008 GDP, in the Original 2008 Budget to Rp697.1 trillion, or 15.5% of revised projected 2008 GDP, in the Revised 2008 Budget. In the Revised 2008 Budget, energy and non-energy subsidies are expected to increase to Rp234.4 trillion, or 5.2% of revised projected 2008 GDP, compared to Rp97.9 trillion, or 2.2% of original projected 2008 GDP, in the Original 2008 Budget. In the Revised 2008 Budget, the amount allocated for personnel expenditures, material expenditures, capital expenditures and social expenditures has decreased to Rp335.8 trillion from the amount of Rp359.2 trillion allocated in the Original 2008 Budget. As of the date of this offering memorandum, the government has not determined how this decrease in expenditures will be allocated among these four categories of expenditures. The Revised 2008 Budget projects higher levels of interest payments compared to the Original 2008 Budget, increasing by Rp3.4 trillion, from Rp91.4 trillion in the Original 2008 Budget to Rp94.8 trillion in the Revised 2008 Budget.

In the Revised 2008 Budget, Rp32.1 trillion has been allocated to other miscellaneous expenditures, compared to Rp25.0 trillion in the Original 2008 Budget. Of the Rp7.1 trillion increase in other miscellaneous expenses in the Revised 2008 Budget, Rp2.2 trillion has been allocated to government programs encouraging low-income citizens to convert their household use of kerosene to LPG, such as providing free stoves capable of using LPG as fuel, Rp2.0 trillion has been allocated to reforestation programs, Rp0.5 trillion has been allocated to employment, farming and social security projects in Aceh and Rp0.4 trillion has been allocated to establishment and implementation of a "smart card" system to limit the purchase of government-subsidized gasoline and diesel by individuals and businesses. See "Recent Developments—Recent Fiscal, Monetary and Economic Policy Developments—Reduction of Government Subsidies for Various Fuel Products, Implementation of Direct Cash Distribution Program, Increases in Food and Educational Assistance Programs and Changes to the Revised 2008 Budget Estimates" and "—Efforts to Reduce Amounts of Fuel Subsidized by the Government." Meanwhile, transfers to regional and local governments are expected to rise 4.0% from Rp281.2 trillion (or 6.3% of original projected 2008 GDP) in the Original 2008 Budget to Rp292.4 trillion (or 6.5% of revised projected 2008 GDP) in the Revised 2008 Budget, due to increases in balanced funds.

Central Government Deficit Financing. The following tables set forth the budgeted deficit financing of the government, by amount and as a percentage of original projected 2008 GDP and revised projected 2008 GDP, as set forth in the Original 2008 Budget and the Revised 2008 Budget:

Deficit Financing

	Original 2008 Budget		Revised 2008 Budget	
	(in trillions of rupiah and percentages of original projected 2008 GDP)		(in trillions of rupiah and percentages of revised projected 2008 GDP)	
Domestic financing:				
Domestic bank financing	0.3	—	(11.7)	(0.3)%
Domestic non-bank financing:				
Privatization	1.5	—	0.5	—
Assets recovery	0.6	—	3.9	0.1
Government bonds (net)	91.6	2.1%	117.8	2.6
Government investment funds(1)	(4.0)	(0.1)	(2.8)	(0.1)
Total domestic non-bank financing	89.7	2.1	119.3	2.7
Total domestic financing	90.0	2.1%	107.6	2.4%
Foreign financing:				
Gross drawing:				
Program loan	19.1	0.4%	26.4	0.6%
Project loan	23.9	0.6	21.8	0.5
Total gross drawing	43.0	1.0	48.1	1.1
Amortizations	(59.7)	(1.4)	(61.3)	(1.4)
Total foreign financing	(16.7)	(0.4)%	(13.1)	(0.3)%
Total financing	73.3	1.7%	94.5	2.1%

Source: Ministry of Finance.

(1) Classified as "infrastructure funds" in 2007.

Deficit financing in the Revised 2008 Budget is expected to be Rp94.5 trillion, or 2.1% of revised projected 2008 GDP, compared to Rp73.3 trillion, or 1.7% of original projected 2008 GDP, in the Original 2008 Budget. The projected 2008 deficit is expected to be financed mainly by domestic financing of Rp119.3 trillion. Net budget financing from foreign borrowings is planned at a negative Rp13.1 trillion. This amount consists of Rp48.1 trillion in program and project loans, less repayment of foreign debt principal of Rp61.3 trillion.

Reduction of Government Subsidies for Various Fuel Products, Implementation of Direct Cash Distribution Program, Increases in Food and Educational Assistance Programs and Changes to the Revised 2008 Budget Estimates

Since submission of the Revised 2008 Budget to the House of Representatives in February 2008, global oil prices and the ICP have continued to increase significantly. The assumed average ICP of $95.00 per barrel for 2008 in the Revised 2008 Budget is lower than the average ICP of $104.76 per barrel from January 1, 2008 to May 31, 2008 and the average ICP of $103.11 in March 2008, $109.31 in April 2008 and $124.67 in May 2008. Since the average ICP in the first five months of 2008 has exceeded $95.00 per barrel, actual energy subsidy expenditures made since January 1, 2008 have exceeded the amount that was expected to be made under the Revised 2008 Budget. In addition, the government was confronted with the prospect of continuing sharply higher fuel subsidy expenditures due to increases in the world market price for oil and the ICP. Unless policy adjustments were made, the government faced a potential fiscal deficit for 2008 well in excess of its original expectations in the Revised 2008 Budget.

Reduction of Government Subsidies for Various Fuel Products. In an effort to maintain the government's budget deficit at manageable levels in the face of substantially increasing fuel subsidy expenditures, on May 24, 2008, the government reduced the subsidies it pays for various fuel products (on a per liter basis), including regular (low octane) gasoline, diesel and kerosene, resulting in increases in the domestic prices for these fuel products. On May 24, 2008, due to the reduction in government energy subsidies, the price of regular gasoline in Indonesia increased 33.3% from Rp4,500 per liter to Rp6,000 per liter, the price of diesel increased 27.9% from Rp4,300 per liter to Rp5,500 per liter and the price of kerosene increased 25.0% from Rp2,000 per liter to Rp2,500 per liter, resulting in an average 28.7% increase in fuel prices on that date. In the weeks prior to implementation of the fuel subsidy reductions, the Republic experienced intermittent public demonstrations and protests in Jakarta and other parts of the country against the fuel price increases, and occasional public demonstrations and protests against the fuel price increases have continued to occur since then.

As a result of the implementation of the fuel subsidy reductions in May 2008, the government expects that its total energy subsidy expenditures in 2008 will be Rp200.6 trillion, based on an assumed average ICP of $110.00 per barrel for 2008, reflecting an increase of Rp13.5 trillion from the expected energy subsidy expenditures of Rp187.1 trillion in the Revised 2008 Budget, but substantially less than the Rp256.6 trillion of energy subsidy expenditures it estimates it would have spent in 2008 if it had not reduced the fuel subsidies in May 2008.

The government's current estimate of Rp200.6 trillion in fuel subsidy expenditures for 2008 is based, in part, on an assumed average ICP of $110.00 per barrel for 2008, which is lower than the average ICP of $124.67 in May 2008, and assumed consumption by the Republic of 36.2 billion liters of government-subsidized fuel products in 2008. If the average ICP for 2008 is higher than $110.00 per barrel or if the Republic's consumption of government-subsidized fuel products significantly exceeds the assumed levels in 2008, the government's total energy subsidy expenditures for 2008 would likely exceed the projected amount of Rp200.6 trillion. For example, if the average ICP for

2008 is $131.15 per barrel (based on the actual average ICP from January through May 2008 of $104.76 and an assumed average ICP from June through December 2008 of $150.00 per barrel) and fuel consumption levels are realized as projected, the government estimates that its total energy subsidy expenditures for 2008 would exceed the revised projected amount of Rp200.6 trillion by Rp82.9 trillion, bringing total energy subsidy expenditures for 2008 to Rp283.5 trillion. To the extent that the government's total energy subsidy expenditures are likely to exceed the revised projected amount of Rp200.6 trillion, the government may consider further policy measures intended to lower fuel subsidy expenditures, including further reducing fuel subsidies and accelerating implementation of its programs to limit purchases of amounts of government-subsidized fuel products and to encourage Indonesians to convert their household use of kerosene to LPG. The government has already begun implementing measures to reduce the amount of fuel products it subsidizes. See "Recent Developments—Recent Fiscal, Monetary and Economic Policy Developments—Efforts to Reduce Amounts of Fuel Subsidized by the Government."

Implementation of Direct Cash Distribution Program and Increases in Food and Educational Assistance Programs. To mitigate the impact of higher fuel prices on Indonesia's poorest citizens and as an integral part of the fuel subsidy reductions, the government has begun implementing new social policy measures, including a direct cash distribution program and increases in food and educational assistance to the poor.

First, the government has allocated Rp14.1 trillion under the direct cash distribution program for payments to 19.1 million low-income households (representing 76.4 million people) identified by BPS as being near or below the poverty level. Under this program, the government has begun making cash transfers of Rp100,000 per month to each eligible household. The direct cash distribution program also provides for payments of public funds to support small businesses in rural areas and one-time payments of Rp150,000 to low-ranking civil servants, members of the Indonesian military and police officers. The government expects these cash payments to boost the income of low-income citizens and contribute to increased consumer spending, thereby partially offsetting the negative effects of the fuel price increases on the economy. Second, the government has allocated an additional Rp3.4 trillion for food assistance to the poor. Under this program, the government will offer up to an additional 15 kilograms of subsidized rice per month to each eligible household until the end of 2008. Third, the government has allocated an additional Rp0.8 trillion for educational assistance to the poor.

Expected Economic Effects of the Recent Fuel Subsidy and Social Policy Measures and Changes to the Revised 2008 Budget Estimates. As a result of the fuel price increases in May 2008, the government expects that inflation in 2008 will increase to between 10.9% and 11.2%, compared to the inflation rate of 6.5% assumed in the Revised 2008 Budget. The government also expects that the real GDP growth rate in 2008 will be adversely affected by reduced consumer spending due to the fuel price increases and will decrease to between 6.0% to 6.4%, from its original assumption of 6.4% under the Revised 2008 Budget. Although the government expects that the fuel price increases will adversely impact economic growth in 2008, it also expects that increased consumer spending resulting from the cash distribution program will partially offset the adverse economic effects of the fuel price increases.

In light of the fiscal effects of the government's recent policy measures, the government has revised its estimates of its revenues, expenditures, fiscal deficit and deficit financing under the Revised 2008 Budget. The key macroeconomic assumptions underlying the government's revised budget estimates are:

- a real GDP growth rate of 6.0%, compared to 6.4% as assumed in the Revised 2008 Budget;

- an average inflation rate of 11.2%, compared to 6.5% as assumed in the Revised 2008 Budget;

- an interest rate on three-month short-term SBI of 8.5%, compared to 7.5% as assumed in the Revised 2008 Budget;

- an average exchange rate of Rp9,000 per U.S. dollar, compared to Rp9,100 per U.S. dollar as assumed in the Revised 2008 Budget;

- an average production by the Republic of 0.927 million barrels of oil per day, the same amount as assumed in the Revised 2008 Budget;

- consumption by the Republic of 36.2 billion liters of government-subsidized fuel products in 2008, compared to 35.5 billion liters of government-subsidized fuel products as assumed in the Revised 2008 Budget; and

- an average ICP of $110.00 per barrel for 2008, compared to an average ICP of $95.00 per barrel for 2008 as assumed in the Revised 2008 Budget.

The following table sets forth the budgeted revenues of the government, by amount and as a percentage of revised projected 2008 GDP and adjusted revised projected 2008 GDP, set forth in the Revised 2008 Budget and in the Revised 2008 Budget as adjusted by anticipated changes in revenues and expenditures resulting from the government's recent fuel subsidy and social policy measures (the "Revised 2008 Budget Adjustments"):

Revised 2008 Budget
Central Government Revenues

	Revised 2008 Budget			
	(actual) (in trillions of rupiah and percentages of revised projected 2008 GDP)		(as adjusted) (in trillions of rupiah and percentages of adjusted revised projected 2008 GDP)	
Domestic revenue:				
Tax revenue:				
Domestic taxes:				
Income tax:				
Oil and gas	53.6	1.2%	61.4	1.3%
Non-oil and gas	251.4	5.6	251.4	5.4
Total income taxes	305.0	6.8	312.8	6.7
Value added tax	195.4	4.4	195.4	4.2
Land and building tax	25.3	0.6	25.3	0.5
Duties on land and building transfer	5.4	0.1	5.4	0.1
Excises	45.7	1.0	45.7	1.0
Other taxes	3.4	0.1	3.4	0.1
Total domestic taxes	580.2	12.9	588.0	12.6
International trade taxes:				
Import duties	17.8	0.4	17.8	0.4
Export tax	11.2	0.2	11.2	0.2
Total international trade taxes	29.0	0.6	29.0	0.6
Total tax revenue	609.2	13.6%	617.0	13.2%
Non-tax revenue:				
Natural resources:				
Oil and gas	182.9	4.1%	216.7	4.6%
Non oil and gas	9.8	0.2	9.8	0.2
Total natural resources	192.8	4.3	226.6	4.9
Profit transfer from SOEs	31.2	0.7	31.2	0.7
Other non-tax revenue	58.8	1.3	60.1	1.3
Government share from Bank Indonesia profits	—	—	—	—
Total non-tax revenue	282.8	6.3%	317.9	6.8%
Total domestic revenue	892.0	19.9%	934.9	20.0%
Grants	2.9	0.1	2.9	0.1
Total revenue and grants	895.0	20.0%	937.8	20.1%

Source: Ministry of Finance.

Under its revised estimates, the government expects its total revenues and grants will increase to Rp937.8 trillion in 2008, compared to Rp895.0 trillion in the Revised 2008 Budget. Of this amount, the government expects that domestic revenues will increase to Rp934.9 trillion, compared to Rp892.0 trillion in the Revised 2008 Budget, with tax revenues increasing to Rp617.0 trillion, from Rp609.2 trillion in the Revised 2008 Budget, and non-tax revenues increasing to Rp317.9 trillion, from Rp282.8 trillion in the Revised 2008 Budget. Grants are expected to remain the same at

Rp2.9 trillion. The increase in revenues is expected largely from increases in oil and gas income taxes and oil and gas royalties.

The following table sets forth the budgeted expenditures of the government, by amount and as a percentage of revised projected 2008 GDP and adjusted revised projected 2008 GDP, set forth in the Revised 2008 Budget and in the Revised 2008 Budget as adjusted by the Revised 2008 Budget Adjustments:

Revised 2008 Budget
Central Government Expenditures

	Revised 2008 Budget (actual) (in trillions of rupiah and percentages of revised projected 2008 GDP)		Revised 2008 Budget (as adjusted) (in trillions of rupiah and percentages of adjusted revised projected 2008 GDP)	
Central government expenditures:				
Personnel expenditures	N/A[(1)]	N/A	N/A[(1)]	N/A
Material expenditures	N/A[(1)]	N/A	N/A[(1)]	N/A
Capital expenditures	N/A[(1)]	N/A	N/A[(1)]	N/A
Interest payments:				
Domestic debt	65.8	1.5	66.0	1.4
Foreign debt	29.0	0.6	29.1	0.6
Total interest payments	94.8	2.1	95.1	2.0
Subsidies:				
Energy subsidies	187.1	4.2	200.6	4.3
Non-energy subsidies	47.3	1.1	51.7	1.1
Total subsidies	234.4	5.2	252.3	5.4
Grant expenditures	—	—	—	—
Social expenditures	N/A[(1)]	N/A	N/A[(1)]	N/A
Other expenditures	32.1	0.7	44.5	1.0
Total central government expenditures	697.1[(2)]	15.5%	727.7[(2)]	15.6%
Regional expenditures:				
Balanced funds:				
Revenue sharing funds	77.7	1.7%	77.7	1.7%
General allocation funds	179.5	4.0	179.5	3.8
Special allocation funds	21.2	0.5	21.2	0.5
Total balanced funds	278.4	6.2	278.4	6.0
Special autonomy and adjustment funds:				
Special autonomy funds	7.5	0.2	7.5	0.2
Adjustment funds	6.5	0.1	6.5	0.1
Total special autonomy and adjustment funds	14.0	0.3	14.0	0.3
Total regional expenditures	292.4	6.5%	292.4	6.3%
Total expenditures	989.5	22.1%	1,020.1	21.9%

Source: Ministry of Finance.

N/A Not available.

(1) In both the Revised 2008 Budget and the Revised 2008 Budget (as adjusted by the Revised 2008 Budget Adjustments), Rp335.8 trillion has been allocated to personnel expenditures, material expenditures, capital expenditures and social expenditures. However, the allocation of such amount among the four categories, which is based on the working budgets approved for each of the line ministries and government agencies, has not been finalized by the government as of the date of this offering memorandum.

(2) This amount includes the Rp335.8 trillion which has been allocated in both the 2008 Revised Budget and 2008 Revised Budget (as adjusted by the Revised 2008 Budget Adjustments) for personnel expenditures, material expenditures, capital expenditures and social expenditures.

Under its revised estimates, the government expects its total expenditures will increase to Rp1,020.1 trillion in 2008, compared to Rp989.5 trillion in the Revised 2008 Budget. Of this amount, the government expects that central government expenditures will increase to Rp727.7 trillion, compared to Rp697.1 trillion in the Revised 2008 Budget. Regional expenditures, such as the balanced funds and the special autonomy and adjustment funds, are expected to remain the same at Rp292.4 trillion. The government expects that its expenditures will increase by Rp30.6 trillion in 2008, primarily due to cash transfers of Rp14.1 trillion under the direct cash distribution program, additional energy subsidies of Rp13.5 trillion, additional food and educational assistance expenditures to the poor of Rp4.2 trillion, other non-energy subsidies of Rp1.0 trillion, interest payments of Rp0.3 trillion, contingency funds for emergency programs of Rp0.8 trillion and miscellaneous expenditures of Rp2.0 trillion. Such additional expenditures are expected to be partially offset by a Rp5.3 trillion decrease in amounts allocated to a Rp8.3 trillion contingency fund established under the Revised 2008 Budget to cover additional unanticipated energy subsidy expenditures.

