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OFFERING MEMORANDUM

Republic of Indonesia

US$1,000,000,000 6.875% Bonds due 2017

US$1,000,000,000 8.50% Bonds due 2035

(to be consolidated, and form a single series with, the existing
US$600,000,000 8.50% Bonds due 2035 issued on October 12, 2005)

Offer Price for 2017 Bonds: 99.052% plus accrued interest, if any
Offer Price for 2035 Bonds: 113.454% plus accrued interest from and including October 12, 2005

The Republic of Indonesia (the "Republic" or "Indonesia") is offering US$1,000,000,000 aggregate principal amount of 6.875% Bonds due 2017 (the "2017 Bonds") and US$1,000,000,000 aggregate principal amount of 8.50% Bonds due 2035 (the "New 2035 Bonds"). The New 2035 Bonds constitute a further issuance of the 8.50% Bonds due 2035 issued by the Republic on October 12, 2005 in the amount of US$600,000,000 (the "Old 2035 Bonds"). The 2035 Regulation S Bonds (as defined below) will be fungible with the Old 2035 Bonds that were initially offered and sold outside the United States in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") from and including the 41st day after the Issue Date (as defined below), and the 2035 Rule 144A Bonds (as defined below) will be fungible with the Old 2035 Bonds that were initially offered and sold in the United States to qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") under the U.S. Securities Act) in reliance on Rule 144A, from and including the Issue Date. The 2017 Bonds together with the New 2035 Bonds, are referred to as the "Bonds." Interest on the 2017 Bonds will be payable semi-annually in arrears on March 9 and September 9 of each year, commencing on September 9, 2006. Interest on the New 2035 Bonds will be payable semi-annually in arrears on April 12 and October 12 of each year commencing on April 12, 2006. The 2017 Bonds will mature on March 9, 2017 and the 2035 Bonds will mature on October 12, 2035. 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.

Prior to this offering, there has been no market for the Bonds. Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (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 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. 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 New 2035 Bonds initially offered and sold outside the United States in reliance on Regulation S (the "2035 Regulation S Bonds") will originally be represented by a temporary global Regulation S bond (the "Temporary 2035 Regulation S Global Bond") from the Issue Date until the 41st day thereafter, when the Temporary 2035 Regulation S Global Bond will be replaced by a permanent global Regulation S bond (the "Permanent 2035 Regulation S Global Bond"). The New 2035 Bonds initially offered and sold in the United States to QIBs in reliance on Rule 144A (the "2035 Rule 144A Bonds") will bear the Private Placement Legend (as defined in the Indenture dated March 10, 2004) and will be represented by a permanent global Rule 144A bond. 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 March 9, 2006 (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, société 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

BARCLAYS CAPITAL **JPMORGAN** **UBS INVESTMENT BANK**

The date of this offering memorandum is March 2, 2006.

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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 issue of the Bonds, Barclays Bank PLC (the "Stabilizing Manager") (or persons acting on behalf of the Stabilizing Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds.

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 (the "IMF" or the "Fund") and those to "ID" are to Islamic Dinars of the Islamic Development Bank (the "IDB"). 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 March 2, 2006 was Rp9,200 = $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 are the 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)
2000	9,595	8,422
2001	10,400	10,241
2002	8,940	9,310
2003	8,465	8,572
2004	9,290	8,985
2005	9,830	9,751
January 2006	9,395	9,493
February 2006	9,230	9,313
March 2006 (through March 2)	9,200	9,185

Source: Bank Indonesia.

(1) The average of the Middle Exchange Rates on the last day of each month during the applicable period.

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 International Monetary Fund'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 International Monetary Fund's Dissemination Standards Bulletin Board. Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the International Monetary Fund'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/sddscountrycategorylist/?strcode=IDN."

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 (i) "Indonesia" or the "Republic" are to the Republic of Indonesia and (ii) 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 Indonesian government's fiscal year commences on January 1 of each year and ends on December 31 of the same year and the Republic has used a calendar year for its fiscal year since 2001. Previously, the Indonesian government's fiscal year commenced on April 1 of each year and ended on March 31 of the following year; the last year to follow that convention was the one beginning April 1, 1999 and ending March 31, 2000. In making the transition to the new convention, one year, referred to in this offering memorandum as fiscal year 2000 or FY2000, began on April 1, 2000 and ended December 31, 2000. References in this offering memorandum are to calendar years unless otherwise indicated.

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, and such revised data will not be distributed by Indonesia to any holder of the Bonds.

To improve data quality and to comply with generally recognized standards for statistical reporting, Indonesia has started using a revised methodology in compiling its balance of payments statistics (the "revised BOP reporting system"). Indonesia started using the revised BOP reporting system in compiling its balance of payments data from the third quarter of 2005, and it has published reports using the revised BOP reporting system for periods back to the beginning of 2004. Indonesia also continues to publish balance of payments using the old methodology and expects to continue publishing both types of reports for periods through the middle of 2006, after which it will publish only reports using the revised BOP reporting system.

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

- including (1) goods in processing, (2) repairs on goods and (3) goods procured in ports by carriers within the reported merchandise export and import data (under the old system these items are not included),

- including investment grants within the reported capital account data and including consumption grants in the capital account data (under the previous system, all grants, both investment and consumption, are included in the current account data),

- recording the asset side of financial account data, which includes direct investment abroad, portfolio investment and other investment, within investment income received (under the old system these amounts are included under errors and omissions),

- recording foreign direct investment in the oil and gas sector in direct investment (under the old system these amounts are not included in the balance of payments reporting), and

- reporting transactions by state-owned enterprises in the private sector category (in the old system these are reported in the government sector).

To ensure the comparability of all of the balance of payment data in this offering memorandum, all of the tables of data including balance of payment statistics are presented using data compiled using the old reporting system. There are, however, certain sections of the offering memorandum that discuss developments as they would be reported using the revised BOP reporting system. See "Republic of Indonesia—Foreign Trade and Balance of Payments."

In 2004, the Republic's central bureau of statistics, Badan Pusat Statistik ("BPS"), adopted the calendar year 2000 as the new base year (the "2000 Base Year") for the calculation of Indonesia's Gross Domestic Product ("GDP") in both current and constant market prices. Prior to the adoption of the 2000 Base Year, the base year used to calculate the GDP based on current and constant market prices in recent years was the calendar year 1993 (the "1993 Base Year"). During the period of 1993 to 2000, significant structural changes occurred in the Indonesian economy as the manufacturing and services sector of the economy increased in relative importance (reflected in higher percentage shares of total GDP) and the agricultural and oil and natural gas sectors decreased in relative importance (reflected in lower percentage shares of total GDP) and the Asian financial crisis beginning in 1997 adversely affected the Indonesian economy, principally the banking and financial sector. See "Republic of Indonesia—Economy and Gross Domestic Product." BPS determined that the continued use of the 1993 Base Year in calculating Indonesia's GDP would understate the size and growth of domestic output and, therefore, incorporated the structural changes in the Indonesian economy into the composition of the 2000 Base Year data. The 2000 Base Year also has wider and more accurate coverage than the 1993 Base Year. One result of the adoption of the 2000 Base Year is that economic growth for the Indonesian economy calculated using constant prices based on the 2000 Base Year is higher than that calculated using constant prices based on the 1993 Base Year. For 2001, 2002 and 2003, the GDP growth rates using the 2000 Base Year were 3.8%, 4.4% and 4.9%, compared to 3.5%, 3.7% and 4.1%, respectively, using the 1993 Base Year. The GDP growth rates for 2004 and following years using the 1993 Base Year are not available. All GDP data contained in this offering memorandum are calculated using the 2000 Base Year. Except otherwise indicated, all GDP growth rates (in aggregate or by sector) are based on constant market prices using the 2000 Base Year.

In May 2004, the Directorate General of Customs and Excise ("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 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 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.”

Unless otherwise indicated, all statistical data and figures for 2004 and 2005 and all GDP data for 2004 and 2005 are estimates based upon preliminary data and are subject to review and adjustment.

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

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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 over 17,500 islands. The nation 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 GDP and inflation (measured in changes in CPI) is indicated on a year-on-year basis:

Selected Key Economic Indicators

	2001	2002	2003	2004[P]	2005[P]
National account and prices:					
Real GDP growth	3.8%	4.4%	4.7%	5.1%	5.6%
Per capita GDP (in thousands of rupiah)	8,079	8,828	9,528	10,506	12,456
Per capita GDP (in U.S. dollars)[(1)]	789	943	1,110	1,167	1,309
Average exchange rate (rupiah/U.S. dollars)	10,241	9,310	8,572	8,985	9,751
Inflation rate (change in CPI)	12.6%	10.0%	5.1%	6.4%	17.1%
External sector:					
Current account (% of GDP)	4.2%	3.9%	3.4%	1.2%	N/A
Fiscal account:					
Budget surplus/(deficit) (% of GDP)	(2.4)%	(1.3)%	(1.7)%	(1.3)%	(0.7)%
External debt of the central government (in trillions of rupiah)[(1)]	596	596	588	621	633
Debt service ratio (% of government revenue)	34.3%	34.8%	29.2%	33.0%	23.1%

Source: BPS, Bank Indonesia and Ministry of Finance.

P Preliminary.

N/A Not Available

(1) Per capita GDP in U.S. dollars and the U.S. dollar amount of outstanding external debt of the central government for each year have been converted from rupiah into U.S. dollars at the following exchange rates: Rp10,237.7 per U.S. dollar for 2001, Rp9,366.6 per U.S. dollar for 2002, Rp8,580.0 per U.S. dollar for 2003, Rp9,006.0 per U.S. dollar for 2004 and Rp9,518.1 per U.S. dollar for 2005.

Prior to the Asian financial crisis that began in mid-1997, Indonesia had 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 Asian Development Bank, 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 to Indonesia (as well as other countries affected by the tsunami) a temporary suspension of debt service payments through the end of 2005. Through a series of bilateral agreements with the Paris Club members, Indonesia reduced its debt service payments by $2.6 billion in 2005.

Indonesia, however, no longer relies exclusively on external borrowings. Beginning in 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 the National Development Planning Agency (Bappenas) in debt management.

In July and September 2004, Indonesia's voters went to the polls to participate in the two rounds of the country's first direct presidential election. On October 20, 2004, following their victory in the September run-off, President Susilo Bambang Yudhoyono was inaugurated as the new President of the Republic and Vice President Muhammad Jusuf Kalla was inaugurated as the new 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. 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 improved transparency of the country's judicial system.

THE OFFERING

Issuer	The Republic of Indonesia
The Bonds	US$1,000,000,000 6.875% Bonds due 2017 (the "2017 Bonds") and US$1,000,000,000 8.50% Bonds due 2035 (the "New 2035 Bonds"). The New 2035 Bonds offered hereby constitute a further issuance of the 8.50% Bonds due 2035 issued by the Republic on October 12, 2005 in the amount of US$600,000,000 (the "Old 2035 Bonds"). The 2035 Regulation S Bonds will be fungible with the Old 2035 Bonds that were initially offered and sold outside the United States in reliance on Regulation S from and including the 41st day after the Issue Date, and the 2035 Rule 144A Bonds will be fungible with the Old 2035 Bonds that were initially offered and sold in the United States to QIBs in reliance on Rule 144A, from and including the Issue Date. The 2017 Bonds together with the New 2035 Bonds, are referred to as the "Bonds."
The Offering.	US$2,000,000,000 aggregate principal amount of 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	99.052% for the 2017 Bonds, plus accrued interest, if any, and 113.454% for the New 2035 Bonds, plus accrued interest from and including October 12, 2005.
Maturity Date	March 9, 2017 for the 2017 Bonds and October 12, 2035 for the New 2035 Bonds.
Interest	The 2017 Bonds will bear interest from and including March 9, 2006 at the rate of 6.875% per annum payable semi-annually in arrears. The New 2035 Bonds will bear interest from and including October 12, 2005 at the rate of 8.50% per annum payable semi-annually in arrears.
Interest Payment Dates	March 9 and September 9 of each year, commencing on September 9, 2006, up to and including the Maturity Date for the 2017 Bonds. April 12 and October 12 of each year, commencing on April 12, 2006, up to and including the Maturity Date for the New 2035 Bonds.
Optional Redemption.	The Bonds are not redeemable, in whole or in part, prior to their maturity. See "Description of the Bonds."

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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." Upon issuance, the New 2035 Bonds will rank *pari passu* with the Old 2035 Bonds in all respects.
Events of Default.	Certain events will permit holders of at least 25% of the aggregate principal amount of the Bonds outstanding to declare an acceleration of the principal of the Bonds, together with all accrued and unpaid interest and Additional Amounts (as defined herein). 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 may rescind a declaration of acceleration 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, 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.
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 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 permanent 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 permanent Regulation S global bonds in fully registered book-entry form without interest coupons.
Listing and Trading	Approval in-principle has been received for the listing of the Bonds on the SGX-ST. 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.
Governing Law	The Indenture is, and the Bonds will be, governed by, and construed in accordance with, the law of the State of New York.
Ratings	The Bonds are rated B+ by Standard & Poor's International Ratings, LLC ("Standard & Poor's"), B2 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 New 2035 Bonds from and including October 12, 2005) will be approximately US$2,122,460,000, after deducting the underwriting commission 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 over 17,500 islands. The nation 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 GDP and inflation (measured in changes in CPI) is indicated on a year-on-year basis:

Selected Key Economic Indicators

	2001	2002	2003	2004[P]	2005[P]
National account and prices:					
Real GDP growth	3.8%	4.4%	4.7%	5.1%	5.6%
Per capita GDP (in thousands of rupiah)	8,079	8,828	9,528	10,506	12,456
Per capita GDP (in U.S. dollars)(1)	789	943	1,110	1,167	1,309
Average exchange rate (rupiah/U.S. dollars)	10,241	9,310	8,572	8,985	9,751
Inflation rate (change in CPI)	12.6%	10.0%	5.1%	6.4%	17.1%
External sector:					
Current account (% of GDP)	4.2%	3.9%	3.4%	1.2%	N/A
Fiscal account:					
Budget surplus/(deficit) (% of GDP)	(2.4)%	(1.3)%	(1.7)%	(1.3)%	(0.7)%
External debt of the central government (in trillions of rupiah)(1)	596	596	588	621	633
Debt service ratio (% of government revenue)	34.3%	34.8%	29.2%	33.0%	23.1%

Source: BPS, Bank Indonesia and Ministry of Finance.

P Preliminary

N/A Not Available

(1) Per capita GDP in U.S. dollars and the U.S. dollar amount of outstanding external debt of the central government for each year have been converted from rupiah into U.S. dollars at the following exchange rates: Rp10,237.7 per U.S. dollar for 2001, Rp9,366.6 per U.S. dollar for 2002, Rp8,580.0 per U.S. dollar for 2003, Rp9,006.0 per U.S. dollar for 2004 and Rp9,518.1 per U.S. dollar for 2005.

Economic developments in recent years include modest economic growth (real GDP growth of 4.7%, 5.1% and 5.6% in 2003, 2004 and 2005, respectively); a relatively stable exchange rate (averaging Rp8,572, Rp8,985 and Rp9,751 to the U.S. dollar in 2003, 2004 and 2005, respectively); consistent current account surpluses (3.4% and 1.2% in 2003 and 2004, respectively); and moderate levels of inflation (increases in the CPI of 5.1% and 6.4% in 2003 and 2004, respectively), with the exception of 2005 when inflation accelerated to 17.1%, primarily as a result of a substantial increase in fuel prices due to a reduction in fuel subsidies.

Prior to the Asian financial crisis that began in mid-1997, Indonesia had 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 Asian Development Bank ("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. See "—Recent Developments—December 2004 Earthquake and Tsunami and March 2005 Earthquake," "—Temporary Suspension of Debt Service from the Paris Club" and "—2005 Budget." Indonesia no longer relies exclusively on external borrowings. Beginning in 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 the National Development Planning Agency (Bappenas) in debt management.

In July and September 2004, Indonesia's voters went to the polls to participate in the two rounds of 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 new President of the Republic and Vice President Muhammad Jusuf Kalla was inaugurated as the new 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. 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 improved transparency of the country's judicial system.

Recent Developments

Recent Economic Policy Developments

The Indonesian economy has two main challenges entering 2006—the recent slowdown in economic growth and high inflation. To address these problems, the government recently has announced a number of economic policy plans. The announced priorities of the government in 2006 are to bring back macroeconomic stability coupled with higher growth, improve the investment climate and provide an infrastructure development framework that is competitive and transparent.

Cabinet Changes. On December 5, 2005 President Susilo Bambang Yudhoyono announced changes to his cabinet, primarily relating to the officials responsible for economic policy. Boediono, who served as Minister of Finance in the administration of Megawati Soekarnoputri, was appointed Coordinating Minister for Economic Affairs. Sri Mulyani Indrawati, formerly Minister of State Planning Agency, was named Minister of Finance and Paskah Suzetta, replaced Sri Mulyani as Minister of State Planning Agency.

Fiscal Policy. Maintaining fiscal consolidation is one of the government's key economic policies, as shown in the 2006 Budget, which includes a target fiscal deficit of 0.7% of GDP. The government's announced budget strategy is to provide fiscal stimulus early in the year by "frontloading" its 2006 spending by using unspent amounts from the 2005 Budget. In this regard, the Ministry of Finance has coordinated with the regional governments and various ministries responsible for spending to accelerate the execution of government expenditures.

On the revenue side, tax authorities in Indonesia have expressed their commitment to strengthening tax and customs administration by expanding modern tax offices (which were introduced in 2001 for certain large taxpayers), widening the tax base and improving tax collection. The 2006 Budget has projected total revenue (including grants) of Rp625.2 trillion, and a deficit of Rp22.4 trillion. The deficit for the 2006 Budget is expected to be financed largely from domestic sources, primarily through the issuance of government bonds.

The government submitted a comprehensive tax reform package to the House of Representatives in September 2005. The tax reform package includes revisions to the law on General Provisions and Procedures for Taxation, including the income tax, value-added tax ("VAT") and luxury sales tax laws. The tax reform package is designed to strike a balance between raising sustainable revenue and improving the investment climate for private sector-led growth.

Monetary and Exchange Rate Policy. Current monetary policy is aimed at reducing inflation and achieving a low medium-term inflation target. The secondary effects of the fuel price adjustments that were made in 2005 have been contained by changes in monetary policy, as reflected in the slower rate of inflation in December 2005 following the substantial fuel price adjustments in October 2005 and the rise in inflation that accompanied and followed the adjustments.

Improving the Investment Climate and Boosting Infrastructure Development. The government has announced a multi-faceted reform program to improve the investment climate and encourage private sector growth. The program is expected to equalize treatment for foreign and domestic investors, open new sectors to foreign investment, accelerate and streamline procedures for investment approvals, improve tax and customs services and governance, reduce rigidities in the labor market, and harmonize central and regional government regulations. The government has announced plans to submit major amendments to the investment law to the House of Representatives soon, and the government is finalizing a series of implementing regulations.

The government has announced plans to improve the regulatory framework in order to boost private sector participation in infrastructure development. A number of new regulations either have been completed or are being finalized to improve the regulatory framework for investment in electricity, toll roads, water, and airports. On February 21, 2006, the government announced that in 2006 it will seek private investments in 25 major infrastructure projects valued at more than $7 billion. The projects, which will be submitted for public tender, include 12 toll roads, seven power-generation projects, three gas pipelines and three water treatment projects.

Banking Sector Policy. To strengthen the banking system, Bank Indonesia, as regulator, has continued its efforts to improve banking supervision and prudential regulation to comply with relevant international standards. On January 30, 2006 Bank Indonesia introduced a package of banking regulations that included regulations on uniform loan classification, corporate governance, consolidated risk management, banking sector dispute resolution and improvement in fund access for Islamic banking services. To permit banking sector growth in the current economic climate, Bank Indonesia has extended the transitional period for the implementation of tighter regulation on non-performing loans.

Establishment of Investor Relations Unit. To provide transparent and timely economic data and policy information and to facilitate communication with investors in Indonesian government securities, the government created the Investor Relations Unit ("IRU") in 2005. The IRU coordinates its operations with Bank Indonesia, the Ministry of Finance, the Coordinating Ministry for Economic Affairs, the Investment Coordinating Board (Badan Koordinasi Penanaman

Modal, or "BKPM"), the Ministry of Trade, the Ministry of Industry, the State Ministry of State Owned Enterprises, the State-owned Asset Management Company (PT Perusahaan Pengelola Aset (Persero) or "PPA") and BPS.

2006 Budget

On August 16, 2005, President Yudhoyono delivered the government's proposed budget for 2006 (the "2006 Budget") to a plenary session of the House of Representatives. The 2006 Budget is the first budget reflecting the policy goals and objectives of the Yudhoyono administration. The main targets of the 2006 Budget are to continue fiscal consolidation by gradually lowering the budget deficit to 0.7% of GDP and to lower the country's total debt to 42.8% of GDP, in each case by the end of 2006. The 2006 Budget was approved by the House of Representatives in October 2005.

See "—Government Budget—2006 Budget."

2005 Budget

In September 2004, the House of Representatives approved a budget for 2005 (the "Original 2005 Budget"). The Original 2005 Budget was drafted by the administration of former President Megawati Soekarnoputri and reflects the spending priorities of that former administration. On March 24, 2005, the government of President Yudhoyono submitted to the House of Representatives for consideration and approval proposed revisions to the Original 2005 Budget to change certain of the assumptions underlying the Original 2005 Budget, to reflect the spending priorities of the new administration and to allocate expenditures to the tsunami-related relief and reconstruction efforts in Aceh and North Sumatra, additional spending for social welfare programs and the regional elections scheduled in 2005. These revisions were approved by the House of Representatives and became law on July 11, 2005. On August 15, 2005, the government submitted a second set of revisions to the House of Representatives. These revisions included changes in some of the previous macroeconomic assumptions (mainly increasing the average oil price and decreasing the value of the rupiah relative to the U.S. dollar), changes in the levels of fuel and non-fuel subsidies, adjustments in how the government allocates foreign loans for projects extending over more than one year and increases in the budget allocation for certain ministries in light of actual expenditures in the first half of 2005, along with certain amendments. The House of Representatives approved the revisions on September 27, 2005 (the "2005 Budget").

See "—Government Budget—2005 Budget."

Reduction of Subsidies for Various Fuel Products and Changes in Monetary Policy

On March 1, 2005, the government reduced the subsidies it pays for various fuel products (except kerosene) resulting in an increase in the sale prices for these fuels. These reductions were made in an effort to maintain its budget deficit at manageable levels, lessen the disparity of prices among fuel products, promote energy conservation, encourage development of alternative energy sources and increase the amount of government expenditures specifically targeted for social services for the poor. See "—2005 Budget." As a result of the reduction of fuel subsidies, fuel prices in Indonesia increased an average of approximately 29% on March 1, 2005.

As a result of the significant increases in global oil prices and the depreciation of the rupiah relative to the U.S. dollar during the second quarter of 2005, the government was confronted with the prospect of sharply higher fuel subsidy expenditures. Unless policy adjustments were made, the government faced a potential fiscal deficit for its 2005 budget well in excess of its original expectations. On September 20, 2005, the Budget Committee of the House of Representatives agreed to set expenditures in 2005 for fuel subsidies at approximately Rp89.2 trillion, as compared to the estimated Rp113.7 trillion that would have been spent on fuel subsidies in 2005 if the policy remained unchanged. To mitigate the impact of the lower fuel subsidies on Indonesia's poorest citizens, Rp5.0 trillion was allocated for payments of direct cash subsidies to the poor. The direct cash subsidies are part of a Rp23.5 trillion package including expenditures on education, health, rural infrastructure and rice. On September 27, 2005, the House of Representatives approved the 2005 Budget, which included the lower figure for fuel subsidies and a higher level for direct subsidies. On October 1, 2005, the government raised the price of premium gasoline by 87.5% to Rp4,500 per liter, the price of regular gasoline and diesel fuel by 104.8% to Rp4,300 per liter, and the price of kerosene by 185.7% to Rp2,000 per liter.

Due to the inflationary pressures caused by oil 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 its policy rate, the Bank Indonesia reference rate (the "BI rate"), to 8.25% on June 30, 2005, to 8.50% on July 5, 2005, to 8.75% on August 9, 2005, to 9.50% on August 30, 2005 and to 10.00% on September 6, 2005. 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 have added to inflationary pressure, Bank Indonesia further raised the BI rate to 11.0% on October 4, 2005, to 12.25% on November 1, 2005, and to 12.75% on December 6, 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 its 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 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.

Terrorism

On October 1, 2005, bombs exploded in three restaurants in Bali, killing at least 22 people and injuring more than 100. In recent years, several bombing incidents have taken place in Indonesia, including one in Bali on October 12, 2002, one at the JW Marriott Hotel in Jakarta on August 5, 2003 and one at the Australian Embassy in Jakarta on September 9, 2004. The 2002 bombing in Bali affected transportation, tourism, employment and investment in the Indonesian economy in the fourth quarter of 2002. See "—Principal Sectors of the Economy—Transportation and Communications," "—Principal Sectors of the Economy—Trade, Hotel and Restaurant," "—Labor and Employment—Labor" and "—Gross Savings and Investment."

The Indonesian government has taken steps to combat terrorism, including enacting new domestic anti-terrorism laws, 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 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.

Avian Influenza

Indonesia is one of a number of countries to experience outbreaks of highly contagious avian influenza, and like other countries, Indonesia has seen several 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 February 15, 2006, there have been 26 confirmed human cases of the disease, with 18 deaths. In spite of the implementation of avian influenza prevention and control measures, outbreaks in animals, particularly in birds, as well as 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 detected in Indonesia.

The government is continuing to work internally and 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 flu. 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.

Establishment of Independent Anticorruption 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 and state-owned enterprise officials, especially judicial and law enforcement officers. The KPK also works to educate the public on anticorruption issues and consults with the government on structural changes to curb official corruption. The KPK operates independently of the executive and parliament, although its funding is provided for through the normal budget process. The KPK's professional staff is made up mostly of police, auditors and prosecutors, and it can prosecute cases in special courts that were set up specifically to handle corruption cases. Currently the KPK is reviewing approximately 10,000 complaints of official corruption that it has received from the public. Since beginning operations, the KPK has successfully convicted and sent to prison 10 high-ranking government officials, and it currently has approximately 10 additional cases in the courts. 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.

December 2004 Earthquake and Tsunami and March 2005 Earthquake

On December 26, 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 kilometers coastal strip. Some 130,000 people were killed and 37,000 remain missing as a result of the earthquake and the tsunami. On March 28, 2005 an earthquake with a magnitude of 8.7 on the Richter scale hit Nias, Simeulue and southern parts of Aceh. These two events caused immense social, economic and environmental devastation to areas that were already poor, while sparking unprecedented emergency support. Before the tsunami, more than a third of the population of Aceh and Nias lived in poverty. Now, almost half live below the poverty line or are dependent on food aid. Full recovery is expected to take years. The disaster triggered an unprecedented national and international response for emergency needs. The Indonesian military and military forces from various countries led the search and rescue, relief distribution and immediate clean-up activities. To mobilize resources and effectively coordinate efforts to rehabilitate and reconstruct the tsunami-affected region, the government established the Agency for Rehabilitation and Reconstruction of Aceh and Nias, also known by its Bahasa Indonesian initials of "BRR."

The effort of the government to respond to the disaster has recently focused on helping the people of Aceh and Nias restore their lives. Many new and innovative mechanisms for funding the recovery have ensured that sufficient resources are available. Fifteen donors have pooled their grant assistance in a $525 million Multi-Donor Fund for Aceh and Nias, co-chaired by the European Commission (the largest donor to the fund), the World Bank and the BRR. The ADB launched the Earthquake and Tsunami Emergency Support Project with a $300 million grant. Major bilateral programs of grants and soft loans have been offered by the Australia-Indonesia Partnership for Reconstruction and Development, the Governments of Japan, Germany and the United States, as well as many other governments.

The tsunami caused an estimated loss of $1.2 billion in productive sectors of the economy. More than half of this loss was in the fisheries sector and the rest was divided between farming and manufacturing. Cash-for-work programs for relief-related work, financed by many donors and non-governmental organizations, has played a vital role in providing needed income for local residents and revitalizing the economy of the stricken areas. These programs are now being phased out, as more housing construction projects and other regular employment activities are being launched. The recovery effort is now primarily focused on rebuilding housing and restoring a productive economy and public services. The government is optimistic about the recovery process, especially in light of a peaceful settlement with Acehnese separatists in the region, but significant challenges remain. See "—Settlement with Aceh Separatist Movement."

The government estimates that the recovery effort for Aceh and Nias will require at least $5.8 billion to restore lost assets. One year after the tsunami, $4.4 billion has been allocated for specific projects. The government (including 2006 Budget) has allocated $1.1 billion, non-governmental organizations $1.5 billion and official donors $1.8 billion. These projects are expected to meet the minimum needs in most sectors, but important gaps remain, particularly in transport, flood control and the environment. Of the $4.4 billion allocated, $775 million had been spent as of the end of November 2005.