The following tables set forth the budgeted deficit financing of the government, by amount and as a percentage of revised projected 2008 and adjusted revised projected 2008 GDP, as set forth in the Revised 2008 Budget and the Revised 2008 Budget as adjusted by the Revised 2008 Budget Adjustments:

Revised 2008 Budget
Deficit Financing

	Revised 2008 Budget			
	(actual) (in trillions of rupiah and percentages of revised projected 2008 GDP)		(as adjusted) (in trillions of rupiah and percentages of adjusted revised projected 2008 GDP)	
Domestic financing:				
Domestic bank financing	(11.7)	(0.3)%	(11.7)	(0.3)%
Domestic non-bank financing:				
Privatization	0.5	—	0.5	—
Assets recovery	3.9	0.1	3.9	0.1
Government bonds (net)	117.8	2.6	107.9	2.3
Government investment funds[1]	(2.8)	(0.1)	(2.8)	(0.1)
Total domestic non-bank financing	119.3	2.7	109.4	2.3
Total domestic financing	107.6	2.4%	97.7	2.1%
Foreign financing:				
Gross drawing:				
Program loan	26.4	0.6%	23.4	0.5%
Project loan	21.8	0.5	21.8	0.5
Total gross drawing	48.1	1.1	45.2	1.0
Amortizations	(61.3)	(1.4)	(60.6)	(1.3)
Total foreign financing	(13.1)	(0.3)%	(15.4)	(0.3)%
Total financing	94.5	2.1%	82.3	1.8%

Source: Ministry of Finance.

(1) Classified as "infrastructure funds" in 2007.

Due to these revisions in its estimates of its revenues and expenditures in 2008, the government has revised its projected fiscal deficit for 2008 to Rp82.3 trillion, or 1.8% of revised projected 2008 GDP, from Rp94.5 trillion, or 2.1% of projected 2008 GDP, in the Revised 2008 Budget. The government continues to expect to finance this deficit primarily from domestic sources, largely through the issuance of government bonds.

The government's revised estimate of a fiscal deficit of Rp82.3 trillion is based, in part, on an assumed average ICP of $110.00 per barrel for 2008 and assumed consumption by the Republic of 36.2 billion liters of government-subsidized fuel products in 2008. If the average ICP for 2008 is higher than $110.00 per barrel or if the Republic's consumption of government-subsidized fuel products significantly exceeds the assumed levels in 2008, the government's total expenditures for 2008 would likely exceed the revised projected amount of Rp1,020.1 trillion. Although the increased expenditures would likely be offset in part by increased revenue beyond the revised projected amount of Rp937.8 trillion, primarily due to higher oil and gas non-tax revenue and income tax from oil and gas, the net effect of higher oil prices would be an increase in the budget deficit for 2008 from the revised projected amount of Rp82.3 trillion. For example, if the average ICP for 2008 is $131.15 per barrel (based on the actual average ICP from January through May 2008 of $104.76 and an assumed average ICP from June through December 2008 of $150.00 per barrel) and all of the other budgetary assumptions are realized as projected, the government estimates that the government's total expenditures for 2008 would likely exceed the revised projected amount of Rp1,020.1 trillion by Rp84.0 trillion, bringing total expenditures for 2008 to Rp1,104.1 trillion, while the government's total revenue for 2008 would likely exceed the revised projected amount of Rp937.8 trillion by Rp73.5 trillion, bringing total revenue for 2008 to Rp1,011.3 trillion. In this situation, the government would record a 2008 deficit of Rp92.8 trillion, or 2.0% of adjusted revised projected 2008 GDP, an increase of Rp10.5 trillion from the revised projected deficit of Rp82.3 trillion, or 1.8% of adjusted revised projected 2008 GDP. A higher budget deficit in 2008 would require additional financing. In such an event, the government may consider further policy measures intended to raise revenues and lower expenditures, including, on the revenue side, improving tax collection, imposing higher motor vehicle taxes and introducing a progressive tax on ownership of motor vehicles, and, on the expenditure side, reducing administrative spending by, and improving operational efficiency of, the government ministries, implementing additional energy saving measures at government offices, further reducing fuel subsidies and accelerating implementation of its programs to limit purchases of amounts of government-subsidized fuel products and to encourage Indonesians to convert their household use of kerosene to LPG.

The government has not yet determined whether it will submit a second revision to the Original 2008 Budget to reflect the changes in its revenues, expenditures, fiscal deficit and deficit financing resulting from its recent fuel subsidy and social policy measures to the House of Representatives for consideration and approval. However, the government is currently consulting with the House of Representatives on this matter.

Budget and Taxation Reform

In 2004, the government reorganized the Ministry of Finance in order to improve its budget management and processes. A single treasury unit responsible for both foreign and domestic debt financing was established, and an improved computer support system was introduced to promote better transparency and accountability in financial management. In early 2005, the government also introduced an integrated budgetary system to clarify and focus government spending decisions and improve efficiency. The government is currently seeking to make Indonesia's tax administration more "business-friendly" by focusing on transparency and equality of treatment, by simplifying procedures and by setting tax rates that are competitive with those in comparable economies. The government is also making efforts to strengthen its customs enforcement to curb smuggling activities.

Tax administration reforms have been underway for some time but are now being accelerated. Traditionally, Indonesia's tax office has been organized by type of tax. A taxpayer must deal separately with tax officials responsible for corporate income tax, VAT, property tax and other types of tax, as applicable. In 2002, the government introduced a new system under which a tax office, the Large Taxpayer Office ("LTO"), is organized for the largest taxpayers. Under this system, one person is responsible for all taxes from a given company or individual. This system is expanding, adding more taxpayers at the first LTO, adding new LTOs and beginning a pilot program for medium-sized and smaller taxpayer offices. Since 2005, more medium-sized and smaller taxpayer offices have been established under the pilot program, which is expected to continue in 2008. The LTO program has been successful in improving the efficiency of, and increasing taxpayer satisfaction with, the tax collection process. The key focus of the government's tax reform policies will be reorganizing, over time, the rest of the tax administration to streamline the organization along the LTO structure. Also, in December 2006, the Indonesian Directorate General of Taxation established a new more centralized organization structure.

Other initiatives designed to assist taxpayers include simplified VAT audits, refunds for taxpayers who file accurate returns and various reforms designed to improve the quality of taxpayer service, including improving access to information and adopting a taxpayer bill of rights and a tax officer code of ethics. To improve tax collection, the government is also introducing measures to ensure that all persons and corporations with income levels above the nontaxable income level have taxpayer identification numbers, preparing a database for taxpayer information including income, property and vehicle registration information, and developing an on-line network in cooperation with other institutions. In 2006, the Directorate General of Taxation implemented a program for greater cooperation and coordination with business and professional associations. This program was designed to facilitate data collection and to gain input from these associations in the tax collection process, with the goal of increasing tax revenues.

As part of this program, in 2007, the government enacted the following changes to general tax rules, and procedures discussed above as well as to customs and excise taxes.

- An annual tax deduction of 5% of the value of the investment for a period of six years after the commercial starting date of the investment;

- Accelerated depreciation and amortization of assets through a 50% reduction in their useful life and a doubling of the depreciation and amortization rate;

- An extension of loss carry-forward to a maximum of ten years from five years; and

- A reduction in the tax rate on dividend payments to non-residents to 10% (or lower if provided by a tax treaty) from 20%.

On December 28, 2007, the Ministry of Finance adopted a new tax regulation, effective January 1, 2008, which reduces the corporate income tax rate of publicly listed companies that meet certain conditions. Under this regulation, an Indonesian publicly listed company can apply for a 5.0% reduction in its corporate income tax rate if (i) at least 40% of its total paid up shares are owned by the public, (ii) those shares are owned by at least 300 public shareholders, (iii) each of these public shareholders owns less than 5.0% of its total paid up shares and (iv) these conditions are met by the company for a period of at least six months during the fiscal year.

The government is currently contemplating additional changes to VAT and income tax laws. The government believes that these changes will provide incentives for increased investment and employment.

In August 2007, the government implemented a graduated progressive CPO export tax structure, with five levels of export taxes ranging from 0% (if the average price for CPO in Rotterdam, Netherlands was less than $550 per tonne) to 10.0% (if the average Rotterdam CPO price was greater than $850 per tonne). In January 2008, the government revised the export tax structure applicable to exports of CPO and related oil palm products to discourage exports of these products and the resulting shortages and increases in prices of cooking oil and palm kernel oil in the domestic markets in response to CPO prices increases in the world markets. In January 2008, the government revised this export tax structure to increase the number of levels to eight and to increase the amount of taxes imposed from 0% (if the average price for CPO is less than $550 per tonne) to 25.0% (if the average Rotterdam price for CPO is greater than $1,300 per tonne). The result of this change in the CPO export tax structure was to increase the amount of export tax paid on CPO exports as the world market price for CPO continues to increase.

The government is seeking to expand the country's tax base by increasing the number of registered taxpayers. The government has reviewed non-tax databases, including property records and the payrolls of large employers, and has sent notices to individuals it believes to be potential taxpayers encouraging them to register. If recipients of these notices do not register, they will be subject to higher tax rates than those applicable to registered tax payers. The government is also implementing a lower tax rate applicable to a larger number of potential taxpayers, a change the government believes will improve compliance and increase the tax base. The government hopes to increase the tax base through these measures.

Public Debt

Over the last seven years, Indonesia has made substantial improvement in its public debt management. The reduction of public debt in percentage-of-GDP terms has been a consistent key fiscal policy objective of the government. To achieve this objective, the government's policy has emphasized the strengthening of public debt management, the lengthening and balancing of the maturities of public debt and the growth of public debt at sustainable levels. Pursuant to these policies, between 2003 and the end of 2007, the Republic successfully reduced its public debt as a percentage of GDP from 66.8% in 2003 to 34.6% of GDP in 2007. Progress in managing the public debt of Indonesia continued through 2007 with total public debt increasing to US$151.6 billion as of December 31, 2007 from US$145.0 billion as of December 31, 2006. This increase in 2007 was primarily due to issuances of domestic government bonds. Of the public debt as of December 31, 2007, 41.5% consists of loans while 58.5% consists of securities.

Public External Debt of the Republic

"Public external debt" of the Republic consists of central government debt (other than public domestic debt) and debt of Bank Indonesia owed to creditors outside Indonesia. The disclosure that follows treats the external debt of Bank Indonesia as part of the Republic's external debt. However, SBIs, which are issued by Bank Indonesia in its role as formulator and implementer of the Republic's monetary policy, are not considered liabilities of the Republic. Accordingly, SBIs are not reflected in the government debt discussions in this offering memorandum. See "Financial System—Bank Indonesia." (The discussion of debt of the Republic in this section differs from the discussion of "government debt" elsewhere in this offering memorandum, in which Bank Indonesia debt is excluded and only central government debt, which depends on central government revenue for its repayment, is included. See "Government Budget—Central Government Finances.")

The following table sets forth information on the outstanding public external debt of the Republic in terms of creditor type as of the dates indicated:

Outstanding Public External Debt of the Republic by Source(1)

	As of December 31,				
	2003	**2004**	**2005**	**2006**	**2007P**
	(in billions of U.S. dollars)				
Concessional Loans:					
Multilateral creditors	30.0	29.0	26.6	18.8	19.1
Bilateral creditors	29.9	30.3	32.3	31.8	32.1
Semi-concessional Loans:					
Export agency creditors	18.4	18.0	11.6	11.2	11.0
Leasing	0.2	0.2	0.1	0.1	—
Commercial	2.4	3.4	5.2	6.4	7.8
Total	80.9	80.8	75.9	68.2	70.0
Total public external debt of the Republic, as a percentage of GDP for the period indicated	34.1%	31.5%	26.2%	18.5%	16.0%
Total public external debt of the Republic, as a percentage of exports for the period indicated	114.0%	92.6%	87.2%	66.0%	59.3%

Sources: Ministry of Finance and Bank Indonesia.

P Preliminary.

(1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the market exchange rates between the relevant foreign currencies and the U.S. dollar prevailing at the respective dates indicated.

In 2004, the public external debt of the Republic as a percentage of GDP decreased to 31.5% of GDP from 34.1% of GDP at year-end 2003. In U.S. dollar terms, public external debt decreased to $80.8 billion in 2004 from $80.9 billion in 2003. The decrease in external debt was due to debt repayments in 2004, which was partially offset by the strengthening of the Japanese yen, primarily, and other currencies, to a lesser extent, against the U.S. dollar. Japanese yen-denominated debt accounted for 38% of the Republic's total outstanding external debt as of December 31, 2004. In 2004, the Republic's public external debt as a percentage of exports decreased to 92.6% in 2004 from 114.0% in 2003. The improvement in the Republic's debt-to-exports ratio in 2004 was attributable to repayment of loans and a significant increase in exports in 2004.

In 2005, the public external debt of the Republic as a percentage of GDP decreased to 26.2% of GDP from 31.5% of GDP at year-end 2004. Public external debt decreased to $75.9 billion in 2005, from $80.8 billion in 2004. The decrease in external debt primarily was due to debt repayments in 2004, mainly repayment of multilateral debt and Bank Indonesia debt, and the weakening of the Japanese yen against the U.S. dollar. Japanese yen-denominated debt accounted for approximately 37% of the Republic's total outstanding external debt as of December 31, 2005. In 2005, the Republic's public external debt as a percentage of exports decreased to 87.2% from 92.6% in 2004. The improvement in the Republic's debt-to-exports ratio was attributable to repayment of loans and a significant increase in exports in 2005.

In 2006, the public external debt of the Republic as a percentage of GDP decreased to 18.5% of GDP from 26.2% of GDP at year-end 2005. Public external debt decreased to $68.2 billion in 2006, from $75.9 billion in 2005. The decrease in external debt was primarily due to the repayment of the Republic's IMF debt in 2006, and the weakening of the Japanese yen against the U.S. dollar. The IMF had disbursed a total of $16 billion in funds to the Republic between late 1997 and December 2003 following the Asian financial crisis. On June 22, 2006, the government made an advance repayment to the IMF amounting to US$3.7 billion, which was equivalent to approximately half of

Indonesia's then outstanding obligations under its IMF loans. On October 12, 2006, the government repaid all remaining outstanding amounts due to the IMF, after it and Bank Indonesia had determined that the significant rise in Indonesia's balance of payments surplus and international reserves as of the end of the third quarter of 2006 warranted the early final repayment of its IMF loans. Japanese yen-denominated debt accounted for approximately 42% of the Republic's total outstanding external debt as of year-end 2006. In 2006, the Republic's public external debt as a percentage of exports decreased to 66.0% from 87.2% in 2005. The improvement in the Republic's debt-to-exports ratio was attributable to the repayment of IMF loans and a significant increase in exports.

In 2007, the public external debt of the Republic as a percentage of GDP decreased to 16.0% of GDP from 18.5% of GDP at year-end 2006. Public external debt increased to $70.0 billion as of December 31, 2007, from $68.2 billion as of December 31, 2006. The net increase of $1.8 billion in the Republic's public external debt in 2007 (in U.S. dollar terms) was primarily due to disbursements of program loans in the aggregate amount of $2.1 billion from the World Bank ($600.0 million), the ADB ($900.0 million), the JBIC ($400.0 million) and the IDB ($200.0 million), the issuance of $1.5 billion of 6.625% bonds due 2037 in February 2007 and the effect of the depreciation of the U.S. dollar against other currencies in which a portion of the Republic's external debt is denominated, particularly the Japanese yen and the Euro, which was partially offset by principal debt repayments. As of December 31, 2007, Japanese yen-denominated debt accounted for approximately 37% of the Republic's total outstanding external debt, whereas Euro-denominated debt accounted for approximately 15%. In 2007, the Republic's public external debt as a percentage of exports decreased to 59.3% from 66.0% in 2006. The improvement in the Republic's debt-to-exports ratio was attributable to an increase in exports which was partially offset by an increase in the total amount of the Republic's total public external debt.

In January 2008, the Republic incurred an additional $2.0 billion of external debt through the issuance of $1.0 billion of 6.875% bonds due 2018 and $1.0 billion of 7.75% bonds due 2038 in the international capital markets.

Sources of Public External Borrowings

As of December 31, 2007 the sources of the Republic's public external borrowings were bilateral creditors (which accounted for $32.1 billion, or 45.9%, of the total outstanding external debt as of December 31, 2007), multilateral creditors ($19.1 billion, or 27.3%), export agency creditors ($11.0 billion, or 15.7%) and commercial creditors, including international bonds ($7.8 billion, or 11.1%).

The World Bank and the ADB have been important sources of funds for Indonesia. During 2004, the Republic received disbursements of loans from the ADB and the World Bank in the amounts of $250 million and $300 million, respectively. In 2005, the Republic received disbursements of loans from the ADB and the World Bank in the amounts of $1,011 million and $649 million, respectively. In 2006, the Republic received disbursements of loans from the World Bank and ADB in the amounts of $1,008 million and $861 million, respectively. In 2007, the Republic received disbursements of loans from the ADB and the World Bank in the amounts of $1,134 million and $990 million, respectively. As of December 31, 2007, the Republic's total World Bank and ADB debt outstanding was $8,374 million and $10,177 million, respectively. The World Bank and ADB loans have been used to fund development programs in nearly all sectors of the Indonesian economy. Multilateral lending programs such as those of the World Bank and the ADB are subject to regular compliance reviews.

In October 2006, Indonesia prepaid all of its outstanding loans from the IMF. As a result, Indonesia is no longer obligated to follow the IMF's post-program monitoring. Following the Asian financial crisis, the IMF had disbursed a total of $16 billion in funds to the Republic between late 1997 and December 2003.

The government has recently expanded its sources of external financing by accessing the international capital markets. In March 2004, the Republic issued $1.0 billion in 6.75% bonds due 2014 in the international capital markets. The offering represented the first time Indonesia accessed the international capital markets for financing since the onset of the Asian financial crisis. In April 2005, the Republic issued $1.0 billion in 7.25% bonds due 2015 and in October 2005, the Republic issued $900.0 million in 7.50% bonds due 2016 and $600.0 million in 8.50% bonds due 2035, in the international capital markets. In March 2006, the Republic issued $1.0 billion in 6.875% bonds due 2017 and made a further $1.0 billion issuance of 8.50% bonds due 2035. In February 2007, the Republic issued $1.5 billion of 6.625% bonds due 2037, and, in January 2008, the Republic issued $1.0 billion of 6.875% bonds due 2018 and $1.0 billion of 7.75% bonds due 2038.