The government estimates that Aceh contributed approximately 2.2% to the national economy in 2004. The Aceh economy consists principally of agriculture (28%), mining (20%), manufacturing (20%) and transportation and communication (11%). Exports from Aceh province are primarily oil and gas (comprising 95% of all exports from Aceh). The sectors of Aceh's economy most affected by the tsunami were agriculture, transportation and communication. Aceh's mining sector was relatively unaffected since its oil and gas production sites were inland from the coastal areas affected by the tsunami.

Temporary Suspension of Debt Service from the Paris Club

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 December 31, 2005 to Indonesia (as well as other nations affected by the tsunami). The Paris Club took this action to allow those debtor 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 beginning in 2006. Through a series of bilateral agreements with the Paris Club members, Indonesia reduced its debt service payments by $2.6 billion in 2005. The government's debt service payments in 2006 will be higher than those in 2005 because of both the resumption of payments on the Paris Club debt and because of some deferrals of 2005 Paris Club payments coming due in 2006. See "—Public Debt—External Debt of the Central Government" and "—2005 Budget."

Settlement with Aceh Separatist Movement

On August 15, 2005, the government signed an agreement with the Free Aceh Movement, which is generally known by its Bahasa Indonesian initials "GAM." The agreement ended an armed struggle with GAM which had sought an independent Acehnese state for over 30 years. Under the agreement, the GAM has renounced its claim to independence and the government has agreed to an amnesty program for GAM members. As part of the amnesty program, the government has released from prison approximately 1,500 GAM members and the government is now working to reintegrate them back into society. The government has made a phased withdrawal of some government military units and a phased handover of GAM weapons has proceeded ahead of schedule. To monitor the implementation of the agreement, the Aceh Monitoring Mission ("AMM") was established. Members of the AMM are from the European Union, Thailand, Malaysia, Brunei, the Philippines, Singapore, Norway and Switzerland. The AMM has been assigned to monitor the settlement for a six-month period, which began in September 2005. A regional election in Aceh is also scheduled to be held between April and June of 2006 as a part of the peace process.

Other Regional Independence and Autonomy Movements

Indonesia is a large and diverse country and historically there have been various movements seeking independence or greater autonomy. Currently the government is trying to address the concerns of some of these groups by expanding the powers of some regional governments, making investments in infrastructure and improving judicial access. A separatist movement remains active in the eastern province of Papua, where a small portion of the population has shown support for the Free Papua Movement, generally known by its Bahasa Indonesian initials "OPM." There have been some violent incidents involving the armed wing of the OPM, and, as a result of these incidents, the national army and police have taken measures to maintain security and order in the province. Investigations by the Indonesian police have resulted in the arrest of eight members of the OPM in early January 2006.

Resolution of Territorial Dispute with Malaysia

Indonesia and Malaysia have recently agreed to use a joint commission on mapping and aids to navigation to jointly settle any maritime territorial disputes, resolving a dispute 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 on January 12, 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.

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 over 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 219 million in 2005 and is the fourth most populous country in the world, after China, India and the United States. The population is concentrated in Java (approximately 128 million), and the capital of Jakarta is estimated to have a population of approximately 9 million. With a population density of approximately 988 people per square kilometer, 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 1.97% per annum during the 1980s and 1.49% during the 1990s. The growth rate further decreased to 1.34% per annum during the period from 2001 to 2005. The rate of growth of Indonesia's population was reduced by the successful implementation of the government's family planning program. Concurrent achievements in healthcare lowered the infant mortality rate and extended average life expectancy. The government estimates that, in 2005, 28.3% of the population was under fifteen years of age and 47.5% was under twenty-five years of age.

According to the 2000 census, approximately 88% of the Indonesian population is Moslem and 9% is Christian, with the remaining population consisting of Hindus, Buddhists and followers of 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 Madurese 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; and those 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

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, he 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. Following President Wahid's impeachment in 2001, then-Vice President Megawati Soekarnoputri 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 new President of the Republic and Vice President Muhammad Jusuf Kalla was inaugurated as the new Vice President of the Republic.

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.

Form of 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 or "MPR"), the House of Representatives (Dewan Perwakilan Rakyat or "DPR"), the Regional Representatives' Council (Dewan Perwakilan Daerah or "DPD"), 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 since 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 will be 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 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.

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 law adopted in January 2004. 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 Moslems. 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 appellate jurisdiction with respect to judicial review and questions of constitutional law.

The Judicial Commission has the authority to nominate judges of the Supreme Court and is responsible for maintaining judicial integrity. 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 (for the appointment of judges of general and administrative courts), and proposals by the Minister of Religious Affairs or Minister of Defense (for the appointment of judges of religious and military courts, as applicable), and confirmed by the chairman of the Supreme Court.

Indonesia has 33 provinces, including the special region of the capital of Jakarta. Each province is headed by a governor. Each province consists of several regencies (Kabupaten), which are divided into municipalities (Kota), which are further divided into districts (Kecamatan), which are in turn further divided into villages. Since 2000, the number of provinces has increased from 27 to 33. Between 2001 and 2005, the number of regencies, municipalities, districts and villages each increased.

Members of the provincial legislatures and the regency 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 councils.

In 1999, two laws were enacted to provide 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 national 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. Furthermore, under the new 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 government may undertake onshore and offshore borrowings. Onshore borrowings are subject to the approval of the regional legislature, and offshore borrowings are 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 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 government 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 new 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.

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.

Foreign Relations and International and Regional Organizations

Indonesia maintains close diplomatic relationships with neighboring countries and its major economic partners which include, among others, the Association of Southeast Asian Nations ("ASEAN") member states, 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 International Bank for Reconstruction and Development ("IBRD" or the "World Bank") (and certain World Bank-related organizations), the ADB and the Islamic Development Bank. Indonesia is also a member or signatory of other international groups and agreements including, among others, the Organization of Petroleum Exporting Countries ("OPEC"), the World Trade Organization ("WTO") and the Asia Pacific Economic Cooperation ("APEC") forum.

Indonesia is one of 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 nations 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 nations, 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 states 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.

During the October 2003 ASEAN summit conference in Bali, the leaders of the ten ASEAN 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, investment and 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 countries and narrow the development gap between the more developed and less developed ASEAN countries.

In relation to their major non-ASEAN trading partners, the ASEAN countries (including Indonesia) also have entered into discussions and agreements with a number of countries. In November 2002, they signed an economic cooperation agreement with China, agreeing to establish the ASEAN-China Free Trade Area ("ACFTA"). Tariff concessions between China and the ASEAN countries may begin as early as 2004 under an "early harvest" program, and negotiations are on-going with the aim of establishing the ACFTA by 2010 for six ASEAN countries, including Indonesia, and by 2015 for the other four ASEAN countries. ASEAN and its member states have also held detailed discussions regarding possible free trade arrangements with India, Japan, and Australia and New Zealand.

In 2005, ASEAN, Australia and New Zealand began negotiations on the establishment of a free trade area among those countries. The intent of those negotiations would be to implement a free trade area among the ASEAN countries, Australia and New Zealand within ten years after an agreement is reached. In addition, ASEAN and the Republic of Korea have agreed to commence negotiations on the creation of a free trade zone among those countries.

In May 2000, the ASEAN nations plus Japan, China and the Republic of Korea (generally referred to as "ASEAN+3") agreed to strengthen the existing cooperative frameworks 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 countries, Japan, China and the Republic of Korea. 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 billion, with China for $1 billion, and with the Republic of Korea for $1 billion. In 2005, Indonesia renewed its BSAs with Japan and China, in each case, to double the amounts available. The ASA also has been enlarged and currently provides for $2 billion. Indonesia participates in the Asian Bond Market Initiative, an initiative sponsored by ASEAN+3 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.

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

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 of the Group of 20, an informal forum of finance ministers and central bank governors from systemically significant industrial and developing nations.

The following table shows Indonesia's capital participation in major international financial organizations as of December 31, 2005, except as otherwise indicated:

Capital Participation in International Financial Organizations

		As of December 31, 2005 Capital	
Name of Organization	**Date of Admission**	**Subscribed**	**Paid In**
		(in millions of U.S. dollars)	
Asian Development Bank	1966	2,863	209
International Monetary Fund[1]	1967[2]	3,229	3,229
World Bank Group			
International Bank for Reconstruction and Development	1967[2]	1,870	180
International Development Association	1967	15	—
International Finance Corporation	1968[3]	29	29
Multilateral Investment Guarantee Agency	1968	20	4
Islamic Development Bank[4]	1975	265	116
Export Financing Scheme	1992	2	1
Islamic Corporation for Insurance of Investment and Export Credit	1992	0.4	0.2
Bank for International Settlements	2003	60	60

Source: Bank Indonesia and Ministry of Finance.

(1) Denominated in SDR of the IMF.

(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).

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, oil and gas, mining and trade, hotel and restaurant services.

The Asian financial crisis significantly altered Indonesia's economic landscape. Policy initiatives implemented to address crisis-related problems have resulted in economic growth, with GDP growth improving from a contraction of 13.1% in 1998 to growth of 5.6% in 2005. However, GDP growth has remained below pre-crisis levels. Largely as a result of lower levels of growth and insufficient investment, unemployment has remained a persistent problem, climbing upwards from 8.1% in 2001 to 10.3% in February 2005. 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, although stronger investment growth has played an increasingly important role since 2004.

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

Key Economic Indicators

	2001	2002	2003	2004[P]	2005[P]
National account and prices:					
Real GDP growth	3.8%	4.4%	4.7%	5.1%	5.6%
Nominal GDP (in billions of U.S. dollars)(1)	165	199	238	252	287
Per capita GDP (in thousands of rupiah)	8,079	8,828	9,528	10,506	12,456
Per capita GDP (in U.S. dollars)(1)	789	943	1,110	1,167	1,309
Gross national savings (% of GNP)	24.3%	23.6%	23.1%	22.9%	N/A
Average exchange rate (rupiah/U.S. dollars)	10,241	9,310	8,572	8,985	9,751
Inflation rate (change in CPI)	12.6%	10.0%	5.1%	6.4%	17.1%
Unemployment rate	8.1%	9.1%	9.5%	9.9%	10.3%(2)
External sector:					
Current account (% of GDP)	4.2%	3.9%	3.4%	1.2%	N/A
Fiscal account:					
Budget surplus/(deficit) (% of GDP)	(2.4)%	(1.3)%	(1.7)%	(1.3)%	(0.7)%
External debt of the central government (in trillions of rupiah)(1)	596	596	588	621	633
Total debt of the central government (in trillions of rupiah)(1)	1,253	1,254	1,238	1,274	1,280
Debt service ratio (% of government revenue)	34.3%	34.8%	29.2%	33.0%	23.1%

Source: BPS, Bank Indonesia and Ministry of Finance.

P Preliminary

N/A Not Available

(1) Nominal GDP, per capita GDP in U.S. dollars, the U.S. dollar amount of outstanding external debt and total debt of the central government for each year have been converted into U.S. dollars from rupiah at the following exchange rates: Rp10,237.7 per U.S. dollar for 2001, Rp9,366.6 per U.S. dollar for 2002, Rp8,580.0 per U.S. dollar for 2003, Rp9,006.0 per U.S. dollar for 2004 and 9,518.1 per U.S. dollar for 2005.

(2) For first two months of 2005.

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 4.7%, 5.1% and 5.6% in 2003, 2004 and 2005, respectively. In recovering from the crisis over the last few years, Indonesia has made substantial progress in achieving macroeconomic stability and in reducing the economy's sensitivity to external shocks.

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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)

	2001	2002	2003	2004[P]	2005[P]	
		(in billions of rupiah)			(in billions of rupiah and percentage of GDP)	
GDP	1,684,281	1,863,275	2,036,352	2,273,142	2,729,708	100.0%
Add: Imports of goods and services	506,426	480,815	462,941	623,525	797,276	29.2
Total supply of goods and services	2,190,707	2,344,090	2,499,293	2,896,667	3,526,984	129.2
Less: Exports of goods and services	642,595	595,514	613,721	729,321	915,610	33.5
Total domestic expenditures	1,548,112	1,748,576	1,885,572	2,167,346	2,611,374	95.7%
Allocation of total domestic expenditures:						
Private consumption	1,039,655	1,231,965	1,372,078	1,532,888	1,785,596	65.4%
Public consumption	113,416	132,219	163,701	191,056	224,981	8.2
Total consumption	1,153,071	1,364,183	1,535,779	1,723,944	2,010,577	73.7
Gross domestic fixed capital formation	323,875	353,967	392,789	492,850	599,795	22.0
Change in stocks (residual)(1)	71,166	30,426	(42,996)	(49,448)	1,002	0.0
Total domestic expenditures	1,548,112	1,748,576	1,885,572	2,167,346	2,611,374	95.7%

Source: BPS

P Preliminary

(1) Includes statistical discrepancies.

In 2001, real GDP grew by 3.8%, a decrease of 1.1% from 4.9% in 2000. This slower rate of growth was attributable to slow progress in corporate sector consolidation and debt restructuring, as well as to delays in the country's bank consolidation efforts. Social and political tensions negatively affected business confidence, undermining production and investment, which restrained economic expansion. Private consumption spending grew at 3.5%, well above the previous year's growth of 1.6%, but the growth rates for investments and exports slowed to 6.5% and 0.6%, respectively, from 16.7% and 26.5% in the previous year. Private consumption growth was fueled by larger disposable incomes that resulted from a minimum wage increase and retroactive payments of salary increases for civil servants and members of the armed forces and police.

In 2002, real GDP grew by 4.4%, a small increase from 3.8% in 2001. Growth during the period was fueled by the utilities and transportation and communications sectors, with growth of 8.9% and 8.4%, respectively, followed by the financial services sector, with growth of 6.4%. The manufacturing and trade sectors, the economy's two largest sectors, both slowed due to a continued unfavorable business climate, rising production costs (due in part to government-administered increases in fuel and electricity prices) and additional taxation by local governments. Both private and government consumption grew, posting increases of 3.8% and 13.0%, respectively. Investment growth declined to 4.7%, and although total exports contracted, net exports expanded by 8.9% due to a 4.2% drop in total imports.

In 2003, real GDP grew by 4.7%, a small increase from 4.4% in 2002. Industrial production increased, and on the demand side growth continued to be driven by consumption, which was spurred mainly by lower interest and inflation rates. Investment and net exports also made contributions to GDP growth, although both remained relatively weak. A broad range of sectors experienced positive growth, including construction and utilities. Growth in the utilities sector slowed from the previous year, however.

In 2004, the real GDP growth rate increased from 4.7% in 2003 to 5.1% in 2004. This 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 by 6.4% and 5.8%, respectively. Positive growth was recorded in all sectors, except for the mining sector, which declined by 4.5%, mainly due to continued lower investment in the oil and gas industry. Private consumption remained relatively constant from 2003 to 2004 at approximately 67.8% of GDP. However, investment grew 14.6% in 2004, compared to 0.6% in 2003. As a percentage of GDP, investment increased from 18.9% in 2003 to 21.8% in 2004.