In January 2007, Indonesia terminated the CGI, a group of donor countries and multilateral institutions, to increase the Republic's autonomy in negotiating bilateral assistance on more favorable terms. Indonesia believes that the former members of the CGI who were its primary creditors (the ADB, World Bank and JBIC) will continue to seek to provide loans to Indonesia. To that end, the Republic has engaged in bilateral dialogue with the ADB, World Bank and JBIC regarding its funding needs and developed a plan for obtaining future financing in the areas formerly serviced by the CGI.

The Paris Club, an informal voluntary group of 18 creditor countries that seeks to coordinate solutions for payment difficulties experienced by debtor nations by extending or guaranteeing bilateral credits, played an important role in easing the Republic's foreign exchange burden in the wake of the Asian financial crisis. Between 1998 and 2000, the Republic twice rescheduled certain payments of its Paris Club foreign debt. Pursuant to an April 2002 agreement, Paris Club debt payments of principal and interest of approximately $5.4 billion that were due to certain of the Republic's creditors between April 2002 and December 2003 have been rescheduled. As a result of the government's decision to exit the IMF program in 2003, Indonesia is no longer eligible for debt reschedulings through the Paris Club and the Republic is required to repay its outstanding loans according to their repayment schedules.

Following the December 2004 earthquake and tsunami, the Paris Club offered a temporary suspension of debt service payments through December 31, 2005 to Indonesia and other nations affected by the tsunami to allow the countries affected by the tsunami to dedicate sufficient resources to addressing their humanitarian and reconstruction needs. Under the terms of the offer, the Paris Club permitted deferred amounts to be repaid over five years with a one-year grace period. Interest accrued during the suspension has been capitalized and is to be paid as deferred amounts. Through a series of bilateral agreements with the Paris Club members, Indonesia reduced its debt service payments by $2.6 billion in 2005. In 2006, the government resumed debt service payments to the Paris Club members. The government's debt service payments in 2006 and 2007 increased by $0.4 billion and $0.7 billion, respectively, compared to payments in 2005 because of both the resumption of payments on the Paris Club debt and because of some deferrals of 2005 Paris Club payments that came due in 2006 and 2007. The remaining $1.5 billion of deferred debt service payments are expected to be made by the Republic through increases in scheduled debt service payments in 2008 and 2009. See "Government Budget—Revised 2008 Budget."

The following table sets forth amounts of international development assistance received by the Republic since 2003:

International Development Assistance[(1)]

	As of December 31,					
	2003	2004	2005	2006	2007[P]	
	(in millions of U.S. dollars)				(in millions of U.S. dollars and percentages)	
Bilateral loans	29,883	30,339	32,300	31,833	32,141	62.8%
Multilateral loans:						
International Monetary Fund	10,239	9,654	7,806	—	—	—
International Bank for Reconstruction and Development	9,776	8,943	8,107	7,421	6,822	13.3
Asian Development Bank	8,582	8,869	9,131	9,409	10,177	19.9
International Development Association	884	949	1,002	1,322	1,552	3.0
Islamic Development Bank	151	163	202	397	232	0.5
Nordic Investment Bank	155	139	121	105	91	0.2
European Investment Bank	111	109	116	109	102	0.2
International Fund for Agricultural Development	79	79	71	74	79	0.2
Multilateral Investment Guarantee Agency	—	—	—	—	—	—
Total multilateral loans	29,977	28,905	26,556	18,837	19,055	37.2
Total loans	59,860	59,244	58,856	50,670	51,196	100.0%

Sources: Ministry of Finance and Bank Indonesia.

[P] Preliminary.

(1) The term international development assistance includes any concessionary loans provided by international financial institutions or foreign governments, excluding grants.

The following table sets forth the external public debt of the Republic by currency as of the date indicated:

Outstanding External Public Debt of the Republic by Major Currency

	As of December 31, 2007[P]	
	(in millions of original currency)	(in millions of U.S. dollars[(1)])
U.S. dollars	28,672	28,672
Japanese yen	2,941,833	25,945
SDR	1,409	2,208
Euros	7,189	10,502
British pounds	640	1,279
Others	N/A	1,365

Sources: Ministry of Finance and Bank Indonesia.

[P] Preliminary.

N/A Not applicable.

(1) Calculated based on exchange rates as of December 31, 2007.

Fluctuations in exchange rates between the U.S. dollar and foreign currencies have affected, and will continue to affect, the relative composition by currency of the external public debt of the Republic in U.S. dollar terms. From mid-2007 until the end of the first three months of 2008, the U.S. dollar has generally depreciated against the Japanese yen, thereby increasing the percentage of the Republic's public external debt represented by Japanese yen-denominated debt during this period. In addition, since the beginning of 2007 until the end of the first three months of 2008, the U.S. dollar has generally depreciated against the Euro, thereby increasing the percentage of the Republic's public external debt represented by Euro-denominated debt during this period.

External Debt of the Central Government

The following table sets forth information on the outstanding external debt of the central government by creditor type as of the dates indicated:

Outstanding External Debt of the Central Government by Source[(1)]

	As of December 31,				
	2003	**2004**	**2005**	**2006**	**2007[P]**
	(in billions of U.S. dollars)				
Concessional Loans					
Multilateral creditors	19.8	19.3	18.8	18.8	19.1
Bilateral creditors	29.9	30.3	32.3	31.8	32.1
Semi-concessional Loans					
Export agency creditors	18.4	18.0	11.6	11.2	11.0
Leasing	0.2	0.2	0.1	0.1	—
Commercial[(2)]	0.3	1.2	3.7	5.6	7.1
Total	68.6	69.1	66.6	67.5	69.3

Source: Ministry of Finance.

[P] Preliminary.

(1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the market exchange rates between the relevant foreign currencies and the U.S. dollar prevailing at the respective dates indicated.

(2) Includes bonds issued in international capital markets.

The central government's external debt includes both fixed and floating rate obligations. As of December 31, 2007, 67.9% of the central government's external debt consisted of fixed rate loans and 32.1% consisted of floating rate loans.

The following table sets forth the external debt service requirements of the central government for the years indicated:

External Debt Service Requirements of the Central Government[1]

Period	Principal Repayment	Interest Repayment	Total
	(in millions of U.S. dollars)		
2003[2]	2,335.2	2,180.1	4,515.3
2004[2]	5,222.2	2,494.6	7,716.8
2005[2]	3,819.9	1,461.9	5,281.8
2006[2]	5,760.9	2,632.5	8,393.3
2007[2]	6,322.0	2,759.3	9,081.3
2008[3]	6,088.0	2,684.9	8,772.8
2009[3]	6,285.1	2,436.1	8,721.2
2010[3]	5,058.9	2,186.5	7,245.3
2011[3]	4,442.7	1,978.6	6,421.3
2012[3]	4,294.8	1,804.3	6,099.1
2013[3]	4,348.1	1,624.1	5,972.2
2014[3]	5,159.7	1,427.8	6,587.5

Source: Ministry of Finance.

(1) Reflects the acceptance of the temporary suspension of debt service payments offered by the Paris Club members to the Republic and actual and assumed concessional interest rates on deferred debt service payments. See "Public Debt—Sources of Public External Borrowings" and "Certain Defined Terms and Conventions."

(2) Calculated based on the transaction exchange rate, which is a spot rate used upon settlement.

(3) Projected, based on debt outstanding as of December 31, 2007.

Fluctuations in external debt service requirements are dependent upon loan repayment schedules and currency movements. In 2002, external debt service requirements of the central government remained relatively constant at $4.1 billion compared to 2001. In 2003, external debt service requirements of the central government increased to $4.5 billion from $4.1 billion in 2002. In 2004, the central government's public external debt service requirements increased to $7.7 billion, from $4.5 billion in 2003. This increase in the central government's debt service requirements resulted mainly from the maturity of a number of government loans in 2004. In 2005, the central government's external debt service requirements went down to $5.3 billion, from $7.7 billion in 2004. This reduction was due to the rescheduling of $2.6 billion in debt service payments to Paris Club members following the December 2004 earthquake and tsunami. Debt service payments on the central government's external debt increased from $5.3 billion in 2005 to $8.4 billion in 2006 and $9.1 billion in 2007. These increases were the result of both the resumption of payments on the Paris Club debt (including deferrals of 2005 Paris Club payments to the years 2006 to 2009) and maturity management actions by the government. As shown in the table above, the debt service requirements of currently outstanding external debt are projected to decline slowly from 2008 until 2013, and then increase in 2014.

Fluctuations in exchange rates between the rupiah and foreign currencies have affected, and will continue to affect, the debt servicing requirements of the external public debt of the Republic in rupiah terms. In 2007, the rupiah depreciated against the Japanese yen, from Rp7,740 per ¥100 as of January 1, 2007 to Rp8,306 per ¥100 as of December 28, 2007. In the first five months of 2008, the rupiah depreciated against the Japanese yen to Rp9,715 per ¥100 as of March 17, 2008 and then appreciated to Rp8,827 per ¥100 as of May 30, 2008. In 2007, the rupiah depreciated against the Euro, from Rp12,181 per €1.00 as of January 1, 2007 to Rp13,760 per €1.00 as of December 28, 2007. In the first five months of 2008, the rupiah generally continued to depreciate against the Euro to Rp14,559 per €1.00 as of March 31, 2008 and to Rp14,460 per €1.00 as of May 30, 2008. The depreciation of the rupiah against the Japanese yen and the Euro has increased the Republic's public external debt service requirements in rupiah terms on its Japanese yen-denominated and Euro-denominated public external debt in 2007 and the first five months of 2008. In 2007, the rupiah fluctuated against the U.S. dollar. In the first five months of 2008, the rupiah appreciated against the U.S. dollar from Rp9,370 per U.S. dollar as of January 2, 2008 to Rp 9,051 per U.S. dollar as of February 29, 2008 and then fluctuated against the U.S. dollar reaching Rp9,318 per U.S. dollar as of May 30, 2008. During this period, the debt service requirements in rupiah terms on its U.S. dollar-denominated public external debt have fluctuated in line with rupiah exchange rate movements against the U.S. dollar. See "Foreign Exchange and Reserves—Exchange Rates."

External Debt of Bank Indonesia

In line with the Central Bank Law, Bank Indonesia has the ability to incur external debt primarily to meet balance of payment needs and maintain adequate foreign exchange reserves. From 1997 to October 2006, the majority of the external debt of Bank Indonesia was owed to the IMF, primarily as a result of the IMF lending program. Since October 2006, when the IMF loans were repaid in full, the external debt of Bank Indonesia has consisted of commercial loans. As of December 31, 2007, the total outstanding external debt of Bank Indonesia was $717.5 million, or approximately 1.0% of the Republic's total public external debt.

The following table sets forth the outstanding external debt of Bank Indonesia by type of credit as of the dates indicated:

Outstanding External Debt of Bank Indonesia by Source

	As of December 31,				
	2003	2004	2005	2006	2007[P]
	(in millions of U.S. dollars)				
Multilateral	10,238.6	9,653.9	7,806.0	—	—
Commercial	2,086.8	2,075.9	1,518.2	755.5	717.5
Total	12,325.4	11,729.8	9,324.2	755.5	717.5

Source: Bank Indonesia.

[P] Preliminary.

The following table sets forth the external debt service requirements of Bank Indonesia for the years indicated:

External Debt Service Requirements of Bank Indonesia

Period	Principal Repayment	Interest Repayment	Total
	(in millions of U.S. dollars)		
2003[1]	1,370.5	264.4	1,634.9
2004[1]	1,003.4	317.4	1,320.8
2005[1]	1,639.3	377.2	2,016.4
2006[1]	8,369.0	360.8	8,729.8
2007[1]	45.5	37.0	82.5
2008[2]	69.4	39.5	108.9
2009[2]	65.2	35.2	100.3
2010[2]	45.5	32.5	78.0
2011[2]	85.5	29.5	115.0
2012[2]	115.2	24.3	139.5
2013[2]	93.9	17.8	111.6
2014[2]	15.4	13.9	29.3

Source: Bank Indonesia.

(1) Calculated based on transaction exchange rates, which are spot rates used upon settlement.

(2) Projected, based on exchange rates and interest rates as of December 31, 2007.

In order to strengthen its international reserves and support its balance of payments, the Republic has entered into a swap agreement with ASEAN as well as bilateral swap arrangements with other countries. Bank Indonesia, on behalf of the government, has signed BSAs with Japan, China and the Republic of Korea. The government expects that these arrangements will contribute to greater financial stability and economic growth in East Asia, including Indonesia. See "Foreign Exchange and Reserves—ASEAN Swap Agreement and Bilateral Swap Agreements."

Ratings History

The following table sets forth changes in the credit ratings of the Republic since the beginning of 2003:

Changes in the Credit Rating of the Republic[1]

Date	Rating Agency	Credit Rating
July 26, 2006	Standard & Poor's	BB-
December 22, 2004	Standard & Poor's	B+
October 8, 2003	Standard & Poor's	B
May 5, 2003	Standard & Poor's	B
October 18, 2007	Moody's	Ba3
May 11, 2006	Moody's	B1
September 30, 2003	Moody's	B2
February 14, 2008	Fitch	BB
January 27, 2005	Fitch	BB-
November 20, 2003	Fitch	B+

Source: Bloomberg.

(1) All of the listed ratings are in respect of the Republic's 6.75% bonds due 2014, 7.25% bonds due 2015, 7.50% bonds due 2016, 6.875% bonds due 2017, 6.875% bonds due 2018, 8.50% bonds due 2035, 6.625% bonds due 2037 and 7.75% bonds due 2038.

On January 27, 2005, Fitch raised Indonesia's long-term foreign currency ratings for Indonesia to BB- from B+, with a positive outlook. In announcing the improved rating, Fitch cited reduced political risk, better policy initiation and coordination, anticipated bureaucratic and legislative reforms, stronger economic growth and continued improvements in Indonesia's public and external finances.

On February 18, 2005, Moody's changed its outlook of Indonesia's long-term foreign currency sovereign credit rating to positive from stable. The outlook change was prompted by developments in the Indonesian economy, including continuing improvement in the Republic's debt ratios, both in terms of foreign currency debt and the government's overall debt position, prudent fiscal policies, low budget deficits, a relatively rapid GDP growth rate, a strengthening exchange rate, relative political stability and moves for institutional reforms to improve the investment environment and judicial and anti-corruption measures.

On September 2, 2005, Standard & Poor's revised its outlook on Indonesia's long-term foreign currency sovereign credit rating from positive to stable. According to Standard & Poor's, this change in outlook reflected a situation that could not support an improvement in the rating in the short term, primarily because of the rapid depreciation of the rupiah since the middle of 2005. Standard & Poor's indicated that the positive outlook could be restored by credible and timely policy action to alleviate distortions that caused downward pressure on the currency and threatened both external balances and the government budget.

On February 11, 2006, Standard & Poor's revised its outlook on the ratings for Indonesia to positive from stable. At the same time, it affirmed the long-term foreign currency sovereign credit rating at "B+" and its long-term local currency sovereign credit rating at "BB." Standard & Poor's stated that its decisions took into account the more favorable policy setting that emerged in the wake of significant adjustments in fiscal and monetary policy stances of the Republic, and the expectation that these adjustments will translate into further improvements in deficit and debt ratios. Standard & Poor's cited the fuel subsidy cuts and a more aggressive monetary policy and recent changes in the government's economic policy team in its announcement.

On May 11, 2006, Moody's upgraded Indonesia's foreign and domestic currency government bond ratings to B1 from B2 and upgraded Indonesia's foreign currency country ceiling for bank deposits to B2 from B3. Moody's maintained Indonesia's local currency bank deposit ceiling and local currency guidelines at Baa2. In its report, Moody's stated that the outlook for all of its ratings on Indonesia is stable. Moody's also stated that it was upgrading Indonesia's credit ratings, in part, because the small size of the government's deficits has resulted in a major decline in government debt ratios. Moody's pointed out that, although more than half Indonesia's debt is in foreign currency, most of its external debt is owed to official creditors, thereby making Indonesia less subject to adverse changes in external market conditions.

On July 26, 2006, Standard & Poor's raised Indonesia's long-term foreign currency rating to BB- from B+ and its long-term local currency rating to BB+ from BB. It also affirmed the short-term rating of B and stated that the outlook on Indonesia's long-term rating is stable. In its report, Standard & Poor's stated that the upgrades reflect Indonesia's improving fiscal and external performance, resulting in a declining debt burden. Standard & Poor's noted that the central government continues to prudently manage the country's fiscal position and that the country's progress toward an eventual balanced budget in the medium term remains on track. Standard & Poor's stated that supporting these positive trends is an improvement in Indonesia's political environment and commitment by the government for infrastructure development, tax and subsidy rationalization and financial sector reforms.

On January 29, 2007, Fitch revised its outlook on the foreign currency rating and local currency rating of Indonesia to positive from stable and affirmed both ratings at BB-. Fitch stated that the upward revision to the outlook reflected the government's commitment to maintain economic stability, fiscal discipline and structural reform, improvements in the government's finances and the government's efforts to tackle key investor concerns on corruption and bureaucratic and regulatory hindrances, particularly in the areas of taxation and customs.

On February 4, 2007, Moody's revised its outlook on Indonesia's foreign and domestic currency government bond ratings, foreign currency country ceiling for bonds and foreign currency ceiling for bank deposits to positive from stable and affirmed its ratings on Indonesia's foreign and domestic currency government bonds at Bl, foreign currency country ceiling for bonds at Ba3, foreign currency country ceiling for bank deposits at B2 and local currency ceiling for bank deposits and local currency guidelines at Baa2. In its announcement, Moody's cited the government's prudent fiscal policy, the reduction in the government's external debt and budget deficit as a percentage of GDP, the increase in the country's international reserves and the prepayment of all of the country's remaining debts to the IMF as the reasons for the revision.