In 2005, real GDP grew 5.6%, an increase from 5.1% in 2004. This growth was mainly driven by the transportation and communication sector, which experienced growth of 13.0%, followed by the trade and construction sectors, which had growth of 8.6% and 7.3%, respectively. The largest sector, manufacturing, grew by 4.6%. Positive growth was recorded in all sectors, with the lowest growth being in the mining sector at 1.6%. The private consumption component of GDP decreased to 65.4% in 2005 from 67.8% in 2004, while investment increased slightly to 22.0% of GDP in 2005, from 21.8% in 2004. Economic growth in the last three months of 2005 was slower than 2005 as a whole, with fourth quarter GDP growth of 4.9%, compared to 5.6% for the whole of 2005. The slower growth in the fourth quarter of 2005 is attributable primarily to the rise in fuel prices imposed by the government on October 1, 2005 and higher interest rates.

Inflation

Indonesia measures annual inflation by year-on-year changes in the national consumer price index ("CPI"). Inflation in Indonesia reached a peak of 82.4% in September 1998 but became relatively subdued through 2004, declining to 6.4% in that year. Higher energy prices, inflationary expectations and the decline in the value of the rupiah in 2005 caused inflation to rise to 17.1% in 2005.

The government sets inflation targets, and the Central Bank Law of 1999 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 targeted inflation rate for 2006 is between 5.4% and 5.6%. See "— Monetary Policy."

In order to maintain the purchasing power of low income households, the government administers prices for certain goods and services, including, fuel, electricity, telephone service and water, through the use of subsidies 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

	2001	2002	2003	2004	2005
CPI (1996 (average) = 100)	249.15	274.13	287.99	N/A	N/A
CPI (2002 (average) = 100)[(1)]	N/A	104.44	109.83	116.86	136.86
Annual percentage year on year	12.6%	10.0%	5.1%	6.4%	17.1%

Source: BPS.

N/A Not Available

(1) In 2004, BPS adopted 2002 as the base year for calculating changes in the CPI. Since the base year index value of 100 is calculated using the average consumer price index for that year and the CPI figures in this table are stated as the end of the year indicated, the actual CPI for 2002 is greater than 100.

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

Inflation
(in percentages)

	2001	2002	2003	2004	2005
Overall	12.6	10.0	5.1	6.4	17.1
Food	12.0	9.1	(1.7)	6.4	13.9
Processed food, beverages and cigarettes	14.5	9.2	6.2	4.8	13.7
Housing	13.6	12.7	9.2	7.4	13.9
Clothing	8.1	2.7	7.1	4.9	6.9
Health	8.9	5.6	5.7	4.8	6.1
Education, recreation and sports	11.9	10.9	11.7	10.3	8.2
Transportation and communication	14.2	15.5	4.1	5.8	44.7

Source: BPS.

In 2003, inflation decreased 4.9% to 5.1%, compared to 10.0% in 2002. The reduced level of inflation was mainly caused by declining food prices. The lower cost of food was due to increased supplies and appreciation of the rupiah. In addition, government-administered prices rose by only 0.9% due to a lower increase in fuel and electricity prices and the cancellation of increases in telephone tariffs and cigarette excise taxes. The main causes of inflation in 2003 were higher school fees, which contributed to an inflation rate for education, sports and recreation of 11.7% in 2003, and housing and clothing prices.

In 2004, inflation rose 1.3% to 6.4%, compared to 5.1% in 2003. The main contributors to inflation in 2004 were prices for housing, which increased 7.4%, followed by food prices, which rose 6.4%, and transportation and communication, which rose 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 10.3% in 2004, primarily due to increases in education fees and school books.

In 2005, inflation rose 10.7% 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. Prior to the October 2005 fuel price increase, inflationary expectations had been rising since the government had previously announced a plan to reduce fuel subsidies significantly. 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.

The inflation rate rose 1.36% (calculated on a month-on-month basis) during the month of January 2006.

Privatization

The following table sets forth significant interests in state-owned enterprises ("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 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[2]	1999	51.0%	—	$190
PT Terminal Petikemas Surabaya[3]	1999	49.0%	—	$157
PT Telekomunikasi Indonesia (Persero) Tbk	1999	75.0%	Rp3,188	—
PT Kimia Farma (Persero) Tbk	2001	90.8%	—	Rp110
PT Indofarma (Persero) Tbk	2001	80.2%	—	Rp150
PT Socfin Indonesia (Persero)	2001	10.0%	$45.4	—
PT Telekomunikasi Indonesia (Persero) Tbk	2001	54.0%	Rp3,100	—
PT Indonesian Satellite Corporation Tbk.	2002	15.0%	$608.4	—
			Rp967	—
PT Telekomunikasi Indonesia (Persero) Tbk	2002	51.0%	Rp1,100	—
PT Tambang Batubara Bukit Asam (Persero) Tbk	2002	84.0%	Rp159	Rp15.9
PT Wisma Nusantara International (Persero)	2002	0.0%	Rp255	—
PT Bank Mandiri (Persero) Tbk	2003	80.0%	Rp2,547	—
PT Indocement Tunggal Prakarsa Tbk	2003	0.0%	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
PT Perusahaan Gas Negara (Persero) Tbk	2004	61.0%	Rp306.6[1]	Rp15.6
PT Pembangunan Perumahan (Persero)	2004	51.0%	Rp60.5	—
PT Adhi Karya Tbk	2004	51.0%	Rp65.0	Rp63.2
PT Bank Mandiri (Persero) Tbk	2004	70.0%	Rp2,844	—
PT Tambang Batubara Bukit Asam (Persero) Tbk	2004	65.0%	Rp179.7	—

Source: Ministry of State-Owned Enterprises.

(1) Additional proceeds from follow-on offering in early 2004 including Rp24.6 billion from cost and interest verification transferred to the government from the stabilization account.

(2) Previously 100% owned by state-owned enterprise PT Pelabuhan Indonesia II (Persero).

(3) Previously 100% owned by state-owned enterprise PT Pelabuhan Indonesia III (Persero).

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. Since 1997, 17 SOEs have been privatized in part or in full, including the sale of shares in PT Telekomunikasi Indonesia (Persero) Tbk, PT Perusahaan Gas Negara (Persero) Tbk, PT Bank Mandiri (Persero) Tbk ("Bank Mandiri") and PT Indonesian Satellite Corporation Tbk. In addition, the government, through Indonesian Bank Restructuring Agency ("IBRA") and PPA, has sold its stakes in certain non-SOE entities and assets. The government did not engage in any major privatizations of SOEs during 2005, but may privatize certain remaining SOEs in the future. The government is planning 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; and trade, hotels and restaurants. The manufacturing sector accounts for the largest portion of GDP.

The following two tables show GDP by sector at current and constant market prices, respectively, for 2001 to 2005:

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

	2001	2002	2003	2004[P]	2005[P]	
		(in billions of rupiah)			(in billions of rupiah and percentage of GDP)	
Manufacturing industries:						
Oil and gas	63,345	69,660	100,345	88,873	133,984	4.9%
Manufacturing (excluding oil and gas)	442,975	484,087	491,253	550,782	631,983	23.2
Total manufacturing	506,320	553,747	591,597	639,655	765,967	28.1
Agriculture, livestock, forestry and fisheries:						
Farm food crops	137,752	153,666	157,649	165,558	183,581	6.7
Non-food crops	36,759	43,956	46,754	51,591	57,773	2.1
Livestock and products	34,285	41,329	37,354	40,635	43,124	1.6
Forestry	17,595	18,876	18,415	19,678	21,450	0.9
Fisheries	36,938	41,050	45,612	54,091	59,632	2.2
Total agriculture, livestock, forestry and fisheries	263,328	298,877	305,784	331,553	365,560	13.4
Trade, hotel and restaurant services	267,656	314,647	335,100	369,361	429,944	15.8
Financial, ownership and business services	135,370	154,442	174,075	194,429	228,108	8.4
Mining and quarrying:						
Oil and gas	115,335	93,092	95,152	112,217	168,132	6.2
Mining and quarrying (excluding oil and gas)	66,673	67,932	72,420	83,895	116,954	4.3
Total mining and quarrying	182,008	161,024	167,572	196,112	285,087	10.4
Construction	89,299	101,574	125,337	143,052	173,441	6.4
Transport and communication	77,188	97,970	118,916	142,292	180,969	6.6
General government	81,851	83,294	101,606	121,129	135,133	5.0
Private sector services	70,407	82,309	97,220	113,491	140,508	5.1
Electricity, gas and water supply	10,855	15,392	19,144	22,067	24,993	0.9
Total GDP	1,684,281	1,863,275	2,036,352	2,273,142	2,729,708	100.0%

Source: BPS.

P Preliminary

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

	2001	2002	2003	2004P	2005P	
	(in billions of rupiah)				(in billions of rupiah and percentage of GDP)	
Manufacturing industries:						
Oil and gas	50,895	52,180	52,609	51,584	48,849	2.8%
Manufacturing (excluding oil and gas)	347,429	367,209	389,146	418,369	442,850	25.3
Total manufacturing	398,324	419,388	441,755	469,952	491,670	28.1
Agriculture, livestock, forestry and fisheries:						
Farm food crops	113,020	115,926	119,165	122,612	125,758	7.2
Non-food crops	34,845	36,586	38,694	39,548	40,430	2.3
Livestock and products	27,770	29,394	30,647	31,673	32,581	1.9
Forestry	17,610	17,987	17,214	17,334	16,982	1.0
Fisheries	32,441	33,082	34,668	37,057	38,641	2.2
Total agriculture, livestock, forestry and fisheries	225,686	232,974	240,387	248,223	254,391	14.5
Trade, hotel and restaurant services	234,273	243,409	256,517	271,105	294,396	16.8
Financial, ownership and business services	123,086	130,928	140,374	151,188	161,960	9.3
Mining and quarrying:						
Oil and gas	111,451	108,131	103,087	98,636	96,473	5.5
Mining and quarrying (excluding oil and gas)	56,794	61,801	64,517	61,464	66,169	3.8
Total mining and quarrying	168,244	169,932	167,604	160,100	162,642	9.3
Construction	80,080	84,470	89,622	96,334	103,404	5.9
Transport and communication	70,276	76,173	85,458	96,897	109,467	6.3
General government	70,200	70,482	71,148	72,324	73,700	4.2
Private sector services	63,757	68,500	73,957	79,814	86,291	4.9
Electricity, gas and water supply	9,058	9,868	10,349	10,890	11,597	0.7
Total GDP	1,442,985	1,506,124	1,577,171	1,656,826	1,749,547	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.

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	2000	2001	2002	2003	2004P
Paper	Thousand tons	6,849	7,635	8,451	9,025	9,564
Cement	Thousand tons	28,225	31,449	30,720	28,951	33,042
Urea fertilizer	Thousand tons	6,334	5,316	6,117	5,701	6,955
Automobiles (vans and sedans)	Thousand units	293	278	375	352	422
Motorcycles	Thousand units	983	1,645	2,318	2,814	3,897
Textiles (including knitted)	Million units	65	68	29	57	55

Source: BPS.

P Preliminary

In 2002, manufacturing industries grew at a rate of 5.3%, an increase from 3.3% in 2001 based on constant market prices, and were the largest contributor to GDP growth. In 2002, manufacturing growth increased despite being negatively affected by high levels of business risk, rising production costs, due in part to increases in fuel and electricity prices, and new levies resulting from regional autonomy initiatives.

In 2003, manufacturing industries grew at a rate of 5.3%. The non-oil and gas sector increased significantly at a rate of 6.0% while the oil and gas sector also increased slightly at a rate of 0.8%. The fertilizer, chemicals and processed rubber sectors, which grew by 10.7% in 2003, had the highest growth rates among the non-oil and gas manufacturing sector. Transport, machinery and equipment sectors and the paper and printing sectors grew by 8.9% and 8.4%, respectively, in 2003.

In 2004, manufacturing industries grew at a rate of 6.4%, compared with growth of 5.3% in 2003. An increase in non-oil and gas manufacturing of 7.5% was offset by a decline in the oil and gas sector of 1.9% primarily due to continued low investment in this sector in 2004. The increase in non-oil and gas manufacturing was mainly driven by increases in manufacturing of transport machinery and equipment, cement and chemicals. In particular, growth in the automotive industry increased significantly by 23.9% in 2004. Increased demand for housing and infrastructure resulted in higher cement manufacturing output.

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 5.3%. The increase in non-oil and gas manufacturing was driven mainly by an increase in the manufacturing of transport equipment, machinery and apparatus, which grew by 12.4%. Oil and gas manufacturing declined in both the petroleum refinery sub-sector and LNG sub-sector, which declined by 5.2% and 5.4% respectively.

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Agriculture

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

	2001	2002	2003	2004[P]	2005[P]
	(in thousands of tons)				
Food crops:					
Rice	50,461	51,490	52,138	54,088	53,985
Corn	9,347	9,654	10,886	11,225	12,014
Cassava	17,055	16,913	18,524	19,425	19,459
Sweet potato	1,749	1,772	1,991	1,902	1,840
Soya beans (shelled)	827	673	672	723	797
Peanuts (shelled)	710	718	786	837	838
Fish products:					
Capture fish	4,277	4,378	4,709	4,882	4,976
Farmed fish/aquaculture	1,077	1,137	1,224	1,469	1,699
Cash crops:					
Dry rubber:					
Large Plantation	398	404	396	404	405
Small Plantation	1,209	1,227	1,396	1,662	723
Coffee:					
Large Plantation	28	28	28	29	30
Small Plantation	541	654	658	671	733
Cacao:					
Large Plantation	60	60	60	62	65
Small Plantation	477	511	512	540	568
Tea:					
Large Plantation	127	120	126	124	128
Small Plantation	40	42	44	50	45
Sugar cane:					
Large Plantation	912	788	726	897	976
Small Plantation	814	967	909	1,123	1,223
Tobacco:					
Large Plantation	3	3	3	3	4
Small Plantation	196	189	205	215	226
Palm oil:					
Large Plantation	5,598	6,196	6,924	8,366	9,250
Small Plantation	2,798	3,427	3,517	3,745	4,141
Palm kernel:					
Large Plantation	1,118	1,210	1,529	1,835	2,082
Small Plantation	558	621	834	888	1,007
Livestock:					
Meat	1,560	1,770	1,872	2,020	2,113
Eggs	858	946	974	1,107	1,149
Milk[(1)]	480	493	553	550	557
Forestry[(2)]:					
Logs	10,051	8,660	10,086	13,549	15,822
Sawn timber	675	623	1,134	433	944
Plywood	2,101	1,694	3,295	4,514	5,271

Source: 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.

In 2003, agriculture expanded 3.2%, higher than the previous year's growth of 3.1%. The largest contribution to growth in this sector came from food crops such as rice, corn, and cassava and plantation crops such as palm oil, cocoa and rubber. Despite a drought prediction, the total output of rice increased by 648 thousand tons, 1.3% higher than the previous year. This was due to rising productivity driven by subsidized fertilizer and seed support programs. In addition, the rise in rubber production was mainly attributable to the favorable international price set by the International Rubber Consortium Limited in October 2003. Cacao production also increased by 600–800 kilograms to 1,150–1,300 kilogram per hectare due to improvements in pest control.

In 2004, the agriculture sector expanded by 3.3%, a slight increase in the rate from 2003. The growth in agriculture was mainly driven by the fishery sub-sector, followed by livestock, food and cash crops. The increase in food crops was mainly due to a 3.7% increase in rice production to 54,088 thousand tons.

In 2005, the agriculture sector grew by 2.5%, lower than its growth in 2004 of 3.3%. All sub-sectors in the agriculture sector experienced lower growth in comparison with 2004, with the exception of non-food crops. Farm food crops, the main sub-sector in the agriculture sector, decreased slightly because of a fall in harvest area from 11.9 million hectare to 11.8 million hectare. Lower growth in livestock and fishery sub-sectors stemmed from increasing production cost, as the rupiah weakened and domestic oil prices increased significantly.

Food Crops. Rice is the most important food crop and the main source of carbohydrates in the Indonesian diet. Rice production has been stable for the last three years, growing 1.3% in 2003 and 3.7% in 2004, but decreasing by 0.2% in 2005. The slight increase in 2003 was due to higher level of productivity, particularly in Java, which was offset by the reduction of paddy area in Java. The decrease in paddy area was due to an increase in land competition from other crops, in particular fruits and vegetables, which have a higher value and turnover rate. 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 December 2004 tsunami in Aceh, there was a slight decrease in rice production in 2005. The government continued its ban on the importation of rice in 2005, except for permitting imports of certain specialized categories of rice, such as rice for diabetics, glutinous rice and varieties of rice used in Japanese restaurants. These exceptions to the import ban helped offset the decrease in rice production as a result of the destruction of harvested areas caused by the disasters.

Soybean production decreased during 2002 and 2003, but increased significantly in 2004 as domestic demand for soybean products grew. This upward trend continued in 2005 with a 10.2% increase over the previous year. Peanut production has also increased during the last four years as domestic demand for peanuts has grown. Corn production increased in the period from 2002 to 2005, due to a higher demand for feed. The increase in corn production is mainly attributable to the increased use of hybrid corn varieties. Production of cassava has also increased during the last four years, as domestic and international demand for cassava grew, particularly as raw material for bio fuel. Production of sweet potatoes has remained relatively stable during the past three years but declined in 2004 and 2005 as sweet potato farmers shifted use of their land to other uses.

Fishing. The Indonesia fisheries activity, which includes both capture and aquaculture, plays a major role in the national economy, contributing 2.2% of GDP (at current market prices) in 2005. Productive fishing grounds within Indonesia are located in the Malacca Strait, the South China Sea, the Makassar Strait, the Flores Sea, the Java Sea, the Banda Sea, the Arafura Sea, the Seram Sea, Tomini Bay, the Sulawesi Sea, the Pacific Ocean and the Indian Ocean. In recent years, fishery products from aquaculture, particularly shrimp, have become important export commodities. From 2001 to 2005, fish production increased by 5.7% each year, from approximately 5.4 million tons in

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2001 to approximately 6.7 million tons in 2005. From 2001 to 2005, the export volume of fishery products increased significantly. Export revenues were $1.6 billion in 2001 and were $1.5 billion in 2005. The lower export revenue in 2005 compared with 2001, which occurred despite higher production, was due mainly to decreases in prices that resulted from increased international competition. The country's exports of fish and aquatic products consist of shrimps, skipjack, tuna and other fish and aquatic species such as grouper, tilapia, abalone, seaweeds, sea cucumber, pearls and other mollusks.

Cash Crops. Palm oil is the Republic's most important cash crop, followed by rubber and sugar cane. Other cash crops are coffee and cacao. Large plantations produce the majority of palm oil. Rubber, cacao 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. Palm oil production increased approximately 10.6% in 2005 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 increased 8.8% in 2005 due to increased cultivated land and productivity, and coffee production increased 9.0% in 2005. In 2005, production of rubber, cacao, palm oil, and sugar cane was 1.1 million tons, 633 thousand tons, 13.4 million tons, and 2.2 million tons, respectively. In 2005, small plantation production of rubber, coffee and tea all decreased, primarily because of higher fuel and fertilizer prices.

Livestock. Livestock contributed 14% of the total agriculture output in 2005 and has maintained a relatively stable portion of total agriculture output during the past four years. Growth of livestock output has averaged around 5% per year during the past three years. Livestock production is steadily increasing and expected to increase along with income levels. Meat production increased by 4.6% from 2,020.4 thousand tons in 2004 to 2,113.2 thousand tons in 2005. Egg production increased by 3.8% from 1,107.3 thousand tons in 2004 to 1,149.0 thousand tons in 2005. Milk production increased by 1.3% from 550 thousand liters in 2004 to 557 thousand liters in 2005. In line with the increase in consumption of animal products such as meat and eggs, milk consumption has steadily increased in recent years in line with higher income levels. In 2005, the per capita level of meat, egg and milk consumption was 7.11 kilograms, 4.71 kilograms and 6.8 liters, 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 compulsory reforestation programs on their forestry concessions. From 1993 to 2002, in this increasingly regulated environment, the export value of wood products decreased at an average annual rate of 13.2%. The export value of processed wood decreased to $3.2 billion in 2003 compared to $3.3 billion in 2002 and slightly increased to $3.3 billion in 2004. In 2005, forestry production increased while the export value of processed wood remained at $3.3 billion. The export value did not increase mainly due to increased domestic consumption. In 2004, the Ministry of Forestry enacted a number of priority programs promoting the preservation and sustainability of forests within Indonesia. The Ministry of Forestry has announced plans to amend the laws and regulations to induce investment in the sector.

Transportation and Communications

In 2003, the transportation and communication sector grew by 12.2% and was the economy's second largest contributor to GDP growth. Similar to last year, the sector's high growth was spurred by the transportation sub-sector. A tariff war in the airline industry induced higher demand and caused the airlines to expand their fleets. Land transportation, which accounts for 50% of the transportation sub-sector, was relatively stable. The growth in railway transportation has been declining since 2001 due to a shift in consumers' preference to air travel. Similar to last year, growth in telecommunication continued to increase in line with the expansion of mobile telecommunication and fixed telephone line networks.

In 2004, the transportation and communication sector grew by 13.4%, which was higher than the growth rate of 12.2% in 2003. Air transportation recorded the highest growth, 28.2%, due to continued strong demand for air travel resulting from increased competition in the industry and lower air fares. Growth in communications was dominated by continued growth in mobile communications, as reflected by an increase in cellular phone customers from approximately 18 million in 2003 to approximately 29 million in 2004.

In 2005, the transportation and communication sector grew by 13.0% mainly due to higher growth in the communication sub-sector. The transportation sub-sector, however, experienced slower growth of 6.4%, compared to 8.8% growth in 2004. Substantially higher fuel prices in 2005 led to a lower number of passengers.

Trade, Hotel and Restaurant

In 2003, the trade, hotel and restaurant sector recorded growth of 5.4%, compared to growth of 3.9% in the prior year. The increase was primarily due to growth in the trade sub-sector caused by the opening of new shopping centers, expanded retail trading and increased consumer credits. Although the SARS outbreak in East Asia caused a decline in foreign tourism, the hotel and restaurant sub-sectors grew moderately, primarily due to domestic tourism.

The trade, hotel and restaurant sector recorded growth of 5.7% in 2004, a slight increase from the rate of 5.4% in the previous year. The hotel sub-sector recorded the highest growth of 7.9% resulting from an increase in domestic and foreign tourism, despite the issuance of travel warnings by several developed countries. Wholesale and retail trade grew by 5.5%, mainly as a result of higher growth in retail and an increase in the number and occupancy rates of shopping centers and malls.

In 2005, the trade, hotel and restaurant sector recorded high growth of 8.6% mainly due to contribution from the trade sector, which is the largest sub-sector in the trade, hotel and restaurant sector. 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 sub-sector attained slower growth of 6.7% in 2005, down from 7.9% in 2004. One reason for the slower growth in the sub-sector was fewer international tourist arrivals, as travelers became more concerned about security issues.

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, however, and have experienced positive growth in each of the past four years. The financial services sector includes both banks and non-bank financial institutions such as insurance companies, pension funds, consumer financing companies, and rental and service companies. See "—Financial System—Banks and Other Financial Institutions" for more information on the financial sector.

In 2003, the financial services sector grew at a rate of 7.2%. Despite limited expansion in lending because of the continued low level of business confidence, banks' profits increased substantially. The increase in bank profits was mainly due to higher interest margins, as deposit rates declined by more than credit interest rates. The non-banking financial sub-sector also recorded higher growth due to the decline in interest rates, which spurred investments in mutual funds.

In 2004, the financial services sector grew at a rate of 7.7%, compared to 7.2% in 2003. The growth was driven by business services, which grew at 9.9%, non-bank financial services, which grew at 9.3%, and commercial leasing, which grew at 8.6%. Bank financial services showed higher growth of 6.1% in 2004, due to increased commercial lending. Non-bank financial services grew as well due to a shift in public investment preferences from bank deposits to non-bank financial investments such as mutual funds, stocks and bonds. Investors shifted to non-bank financial investments as interest rates offered by banks on deposits dropped significantly during 2004. Despite increased growth in the non-bank financial services sub-sector, the banking sub-sector maintained a 40% share of the financial services sector in 2004.

In 2005, the financial services sector grew by 7.1%, decreasing from growth of 7.7% in 2004. As interest rates increased in 2005, growth in bank financial services, non-bank financial services, and commercial leasing were all lower. However, growth in other services related to building rental and business services remained high, with growth rates of 9.0% and 9.9% respectively.

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 oil and gas, which in the first nine months of 2005 comprised 59.3% of the sector.

Although oil and gas production has declined over the past nine years, due primarily to decreased investment, oil and gas are still Indonesia's biggest exports, contributing approximately 23.5% of total exports in the first nine months of 2005 and about 28.1% of government revenues (inclusive of tax revenue from the oil and gas sector) in the actual expenditures of the 2005 Budget. Indonesia is no longer a net exporter of oil, but it is a net exporter of oil and gas combined. In the first nine months of 2005, Indonesia earned $14.9 billion from the export of oil and gas. See "—Foreign Trade and Balance of Payments—Exports and Imports." Since products in the 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 2003, the mining and quarrying sector contracted by 1.4% primarily due to a contraction of the oil and gas sub-sector as a result of a decline in oil production despite higher oil prices, which increased to $28.77 per barrel in 2003 from $24.57 per barrel in 2002. This was partially offset by growth in the non-oil and gas mining sub-sector.

In 2004, the mining and quarrying sector contracted by 4.5%, a further contraction from the previous year's contraction of 1.4%. The greater contraction was mainly due to continued low investment in mining and quarrying, particularly in the oil and gas sector.

In 2005, the mining and quarrying sector increased by 1.6%. The non-oil and gas mining sub-sector increased by 7.7% in 2005 compared to a contraction of 4.7% in 2004. In contrast, the production of oil and gas mining 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.

Oil and Natural Gas. Indonesia has been a member of OPEC since 1962 and is the sole OPEC member in the Asia-Pacific region.

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 is 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") and Oil and Gas Downstream Regulatory Board (Badan Pengatur Kegiatan Hilir Minyak dan Gas Bumi or "BPH Migas"), which regulate "upstream" production, including the exploration, exploitation, production and export of oil and natural gas and "downstream" distribution of gasoline, which includes 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 the foreign company 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. On September 17, 2005, the Republic entered into a production sharing contract with Exxon Mobil Corp and Pertamina to develop the Cepu block, replacing a contract that had expired in 2004. Further details need to be agreed upon before development begins. Beginning November 2005, Pertamina no longer had monopoly in the downstream sector, which will permit others to begin 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]

	2000	2001	2002	2003	2004	First ten months of 2005
	(in millions of barrels)					
Pertamina[2]	37	37	35	35	35	35
Production sharing contracts[3]	480	452	421	384	366	287
Total	517	489	456	419	401	322

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.

Indonesia's oil production has declined in the last five years from 517 million barrels in 2000 to approximately 401 million barrels in 2004, and the trend has continued in the first ten months of 2005. This decrease was 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 natural gas production by source for the periods indicated:

Natural Gas Production by Source[1]

	2000	2001	2002	2003	2004	First ten months of 2005
	(in billions of standard cubic feet)					
Pertamina[2]	329	331	317	320	367	316
Production sharing contracts[3]	2,572	2,476	2,719	2,835	2,663	2,150
Total	2,901	2,807	3,036	3,155	3,030	2,466

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.

As of January 1, 2005, oil reserves stood at 8.6 billion barrels and natural gas reserves stood at 185.8 trillion cubic feet.

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

Crude Oil Exports by Source[1]

	2000	2001	2002	2003	2004	First eleven months of 2005
	(in millions of barrels)					
Pertamina crude[2]	54	47	46	41	24	—
Production sharing contracts[3]	169	193	171	148	125	115
Government and government-designated[4]	—	—	—	—	—	29
Total	223	240	217	189	149	144

Source: Ministry of Energy and Mineral Resources.

(1) Includes exports 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.

(4) Beginning in 2005, exports by Pertamina and entities designated by BP Migas are reported together.

The following table sets forth the average price of crude oil for the periods indicated:

Average Price of Crude Oil

2001	2002	2003	2004	2005
(in U.S. dollars per barrel)				
23.75	24.57	28.77	37.58	53.40

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

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 6.2% of all exports in 2004. Most of the mining activity in Indonesia is conducted by three state-owned companies: PT Tambang Timah (Persero) Tbk, the state-owned tin mining company; PT Tambang Batubara Bukit Asam (Persero) Tbk, the state-owned coal mining company; and PT Aneka Tambang

(Persero) Tbk, the state-owned 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

	2001	2002	2003	2004	2005
Tin ore concentrate (metric tons)	62	88	72	73	75
Nickel ore (wet metric tons)	3,619	4,366	4,395	4,095	2,546
Bauxite (metric tons)	1,237	1,283	1,263	1,331	1,442
Copper ore concentrate (dry metric tons)	3,289	3,787	3,238	2,810	3,554
Coal (thousands of metric tons)	94,510	102,490	114,278	132,352	148,967
Iron sand concentrate (wet metric tons)	469	379	245	90	120
Gold (metric tons)	163	142	141	93	130
Silver (metric tons)	270	294	285	263	320

Source: Ministry of Energy and Mineral Resources.