On October 18, 2007, Moody's upgraded Indonesia's ratings to reflect the country's track record of fiscal prudence and improvements in its external position as well as ongoing structural reforms and sound policy management. The government's foreign- and local-currency bond ratings were upgraded by one notch to Ba3 from B1. Indonesia's foreign-currency bond ceiling was upgraded to Ba2 from Ba3. The foreign-currency ceiling is based on the government bond rating and Moody's assessment of a high risk of a payment moratorium in the event of a government bond default. Also, the country ceiling for foreign-currency bank deposits was upgraded to B1 from B2. Both the country ceiling for local-currency bonds and the country ceiling for local-currency bank deposits had not been on review for upgrade and remain at Baa2. The outlook on all ratings is stable. Moody's explained that the reasons behind the upgrade are the declining government debt ratio, sufficient foreign exchange reserves, ongoing inflows from modest current account surpluses and FDI, declining fiscal vulnerability to sudden domestic price or rate shocks, and also political stability and the government's ongoing commitment to fight corruption and enhance transparency.

On February 14, 2008, Fitch raised Indonesia's long-term foreign and local currency ratings to BB from BB-. In announcing the improved rating, Fitch cited Indonesia's implementation of a structural reform agenda to address weaknesses in the foreign investment climate. Fitch also noted the government's efforts in 2007 to reduce corruption and regulatory hindrances to foreign investment, including passage of the New Investment Law, the introduction of other legislative initiatives and adoption of an economic policy package specifically aimed at addressing foreign investor concerns. In its report on the ratings upgrade, Fitch expressed its belief that Indonesia's positive economic growth, improvement in its balance of payments and strengthening of its international reserve base in 2007 have enabled Indonesia to manage its economy during a period of tightened global credit conditions, weaker external demand and slower global economic growth.

External Debt of State-Owned Enterprises

The following table sets forth the outstanding external debt of SOEs as of the dates indicated:

Outstanding Direct External Debt of State-Owned Enterprises

	As of December 31,				
	2003	2004	2005	2006	2007[P]
	(in millions of U.S. dollars)				
Financial institutions:					
Bank	2,874	2,356	1,665	1,859	479
Non-bank	156	145	—	—	—
Total financial institutions	3,030	2,501	1,665	1,859	479
Non-financial institutions	4,836	4,621	2,359	2,786	3,381
Total	7,866	7,122	4,023	4,645	3,860

Source: Bank Indonesia.

P Preliminary.

External debts of SOEs are not direct obligations of the Republic unless such debts are explicitly guaranteed by the Republic. The Republic's general policy is not to guarantee external debt of SOEs. However, to encourage investment in infrastructure projects, the Republic has recently adopted a policy of providing credit support with respect to particular projects. See "Infrastructure Development" and "—Contingent Liabilities." As of December 31, 2007, total outstanding external debt of SOEs was $3.9 billion, $3.4 billion of which was debt of non-financial institutions. Non-financial institutions, primarily in the oil and gas sector, accounted for the largest portion of the outstanding SOE external debt.

Domestic Debt of the Central Government

The following table sets forth the outstanding domestic debt of the government as of the dates indicated:

	As of December 31,				
	2003	2004	2005	2006	2007[P]
	(in trillions of rupiah)				
Total domestic debt[(1)]	650	653	659	693	737
Total domestic public debt, as a percentage of GDP for the year indicated	31.9%	28.9%	24.1%	20.8%	18.6%

Source: Ministry of Finance.

P Preliminary.

(1) Excludes SBIs, which are obligations of Bank Indonesia and not of the government. See "Financial System—Bank Indonesia."

Prior to 1998, all of the central government's debt was external and the government's budget policy only permitted foreign debt and foreign aid for financing the budget deficit. In 1998, however, the government began issuing domestic debt to finance the restructuring and recapitalization of Indonesia's banks undertaken by the government following the Asian financial crisis. Currently all of the government's domestic debt consists of securities. These securities include treasury bonds, which have maturities greater than one year and include fixed and floating rate bonds and zero coupon securities; treasury bills, which have maturities of one year or less and are issued on a zero coupon basis; and promissory notes to Bank Indonesia, which may be tradable or non-tradable. As of December 28, 2007, 35% of the central government's tradable domestic debt had floating rates and 65% had fixed rates.

Domestic Debt Service Requirements of the Central Government

The following table sets forth the debt service requirements for all public domestic debt of the government for the years indicated:

Direct Domestic Debt Service Requirements of the Central Government(1)

Period	Principal Repayment and Redemption(2) (3)	Interest Repayment	Total
	(in trillions of rupiah)		
2003	6	46	52
2004	25	40	65
2005	20	43	63
2006	25	56	81
2007(4)	40	53	93
2008(5)	38	66	104
2009(5)	33	52	85
2010(5)	35	48	83
2011(5)	40	45	85
2012(5)	34	41	75
2013(5)	38	37	75
2014(5)	28	34	62

Source: Ministry of Finance.

(1) Excludes SBIs, which are obligations of Bank Indonesia and not of the government.

(2) Historical data for principal repayments and redemptions include principal payments at maturity and redemptions through cash buybacks and asset swaps.

(3) Figures from 2005 onwards exclude principal repayment and redemption from debt switching program. See "—Domestic Debt Management by the Central Government."

(4) Including repayment of promissory notes to Bank Indonesia of Rp13.7 trillion.

(5) Projected, based on debt outstanding as of December 31, 2007 and SBI rate of 8.50%.

Domestic Debt Management by the Central Government

Since 2000, the government has sought to reduce the cost of servicing its domestic debt securities and to manage risks related to such securities such as refinancing risk and interest rate risk. To address these risks, the government has refinanced maturing bonds with new bonds having appropriately structured maturities, conducted bond exchange offers and engaged in open market repurchases. Between 2000 and 2003, the government conducted four exchange offers through which it exchanged portions of its portfolio of debt securities. These exchange offers were conducted to extend the average maturity of its outstanding debt securities and to increase liquidity of the securities in the secondary market.

Beginning in 2002, the government initiated a buyback program for its domestic debt pursuant to which it repurchases domestic debt securities with (1) proceeds from the liquidation of assets owned or held by IBRA, (2) proceeds from privatization and divestments of SOEs, (3) swaps of

IBRA's loan assets conducted through asset-bond swap programs and (4) funds appropriated in the Republic's budget. From 2002 to 2007, bonds with a principal amount of Rp31.7 trillion had been purchased pursuant to the buyback program.

Under the Government Debt Securities Law (the "Government Securities Law") in force since 2002, the issuance of debt securities by Indonesia requires prior approval of the House of Representatives. According to the Government Securities Law, the House of Representatives approves net additional debt that can be raised by the government during each fiscal year. This provides the government with flexibility to issue and buy back government bonds in any amount, as long as the net additional debt does not exceed the level approved by the House of Representatives. Approval by the House of Representatives is granted when the House of Representatives ratifies the state budget every year. The Government Securities Law also establishes a "standing appropriation," which ensures that all payments of principal and interest for both new, if approved by the House of Representatives, and certain existing debt securities of the government are provided for without additional legislative action. The Government Securities Law also provides the legal basis for the government's issuance of debt securities and its development of a government bond market. In addition, several regulations have been enacted under the Government Securities Law, including regulations on government securities, information and publicity. The Ministry of Finance and Bank Indonesia have also issued a number of decrees to implement the goals of the Government Securities Law and to encourage the development of primary and secondary markets in domestic government debt securities.

In April 2003, the government began selling debt securities through auctions, and since February 2004 it has conducted auctions monthly. The government conducts these auctions to provide an alternative source of financing and to lower its cost of financing. From 2003 through the end of 2007, the government sold Rp167.9 trillion in government debt securities through auctions.

Starting from early September 2005, the government began to purchase government bonds for cash management and market stabilization purposes. In September 2005, the government bought Rp944 billion in government debt securities for these purposes. The government redeemed the bonds in November 2005, resulting in a profit of Rp30.5 billion.

In 2006, the government did not use cash to purchase or redeem any government bonds. However, as part of the government's debt management operations, the government did undertake a debt switching program. Under this debt switching program, the government exchanged existing bonds with relatively short maturities with longer maturity bonds through auctions held regularly every two weeks. In 2005 and 2006, the government exchanged Rp5.7 trillion and Rp31.2 trillion, respectively, of bonds through its debt switching program.

In 2007, the government resumed the purchase of government bonds, purchasing Rp1.7 trillion in August and Rp1.2 trillion in December. In addition, in 2007 the government exchanged Rp15.8 trillion of bonds through its debt switching program initiated in 2006. Of the Rp15.8 trillion, Rp0.03 trillion which was due to mature in 2007, Rp0.5 trillion due to mature in 2008, Rp2.8 trillion due to mature in 2009, Rp3.2 trillion due to mature in 2010, Rp6.2 trillion due to mature in 2011 and Rp2.9 trillion due to mature in 2012 were replaced with bonds with maturities from 2018 to 2027.

Development of the Secondary Market for Domestic Securities of the Government

The following table sets forth the average daily trading volume in the domestic government debt securities market:

Daily Government Debt Securities Trading Volume and Number of Trades

	2003	2004	2005	2006	2007
Average daily trading volume (in billions of rupiah)	1,395	2,122	2,549	3,307	5,899
Average daily number of trades	51	112	102	138	232

Source: Ministry of Finance.

To stimulate development of the secondary domestic government debt securities market, since 2002 the government has: (1) supported the development of the Inter-Dealer Market Association to facilitate a market-based price-discovery mechanism, (2) encouraged the development of a repo market for securities lending activities, by implementation of the Master Repo Agreement to enhance market liquidity, (3) created a benchmark yield curve through regular issuances, (4) implemented government securities buyback (including debt-switching) programs, (5) enhanced the efficiency and reliability of securities clearing, settlement and registry operations, and (6) taken steps to develop a transparent and efficient regulatory framework.

These actions have resulted in an increase in the volume and number of trades in the domestic government debt securities market. Average daily trading volume of government-issued domestic debt securities increased by 52.1% in 2004, 20.1% in 2005, 29.7% in 2006 and 78.4% in 2007, in each case compared with the preceding year. Average daily volume for 2007 was Rp5.9 trillion.

Government debt securities issued domestically in 1998 were initially held by the banks recapitalized in the wake of the Asian financial crisis. As a result of the government's efforts since December 2000 to develop a secondary domestic market for government debt securities, non-bank ownership of tradable government debt securities has increased significantly from 11.4% of the total outstanding amount in December 2002 to 40.7% in December 2007. Foreign ownership of tradable government debt securities has also increased significantly, from 0.5% of the total outstanding amount as of December 31, 2002 to 16.4% as of December 31, 2007.

In March 2007, the government implemented rules under which only firms meeting specific criteria are eligible to deal in the initial offering of benchmark government securities with the goal of promoting the domestic sale and liquidity of government securities. Under the new framework, dealers are required to quote bid and ask prices, with these quotations required to fall within a certain maximum spread. In line with the policy of promoting the trading of government securities and increasing the types of instruments offered to promote investor demand, cost efficiency and market development, the government newly issued 30-year coupon bonds, zero-coupon bonds and treasury bills in 2007 and, in April 2008, began to issuing variable rate bonds. In May 2007, all domestic government securities became eligible for trading on stock exchanges. In April 2008, the government adopted a regulation changing the tax treatment of the discount on treasury bills. As a result of this new regulation, the discount amount is taxed at the time the treasury bill is sold or redeemed by the initial investor, rather than taxed as a capital gain when the treasury bill is originally issued and purchased by the initial investor as previously treated. Additionally, in April 2008, Law No. 19 of 2008 on government sharia-compliant securities was enacted. Under this new law, the government is permitted to issue sharia-compliant government securities. As of the date of this offering memorandum, the government has not issued any sharia-compliant securities.

Contingent Liabilities

The government guarantees third party deposits in banks, including savings accounts, current accounts, time and certificate deposits and other similar forms of deposits under the deposit insurance law that became effective in September 2005. The maximum amount of third party deposits guaranteed is Rp100 million. The IDIC was established in September 2005 with an initial capital of Rp4.0 trillion provided by the government. Total assets of the IDIC as of December 31, 2007 were Rp10.3 trillion. See "Financial System—Liquidity Supports, Government Guarantee and Deposit Insurance."

In 2003, the government provided a liquidity facility to cover any shortfall in servicing liabilities related to Tanjung Jati B, a restructured electric power generation project, which is expected to remain outstanding for the 20-year concession period for the project. The government has also guaranteed the liabilities of one of the state-owned airlines, Garuda Indonesia, in respect of a convertible bond and a standby letter of credit. The government has established a directorate under the Ministry of Finance to manage fiscal risk, including contingent liabilities from infrastructure development and SOEs. See "Infrastructure Development."

In accordance with government regulations and decrees issued in 2006 and 2007, the government has instructed PLN to accelerate the construction of coal power plants with an aggregate capacity of 10,000 MW and associated transmission lines. The total value of the project is estimated at Rp99.4 trillion, of which approximately 85% is expected to be financed by commercial credit. The government will provide a full default risk guarantee for PLN subject to PLN's inability to pay the debt. Under the terms of the government guarantee, the government has agreed to pay each of PLN's interest payments from 2008 through 2010 within 45 days of a failure by PLN to make such an interest payment and, after 2010, to pay any principal, interest or other amounts payable by PLN under these facilities within 45 days of a failure by PLN to make such a payment. Since the government's guarantee only covers PLN's interest payments from 2008 to 2010, the government does not expect to incur substantial liabilities related to these projects during this three-year period. The government has set aside a reserve of Rp282 billion in the Revised 2008 Budget for any liabilities arising from this guarantee.

In early 2007, the government also provided a shortfall guarantee for the construction of the Jakarta Monorail Project. The government agreed to cover shortfalls from the daily minimum ridership target level of 160,000 passengers with an exposure ceiling of US$11.25 million per annum for a five-year period starting from the commercial operation date of the Jakarta Monorail Project. The guarantee payment is conditional on the operator providing a minimum transport capacity of 270,000 passengers per day and its effectiveness is contingent on completion of the project within three years after the date of issuance of the government's shortfall guarantee.

In 2008, the government agreed to support the development of certain approved toll road projects by setting aside a contingency fund to compensate private toll road developers for unanticipated increases in the acquisition price for land to construct those toll road projects. The government has decided to commit up to Rp4.9 trillion in public funds for this contingency fund for the period from 2008 through 2010, of which Rp1.0 trillion has been allocated in the Revised 2008 Budget. The government has established procedures for the determination of the fair market value of land to be acquired for the development of these approved toll road projects and the excess over fair market value paid by a toll road developer and to be compensated by the government under this contingency fund. Under this program, a body called the Land Acquisition Committee (Panitia Pembebasan Tanah) consisting of members from the National Land Agency, the Ministry of Public Works and local government is expected to obtain an independent appraisal of the fair market value of the land to be acquired for the project and, based on that appraisal, meet with the landowners and the toll road developer to determine the appropriate sale price for the land and the amount, if any, to be paid to the toll road developer from the contingency fund.

Foreign Exchange and Reserves

Exchange Rates

From 1978 to 1997, Indonesia maintained a managed floating exchange rate system under which the rupiah was linked to a basket of currencies, the composition of which was based on Indonesia's main trading partners. Indonesia adopted a free floating exchange rate system under which market forces determine the exchange rate for the rupiah. See "Monetary Policy."

The following table sets forth information on exchange rates between the rupiah and certain other currencies as of the end of the periods indicated.

Exchange Rates

	Rupiah per U.S. dollar	Rupiah per 100 Japanese yen	Rupiah per Euro	Rupiah per Singapore dollar
2003	8,465	7,917	10,643	4,977
2004	9,290	9,042	12,652	5,685
2005	9,830	8,342	11,660	5,907
First Quarter 2006	9,075	7,698	10,893	5,596
Second Quarter 2006	9,300	8,096	11,822	5,854
Third Quarter 2006	9,235	7,841	11,732	5,819
Fourth Quarter 2006	9,020	7,580	11,858	5,879
First Quarter 2007	9,118	7,758	12,154	6,012
Second Quarter 2007	9,054	7,347	12,164	5,908
Third Quarter 2007	9,137	7,935	12,938	6,132
Fourth Quarter 2007	9,419	8,307	13,760	6,502
First Quarter 2008	9,217	9,227	14,559	6,683
April 2008	9,234	8,865	14,372	6,784
May 2008	9,318	8,827	14,460	6,822
June 2008 (through June 17)	9,317	8,635	14,468	6,805

Source: Bank Indonesia.

Prior to August 14, 1997, Bank Indonesia sought to maintain rupiah exchange rate stability through a trading band policy, pursuant to which Bank Indonesia would intervene in the foreign currency market as required. On August 14, 1997, following the very severe depreciation of the rupiah and the depletion of significant portions of Indonesia's foreign currency reserves, Bank Indonesia terminated the trading band policy and permitted the rupiah to float without an announced level at which the Bank would intervene resulting in significant declines in the value of the rupiah.

In 1998, disbursements under the IMF lending program and other international aid, reforms in monetary policy and debt restructuring helped stabilize the currency. In 2000 and 2001, the rupiah's value again depreciated due to supply demand imbalances, excess liquidity in the money market, negative market sentiment and uncertainty regarding the domestic political and security situation, the threat of regional separatism, and increased rupiah-denominated transactions by non-residents.

In 2002, the value of the rupiah recovered significantly, despite the Bali bombing. The appreciation was attributable to several factors, including the balance of payment surplus, successful rescheduling of foreign debt, disbursement of IMF loans, IBRA's implementation of banking divestments and privatization of SOEs. During 2003, the rupiah appreciated by 5.6% against the U.S. dollar and there was less exchange rate volatility than in the previous year. This improved performance of the rupiah occurred despite the SARS epidemic, the war in Iraq and the Marriott bombing. By the end of December 2003, the rupiah had strengthened, along with upgraded credit ratings by the international rating agencies of the Republic's foreign currency debt.