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 company currently operating in Indonesia is PT Freeport Indonesia, a wholly foreign-owned company. As of December 31, 2005, total production of copper concentrate was 3.6 million metric tons despite environmental issues and accidents in 2004.

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. 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 2003, 2004 and 2005, gold production in Indonesia was 141 tons, 93 tons and 130 tons, respectively. In 2005, over 92% of Indonesia's gold was 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 uncertainty in industrial relations and more frequent labor disputes.

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The following table sets forth the proportion of the employed labor force in each sector of the economy for the years from 2000 through 2004 and the first two months of 2005, together with the actual number employed in each sector as of February 28, 2005:

Employment by Sector of the Economy

Product	**2000**	**2001**	**2002**	**2003**	**2004**	**First two months of 2005**	
			(in percentages)			(in millions and percentages)	
Agriculture, forestry, hunting and fishery	45.1%	43.8%	44.3%	46.3%	43.3%	41.8	44.0%
Mining and quarrying	0.5	0.0	0.7	0.8	1.1	0.8	0.9
Manufacturing	13.0	13.3	13.2	12.0	11.8	11.7	12.3
Electricity, gas and water.	0.1	0.0	0.2	0.2	0.3	0.2	0.2
Construction	3.9	4.2	4.7	4.4	4.5	4.4	4.7
Wholesale and retail trade and restaurants	20.6	19.2	19.4	18.6	20.4	18.9	19.9
Transportation, storage and communications	5.1	4.9	5.1	5.5	5.9	5.6	5.8
Finance, insurance, real estate and business services	1.0	1.2	1.1	1.4	1.2	1.0	1.1
Public services	10.7	12.1	11.3	10.7	11.2	10.6	11.1
Others.	0.0	1.2	0.0	0.0	0.0	0.0	0.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	95.0	100.0%

Source: BPS.

At the end of 2002, the working age population was 148.7 million, up from 144.0 million a year previously. Of that number, 67.8% or 100.8 million belonged to the labor force, up about 2.0% over the previous year. However, the number of jobs fell by 1.4% and unemployment, which refers to individuals not working but looking for work, increased to 6.1% as a result of layoffs, which were caused by reductions or shutdowns in production exacerbated by the economic impact of the Bali bombing, the increase in labor demonstrations and strikes and the repatriation from Malaysia of a large number of illegal Indonesian workers. About 68% of workers were employed full time (working 35 hours or more), with the remaining 32% employed part-time.

In 2002, BPS extended the definition of unemployment to include discouraged workers (individuals no longer looking for work, having become discouraged about finding a job). Previously, discouraged workers were not included in calculating unemployment. The extended definition increased the measured unemployment rate from 5.1% to 8.1% in 2001 and from 5.8% to 9.1% in 2002.

With only modest GDP growth in 2003, new jobs were created for only 1.6 million people. These new jobs were insufficient to absorb the 5.2 million new workers who entered the labor market that year. At the end of 2003, the working age population reached 152.6 million people, up from 148.7 million in 2002. Of that number, 100.3 million or 65.7% were members of the work force, consisting of 90.8 million who were fully employed and 9.5 million who were actively seeking jobs, for an open unemployment level of 9.5%. At the same time, the number of workers who were either unemployed or underemployed (working less than 35 hours per week) reached 39.6% of the work force. The rising unemployment level was mainly attributable to rationalizations in several manufacturing industries such as textile, footwear and transportation businesses. Contributing to the problem were more limited opportunities for Indonesia's workforce to work abroad, mainly attributable to low worker quality and work licensing issues.

During 2004, Indonesia's unemployment rate rose to 9.9% from 9.5% in 2003. Although the number of jobs created in 2004 was higher at 2.3 million than in 2003, the unemployment rate in 2004 rose due to the introduction of 3.7 million new workers into the labor market. In 2004, Indonesia's work force increased to 103.9 million. The number of unemployed people rose to 10.3 million in 2004, an increase of 0.8 million from 9.5 million in 2003. In addition, the number of underemployed workers reached approximately 30 million. The increasing unemployment and underemployment in 2004 was partly driven by layoffs in several manufacturing industries, including textiles and footwear, and at SOEs involved in the aerospace industry.

Unemployment is expected to remain a problem in Indonesia as long as economic growth and job creation fail to keep pace with population growth.

Three important changes in labor policy have occurred within the last several years. First, 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. Second, the Industrial Disputes Resolution law was enacted in January 2004 (but effective in January 2006), prescribing procedures for resolving disputes and establishing new specialized labor courts. These two laws provide a modest, positive contribution to the overall policy environment and improve certainty in the industrial relations framework. Third, 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.

Another important change has been moderation in minimum wage increases in the major industrial centers. Between 2000 and 2002, minimum wages increased approximately 20% to 40% per annum in the major industrial areas. In 2003, local governments increased minimum wages less than 10%, in line with inflation. In January 2004, minimum wages were again adjusted in line with expected inflation in 2004. In January 2005, minimum wages were adjusted by an average of 11%, which was above the inflation rate of 6.4% in 2004. In January 2006, minimum wages were adjusted by an average of 18%, which was above the 2005 inflation rate of 17.1%.

Pension 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, pension plans for government employees (not including employees of SOEs) administered by PT Taspen, 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.

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, a pension fund provided by a private employer to its employees and Financial Institution Pension Funds, a pension fund chosen and obtained by an employee from a financial institution. The law specifies the types of assets that these pension funds may acquire, as well as the permissible allocation of investments among assets and asset classes.

In October 2004, the government adopted a law establishing a national social security system. The national social security system created under this law is a national program designed to ensure social protection and welfare to all Indonesian citizens. The program provides health, accident, retirement, old age and death benefits to employees, funded by defined contributions from the employee and employer, while payments to lower income persons are funded by the government. Rp3.9 trillion was appropriated for this purpose in the 2005 Budget and Rp4.5 trillion in the 2006 Budget.

Income Distribution

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

Income Distribution
(percentage of total national income)

	2002	2003	2004	2005[P]
Lowest 40%	20.9%	20.6%	20.8%	21.8%
Middle 40%	36.9%	37.1%	37.1%	37.7%
Highest 20%	42.2%	42.3%	42.1%	40.4%
Gini Index	0.33	0.32	0.32	0.34

Source: BPS
[P] Preliminary

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. Since 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 has remained relatively constant from 2002 to 2005.

Infrastructure Development

The continuing effects of the Asian financial crisis have placed great strain on Indonesia's infrastructure. The overall quality of the nation's infrastructure has decreased since the beginning of the financial crisis as public spending in real terms has been reduced and many planned private infrastructure projects have been suspended. Indonesia faces 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 new government is to encourage infrastructure development as a means to accelerate economic growth, support further industrial development and improve the lives and financial and economic welfare of Indonesians. The new government is currently formulating an infrastructure development strategy. To heighten foreign investor interest in the Indonesian infrastructure sector, in January 2005, the government held an infrastructure summit that described the infrastructure projects the government is considering undertaking in the future and to foster cooperative efforts between the government and foreign private investors. The government has completed the bidding process for six toll road projects and another thirteen are in the prequalification process. The government has also issued new regulations concerning electricity, water, toll roads and eminent domain. The next infrastructure development summit is scheduled for May and June of 2006. On February 21, 2006, the government announced that in 2006 it will seek private investments in 25 major infrastructure projects valued at more than $7 billion. The projects, which will be submitted for public tender, include 12 toll roads, seven power-generation projects, three gas pipelines and three water treatment projects.

Telecommunications

Throughout the 1990s, the Indonesian telecom sector was dominated by PT Telekomunikasi Indonesia (Persero) Tbk ("Telkom") as the sole operator for local and domestic long-distance services and PT Indonesian Satellite Corporation Tbk ("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.

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 started to pick up in 2001.

As in 2001, fixed line development in 2002 remained slow. The number of fixed lines increased by only 3.4%, while the number of mobile subscribers grew by 73%. By the end of 2002, there were about 11.3 million mobile subscribers, surpassing the number of fixed lines at 9.1 million. Private sector interest in the telecom sector remained strong, as indicated by Singapore Technologies Telemedia's purchase of the government's 41.9% share in Indosat for Rp5.6 trillion in December 2002.

The number of fixed lines grew by 4.1% and the number of mobile phone subscribers grew by 66% in 2003, slower than the growth rates in 2002. In mid-2003, fixed mobile services were introduced in Indonesia. In 2004, the number of mobile phone subscribers increased 66%, from 18 million in 2003 to 29 million. As of August 31, 2005, the number of mobile phone subscribers had increased to 40 million, while the number of fixed mobile services subscribers was 3.5 million.

Telecom penetration is low by international standards, with fixed line penetration of 4.1% and mobile service penetration of 15.0% as of December 31, 2004. To address this problem, the government has maintained a Universal Service Obligation ("USO") program since mid-2003. Funded by the national budget, this program provided telecom facilities in approximately 3,000 villages in 2003 and approximately 3,500 villages in 2004. Starting in 2005, the government was expecting this program to be funded entirely by telecom operators. On July 5, 2005, a government decree was enacted requiring the contribution of 0.75% of gross telecommunications operators' income to the USO program.

By 2010, more than 44,000 villages are expected to be included in the USO program. To ensure the sustainability of this program, the government plans to implement a program of service-based contracts with multi-year funding. Under this program, regions under the USO program will be divided into 11 regional blocks and the government will select a development agent for each area through a tender process open to network operators, network operators having joint operation with local SOEs and small and medium enterprises, as well as vendors having joint operations with network operators. This program is expected to be implemented in 2006. 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 licences to PT Excelcomindo Pratama Tbk, Indosat, and Telkom.

Transportation

As Indonesia consists of more than 17,500 islands, the transportation network and services system 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 highways, consisting of 34,628 kilometers of national roads, 46,498 kilometers of provincial roads and 271,475 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 6,003 kilometers of railways, of which 4,516 kilometers are operated. The land transportation system also includes 422 bus stations, which serve 2,013,176 buses consisting of 19,363 inter-provincial buses. In terms of sea transportation, Indonesia has 34,342 kilometers of riverways, 23,255 kilometers of which are navigatable. Indonesia has 2,125 ports, 141 of which serve as international ports to facilitate export-import cargo traffic. Indonesia operates 187 airports, of which 23 are international airports. International flights into and out of Indonesia are serviced by 45 international airlines, while the domestic market is serviced by 21 airlines.

Electricity

Indonesia has gradually been opening electric power services to competition from the private sector. In 1990, the government converted PT Perusahaan Listrik Negara (Persero) ("PLN"), the state-owned electric power company, 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 11.7% per year between 1989 and 1994, 9.7% per year between 1995 and 2000 and 6.7% per year between 2001 and 2005.

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. On December 15, 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 which affect the lives of a majority of the Indonesian people. The Constitutional Court further held that (i) all contracts or permits which had been entered into or issued under the 2002 electricity law would remain valid until their expiration, (ii) the previous electricity law of 1985 would be reinstated and (iii) 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 since they are required to be connected to PLN's electricity grids. The government is in the early stages of preparing a new electricity law in light of these developments.

In April 2005, the Ministry of Energy and Mineral Resources launched the National Electricity General Plan 2005–2025 to coordinate electricity development for all regions. It is expected that power demand for Indonesia will grow at a rate of 7.5% per year. To meet this demand, additional power generation capacity of approximately 76 GW will be required by 2025.

Indonesia now has an installed electrical generating capacity of approximately 25 GW, with 86% coming from thermal (oil, gas and coal) sources, 12% from hydropower and 2% from geothermal sources. PLN owns about 86% of the installed capacity, and the rest belongs to private sector entities. Higher levels of investment in transmission and distribution lines and facilities will be required to meet expected demand. 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.

Water

Approximately 44% of the urban population and 35% of the rural population, or a total of approximately 173 million people, have access to clean water supply. Sewage systems are relatively underdeveloped, which may affect the quality of surface and groundwater. Sewage system services are still limited to approximately 87% of the urban population, or 82 million people, and approximately 44% of the rural population, or 53 million people. Population growth is expected to put increasing pressure on the existing water supply system.

Indonesia has developed an irrigation network covering 7.07 million hectares, but due to poor operations and maintenance and shortage of funds for repairs, 26.1% of the irrigation network is in poor condition. In 2004, a new water usage law was adopted by the government. The 2004 water law provides the basis for reform in water resource usage, including 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 chart sets forth Indonesia's national savings and investments and the difference between them in absolute amounts and as a percentage of GDP:

National Savings and Investments

	2001	2002	2003	2004[P]	2005[P]
	(current prices in trillions of rupiah)				
Government:					
Savings	31.1	48.6	76.4	92.9	157.3
Investment	71.6	72.2	111.5	119.2	182.2
Surplus/(deficit)	(40.5)	(23.6)	(35.1)	(26.3)	(24.9)
Private:					
Savings	363.5	378.3	379.3	418.3	444.5
Investment	252.3	281.8	274.7	364.2	394.7
Surplus/(deficit)	111.2	96.5	104.6	54.1	49.8
Total:					
Savings	394.6	426.9	455.7	511.2	601.8
Investment	323.9	354.0	386.2	483.4	576.9
Surplus/(deficit)	70.7	72.9	69.5	27.8	24.9
	Percentage of GDP				
Government:					
Savings	1.8	2.6	3.7	4.0	5.9
Investment	4.3	3.9	5.5	5.2	6.8
Surplus/(deficit)	(2.5)	(1.3)	(1.8)	(1.2)	(0.9)
Private:					
Savings	21.6	20.3	18.5	18.2	16.6
Investment	15.0	15.1	13.4	15.8	14.7
Surplus/(deficit)	6.6	5.2	5.1	2.4	1.9
Total:					
Savings	23.4	22.9	22.3	22.2	22.4
Investment	19.2	19.0	18.9	21.0	21.5
Surplus/(deficit)	4.2	3.9	3.4	1.2	0.9
GDP (in trillions of rupiah)	1,684.3	1,863.3	2,045.9	2,261.7	2,729.7
Current account (in billions of U.S. dollars)	6.9	7.8	8.1	3.1	0.4(2)
Average exchange rate (rupiah/U.S. dollars)(1)	10,241	9,310	8,572	8,985	9,751
Current account balance (% of GDP)	4.2	3.9	3.4	1.2	N/A

Source: Bank Indonesia

N/A Not Available

(1) Official average yearly exchange rate published by Bank Indonesia in its annual report.