In 2004, the rupiah depreciated 8.9% against the U.S. dollar (based on year-end exchange rates). Based on yearly average exchange rates, the rupiah depreciated 4.6% against the U.S. dollar in 2004. The rupiah experienced less volatility and fluctuation in 2004 compared to 2003. The depreciation of the rupiah in 2004 was attributable to several factors, including strong demand for foreign currencies to purchase imports, particularly fuel, and to repay private foreign debts, excess liquidity of rupiah as domestic investors shifted rupiah-denominated portfolio investments and bank deposits to dollar-based ones, particularly in advance of the legislative and presidential elections, and negative market sentiment leading up to those elections. In 2004, the rupiah depreciated against the U.S. dollar even though the U.S. dollar weakened against most of the other major international currencies during the same period.

In the first eight months of 2005 the rupiah depreciated in line with Asian currencies, with the exception of the Philippines peso and the Korean won. The rupiah declined by 13.8% to Rp10,775 per U.S. dollar at the end of August 2005, from Rp9,290 per U.S. dollar at the end of 2004. The weakening of the rupiah relative to the U.S. dollar during this period was caused primarily by the effects of sharply higher oil prices and by the appreciation of the U.S. dollar due to rises in the U.S. federal funds rate. In the remaining four months of 2005 the rupiah appreciated as the market responded to policy steps taken by the government and Bank Indonesia and ended the year at Rp9,830 per U.S. dollar. During 2005, the rupiah depreciated 5.5% from Rp9,290 per U.S. dollar at year-end 2004 to Rp9,830 at year-end 2005. The average rupiah to U.S. dollar exchange rate declined 7.9% to Rp9,751 per U.S. dollar for 2005 from Rp8,985 per U.S. dollar for 2004.

In 2006, the rupiah appreciated 9.0% against the U.S. dollar, from Rp9,830 per U.S. dollar at the end of 2005 to Rp9,020 at the end of 2006. The appreciation of the rupiah in 2006 was attributable to improving macroeconomic conditions, such as higher economic growth, lower inflation and improving balance of payments, and lower country risk, which attracted foreign investors to invest in domestic portfolio investments, thereby increasing demand for rupiah. As a consequence, capital inflows in 2006, predominately in the portfolio investment account, increased significantly. Externally, the global weakening of the U.S. dollar against major foreign currencies and improved performance of the Indonesian and other Southeast Asian economies influenced the strengthening of regional currencies, including the rupiah.

In 2007, the rupiah depreciated 4.4% against the U.S. dollar despite the weakening globally of the U.S. dollar over the same period, from Rp9,020 per U.S. dollar at the end of 2006 to Rp9,419 per U.S. dollar as at the end of 2007. On an average basis, the rupiah remained relatively stable, depreciating slightly by 0.1% from Rp9,151 per U.S. dollar in 2006 to Rp9,164 per U.S. dollar in 2007, with the strengthening of the rupiah during the first half of 2007 being offset by the decline of the rupiah during the second half of 2007. During the start of the subprime mortgage crisis, the rupiah weakened from around Rp9,100 at the end of July to Rp9,420 at the end of August 2007. The depreciation pressure receded during September and October 2007, but resumed in November and December 2007 as the continuing crisis in the international financial and credit markets encouraged investors to reduce holdings in riskier assets, including investments in emerging market assets such as rupiah-denominated assets.

In the first five months of 2008, the rupiah appreciated slightly against the U.S. dollar from Rp9,419 per U.S. dollar at the end of 2007 to Rp9,318 per U.S. dollar on May 30, 2008. See "Recent Developments—Recent Economic Developments—Rupiah Exchange Rate."

Prudential Policies on Foreign Exchange and Rupiah

Foreign currency is generally freely transferable within or from Indonesia. However, to maintain the stability of the rupiah, and to prevent the utilization of the rupiah for speculative purposes by foreign parties, regulations prohibit banks from conducting, among others, the following transactions: (1) extensions of loans or of overdrafts in rupiah or foreign currencies to foreign parties, (2) transfers of rupiah to foreign parties or offshore banks in excess of Rp500 million, and (3) purchases of rupiah-denominated securities issued by foreign parties. These regulations also restrict Indonesian banks from entering into derivative transactions with foreign parties in the form of, among others, buy and sell forwards, buy and sell swaps and buy and sell options, with nominal amounts in excess of $1 million or its equivalent, unless they are related to an underlying investment in Indonesia. Derivative hedging transactions linked to investments in Indonesia are required to have at least a three-month tenor and are supported by required documentation. Foreign parties are, however, permitted to enter into rupiah-denominated transactions for amounts in excess of Rp500 million as long as these transactions are related to economic activities in Indonesia and supported by underlying documentation.

To curb speculative derivative transactions that could destabilize the value of the rupiah, on September 15, 2005 Bank Indonesia implemented new regulations on derivative transactions. The new regulations prohibit banks from conducting margin trading on foreign currency against the rupiah and prohibits banks from holding certain derivative transaction positions with their related parties. Bank Indonesia has, however, continued to support investors who hedge their investments in Indonesia through long term derivative transaction with banks. Bank Indonesia provides this support by permitting banks to pass on their exposure under certain permitted hedging transactions entered into in respect of foreign financing for investment in infrastructure, public utilities, or factories producing input products.

Bank Indonesia limits the net open position of commercial banks, both overall and "on balance sheet" to a maximum of 20.0% of capital. Bank Indonesia defines "overall net open position" as the sum of the absolute values of (1) the net differences between foreign currency assets and liabilities on a bank's balance sheet and (2) the net differences between off balance sheet foreign currency claims and liabilities, including both commitments and contingencies, which is translated into rupiah and calculated on a consolidated basis (including all branch offices, in and outside Indonesia). Bank Indonesia defines on "balance sheet net open position" as the net difference between total foreign currency assets and total foreign currency liabilities on a bank's balance sheet translated into rupiah. Commercial banks are required to submit to Bank Indonesia accurate reports of their net open positions at the end of each working day.

Bank Indonesia may request information concerning the foreign exchange activities of all natural persons and legal entities that are domiciled, or plan to domicile, in Indonesia for at least one year. Bank Indonesia regulations also require all resident banks and non-bank financial institutions, as well as companies with total assets or total annual gross revenues over Rp100 billion, to report to it all data concerning their foreign currency activities.

In October 2005, Bank Indonesia began providing swap hedging facilities for investors. In an effort to reduce pressure on the rupiah from speculative activities, in September 2005, Bank Indonesia prohibited rupiah margin trading against all foreign exchange. To ensure that these restrictions are observed by the banking sector, Bank Indonesia conducts both on-site and off-site banking supervision, as well as continuous monitoring of banks' foreign exchange transactions with their monthly reports filed with Bank Indonesia.

International Reserves

The following table sets forth the Republic's total official international reserves, expressed in (1) U.S. dollar equivalents and (2) the number of months of imports and government external debt repayments, in each case at the end of the periods indicated. These reserves consist of foreign exchange, gold, SDRs and a reserve position with the IMF. Since May 2000, Indonesia has complied with the IMF's new Special Data Dissemination Standard requirement on international reserves and foreign exchange currency liquidity.

Official International Reserves of the Republic

	As of December 31,				
	2003	2004	2005	2006	2007
	(in millions of U.S. dollars, except for months)				
Gold	1,284	1,316	1,583	1,483	1,946
SDRs	4	2	7	18	9
Reserve position with the IMF	215	225	208	219	228
Foreign exchange and others	34,792	34,777	32,926	40,866	54,737
Total	36,296	36,320	34,724	42,586	56,920
Total as number of months of imports and government external debt repayments	7.1	5.7	4.3	4.5	5.7

Source: Bank Indonesia.

Indonesia's foreign currency reserves increased from $42.6 billion at the end of 2006 to $56.9 billion as of December 31, 2007, equal to 5.7 months of imports and government debt repayments based on balance of payments projections for 2007. This increase in international reserves was mainly due to significant increases in oil export proceeds and disbursements of foreign debt.

ASEAN Swap Agreement and Bilateral Swap Arrangements

In May 2000, the ASEAN+3 group agreed to strengthen the existing cooperative framework among their monetary authorities through the Chiang Mai Initiative ("CMI"). The initiative involves an expanded ASEAN Swap Arrangement ("ASA") that would include all ASEAN countries, and a network of bilateral swap and repurchase agreement facilities among ASEAN+3. The initiative is aimed to address short-term liquidity difficulties and complement existing international financial facilities. In 2004, ASEAN+3 agreed to undertake further review of the CMI to explore ways of enhancing its effectiveness. As part of the CMI implementation in 2003, Indonesia signed separate bilateral swap agreements ("BSAs") with Japan for $3.0 billion, with China for $1.0 billion, and with the Republic of Korea for $1.0 billion which enable Indonesia and the other signatory party to swap rupiah or U.S. dollars, on the one hand, and the other signatory party's currency, on the other hand, for short-term liquidity assistance. In 2005, Indonesia renewed its BSAs with Japan and China and increased the amounts available under the Japan and China BSAs to $6.0 billion and $2.0 billion, respectively. In October 2006, Indonesia and China further amended their existing BSA to increase the amount available under the facility to $4.0 billion. In December 2006, Indonesia signed a second BSA with Korea, which replaced the first BSA between the two countries and increased the size of the facility to $2.0 billion. The ASA also has been enlarged and currently provides for $2.0 billion. Currently, a total of $12 billion is available to be drawn under Indonesia's BSA facilities; however, Indonesia would have to accept the conditions of an IMF program to be eligible to access more than

20% of the amounts available under the BSAs. The government believes that these arrangements will contribute to greater financial stability and economic growth within East Asia, including Indonesia.

In May 2008, the ASEAN+3 group agreed on steps to create a multilateral arrangement under the CMI by creating a self-managed reserved pool of funds governed by a single contractual agreement with the objectives of: (i) addressing short-term liquidity difficulties in the region and (ii) supplementing the existing international financial arrangements. The ASEAN+3 group also agreed that the size of the pool would be at least $80 billion and agreed on key concepts of the borrowing accessibility, the activation mechanism and other elements of the multilateralization of the CMI.

DESCRIPTION OF THE BONDS

General

The Bonds will be issued pursuant to an indenture (the "Indenture"), dated March 10, 2004, between the Republic and The Bank of New York, as Trustee (the "Trustee"). The following description briefly summarizes some of the provisions of the Bonds and the Indenture. This summary does not purport to be complete or to contain all of the information that is important to you as a potential investor and is qualified in its entirety by reference to the text of such documents.

The Bonds

The New 2014 Bonds

The New 2014 Bonds will mature and be repaid at 100% of their principal amount on March 10, 2014. The New 2014 Bonds will bear interest from and including March 10, 2008 at the rate of 6.75% per annum. Interest on the New 2014 Bonds will accrue and be payable semi-annually in arrears in equal installments on March 10 and September 10 of each year, commencing on September 10, 2008 (each, a "payment date"). The first payment date with respect to the New 2014 Bonds will be made on September 10, 2008 in respect of the period from (and including) March 10, 2008 to (but excluding) September 10, 2008.

The New 2014 Bonds constitute a further issuance of, and will be consolidated and form a single series with, the Republic's 6.75% Bonds due 2014 issued on March 10, 2004 in the amount of US$1,000,000,000. Subject to the listing of the 2014 Bonds as described in "—Listing and Trading" the New 2014 Bonds will be fungible with, and will rank *pari passu* with, the Old 2014 Bonds. The total principal amount of the Old 2014 Bonds and the New 2014 Bonds (together, the "2014 Bonds") now being issued is US$1,300,000,000.

The New 2018 Bonds

The New 2018 Bonds will mature and be repaid at 100% of their principal amount on January 17, 2018. The New 2018 Bonds will bear interest from and including January 17, 2008 at the rate of 6.875% per annum. Interest on the New 2018 Bonds will accrue and be payable semi-annually in arrears in equal installments on January 17 and July 17 of each year, commencing on July 17, 2008 (each, a "payment date"). The first payment date with respect to the New 2018 Bonds will be made on July 17, 2008 in respect of the period from (and including) January 17, 2008 to (but excluding) July 17, 2008.

The New 2018 Bonds constitute a further issuance of, and will be consolidated and form a single series with, the Republic's 6.875% Bonds due 2018 issued on January 17, 2008 in the amount of US$1,000,000,000 (the "Old 2018 Bonds"). The New 2018 Bonds will be fungible with, and will rank *pari passu* with, the Old 2018 Bonds from and including the Issue Date. The total principal amount of the Old 2018 Bonds and the New 2018 Bonds (together, the "2018 Bonds") now being issued is US$1,900,000,000.

The New 2038 Bonds

The New 2038 Bonds will mature and be repaid at 100% of their principal amount on January 17, 2038. The New 2038 Bonds will bear interest from and including January 17, 2008 at the rate of 7.75% per annum. Interest on the New 2038 Bonds will accrue and be payable semi-annually in arrears in equal installments on January 17 and July 17 of each year, commencing on July 17, 2008 (each, a "payment date"). The first payment date with respect to the New 2038 Bonds will be made on July 17, 2008 in respect of the period from (and including) January 17 to (but excluding) July 17, 2008.

The New 2038 Bonds constitute a further issuance of, and will be consolidated and form a single series with, the Republic's 7.75% Bonds due 2038 issued on January 17, 2008 in the amount of US$1,000,000,000 (the "Old 2038 Bonds"). The New 2038 Bonds will be fungible with, and will rank *pari passu* with, the Old 2038 Bonds from and including the Issue Date. The total principal amount of the Old 2038 Bonds and the New 2038 Bonds (together, the "2038 Bonds") now being issued is US$2,000,000,000.

Interest on the Bonds will be payable to holders of record at the close of business on the fifteenth day (whether or not a business day) preceding such payment date (the "record date"). Interest on the Bonds will be calculated on the basis of a 360-day year, consisting of twelve 30-day months. The principal of and interest on the Bonds will be payable in lawful currency of the United States of America.

Neither the Republic nor the registered holders of the Bonds may redeem the Bonds prior to maturity. The Republic will not provide a sinking fund for the amortization and retirement of the Bonds. For a description of the Republic's obligation to pay additional amounts, if any, with respect to the Bonds, see "—Payment of Additional Amounts by the Republic."

Listing and Trading

The Old 2014 Bonds are currently listed on the Regulated Market "Bourse de Luxembourg" of the Luxembourg Stock Exchange. The Republic intends that the Old 2014 Bonds will be delisted from the Regulated Market and that the 2014 Bonds will be listed on the SGX-ST. If the 2014 Bonds are not so listed on the SGX-ST, the Republic intends to transfer the listing of the Old 2014 Bonds from the Regulated Market to the Euro MTF, the alternative market of the Luxembourg Stock Exchange and to list the New 2014 Bonds on the Euro MTF, in each case within 40 days of the issuance of the Bonds. The Old 2018 Bonds and Old 2038 Bonds are, and, upon issuance, the New 2018 Bonds and New 2038 Bonds will be, listed on the SGX-ST. All Bonds listed on the SGX-ST will be traded in a minimum board lot size of US$200,000 for so long as such Bonds are listed on the SGX-ST.

The New 2014 Bonds will be represented by temporary global securities to be issued with temporary CUSIP, ISIN and Common Codes from the Issue Date until shortly after the 2014 Global Bonds are listed on the SGX-ST or the Euro MTF, at which time they will be exchanged for permanent global bonds that are fungible with the Old 2014 Bonds, which is expected to occur not later than the 40th day after the Issue Date.

Status

The Bonds will constitute direct, unconditional, unsecured and general obligations of the Republic without preference granted by the Republic to one above the other. The Bonds will rank equal in right of payment among themselves and with all other unsecured and unsubordinated External Indebtedness (as defined below) of the Republic. All amounts payable under the Bonds will be backed by the full faith and credit of the Republic.

Negative Pledge

So long as any of the Bonds remain outstanding, the Republic will not create or permit the creation of any mortgage, charge, lien, pledge or any other security interest (a "Security Interest") on any of its present or future assets or revenues, or any part thereof, to secure any Public External Indebtedness (as defined below), unless the Republic shall procure that all amounts payable under the Bonds are secured equally and ratably.

"**Indebtedness**" means any indebtedness for money borrowed or any guarantee of indebtedness for money borrowed which is issued by and in the name of the Republic and is backed by the full faith and credit of the Republic. As used in the preceding sentence, money borrowed "by and in the name of the Republic" shall not include the borrowings of any state-owned enterprise or other agency, authority, department or instrumentality which under the laws of the Republic constitutes a juridical entity or statutory body separate from the Republic so long as such Indebtedness does not carry the full faith and credit of the Republic.

"**External Indebtedness**" means Indebtedness which is denominated or payable by its terms in, or at the option of the holder thereof payable in, a currency or currencies other than the lawful currency of the Republic.

"**Public External Indebtedness**" means External Indebtedness which (1) is publicly issued or privately placed in the capital markets, (2) is in the form of, or represented by, bonds, debentures, notes or other similar instruments or book entries and (3) is, or is eligible to be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market.

Notwithstanding the above, the Republic may create or permit the creation of any Security Interests:

(1) securing Public External Indebtedness incurred, assumed or guaranteed by the Republic solely to finance or refinance the acquisition, construction or development of the property over which such Security Interest has been created or permitted to be created, provided that such Security Interest does not extend to any other property of the Republic; however, in the case of construction, the Security Interest may extend to:

    - unimproved real property for the construction;
    - any trust account into which the proceeds of the offering creating such Public External Indebtedness may be temporarily deposited pending use in the construction; and
    - the revenues to be generated by the operation of, or loss or damage to, the property to be constructed;

(2) existing on any property or asset at the time of its acquisition (or arising after its acquisition pursuant to an agreement entered into prior to, and not in contemplation of, such acquisition), and extensions and renewals of such Security Interest limited to the original property or asset covered thereby and securing any extension or renewal of the original secured financing;

(3) arising out of the renewal, extension or replacement of any indebtedness permitted under paragraph (2) above; provided, however, that the principal amount of such Public External Indebtedness is not increased;

(4) arising in the ordinary course of borrowing activities of the Republic to secure Public External Indebtedness with a maturity of one year or less;

(5) in existence as of the date of the issuance of the Bonds;

(6) pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings which proceedings are being contested in good faith; or

(7) arising by operation of law, provided that any such Security Interest is not created or permitted to be created by the Republic for the purpose of securing any Public External Indebtedness.