(2) First nine months of 2005

[P] Preliminary

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 those in exports) led to a surplus of savings over investment of 4.8% of GDP in 2000 and 4.2% of GDP in 2001. This continued surplus reflected limited domestic investment and continued transfer of national savings abroad (net capital outflow).

The savings-investment surplus in 2002 was 3.9% of GDP, as the surplus narrowed slightly. The narrower surplus was mainly due to higher consumption and a smaller surplus in the current account balance. Investment remained weak in 2002 due to heightened security concerns resulting from the Bali bombing. Indicators of the deteriorating investment level include decreasing numbers of investment approvals (both foreign and domestic) and falling imports of capital goods and raw materials. While the investment climate in 2002 was unfavorable, savings remained quite high.

In 2003, the savings-investment surplus declined further to 3.4% of GDP. This lower surplus was, in part, due to the increasing deficit in the government sector, from 1.3% of GDP in 2002 to 1.8 % in 2003, and a slightly declining surplus in the private sector, from 5.2% of GDP in 2002 to 5.1% 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 spending.

In 2004, the savings-investment surplus declined significantly to 1.2% of GDP, from 3.4% 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 5.1% of GDP in 2003 to 2.4% 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. The government sector deficit decreased, from 1.8% of GDP in 2003 to 1.2% 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, reaching 0.9% of GDP compared to 1.2% of GDP in 2004. The lower surplus was due to a reduction in the savings-investment gap in the private sector, while during the same period the government incurred a smaller deficit. The decrease in the savings-investment surplus indicates that private financing sources for investments have been under-utilized.

Foreign Investment

In 1973, the Republic established 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. 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.

One of the central government’s key policies for improving the investment climate is to enact a new unified investment law, which is now in the process of finalization by the government, to replace both the 1967 Foreign Investment Law and the 1968 Domestic Capital Investment Law. The current regulatory regime has frequently been cited as an impediment to investment. The government wants to create an investment climate that is competitive and attractive to investors while at the same time supporting economic growth, job creation, productivity improvements and poverty reduction. The government recognizes the need to make fundamental improvements to achieve this objective. Some of the principles of the new unified investment law are to unify national law for all investments, to protect against expropriation, to freely permit repatriation of capital, to streamline procedures and to provide effective dispute resolution mechanisms.

Foreign investment in Indonesia may be divided into direct investments, portfolio investments and other investments. However, to improve the data quality of Indonesia's balance of payment statistics, and to comply with generally recognized standards for statistical reporting, Indonesia recently revised the methodology for compiling its balance of payments statistics (the "revised BOP reporting system"). See "Certain Defined Terms and Conventions." Although Indonesia has published information using the revised BOP reporting system for periods since the beginning of 2004, to ensure the comparability of all balance of payment data in this offering memorandum, all of the tables in this offering memorandum are presented using data compiled using the old reporting system. There are, however, certain sections of the offering memorandum that discuss developments as they would be reported using the revised BOP reporting system.

Foreign Investment in Indonesia

	2000	2001	2002	2003	2004[P]	First nine months of 2005[P]
			(in millions of U.S. dollars)			
Direct investments:						
Equity capital	892	988	2,560	1,483	1,265	3,880
Other capital	(5,442)	(3,966)	(2,415)	(2,080)	(242)	(1,257)
Total direct investments	(4,550)	(2,977)	145	(597)	1,023	2,623
Portfolio investments:						
Equity securities	81	442	877	1,130	2,043	(932)
Debt securities	(1,991)	(686)	345	1,121	1,093	2,472
Total portfolio investments	(1,911)	(244)	1,222	2,251	3,136	1,540
Total other investments	(1,435)	(4,396)	(2,469)	(2,604)	(1,546)	(3,634)

Source: Bank Indonesia.

P Preliminary

Foreign Direct Investment

The Asian financial crisis in Indonesia was accompanied by unstable socio-political conditions that substantially reduced foreign direct investment in the following years. New political freedom encouraged workers in the formal sector 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 raise short run revenues, local governments made the business licensing system more complicated and imposed local taxes that distort trade and raise tax barriers beyond their administrative boundaries. These trends in turn have reduced international competitiveness. To address the concerns on competitiveness these local government actions raised, the government, through the Ministry of Home Affairs, has reviewed many local regulations to determine if they were inconsistent with national law or the public interest. Out of the local regulations reviewed during this process, as of December 31, 2005, the Ministry of Finance has issued recommendations for the revocation of a total of 607 regional government regulations and the Ministry of Home Affairs has revoked 475 of these regulations.

In 2004, the government adopted several measures to promote foreign direct investment and improve the investment climate in the country. First, a Presidential Decree centralized all approvals for foreign direct investment under the "one roof" service systems at BKPM as part of the government's efforts to streamline the licensing procedures and simplify the foreign investment approval process. Since the enactment of the 1999 regional autonomy law, approval from regional or local government agencies had been required depending on the location of the proposed foreign investment. Second, the government 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 favor workers.

Foreign direct investment ("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

	2000	2001	2002	2003	2004[P]	First nine months of 2005[P]
	(in millions of U.S. dollars)					
Total direct investments	(4,550)	(2,977)	145	(597)	1,023	2,623
Equity capital[(1)]	892	988	2,560	1,483	1,265	3,880
Other capital	(5,442)	(3,966)	(2,415)	(2,080)	(242)	(1,257)
Disbursements	2,081	1,606	2,603	1,681	2,595	1,579
Debt repayments	(7,523)	(5,572)	(5,018)	(3,761)	(2,837)	(2,836)

Source: Bank Indonesia.

P Preliminary

(1) Includes privatization and banking restructuring.

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 three years, primarily as a result of the privatization of SOEs and asset sales from bank restructuring. Although FDI recorded a slight surplus in 2002 and a small deficit of $0.6 billion in 2003, FDI increased to a surplus of $1.0 billion in 2004 and to a surplus of $2.6 billion in the first nine months of 2005. The net surplus in the first nine months of 2005 was at its highest level since the 1997 crisis. The reduction in the FDI deficit from $4.6 billion in 2000 to an FDI surplus of $2.6 billion in the first nine months of 2005 was caused, in part, by a reduction in debt repayments since 2000. In the first nine months of 2005, debt repayments were $2.8 billion, approximately equal to those in 2004, $3.8 billion in 2003, $5.0 billion in 2002, $5.6 billion in 2001 and $7.5 billion in 2000.

Net FDI flows improved in 2001 and 2002 from 2000 levels, resulting in a slight net inflow of equity investments of $145 million in 2002. This improvement was closely related to sales of large stakes in the two state-owned telecommunication enterprises, Telkom and Indosat. 2003 saw 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 surplus of $1.0 billion, 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 the first nine months of 2005, the significant increase in net FDI inflows to $2.6 billion was due primarily to the acquisition of PT. HM. Sampoerna (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.

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By recording foreign direct investment in the oil and gas sector in the form of equity capital in the direct investment in Indonesia (using the revised BOP reporting system) net FDI recorded a surplus of $797 million in 2004 and a surplus of $3 billion in the first nine months of 2005. Taking into account direct investment abroad, which recorded a deficit of $3.4 billion in 2004 and a deficit of $2.6 billion in the first nine months of 2005, net direct investment (in Indonesia and abroad, as calculated using the revised BOP reporting system) recorded a deficit of $2.6 billion in 2004 and a surplus of $358 million in the first nine months of 2005.

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

Approved Foreign Direct Investment by Sector[1]

	2001	2002	2003	2004	2005
	(millions of U.S. dollars)				
Primary sector:					
Food crop and plantation	264	443	130	169	434
Livestock	17	23	14	39	28
Forestry	102	9	95	0	129
Fishery	7	4	27	133	15
Mining	120	49	18	68	776
Total primary sector	509	528	284	409	1,382
Secondary sector:					
Food industries	324	268	516	740	643
Textiles industries	392	104	130	413	140
Leather goods and footwear industries	33	14	37	20	81
Wood industries	24	37	246	16	108
Paper and printing industries	742	13	1,300	60	228
Chemical and pharmaceutical industries	2,310	1,871	3,038	3,417	2,879
Rubber and plastic industries	231	285	78	182	164
Non-metal minerals industries	108	41	715	47	368
Metal machinery and electronic industries	652	355	324	1,020	695
Medical precision and optical instruments, watches and clocks	31	3	5	3	16
Motor vehicle and other transport equipment	328	276	160	428	629
Other industry	52	38	93	52	77
Total secondary sector	5,227	3,304	6,642	6,398	6,028
Tertiary sector:					
Electricity, gas and water supply	37	90	363	276	23
Construction	49	326	904	964	1,777
Trade and repair	411	884	491	620	646
Hotels and restaurant	6,893	260	614	616	259
Transportation, storage and communication	376	3,718	4,592	579	3,107
Real estate and industrial estates	175	8	53	340	125
Other services	1,526	836	338	213	233
Total tertiary sector:	9,467	6,122	7,355	3,608	6,170
Total	15,204	9,954	14,281	10,416	13,580

Source: BKPM

(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.

Since the Asian financial crisis, foreign investment approvals have tended to fluctuate from year to year. In 2004, approved foreign direct investment decreased by 27.1% to $10.4 billion from $14.3 billion in 2003 which, in turn, had risen 43.5% from $10.0 billion in 2002. The total value of foreign direct investment approvals in 2005 was $13.6 billion, an increase of 30.4% compared to 2004.

In the five-year period from 2001 to 2005, the primary areas of approved foreign investment projects were chemical and pharmaceutical industries (21.9%), transportation, storage and communication (20.1%) and hotel and restaurant (12.0%).

The rate of realization of approved foreign direct investment, that is, the proportion of approved investments that were actually made, increased during the period from 2001 to 2005. In 2001, the realization rate was only 22.9% of foreign investment approvals ($3.5 billion realized), but this rate increased to 31.0% ($3.1 billion realized) in 2002. The realization rate for approved foreign direct investment increased to 38.2% ($5.5 billion realized) in 2003. In 2004 and 2005, the realization rate for foreign direct investment showed a significant increase to 44.2% (approximately $4.6 billion realized) and to 65.6% (approximately $8.9 billion realized), respectively.

Foreign Portfolio Investment

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

Portfolio Investments

	2000	2001	2002	2003	2004P	First nine months of 2005P
	(in millions of U.S. dollars)					
Total portfolio investments	(1,911)	(244)	1,222	2,251	3,136	1,540
Equity securities	81	442	877	1,130	2,043	(932)
Inflows	1,597	1,145	1,243	2,357	6,367	5,713
(Outflows)	(1,516)	(703)	(367)	(1,227)	(4,325)	(6,645)
Debt securities (net)	(1,991)	(686)	345	1,121	1,093	2,472

Source: Bank Indonesia.

P Preliminary

After incurring a large deficit at the onset of the Asian financial crisis, Indonesia's foreign portfolio investment ("FPI") deficit started to reverse itself in 2001, reflecting higher confidence in Indonesia's economic recovery. FPI had a net surplus of more than $1 billion in 2002 and, beginning in 2003, FPI has shown a net surplus of more than $2 billion for two consecutive years. The surplus in 2003 was partially due to larger foreign transactions on the stock exchange prompted partly by successful government divestment programs through the capital markets. Successful divestments in 2003 included Bank Mandiri, PT Bank Rakyat Indonesia (Persero) Tbk ("BRI") and PT Indocement Tunggal Prakarsa Tbk, as well as the privatization of a gas utility company, PT Perusahaan Gas Negara (Persero) Tbk. A sharp increase in portfolio investments in the form of government bonds held by foreigners in 2003 was associated with both investment in mutual funds and direct purchases of government bonds by foreign investors, while the corporate sector also recorded a rapid increase in bonds held by foreigners.

In 2004, Indonesia's FPI recorded a net surplus of $3.1 billion, primarily resulting from a significant increase in foreign transactions on the stock exchange and other debt securities transactions. The net surplus for equity transactions was $2.0 billion in 2004, or almost twice the amount of the surplus in 2003. Net purchases of debt securities were approximately $1.1 billion, approximately the same as in 2003. 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. As a result, the demand for Indonesian securities increased significantly, resulting in the Jakarta Stock Exchange Composite Price Index closing above 1,000 in December 2004, the highest level since the Jakarta Stock Exchange was established in 1992.

In the first nine months of 2005, Indonesia recorded a net surplus in FPI of $1.5 billion after experiencing a large deficit 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. The transaction was executed through the Jakarta Stock Exchange in May 2005. By reclassifying a government bond issuance from other investment to portfolio investment using the revised BOP reporting system during the 2004–2005 period, total portfolio investment showed surpluses of $4.1 billion in 2004 and $2.2 billion in the first nine months of 2005. Subsequently, taking into account portfolio investment assets, which recorded a surplus of $3.0 billion in 2004 and a surplus of $3.2 billion in the first nine months of 2005, total net portfolio investment using the revised BOP reporting system reached a surplus of $7.1 billion in 2004 and a surplus of $5.4 million in the first nine months of 2005.

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

	2000	2001	2002	2003	2004P	First nine months of 2005P
	(in millions of U.S. dollars)					
Total other investments	(1,435)	(4,396)	(2,469)	(2,604)	(1,546)	(3,634)
Bank sector	(1,419)	(1,867)	(1,217)	(69)	441	(1,369)
Disbursements	1,273	2,042	2,365	4,106	6,087	2,285
Debt repayments	(2,692)	(3,909)	(3,581)	(4,175)	(5,646)	(3,654)
Corporate	(2,655)	(3,328)	(1,854)	(2,025)	(11)	(606)
Disbursements	1,189	1,530	837	1,908	3,112	1,904
Debt repayments	(3,844)	(4,858)	(2,691)	(3,933)	(3,123)	(2,510)
Others (net)(1)	2,640	799	601	(509)	(1,976)	(1,658)

Source: Bank Indonesia.

P Preliminary

(1) Includes public sector.

Net debt repayments 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 improved significantly as a result of better access to international markets along with increased market confidence in the Indonesian economy. In the first nine months of 2005, however, net debt repayments increased to $3.6 billion, compared to $1.5 billion in 2004. The increase was due to the decline in loan disbursements, which exceeded the decline in debt repayments in the banking and corporate sectors. The pressure on net public sector outflows decreased in 2005 as a result of agreements with Paris Club member countries to defer interest and principal payments in 2005 following the December 2004 tsunami.

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By reclassifying a government bond issuance from other investment to portfolio investment and recording other investment in the form of currency and deposits using the revised BOP reporting system, during the 2004–2005 period, total net other investment showed an increasing deficit of $2.9 billion in 2004 and of $5.1 billion in the first nine months of 2005. Taking into account other investment assets in the form of trade credits, loans, currency and deposits with a deficit of $4.0 billion in 2004 and a deficit of $3.0 billion in the first nine months of 2005, net other investment using the revised BOP reporting system recorded a deficit of $7.0 billion in 2004 and a deficit of $8.1 million in the first nine months of 2005.