The international reserves of Bank Indonesia represent substantially all of the official international reserves of the Republic. Because Bank Indonesia is an independent entity, the Republic is of the view that international reserves owned by Bank Indonesia are not subject to the negative pledge covenant in the Bonds and that Bank Indonesia could in the future incur Public External Indebtedness secured by such reserves without securing amounts payable under the Bonds.

Governing Law

The Indenture is, and the Bonds will be, governed by and interpreted in accordance with the laws of the State of New York without regard to any conflicts of laws principles thereof that would require the application of the laws of a jurisdiction other than the State of New York, except for the Republic's authorization and execution and any other matters that must be governed by the laws of the Republic.

Jurisdiction, Consent to Service and Enforceability

The Republic is a sovereign nation. Consequently, it may be difficult for holders of the Bonds to obtain or enforce judgments against the Republic. The Republic has irrevocably waived in the Indenture, to the fullest extent permitted by law, any immunity, including foreign sovereign immunity, from jurisdiction to which it might otherwise be entitled in any action arising out of or based on the Bonds or the Indenture, which may be instituted by the Trustee or a holder of any Bonds in any federal court in the Southern District of New York, any state court in the Borough of Manhattan, The City of New York, or in any competent court in Indonesia.

The Republic's waiver of immunity is a limited and specific waiver for the purposes of the Bonds and the Indenture and under no circumstances should it be interpreted as a general waiver by the Republic or a waiver with respect to proceedings unrelated to the Bonds or the Indenture. Furthermore, the Republic specifically does not waive any immunity in respect of:

- actions brought against the Republic arising out of or based upon U.S. federal or state securities laws;
- attachment under Indonesian law;
- present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961;

- "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963;

- any other property or assets used solely or mainly for governmental or public purposes in the Republic or elsewhere; or

- military property or military assets or property or assets of the Republic related thereto.

Because the Republic has not submitted to jurisdiction or waived its sovereign immunity in connection with any action arising out of or based on United States federal or state securities laws, it will not be possible to obtain a judgment in the United States against the Republic based on such laws unless a court were to determine that the Republic is not entitled to sovereign immunity under the Foreign Sovereign Immunities Act of 1976 with respect to such actions. The Republic may assert immunity to such actions or with respect to the property or assets described above. Investors may have difficulty making any claims based upon such securities laws or enforcing judgments against the property or assets described above.

The Republic has appointed the Representative Office of Bank Indonesia in The City of New York as its authorized agent upon whom process may be served in any action arising out of or based on any bonds issued under the Indenture, including the Bonds, or the Indenture. Such appointment is irrevocable until all amounts in respect of the principal and interest, due or to become due on or in respect of all the bonds issuable under the Indenture, including the Bonds, have been paid by the Republic to the Trustee or unless and until a successor has been appointed as the Republic's authorized agent and such successor has accepted such appointment. The Republic has agreed that it will at all times maintain an authorized agent to receive such service, as provided above. The Representative Office of Bank Indonesia is not the agent for receipt of service of process for actions under the United States federal or state securities laws.

The Republic is subject to suit in competent courts in Indonesia. However, the "Law on State Treasury" (Law No. 1 of 2004) prohibits the seizure or attachment of property or assets owned by the Republic. Furthermore, a judgment of a non-Indonesian court will not be enforceable by the courts of Indonesia, although such a judgment may be admissible as evidence in a proceeding on the underlying claim in an Indonesian court. Re-examination of the underlying claim *de novo* would be required before the Indonesian court.

Trustee

The Indenture establishes the obligations and duties of the Trustee, the right to indemnification of the Trustee and the liability and responsibility, including limitations, for actions that the Trustee takes. The Republic may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the Trustee.

Default; Acceleration of Maturity

Each of the following constitutes an Event of Default with respect to each series of the Bonds:

(1) the Republic defaults in any payment of the principal of or interest on any of the Bonds of that series and such default is not cured within 30 days;

(2) the Republic defaults in the performance of any other covenant in the Bonds of that series and such default continues for a period of 60 days after written notice thereof has been given to the Republic at the corporate trust office of the Trustee in The City of New York

by the Trustee or holders representing at least 10% of the aggregate principal amount of the Bonds of that series;

(3) any Public External Indebtedness in a principal amount in excess of $50,000,000 (or the equivalent amount thereof in any other currency) is accelerated (other than by optional or mandatory prepayment or redemption);

(4) the Republic defaults in the payment of principal or interest in excess of $50,000,000 (or the equivalent amount thereof in any other currency) payable (whether upon maturity, acceleration or otherwise) in connection with Public External Indebtedness beyond any applicable grace and waiver periods and such default shall not have been cured or waived within 30 days after written notice thereof has been given to the Republic by the Trustee or at the corporate trust office of the Trustee in The City of New York by any holder of the Bonds of that series; and

(5) the Republic declares a moratorium with respect to the payment of principal of or interest on any Public External Indebtedness.

If any Event of Default described above occurs and is continuing, the Trustee, by written notice to the Republic, or the holders of at least 25% of the aggregate principal amount of the Bonds of a series then outstanding (as defined below), by written notice to the Trustee and the Republic, may declare the principal, interest and all other amounts payable on the Bonds of that series to be due and payable immediately.

Upon any declaration of acceleration, the principal, interest and all other amounts payable on the Bonds of a series will become immediately due and payable on the date the Republic receives written notice of the declaration, unless the Republic has remedied the relevant Event or Events of Default prior to receiving the notice. The holders of more than 50% of the aggregate principal amount of the outstanding Bonds of a series may rescind a declaration of acceleration with respect to the Bonds of that series if the Event or Events of Default giving rise to the declaration have been cured or waived.

The Republic is not required to furnish any periodic evidence as to the absence of defaults. The Indenture does not provide for notification to the holders of the Bonds of an Event of Default or for the right of a holder to examine the Bond register.

Suits for Enforcement and Limitations on Suits by Holders

If an event of default with respect to any series of the Bonds has occurred and is continuing, the Trustee may institute judicial action to enforce the right of the holders of the Bonds of that series. Except as set forth below, a holder of the Bonds of any series has no right to bring a suit, action or proceeding with respect to the Bonds of that series unless:

- such holder has previously given notice to the Trustee that a default with respect to the Bonds of that series has occurred and is continuing;

- holders of at least 25% of the aggregate principal amount of outstanding Bonds of that series have instructed the Trustee to institute an action or proceeding in its own name and provided an indemnity satisfactory to the Trustee; and

- 60 days have passed since the Trustee received the instruction and the Trustee has failed to institute an action or proceeding.

Any action or proceeding commenced by an individual holder as described above must further be for the equal, ratable and common benefit of all holders of the Bonds of that series.

Notwithstanding the preceding, a holder of the Bonds will have the right to bring suit to enforce the absolute right of a holder of the Bonds to receive payment of the principal of and interest on the Bonds on the stated maturity date (as that date may be amended or modified pursuant to the terms of the Bonds).

Under New York law, any legal action upon the Bonds must be commenced within six years after the payment thereof is due. Thereafter, the Bonds generally will become unenforceable.

Payment of Additional Amounts by the Republic

The Republic will make all principal and interest payments on the Bonds, to the extent permitted by law, without withholding or deducting any present or future taxes, levies, imposts, duties, assessments or other charges of whatever nature imposed by the Republic or any of its political subdivisions ("Indonesian Taxes"). See "Taxation—Indonesian Taxation." If Indonesian law requires the Republic to withhold or deduct any Indonesian Taxes, the Republic will pay the holders of Bonds such additional amounts ("Additional Amounts") necessary to ensure that they receive the same amount as they would have received without any withholding or deduction.

The Republic will not, however, pay any Additional Amounts in connection with any Indonesian Taxes that are imposed due to any of the following:

- the holder of a Bond has or had some connection with the Republic other than merely owning or holding the Bond or receiving principal and interest payments on the Bond;

- the holder of a Bond has failed to present the Bond for payment (where such presentment is required) within 30 days after the date on which such payment has been made available to the holder of the Bond except to the extent that the holder of the Bond would have been entitled to such Additional Amounts on presenting such Bond for payment on the last of such 30 days; or

- the holder of a Bond is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Bond.

Any reference to "principal" or "interest" on the Bonds includes any Additional Amounts which may be payable on the Bonds.

Meetings, Amendments and Waivers

The Republic or the Trustee may call a meeting of the holders of the Bonds of any series at any time regarding the Indenture or the Bonds of that series. The Republic or the Trustee, as applicable, will determine the time and place of the meeting. The Republic or the Trustee will notify the holders of the Bonds of that series of the time, place and purpose of the meeting not less than 30 days and not more than 60 days before the meeting.

In addition, the Trustee will call a meeting of the holders of the Bonds of any series if the holders of at least 10% of the aggregate principal amount of the outstanding Bonds of that series have delivered a written request to the Trustee setting forth the action they propose to take. The Trustee will notify the holders of the Bonds of that series of the time, place and purpose of any meeting called by the holders of the Bonds of that series not less than 30 days and not more than 60 days before the meeting.

With respect to each series of the Bonds, only holders of Bonds of that series and their proxies are entitled to attend and vote at a meeting of holders. Holders or proxies representing a majority of the aggregate principal amount of the outstanding Bonds of that series will normally constitute a quorum. However, if a meeting is adjourned for lack of a quorum, then holders or proxies representing at least 25% of the aggregate principal amount of the outstanding Bonds of that series will constitute a quorum at the reconvening of the adjourned meeting. Holders or proxies representing at least 75% of the aggregate principal amount of the outstanding Bonds of a series will constitute a quorum for purposes of any meeting convened to discuss reserved matters (as defined below). The Trustee will set the procedures governing the conduct of the meeting.

The Republic, the Trustee and the holders of the Bonds of a series may generally modify or take actions with respect to the Indenture or the terms of the Bonds of that series (with the exception of reserved matters (as defined below)) with the consent of the Republic and:

- with the affirmative vote of the holders of not less than a majority of the aggregate principal amount of the outstanding Bonds of that series that are represented at a meeting; or

- with the written consent of the holders of not less than a majority of the aggregate principal amount of the outstanding Bonds of that series.

However, the Republic and holders of not less than 75% of the aggregate principal amount of the outstanding Bonds of a series, voting at a meeting or by written consent, must consent to any amendment, modification, change or waiver with respect to the Bonds of that series that would:

- change the due dates for the payment of principal of or interest on the Bonds of that series;

- reduce the principal amount payable under the Bonds of that series;

- reduce the interest rate on the Bonds of that series;

- reduce the portion of the principal amount payable upon acceleration of the maturity of the Bonds of that series;

- change the currency or place of payment of any amount payable under the Bonds of that series;

- permit early redemption of the Bonds of that series or, if early redemption is already permitted, set a redemption date earlier than the date previously specified or reduce the redemption price;

- change the definition of "outstanding," or the percentage of holders of the Bonds of that series whose vote or consent is needed to amend, supplement or modify the Indenture (as it relates to the Bonds of that series) or the terms and conditions of the Bonds of that series;

- change the Republic's obligation to pay any Additional Amounts;

- change the governing law provision of the Bonds of that series;

- change the courts of the jurisdiction to which the Republic has submitted, the Republic's obligation to appoint and maintain an agent for service of process in the United States or the Republic's waiver of immunity, in respect of actions or proceedings brought by any holder of the Bonds of that series arising out of or based on the Bonds of that series, as described above under "—Jurisdiction, Consent to Service and Enforceability;"

- in connection with an exchange offer for the Bonds of that series, amend any Event of Default under the Bonds of that series; or

- change the status of the Bonds of that series, as described above under "—Status."

Each of the above subjects constitutes a "reserved matter."

Any modification consented to or approved by the holders of the Bonds of a series pursuant to the modification provisions will be conclusive and binding on all holders of the Bonds of that series, whether or not they have given such consent or were present at a meeting of holders at which such action was taken, and on all future holders of the Bonds of that series, whether or not notation of such modification is made upon the Bonds of that series. Any instrument given by or on behalf of any holder of a Bond of a series in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of such Bond.

The Republic and the Trustee may, without the vote or consent of any holder of the Bonds of a series, amend the Indenture or the Bonds of that series for the purpose of:

- adding to the Republic's covenants such further covenants, restrictions, conditions or provisions as the Republic and the Trustee consider appropriate for the holders of the Bonds of that series;

- surrendering any of the Republic's rights or powers;

- providing security or collateral for the Bonds of that series;

- curing any ambiguity or correcting or supplementing any defective provision in the Indenture or the Bonds of that series; or

- making any other change that (1) is not inconsistent with the Bonds of that series and (2) does not adversely affect the interest of any holder of the Bonds of that series.

For purposes of determining whether the required percentage of holders of the Bonds of a series has approved any amendment, modification or change to, or waiver of, the Bonds of that series or the Indenture, or whether the required percentage of holders has delivered a notice of acceleration of the Bonds of that series, any Bonds of that series owned or controlled, directly or indirectly, by the Republic or any public sector instrumentality of the Republic will be disregarded and deemed not to be outstanding. As used in this paragraph, "public sector instrumentality" means any department, ministry or agency of the central government of the Republic, Bank Indonesia or any corporation, trust, financial institution or other entity owned or controlled by the central government of the Republic or any of the foregoing, and "control" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions, in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity. In determining whether the Trustee shall be protected in relying upon any amendment, modification, change or waiver, or any notice from holders of the Bonds of a series, only Bonds of that series that the Trustee knows to be so owned or controlled shall be so disregarded.

Further Issues

The Republic may, without the consent of the holders of the Bonds of a series, create and issue additional Bonds of that series with the same terms and conditions as the Bonds of that series (or that are the same except for the amount of the first interest payment and for the interest paid on the Bonds of that series prior to the issuance of the additional Bonds of that series). In the case of the 2014 Bonds, the Republic may consolidate additional Bonds with the outstanding Bonds to form a single series, so long as such additional Bonds do not have a greater amount of original issue discount for United States federal income tax purposes than the outstanding Bonds have as of the date of the issue of such additional Bonds. In the case of the 2018 Bonds and the 2038 Bonds, the Republic may consolidate additional Bonds of a series with the outstanding Bonds of that series to form a single series, so long as such additional Bonds of that series are not issued with more than a *de minimis* amount of original issue discount for United States federal income tax purposes.

Purchases of Bonds by the Republic

The Republic may at any time purchase or acquire any of the Bonds in any manner and at any price. The Bonds which are purchased or acquired by the Republic may, at the Republic's discretion, be held, resold or surrendered to the Trustee for cancellation.

Notices

Any notices the Republic sends will be in writing in the English language and will be mailed to holders of Bonds (which will be DTC's nominee as long as the Bonds are held in global form) at their registered addresses and shall be deemed to have been given on the date of such mailing. So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, notices to holders of the Bonds will be valid if made through the SGX-ST. If, and so long as, the 2014 Bonds are listed on the Euro MTF, the alternative market of the Luxembourg Stock Exchange, and the rules of the Euro MTF so require, notices to holders of the 2014 Bonds will be valid if published in a daily newspaper having general circulation in Luxembourg.

Form of the Bonds

The Bonds sold in offshore transactions in reliance on Regulation S (the "Regulation S Bonds") will be represented by one or more global Regulation S bonds in fully registered form without interest coupons (the "Regulation S Global Bonds"), and will be registered in the name of a nominee of The Depository Trust Company, or DTC, and deposited with the Trustee as custodian for DTC.

The Bonds sold within the United States to QIBs in reliance on Rule 144A (the "Rule 144A Bonds") will be represented by one or more global Rule 144A bonds in fully registered form without interest coupons (the "Rule 144A Global Bonds"), and will be registered in the name of a nominee of DTC, and deposited with the Trustee as custodian for DTC. The Rule 144A Global Bonds and the Regulation S Global Bonds are collectively referred to herein as the "Global Bonds." The Republic will issue the Bonds in minimum denominations of US$100,000 and integral multiples of US$1,000 in excess thereof.

Transfers

For a detailed description of restrictions on transfers of the Bonds, see "Transfer Restrictions" and "Plan of Distribution."

A beneficial owner of a Rule 144A Bond may transfer a beneficial interest in a Rule 144A Global Bond to a person who takes delivery in the form of an interest in the Regulation S Global Bond at any time only if it provides a written certification to the transfer agent in the form provided in the Indenture to the effect that the transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act.

Any beneficial interest in one of the Global Bonds that is transferred to a person who takes delivery in the form of an interest in another Global Bond will, upon transfer, cease to be an interest in such Global Bond and become an interest in the other Global Bond and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Bond. The Republic will not issue any Bonds in bearer form.

Upon receipt of the Global Bonds, DTC or the custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by each such Global Bond to the accounts of persons who have accounts with DTC. Ownership of beneficial interests in a Global Bond will be limited to persons who have accounts with DTC or persons who hold interests through participants, including Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Global Bonds will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of such securities in definitive form. Consequently, any transfer of beneficial interests in a Global Bond to those persons may require that such interest in a Global Bond be exchanged for securities in definitive form. These laws may impair your ability to transfer beneficial interests in a Global Bond. Because DTC can only act on behalf of participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, it may be difficult to pledge or transfer a beneficial interest in a Global Bond to persons or entities that do not participate in the DTC system.

So long as DTC, or its nominee, is the registered owner or holder of a Global Bond, the Republic and the Trustee will consider DTC or such nominee, as the case may be, the sole owner or holder of the Bonds represented by such Global Bond for all purposes under the Indenture and the Bonds. Except as described under "—Certificated Bonds," owners of beneficial interests in a Global Bond will not be entitled to have any portion of such Global Bond registered in their names and will not be considered to be the owners or holders of any Bonds under the Indenture. In addition, no beneficial owner of an interest in a Global Bond will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Indenture and, if applicable, those of Euroclear and Clearstream, Luxembourg).

Investors may hold interests in the Regulation S Global Bond through Euroclear or Clearstream, Luxembourg, if they are participants in those systems. Beginning after the expiration of the distribution compliance period, investors may also hold such interests through organizations other than Euroclear and Clearstream, Luxembourg that are participants in the DTC system. Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S Global Bond on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in the Regulation S

Global Bond in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in the Rule 144A Global Bond directly through DTC, if they are DTC participants, or indirectly through organizations which are DTC participants.

Payments of the principal of, or interest or Additional Amounts, if any, on the Global Bonds will be made to DTC or its nominee as the registered owner thereof. None of the Republic, the Trustee or any paying agent will have any responsibility or liability for:

- any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Bonds; or

- for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Republic expects that DTC or its nominee, upon receipt of any payment of principal, interest or Additional Amounts in respect of a Global Bond representing any Bonds held by it or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of that Global Bond for the Bonds as shown on the records of DTC or its nominee. The Republic also expects that payments by participants to owners of beneficial interests in such Global Bond held through those participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. The participants will be responsible for those payments. Participants in DTC will transfer Bonds in the ordinary way in accordance with DTC rules and will settle transfers in same-day funds. Participants in Euroclear and Clearstream, Luxembourg will transfer Bonds in the ordinary way in accordance with the rules and operating procedures of Euroclear and Clearstream, Luxembourg, respectively.

Subject to compliance with the transfer restrictions applicable to the Bonds described above and under "Transfer Restrictions" and "Plan of Distribution," cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg account holders, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depositary.

DTC has advised the Republic that it will take certain actions permitted to be taken by a holder of Bonds (including the presentation of Bonds for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in the Global Bonds are credited and only in respect of such portion of the aggregate principal amount of the Bonds as to which such participant or participants has or have given such direction. Neither DTC nor its nominee will consent or vote with respect to the Bonds. Under DTC's usual procedures, DTC will mail an omnibus proxy to the Republic as soon as possible after the record date, assigning consenting or voting rights to those direct participants to whose accounts the Bonds are credited on the record date. However, if an Event of Default under the Bonds has occurred and is continuing and a holder of the Bonds or the Trustee so requests, DTC will exchange the Global Bonds for certificated Bonds in definitive form (bearing any applicable restrictive legend) which it will distribute to its participants. Holders of indirect interests in the Global Bonds through DTC participants have no direct rights to enforce such interests while the Bonds are in global form. The giving of notices and other communications by DTC to DTC participants, by DTC participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a Global Bond will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

Although DTC has agreed to the foregoing procedures in order to facilitate transfer of interests in the Global Bonds among participants of DTC, it is under no obligation to perform or continue to perform such procedures, and such procedures may be modified or discontinued at any time. Neither the Republic nor the Trustee will have any responsibility for the performance by DTC or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Bonds

The Republic will issue certificated Bonds in registered form in exchange for the Global Bonds only if:

(1) DTC is at any time unwilling or unable to continue as a depositary or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended and, in either case, a successor depositary is not appointed by the Republic within 90 days;

(2) the Republic in its discretion at any time determines not to have all of the related Bonds represented by such Global Bond;

(3) the Trustee has instituted or has been directed to institute any judicial proceeding to enforce the rights of the holders of the Bonds and has been advised by its legal counsel that it should obtain possession of the Bonds for the proceeding; or

(4) an Event of Default as described in "Description of the Bonds—Default; Acceleration of Maturity" has occurred and is continuing with respect to the Bonds, in which case an owner of a beneficial interest in the Global Bonds will be entitled to registration in its name of a principal amount of the Bonds equal to its beneficial interest and to physical delivery of the Bonds in certificated form if such owner so elects.

Unless determined otherwise by the Republic in accordance with applicable law, certificated Bonds issued upon transfer or exchange of beneficial interests in the Global Bonds will bear the applicable legend referred to under "Transfer Restrictions" in this offering memorandum. Upon the transfer, exchange or replacement of certificated Bonds bearing a legend, the registrar will deliver only Bonds that bear such legend, unless there is delivered to the registrar an opinion of counsel and other evidence reasonably satisfactory to the registrar that neither the legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the U.S. Securities Act.

Subject to the conditions described above, a certificated Bond may be transferred in whole or in a smaller authorized denomination by the holder of the Bond surrendering the certificated Bond for transfer at the corporate trust office of the Trustee in The City of New York or at the office of a paying agent accompanied by an executed instrument of transfer. In exchange for a certificated Bond properly presented for transfer, the Trustee shall, within three business days of such request if made at such corporate trust office, or within ten business days if made at the office of a paying agent (other than the Trustee), authenticate and deliver at such corporate trust office or at the office of such paying agent, as the case may be, to the transferee or send by first class mail (at the risk of the transferee) to such address as the transferee may request, a certificated Bond or Bonds, as the case may require, for like aggregate principal amount and of such authorized denomination or denominations as may be requested. The presentation for transfer of any certificated Bond shall not be valid unless made at the corporate trust office in The City of New York or at the office of a paying agent by the registered holder of the Bond in person, or by a duly authorized attorney-in-fact.

A certificated Bond or Bonds may be exchanged for an equal aggregate principal amount of certificated Bonds in different authorized denominations, and a beneficial interest in the Global Bonds may be exchanged for certificated Bonds in authorized denominations or for a beneficial interest in another Global Security by the holder of the Bonds surrendering the Bond or Bonds for exchange at the corporate trust office of the Trustee in The City of New York or at the office of a paying agent, together with a written request for the exchange. In exchange for a certificated Bond properly presented for exchange, the Trustee shall, within three business days of such request if made at such corporate trust office, or within ten business days if made at the office of a paying agent (other than the Trustee), authenticate and deliver a certificated Bond or Bonds for a like aggregate principal amount and of such authorized denomination or denominations as may be requested.

The costs and expenses of effecting any exchange, transfer or registration of transfer will be borne by the Republic, except for the expenses of delivery (if any) not made by regular mail and the payment of a sum sufficient to cover any stamp duty, transfer tax or other governmental charge or insurance charge that may be imposed in relation thereto, which will be borne by the holder of the Bonds.

At the request of a registered holder of a Bond that has been mutilated, defaced or apparently destroyed, lost or stolen, the Republic will execute and the Trustee will authenticate and deliver, a substitute Bond in exchange for or in lieu of the mutilated or defaced Bond, or the apparently destroyed, lost or stolen Bond, as the case may be. In every case, the applicant for a substitute Bond shall furnish to the Republic and the Trustee such security or indemnity as each may require and, in every case of destruction, loss or theft, evidence to their satisfaction of the apparent destruction, loss or theft of such Bond and of the ownership thereof. Upon the issuance of any substitute Bond, the holder of such Bond, if so requested by the Republic, will pay a sum sufficient to cover any related stamp duty, tax or other governmental charge and any other expense (including the fees and expenses of the Trustee) connected with the preparation and issuance of the substitute Bond.

With respect to Bonds listed on the SGX-ST, so long as such Bonds are listed on the SGX-ST and the rules of that exchange so require, in the event that the Global Bonds are exchanged for certificated Bonds, the Republic shall appoint and maintain a paying agent in Singapore, where the certificated Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Bonds are exchanged for certificated Bonds, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the certificated Bonds, including details of the paying agent in Singapore. Distributions may be made to holders of certificated Bonds by wire transfer, in certain instances, or by check mailed to the address of such holder specified in the records of the registrar. Payment of principal at maturity will only be made on any certificated Bond upon presentation and surrender of such certificated Bond on or prior to the payment date at the corporate trust office of the trustee or any paying agent outside the United States, including the Singapore paying agent.

If, and so long as the 2014 Bonds are listed on the Euro MTF, the alternative market of the Luxembourg Stock Exchange, and the rules of the Euro MTF so require, the Republic will appoint a paying agent in Luxembourg, at whose office the holders of 2014 Bonds in certificated form will be able to receive payments of principal and interest on their Bonds. If, and so long as the 2014 Bonds are listed on the Euro MTF and the rules of the Euro MTF so require, the Republic will also maintain a transfer agent in Luxembourg, at whose offices any Bonds in certificated form may be transferred or exchanged and also surrendered before payment is made at maturity.

TAXATION

Indonesian Taxation

The following summary of Indonesian taxation issues deals only with the implications for holders of Bonds who are non-residents for Indonesian taxation purposes.

Generally, an individual is considered a non-resident of Indonesia if the individual neither:

(i) resides in Indonesia (in determining whether a person resides in Indonesia, consideration will be given to whether the person intends to reside in Indonesia); nor

(ii) is present in Indonesia for more than 183 days in any 12-month period.

An entity will be considered a non-resident if it is established and domiciled outside of Indonesia.

In determining the residency of an individual or entity, consideration will be given to the provisions of any applicable income tax treaty Indonesia has concluded with another jurisdiction.

If a non-resident has a permanent establishment in Indonesia, the permanent establishment is subject to the ordinary Indonesian progressive income tax rates on all income, including but not limited to foreign source income directly or indirectly attributable to such permanent establishment, except that certain types of income will be subject to Indonesian income tax at a flat rate. In addition, the after-tax taxable income of a permanent establishment is subject to a branch profits tax at the rate of 20% (which may be reduced under the provisions of most income tax treaties entered into by Indonesia), unless such profits are reinvested in Indonesia as a founding shareholder in an Indonesian company no later than the following fiscal year for a period of at least two years. Under the Republic's income tax treaty with the U.S. (the "U.S.-Indonesia Treaty"), the branch profits tax on the after-tax taxable income of a permanent establishment is reduced to 10%.

Taxation of Interest

Payments of interest on the Bonds to non-residents will generally be subject to an Indonesian withholding tax (unless the Bonds are held and owned by a permanent establishment in Indonesia, as discussed below) assessed at a rate of 20% of the gross amount of the interest payment. Accordingly, subject to certain exceptions, the Republic will be required to pay Additional Amounts in respect of interest payments on the Bonds. Under current practice, the Republic pays withholding tax on the amounts of interest payments it makes to non-residents, but it does not pay withholding tax on the Additional Amounts that it pays to non-residents. See "Description of the Bonds—Payment of Additional Amounts by the Republic." The 20% rate may be reduced under the provisions of any applicable income tax treaty Indonesia has concluded with another jurisdiction. Under the U.S.-Indonesia Treaty, the withholding tax rate is reduced to 10%.

The Republic has concluded double taxation treaties with a number of countries, including Japan, The Netherlands, Singapore, the United States and the United Kingdom. To obtain the benefit of the reduced rate under an applicable tax treaty, the holder of a Bond must comply with the certification, eligibility, information and reporting requirements in force in Indonesia. Currently, a holder would need to provide to the Trustee a certificate of tax domicile issued by a competent tax authority of the relevant treaty country. Except for banks, such certificate of tax domicile is valid for only one year.

Under a circular from the Directorate General of Taxation dated July 7, 2005, the beneficial owner is defined as the true and rightful owner of the dividend, interest or royalty income, with full rights to directly enjoy the benefits of the income. The beneficial owner may be an individual or a corporate taxpayer. However, a "special purpose vehicle," including a conduit company, paper box company or pass-through company, will not qualify as a bona fide beneficial owner. On June 1, 2005, the Director General of Taxation issued a circular letter imposing a 10% withholding tax rate on interest income under the Indonesia-Netherlands tax treaty, instead of the 0% withholding tax rate under article 11.4 of the treaty, since the competent authorities have not yet reached agreement on the mode of application.

If an individual or entity holds Bonds through a permanent establishment in Indonesia, the permanent establishment will be taxed on the interest at the ordinary Indonesian progressive income tax rates. Interest payments on the Bonds made to the permanent establishment will be subject to a 15% withholding tax, which will be deducted by the Republic from each interest payment. This withholding tax is an advance tax payment or prepaid tax, which can be credited against the Indonesian annual tax obligation payable by the permanent establishment. If the permanent establishment in Indonesia is a bank, the interest payments on the Bonds will not be subject to withholding tax.

Taxation of Dispositions

Generally, gains resulting from the sale or other disposition of the Bonds by a non-resident will not be subject to income, withholding or capital gains tax, unless the Bonds are held and owned through a permanent establishment in Indonesia. If the Bonds are held and owned by a permanent establishment in Indonesia, the permanent establishment will be taxed on any profit at the ordinary Indonesian progressive income tax rates.

Under the U.S.-Indonesia Treaty, a U.S. resident shall be exempt from Indonesian tax on gains derived from the sale, exchange, or other disposition of the Bonds held as capital assets unless:

(1) the recipient of the gain has a permanent establishment or fixed base in Indonesia and gain from the disposition of the Bonds is effectively connected with such permanent establishment or fixed base; or

(2) the recipient of the gain is an individual and is present in Indonesia for a period or periods aggregating 120 days or more during the taxable year.

Other Indonesian Taxes

There are no other material Indonesian taxes or duties (e.g., inheritance taxes, gift duties, stamp duty or similar taxes) that a holder of Bonds will be required to pay in relation to any of the payments made by the Republic.

United States Federal Income Tax Considerations

The following is a description of the principal U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership, disposition and retirement of the Bonds by a holder thereof. This description only applies to Bonds held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as:

- certain financial institutions;
- insurance companies;
- real estate investment trusts;

- regulated investment companies;

- grantor trusts;

- tax-exempt organizations;

- holders that have a functional currency other than the U.S. dollar;

- dealers or traders in securities or currencies;

- certain former citizens and long-term residents of the United States; or

- holders that will hold a Bond as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the Bonds and does not address the U.S. federal income tax treatment of holders that do not acquire the Bonds from the Initial Purchasers in this offering at the price set forth on the cover page of this offering memorandum and does not discuss the tax considerations applicable to subsequent acquirers of the New Bonds. This discussion assumes that the Old 2018 Bonds are considered to be traded on an established market for U.S. federal income tax purposes. However, there is no direct authority on whether the quotation medium on which the Old 2018 Bonds appear satisfies the requirements of the applicable U.S. Treasury Regulations, and the Republic does not intend to seek a ruling from the U.S. Internal Revenue Service ("IRS") on this matter. There can be no assurance that the IRS will not take a contrary position. In addition, this discussion assumes that the New 2014 Bonds and the New 2038 Bonds have not been issued with more than *de minimis* original issue discount ("OID") and that none of the New 2014 Bonds, the New 2018 Bonds or the New 2038 Bonds have been issued with market discount (ignoring *de minimis* market discount) or other special features other than bond premium (as discussed below). Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of the Bonds.

This description is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of the Bonds that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;

- a corporation (or any entity treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or any State or political subdivision thereof, including the District of Columbia;

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

A Non-U.S. Holder is a beneficial owner of Bonds that is neither a U.S. Holder nor a partnership (or other entity that is treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Bonds, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

U.S. Internal Revenue Service Circular 230 Disclosure

Pursuant to U.S. Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing (within the meaning of U.S. Internal Revenue Service Circular 230) of the Bonds. This description is limited to the U.S. federal tax issues described herein. It is possible that additional issues may exist that could affect the U.S. federal tax treatment of the Bonds, or the matter that is the subject of the description noted herein, and this description does not consider or provide any conclusions with respect to any such additional issues. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Qualified Reopening

The issuance of the New 2018 Bonds should constitute a qualified reopening of the Old 2018 Bonds for U.S. federal income tax purposes. Accordingly, the New 2018 Bonds should have the same issue date and adjusted issue price as the Old 2018 Bonds for U.S. federal income tax purposes. However, if the IRS were to successfully assert that the issuance of the New 2018 Bonds is not a qualified reopening of the Old 2018 Bonds for U.S. federal income tax purposes and the New 2018 Bonds are issued with more than a *de minimis* amount of OID (which we expect will be the case), the New 2018 Bonds would be treated as issued with OID. As such, a U.S. Holder would be required to include OID in income before receipt of the associated cash payment, regardless of the U.S. Holder's accounting method for tax purposes. Furthermore, if the New 2018 Bonds are considered to be issued with OID, the market price of the Old 2018 Bonds and the New 2018 Bonds may be adversely affected because it will not be possible to distinguish between the Old 2018 Bonds (which were issued with *de minimis* OID) and the New 2018 Bonds (which are being issued with OID).

Interest

Subject to the discussion below under the caption entitled "Pre-Issue Interest," if you are a U.S. Holder, interest paid to you on a Bond, including any Indonesian taxes withheld and any Additional Amounts (both as defined in "Description of the Bonds—Payment of Additional Amounts by the Republic"), will be includible in your gross income as ordinary income in accordance with your usual method of tax accounting.

Interest and Additional Amounts paid on the Bonds will constitute income from sources without the United States for foreign tax credit purposes. For foreign tax credit purposes, interest on the Bonds should generally constitute "passive category income," or in the case of certain U.S. Holders, "general category income." The calculation and availability of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign taxes, the availability of deductions, involves the application of complex rules that depend on a U.S. Holder's particular circumstances. U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits and the treatment of Additional Amounts.

Subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," if you are a Non-U.S. Holder, payments to you of interest on a Bond generally will not be subject to U.S. federal income tax unless the income is effectively connected with your conduct of a trade or business in the United States.

Holders are urged to review the discussion under the caption "Indonesian Taxation" to understand the application of Indonesian withholding tax to the Bonds.

Pre-Issue Interest

In acquiring a Bond, a holder becomes entitled to receive a payment in respect of interest accrued for the period from (and including) January 17, 2008 through the Issue Date in the case of the New 2018 Bonds and the New 2038 Bonds, and for the period from (and including) March 10, 2008 in the case of the New 2014 Bonds ("pre-issue interest"). Under applicable U.S. Treasury Regulations, a holder may elect to reduce its purchase price for the Bond, for tax purposes, by the amount of the pre-issue interest, and to treat the payment of such pre-issue interest as a return of capital that is not included in income or accrued. If a holder does not make such an election, such holder will receive the entire first interest payment as interest income, and such holder's purchase price for the Bond will not be adjusted to account for pre-issue interest.

Bond Premium

If, immediately after purchasing a Bond, a U.S. Holder's tax basis in the Bond (taking into account any reduction in basis resulting from an election by a U.S. Holder to reduce its purchase price for the Bond by the amount of the pre-issue interest) exceeds the sum of all amounts payable on the Bond after the purchase date (excluding payments of interest, other than pre-issue interest that is includible in income by the U.S. Holder), the Bond will be treated as having been acquired with "bond premium." A U.S. Holder may elect to amortize such bond premium over the remaining term of such Bond using the constant yield method as interest is taken into account under the U.S. Holder's regular method of tax accounting.

If bond premium is amortized, the amount of interest that must be included in income for each period ending on an interest payment date or at the stated maturity of the Bond, as the case may be, will be reduced. The reduction will be equal to the portion of premium allocable to such period based on the yield to maturity with respect to the Bond as determined under the bond premium rules. If a U.S. Holder elects to amortize bond premium, the U.S. Holder must reduce its U.S. federal income tax basis in the Bond by the amount of the premium amortized in any year. If a U.S. Holder does not elect to amortize bond premium, the U.S. Holder must include the full amount of each interest payment as ordinary income in accordance with its regular method of tax accounting. A U.S. Holder may receive a tax benefit (in the form of capital loss or reduced capital gain) from the premium in computing its gain or loss upon the sale or disposition or payment of the principal amount of the Bond.

If a U.S. Holder makes an election to amortize bond premium for a Bond with bond premium, such election will result in a deemed election to amortize bond premium for all of the U.S. Holder's debt instruments with bond premium and may be revoked only with the permission of the IRS.

Sale, Exchange, Retirement or Other Disposition

If you are a U.S. Holder, upon the sale, exchange, retirement or other disposition of a Bond you will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange, retirement or other disposition, not including accrued but unpaid interest which will be taxable as such, and your adjusted tax basis in the Bond. Your adjusted tax basis in a Bond generally will equal the acquisition price of the Bond on the date of acquisition, less any pre-issue interest which you have elected to treat as return of capital and any bond premium you have amortized. Any gain or loss recognized on the sale, exchange, retirement or other disposition of a Bond will be capital gain or loss. If you are a noncorporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if your holding period for the Bonds exceeds one year. Any gain or loss realized on the sale, exchange, retirement or other disposition of a Bond generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations.

Subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," if you are a Non-U.S. Holder, any gain realized by you upon the sale, exchange, retirement or other disposition of a Bond generally will not be subject to U.S. federal income tax, unless

- the gain is effectively connected with your conduct of a trade or business in the United States or

- if you are an individual Non-U.S. Holder, you are present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

U.S. backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation, including the Bonds, and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders that are United States persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Bond to a holder of a Bond that is a United States person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments made within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Bond that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 28% for taxable years through 2010.

Backup withholding is not an additional tax. The amount of any backup withholding tax from a payment to a holder of a Bond that is a United States person will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP AND DISPOSITION OF BONDS. PROSPECTIVE PURCHASERS OF BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated as of June 17, 2008 (the "Purchase Agreement") between the Republic and the initial purchasers named below (the "Initial Purchasers"), for whom Credit Suisse Securities (Europe) Limited, Deutsche Bank Securities Inc. and Lehman Brothers Inc. are acting as Representatives, each of the Initial Purchasers has severally agreed to purchase, and the Republic has agreed to sell to that Initial Purchaser, the principal amount of Bonds set forth opposite the Initial Purchaser's name:

Initial Purchasers	Principal Amount of New 2014 Bonds	Principal Amount of New 2018 Bonds	Principal Amount of New 2038 Bonds
Credit Suisse Securities (Europe) Limited	US$95,000,000	US$285,000,000	US$316,666,667
Deutsche Bank Securities Inc.	95,000,000	285,000,000	316,666,667
Lehman Brothers Inc.	95,000,000	285,000,000	316,666,666
PT Mandiri Sekuritas	7,500,000	22,500,000	25,000,000
PT Trimegah Securities Tbk	7,500,000	22,500,000	25,000,000
Total	US$300,000,000	US$900,000,000	US$1,000,000,000

The Purchase Agreement provides that the several obligations of the Initial Purchasers to pay for and accept delivery of the Bonds are subject to, among other conditions, the delivery of certain legal opinions by counsel. The Initial Purchasers are obligated to take and pay for the entire principal amount of the Bonds if any Bonds are purchased. The Purchase Agreement also provides that if an Initial Purchaser defaults, the purchase commitment of the non-defaulting Initial Purchasers may be increased or the offering of the Bonds terminated.

The purchase price for the New 2014 Bonds will be the initial offering price set forth on the cover page of this offering memorandum, plus accrued interest from and including March 10, 2008. The purchase prices for the New 2018 Bonds and the New 2038 Bonds will be the initial offering prices for such Bonds set forth on the cover page of this offering memorandum, plus accrued interest from and including January 17, 2008. In consideration of the agreement by the Initial Purchasers to purchase the Bonds, the Republic will pay to the Initial Purchasers on the issue date fees in an amount equal to 0.10% of the aggregate purchase price of the Bonds. The Initial Purchasers have advised the Republic that they propose initially to offer the Bonds to investors at the issue prices set forth on the cover page of this offering memorandum. After the initial offering of the Bonds, the Representatives may change the issue price and the other selling terms.

The Republic has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or to contribute to payments the Initial Purchasers may be required to make because of any of those liabilities.

The Initial Purchasers have advised the Republic that they intend to make a market in the Bonds as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a market in the Bonds and any market-making may be discontinued at any time at the sole discretion of the Initial Purchasers. Accordingly, the Republic cannot assure the prospective investors of the liquidity of, or trading market for, the Bonds.

In connection with this offering, the Initial Purchasers may purchase and sell the Bonds in the open market. These transactions may include over-allotment, stabilizing transactions and syndicate covering transactions. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions consist of certain bids for or purchases of

Bonds made for the purpose of preventing or retarding a decline in the market price of the Bonds while the offering is in progress. Syndicate covering transactions involve purchases of the Bonds in the open market after the distribution has been completed to cover syndicate short positions. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Bonds. They may also cause the price of the Bonds to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Initial Purchasers may conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commence any of these transactions, they may be discontinued at any time.

The Republic and the Initial Purchasers have not taken any action, nor will the Republic and the Initial Purchasers take any action, in any jurisdiction that would permit a public offering of the Bonds, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Republic or the Bonds in any jurisdiction where action for that purpose is required. Accordingly, an investor may not offer or sell, directly or indirectly, any bond and may not distribute or publish either this offering memorandum or any other offering material or advertisements in connection with the Bonds, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

The Bonds have not been and will not be registered under the U.S. Securities Act or any state securities laws and, unless so registered, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. See "Transfer Restrictions" for a description of other restrictions on the transfer of Bonds. Accordingly, the Bonds are being offered and sold only (1) in the United States to "qualified institutional buyers" (as defined in Rule 144A) in reliance on Rule 144A under the U.S. Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Resales of the Bonds are restricted as described under "Transfer Restrictions."

In addition, until 40 days after commencement of the offering of the Bonds, an offer or sale of the Bonds within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration of the U.S. Securities Act.

As used herein, the term "United States" has the meaning given to it in Regulation S.

United Kingdom

Each Initial Purchaser has severally represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Republic; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this offering memorandum as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

(a) if the final terms in relation to the Bonds specify that an offer of those Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;

(b) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Initial Purchasers or Initial Purchasers nominated by the Republic for any such offer; or

(e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (b) to (e) above shall require the Republic or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Hong Kong

Each Initial Purchaser has severally represented and agreed that (i) it has not offered or sold and will not offer or sell in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), by means of any document, any Bonds other than (x) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (y) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Bonds, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made thereunder.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. Each Initial Purchaser has severally represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any of the Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any persons for re-offering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except (1) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Financial Instruments and Exchange Law of Japan and (2) in compliance with the other relevant laws and regulations of Japan.

Singapore

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the Bonds will be offered in Singapore pursuant to the exemptions under Section 274 and Section 275 of the Securities and Futures Act, Chapter 289 of Singapore, (the "Securities and Futures Act"). Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for the subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor under Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) or any person under Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Bonds are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(i) a corporation (which is not an accredited investor as defined in Section 4A of the Securities and Futures Act), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor under the Securities and Futures Act; or

(ii) a trust (where the trustee is not an accredited investor under the Securities and Futures Act) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor, shares, debentures or units of the shares or debentures of that corporation, or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has so acquired the Bonds unless:

(A) the transfer is to an institutional investor under Section 274 of the Securities and Futures Act, or to a relevant person or to any person under Section 275(1) and Section 275(1A) of the Securities and Futures Act respectively, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act;

(B) where no consideration is or will be given for the transfer; or

(C) the transfer is by operation of law.

Italy

The offering of the Bonds has not been registered pursuant to the Italian securities legislation and, accordingly, each of the Initial Purchasers has represented and agreed that it has not offered or sold, and will not offer or sell, any Bonds in the Republic of Italy in a solicitation to the public, and that sales of the Bonds in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Bonds or distribution of copies of this offering memorandum or any other document relating to the Bonds in the Republic of Italy must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of September 1, 1993 as amended, Decree No. 58, CONSOB Regulation No. 16190 of October 29, 2007 and any other applicable laws and regulations; and

- in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Settlement and Delivery

The Republic expects that delivery of the global certificates will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of pricing of the Bonds. Under Rule 15c6-1 of the U.S. Securities Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Bonds on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Bonds initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement.

Relationship of Initial Purchasers with the Republic

In the ordinary course of business, some of the Initial Purchasers and certain of their affiliates engage from time to time in various investment banking and advisory services for the Republic, for which they have received customary compensation. PT Mandiri Sekuritas, one of the co-managers, is wholly owned by PT Bank Mandiri (Persero) Tbk, in which the Republic has a 66.97% equity interest.

TRANSFER RESTRICTIONS

Due to the following significant transfer restrictions applicable to the Bonds, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of Bonds.

The Bonds have not been and will not be registered under the U.S. Securities Act or any other securities laws, and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the U.S. Securities Act. Accordingly, the Bonds are being offered and sold in the United States only to persons reasonably believed to be "qualified institutional buyers," referred to as QIBs, as defined in Rule 144A under the U.S. Securities Act in reliance on the exemptions from the registration requirements of the U.S. Securities Act provided thereby. The international offering is being made outside the United States in offshore transactions pursuant to Regulation S under the U.S. Securities Act.

Any reoffer, resale, pledge, transfer or other disposal, or attempted reoffer, resale, pledge, transfer or other disposal, made other than in compliance with the restrictions noted below shall not be recognized by the Republic or the Trustee.

Rule 144A Transfer Restrictions

Each purchaser of the Rule 144A Bonds in the United States will be deemed to have acknowledged and represented to and agreed that:

(1) It is:

   (a) a QIB as defined in Rule 144A under the U.S. Securities Act;

   (b) aware the seller of the Rule 144A Bonds may be relying on an exemption from registration under the U.S. Securities Act provided by Rule 144A; and

   (c) within the United States purchasing the Rule 144A Bonds for its own account or the accounts of others (which others also must be QIBs) with respect to which it exercises sole investment discretion; and

(2) It understands that the Rule 144A Bonds have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States and may be offered, sold, pledged or otherwise transferred only:

   (a) outside the United States in an offshore transaction in accordance with Regulation S under the U.S. Securities Act;

   (b) pursuant to an exemption from registration under the U.S. Securities Act provided by Rule 144 thereunder (if available);

   (c) within the United States to a person whom it reasonably believes is a QIB that is purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A under the U.S. Securities Act, in each case in accordance with any applicable laws of any state of the United States or any other jurisdictions; and

(3) Rule 144A Bonds sold in the offering will constitute "restricted securities" within the meaning of Rule 144 under the U.S. Securities Act, and for so long as they remain "restricted securities" such Rule 144A Bonds may not be transferred except as described in paragraph (2) above.

(4) Rule 144A Bonds will bear a legend to the following effect, unless the Republic determines otherwise in compliance with applicable law:

"THIS BOND HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THE BONDS REPRESENTED HEREBY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE BONDS PRIOR TO THE EXPIRATION OF THE HOLDING PERIOD APPLICABLE TO SALES THEREOF UNDER RULE 144(k) UNDER THE SECURITIES ACT (OR ANY SUCCESSOR PROVISION) EXCEPT (A) TO THE REPUBLIC, (B) WITHIN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (D) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS BOND IS BEING TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS BOND IN VIOLATION OF THE FOREGOING RESTRICTIONS. THE HOLDER WILL DELIVER TO THE REGISTRAR SUCH OPINIONS OF COUNSEL, CERTIFICATES AND/OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE IN FORM REASONABLY SATISFACTORY TO IT AS PROVIDED FOR IN THE INDENTURE TO CONFIRM THAT THE TRANSFER COMPLIED WITH THE FOREGOING RESTRICTIONS AS PROVIDED FOR IN THE INDENTURE."

Regulation S Transfer Restrictions

Each purchaser of Regulation S Bonds outside the United States will be deemed to have acknowledged, represented and agreed that:

(1) It is purchasing the Regulation S Bonds outside the United States in an offshore transaction in accordance with Regulation S under the U.S. Securities Act;

(2) It understands that the Regulation S Bonds have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States; and

(3) It understands that the Bonds will be represented by one or more Regulation S Global Bonds and that transfers thereto are restricted as described under "Description of the Bonds—Transfers."

Each purchaser of a Regulation S Bond offered pursuant to Regulation S will be required, or deemed by its purchase, to confirm that the purchaser is aware of the restrictions on the offer and sale of Regulation S Bonds offered pursuant to Regulation S described in this offering memorandum.

Each purchaser of the Bonds will be deemed to have acknowledged, represented and agreed that the Republic, the Trustee and the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agree that if any of the acknowledgments, representations and agreements deemed to have been made by its purchase of the Bonds are no longer accurate, it shall promptly notify the Republic, the Trustee and the Initial Purchasers. If it is acquiring the Bonds as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

LEGAL MATTERS

The validity of the Bonds will be passed upon on behalf of Indonesia by the Head of the Legal Bureau of the Ministry of Finance of the Republic and by Ali Budiardjo, Nugroho, Reksodiputro, Indonesian counsel for the Republic, as to matters of Indonesian law, and by White & Case LLP, United States counsel for Indonesia, as to matters of U.S. and New York State law. Certain legal matters will be passed upon for the Initial Purchasers by Davis Polk & Wardwell, United States counsel for the Initial Purchasers, as to matters of U.S. and New York State law. In rendering their opinions, White & Case LLP will rely as to all matters of Indonesian law upon the opinion of the Head of the Legal Bureau of the Ministry of Finance of the Republic and of Ali Budiardjo, Nugroho, Reksodiputro, and Davis Polk & Wardwell will rely as to all matters of Indonesian law upon the opinion of Ali Budiardjo, Nugroho, Reksodiputro.

GENERAL INFORMATION

If the 2014 Bonds are listed on the Euro MTF, the Republic will appoint The Bank of New York (Luxembourg) S.A. as listing agent. If, and so long as, the 2014 Bonds are listed on the Euro MTF, copies of the Indenture will be made available for inspection and annual reports publicly published by the Republic will be made available in English at the main office of The Bank of New York (Luxembourg) S.A. in Luxembourg. In addition, copies of the offering memorandum, if, and so long as, the Bonds are listed on the Euro MTF, will be made available free of charge at the main office of The Bank of New York (Luxembourg) S.A. in Luxembourg. If the 2014 Bonds are listed on the Euro MTF and so long as the 2014 Bonds remain in global form, The Bank of New York (Luxembourg) S.A. will act as intermediary between the Euro MTF and the Republic and the holders of the 2014 Bonds.

The Bonds have been or will be accepted for clearance through The Depository Trust Corporation, Euroclear and Clearstream, Luxembourg. The Bonds have been assigned the CUSIP, ISIN and Common Codes set forth below.

New 2014 Bonds	CUSIP	ISIN	Common Code
Regulation S Global Bonds	Y20721AA7	USY20721AA74	018816385
Restricted Global Bonds	455780AP1	US455780AP11	018816288

New 2018 Bonds	CUSIP	ISIN	Common Code
Regulation S Global Bonds	Y20721AK5	USY20721AK56	034054053
Restricted Global Bonds	455780AY2	US455780AY28	034054002

New 2038 Bonds	CUSIP	ISIN	Common Code
Regulation S Global Bonds	Y20721AL3	USY20721AL30	034054061
Restricted Global Bonds	455780AZ9	US455780AZ92	034054037

As discussed above under the heading "Description of the Bonds—Listing and Trading," the New 2014 Bonds will initially be represented by temporary global securities to be issued with separate CUSIP, ISIN and Common Codes as set forth below.

Temporary 2014 Bonds	CUSIP	ISIN	Common Code
Regulation S Global Bonds	Y20721AM1	USY20721AM13	037182907
Restricted Global Bonds	455780BA3	US455780BA33	037182923

The Bonds will be issued pursuant to Indonesia's Law No. 24 of 2002, dated October 22, 2002, regarding Government Debt Securities, and Indonesia's Law No. 16 of 2008, dated May 7, 2008, regarding the amendment of Law No. 45 of 2007, dated November 6, 2007, regarding the State Budget for 2008.

Except as disclosed in this offering memorandum, there has been no material change in the fiscal condition or affairs of Indonesia that is material in the context of the issue of the Bonds since December 31, 2007.

Except as disclosed in this offering memorandum, there are no, and there has not been any, litigation or arbitration proceedings, including those which are pending or threatened, of which Indonesia is aware, which may have, or have had during the 12 months prior to the date of this offering memorandum, a material adverse effect on the fiscal condition or affairs of Indonesia or which are material in the context of the issue of the Bonds.

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ISSUER

Republic of Indonesia
Ministry of Finance of the Republic of Indonesia
Jl. Lapangan Banteng Timur No. 2-4
Jakarta 10710
Indonesia

TRUSTEE, REGISTRAR, TRANSFER AGENT AND PRINCIPAL PAYING AGENT

The Bank of New York
101 Barclay Street
21st Floor West
New York, New York 10286
United States of America

SINGAPORE LISTING AGENT

Venture Law LLC
50 Raffles Place #30-00
Singapore Land Tower
Singapore 048623

LEGAL ADVISORS TO THE ISSUER

as to U.S. law

White & Case LLP
50 Raffles Place #30-00
Singapore Land Tower
Singapore 048623

as to Indonesian law

Ali Budiardjo, Nugroho, Reksodiputro
Graha Niaga, 24th Floor
Jl Jend. Sudirman Kav. 58
Jakarta 12190
Indonesia

LEGAL ADVISOR TO THE INITIAL PURCHASERS

as to U.S. law

Davis Polk & Wardwell
18th Floor
The Hong Kong Club Building
3A Chater Road
Hong Kong