Foreign Trade and Balance of Payments

Membership in International and Regional Free Trade Agreements

The Indonesian 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 World Trade Organization. Indonesia is also a member of the APEC forum, one of the goals of which is to promote liberalization of international trade and investment. 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)

	2001	2002	2003	2004P	First nine months of 2005P
	(in millions of U.S. dollars)				
Exports:					
Oil and gas exports (f.o.b.)	12,560	12,858	15,234	17,685	14,951
Non-oil and gas exports (f.o.b.)	44,805	46,307	48,875	54,482	48,713
Total exports (f.o.b.)	57,365	59,165	64,109	72,167	63,664
Total imports (c&f)	(37,531)	(38,309)	(42,243)	(54,868)	(52,801)
Balance of trade	19,834	20,856	21,866	17,299	10,863

Source: Bank Indonesia.

P Preliminary

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

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Over the last five years, from 2000 through 2004, Indonesia's total exports increased by approximately 10.3%, through growth in oil and gas exports of 17.4% and growth in non-oil and gas exports of 8.2%. In the immediate aftermath of the Asian financial crisis, in 1998 and 1999, Indonesian exports dropped sharply, accompanied by a large drop in imports. In 2000, Indonesian exports started to rebound, both for oil and gas and for non-oil and gas products. Increasing trade volume in 2000 was mainly attributable to higher world commodity prices (including prices for crude oil) and improving domestic economic conditions. Indonesia's total imports grew by approximately 25.9% from 2000 to 2004, higher than exports. After 2000, both exports and imports fell off, but exports dropped more quickly than imports, causing Indonesia's trade surplus to decrease slightly.

However, the year 2003 witnessed a rebound in both exports and imports. 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 12.6% 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. In 2004, Indonesia's trade surplus decreased to $17.3 billion from $21.9 billion in 2003.

During the first nine months of 2005, the trade balance surplus was $10.9 billion, a decrease of 13.7% from the same period in 2004. The decrease was mainly due to an increase in the trade balance deficit for oil, which increased to $6.4 billion, compared to $2.3 billion in the first nine months of 2004. The higher deficit was primarily attributable to a 57.7% increase in oil imports to $13.4 billion. However, during the same period, the surplus in the trade balance for non-oil and gas increased to $9.3 billion from $8.4 billion in the same period in the prior year. This increase was due to a 23.2% increase in non-oil and gas exports, which was mainly attributable to higher commodity prices.

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

Exports by Sector

	2001	2002	2003	2004[P]	First nine months of 2005[P]
	(in millions of U.S. dollars)				
Agricultural products:					
Coffee	187	225	273	274	144
Tea	97	101	100	63	28
Spices	179	191	203	150	120
Tobacco	83	68	48	44	52
Cacao	284	536	410	360	314
Shrimp and prawns	964	864	928	802	659
Others	707	655	787	736	808
Total agricultural products	2,501	2,640	2,750	2,430	2,126
Mineral products:					
Copper	1,626	1,804	1,924	1,755	2,006
Nickel	57	52	62	106	88
Coal	1,659	1,812	2,054	2,677	2,548
Bauxite	13	21	20	17	16
Others	307	159	85	82	75
Total mineral products	3,661	3,848	4,145	4,637	4,733
Manufactured products:					
Textiles and textile products	7,872	7,158	7,294	7,507	6,898
Processed wood products	3,349	3,343	3,247	3,164	2,663
Palm oils	1,108	2,151	2,521	3,353	2,580
Chemicals	1,270	1,308	1,576	1,896	1,803
Metal products	780	614	887	1,787	1,754
Electrical appliances	2,672	2,776	3,205	3,396	2,990
Cement	165	115	92	100	82
Papers	2,086	2,156	2,061	2,171	1,797
Rubber products	1,238	1,604	2,146	2,878	2,509
Others	18,101	18,594	18,952	21,166	18,778
Total manufactured products	38,642	39,819	41,981	47,416	41,855
Oil and gas:					
LNG, LPG & Natural Gas	5,638	6,310	7,765	9,268	7,954
Crude oil	5,679	5,270	5,841	6,645	5,523
Oil products	1,243	1,278	1,628	1,772	1,474
Total oil and gas	12,560	12,858	15,234	17,685	14,951
Total exports	57,365	59,165	64,109	72,167	63,665

Source: Bank Indonesia.

[P] Preliminary

Exports of goods have fluctuated over the last five years. As a proportion of exports of goods, manufactured products have decreased slightly from 67.7% of all exports in 2000 to 65.7% in 2004. Indonesia faces increasing competition in labor-intensive sectors such as textiles, clothing and footwear from countries such as China and Vietnam. Agricultural products declined, from 4.4% in 2000 to 3.4% in 2004. The proportion of oil and gas has risen slightly over the same period from 23.0% to 24.5%, and that of minerals has risen from 4.9% to 6.4%. In the first nine months of 2005, exports of goods grew significantly by 21.8% compared to the same period in 2004. Within exports of goods, non-oil and gas exports rose by 23.2% and oil and gas exports rose by 16.7%, in each case compared to the same period in 2004.

In 2002, exports of goods increased slightly from 2001 levels by 3.1% to $59.2 billion. The increase was largely due to a modest 3.0% increase in the exports of manufactured products, which accounted for 67.3% of all exports of goods. Coffee and cocoa exports contributed to a 5.5% increase in agricultural exports, which accounted for 4.5% of all exports of goods. Mining, which accounted for 6.5% of exports of goods, increased 5.1% in 2002, driven by an 11.0% increase in copper exports and a 9.2% increase in coal exports. Exports of oil and gas, which accounted for 21.7% of goods exported increased 2.3% in 2002. A rise in oil prices attributable to supply disruption in Venezuela and the expectation of war in Iraq compensated for a decline in domestic oil production.

In 2003, exports of goods increased by 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 12.6% to $72.2 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 product exports, to $47.4 billion from $42.0 billion in 2003, and an 11.9% increase in mineral product 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 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, almost all mineral products experienced growth, particularly coal and nickel. Exports of coal and nickel increased significantly in 2004 compared to 2003, primarily due to increased export volumes and higher world prices. The increase in mineral product exports was partially offset by an 8.8% reduction in copper exports caused by a decline in copper production. Agricultural product exports decreased 11.6% in 2004 due to weakening exports of coffee 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. Coffee exports decreased due to declining world demand and lower world coffee prices. 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 15.9% to $17.7 billion, compared to $16.1 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 19.4% in 2004, to $9.3 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 the first nine months of 2005, exports increased 21.8% to $63.7 billion from $52.3 billion in the same period in 2004. During the first nine months of 2005, non-oil and gas exports grew by 23.2% compared to the same period in 2004. The significant increase in non-oil and gas exports was caused mainly by increases in primary commodity exports, including copper, coal, crude palm oils, and manufactured products. During the first nine months of 2005, oil and gas exports increased by 16.7% to $15.0 billion, compared with $12.8 billion in the same period in 2004. Oil and gas continue to be exported mainly to Japan and the Republic of Korea.

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

Exports by Destination

Destination	2001	2002	2003	2004[P]	First nine months of 2005[P]
	(in millions of U.S. dollars)				
Africa	1,120	1,126	1,255	1,301	1,215
Americas:					
United States	7,654	7,704	7,602	8,195	7,347
South America	557	577	525	655	675
Canada	405	381	390	460	349
Others	406	387	320	331	280
Total Americas	9,023	9,049	8,836	9,640	8,651
Asia:					
ASEAN:					
Singapore	5,660	5,732	5,813	6,802	6,142
Malaysia	1,706	1,929	2,346	2,727	2,386
Thailand	955	998	1,108	1,485	1,463
Philippines	807	789	966	1,411	969
Vietnam	299	477	558	568	461
Cambodia	68	61	51	56	64
Myanmar	66	51	68	56	52
Brunei Darussalam	29	32	31	28	26
Laos	1	0	0	1	1
Total ASEAN	9,591	10,068	10,941	13,135	11,564
Japan	13,258	12,319	14,308	16,401	14,144
The Republic of Korea	3,966	4,247	4,814	4,966	4,516
China	2,066	2,684	3,480	5,262	4,535
India	981	1,245	1,726	2,147	2,032
Hong Kong	1,267	1,258	1,286	1,296	1,064
Taiwan	1,228	1,209	1,220	1,473	1,321
Saudi Arabia	477	463	409	375	391
Pakistan	182	246	306	405	426
Iraq	89	28	17	50	69
Others	2,855	4,317	4,066	4,156	3,660
Total Asia	35,961	38,084	42,573	49,666	43,724
Australia/Oceania	2,578	2,245	2,496	2,563	2,194
Europe:					
EU:					
Germany	1,277	1,257	1,461	1,546	1,310
Netherlands	1,639	1,548	1,425	1,739	1,511
United Kingdom	1,594	1,412	1,140	1,210	962
Belgium and Luxembourg	730	786	889	838	737
Italy	605	622	766	837	710
France	598	618	696	623	459
Others	1,275	1,289	2,048	1,527	1,662
Total EU	7,718	7,532	8,424	8,319	7,351
Eastern Europe	237	309	305	249	206
Russia	60	71	108	138	150
Others	667	749	112	289	175
Total Europe	8,683	8,661	8,949	8,996	7,882
Total exports	57,365	59,165	64,109	72,167	63,665

Source: Bank Indonesia.

[P] Preliminary

The destinations for Indonesia's exports have become more diversified over the last five years. The five countries that constituted Indonesia's largest destinations for exports in 2000 were, in descending order, Japan, the United States, Singapore, the Republic of Korea and China. In 2004, these five countries were still Indonesia's largest destinations for exports, although their overall share of Indonesian exports had fallen slightly from 58.9% (in 2000) to 57.7% (in 2004). Of these five countries, only China increased its share of Indonesian exports, from 4.2% (in 2000) to 7.3% (in 2004). In recent years, China has become an increasingly important export market for Indonesia, despite the fact that China is a primary competitor in both the international and domestic markets for many of Indonesia's products. Exports to Japan fell from 23.2% (in 2000) to 22.7% (in 2004), the United States from 13.6% (in 2000) to 11.4% (in 2004), Singapore from 10.5% (in 2000) to 9.4% (in 2004) and the Republic of Korea from 7.3% (in 2000) to 6.9% (in 2004). Among other countries in Southeast Asia, Malaysia, Thailand and the Philippines have increased their share of Indonesian exports from 2.8%, 1.4% and 1.3% (in 2000), respectively, to 3.8%, 2.1% and 2.0% (in 2004), respectively. If ASEAN were taken as a whole, it would have been Indonesia's second largest export market in 2004 (after Japan), and its share increased from 16.8% (in 2000) to 18.2% (in 2004). If Europe were taken as a whole, it would have been Indonesia's third largest export market in 2004 (after Japan and the United States), although its share declined from 14.6% (in 2000) to 12.5% (in 2004). During the first nine months of 2005, the main export destinations remained the same as in the previous five years, namely Japan (22.2%), the United States (11.5%), Singapore (9.6%), the Republic of Korea (7.1%) and China (7.1%).

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

Imports by Sector

Item	2001	2002	2003	2004[P]	First nine months of 2005[P]
	(in millions of U.S. dollars)				
Consumer goods:					
Foods and beverages (primary)	382	485	324	476	279
Foods and beverages (processed)	355	969	807	866	797
Passenger car	82	71	146	304	250
Transport equipment not for industry	488	18	13	35	144
Durable consumer goods	350	208	175	322	272
Semi-durable consumer goods	233	343	294	378	264
Non-durable consumer goods	517	640	472	649	473
Military equipment and others	85	46	92	95	18
Total consumer goods	2,492	2,780	2,322	3,125	2,496
Raw materials and auxiliary goods:					
Processed raw materials	14,156	13,965	14,911	18,892	17,487
Primary raw materials	2,798	2,082	2,201	2,623	2,221
Spare parts for transportation equipment	1,689	2,349	2,918	3,195	2,936
Spare parts for capital goods	1,880	2,781	3,105	3,746	3,821
Food and beverages (mainly for industry)	1,034	1,375	1,644	1,871	1,362
Processed food and beverages	847	587	724	715	815
Processed fuel and lubricants	162	179	157	202	141
Primary fuel and lubricants	13	3	4	16	14
Total raw materials and auxiliary goods	22,578	23,322	25,665	31,260	28,798
Capital goods:					
Capital goods (excluding transportation equipment)[1]	5,167	4,399	5,217	6,807	6,228
Passenger cars	82	71	202	368	313
Transportation equipment for industry[2]	1,008	498	334	1,178	1,602
Total capital goods	6,258	4,967	5,753	8,353	8,143
Oil and gas	6,203	7,241	8,504	12,129	13,364
Total imports	37,531	38,309	42,243	54,867	52,801

Source: Bank Indonesia.

[P] Preliminary

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

(2) Includes railway equipment, ships and aircraft.

Like exports of goods, imports of goods have fluctuated over the last five years, with the total for 2004 above the total for 2000. As a proportion of total imports of goods, raw materials have declined from 61.2% of total imports of goods in 2000 to 57.0% in 2004. The relative level of capital goods and consumer goods imports has also declined, from 17.7% and 6.2%, respectively, of the 2000 total to 15.2% and 5.7%, respectively, of the 2004 total. The proportion of oil and gas imports has risen substantially over the same period from 14.9% in 2000 to 22.1% in 2004. Imports tend to rise and fall 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 2002, imports of goods increased by 2.1% from \$37.5 billion in 2001 to \$38.3 billion. An increase of 16.7% in imports of oil and gas, which accounted for 18.9% of total imports of goods, was primarily responsible for the rise in the total level of imports of goods. An increase of 11.5% in imports of consumer goods, which accounted for 7.3% for total imports of goods, and an increase of 3.3% of raw materials, which accounted for 60.9% of total imports of goods, also contributed to import growth in 2002. These increases were largely offset by decrease in capital goods imports. Imports of capital goods, which accounted for 13.0% of total imports of goods, fell by 20.6%. Decline in capital goods imports showed that there had been a decline in additions to machinery, due in part to a continuing weak domestic investment.

In 2003, imports of goods increased by 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 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 42.7% 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 the first nine months of 2005, imports of goods increased by 32.7% to $52.8 billion, compared with $39.8 billion for the same period in 2004. In the first nine months of 2005, non-oil and gas imports grew by 26.8% compared to the same period in 2004. Indonesia's non-oil and gas imports mainly consist of raw materials and capital goods such as civil engineering and contractor plant, engines and parts. These products are related to domestic requirements for production and investment activities. For the first nine months of 2005, oil and gas imports increased by 54.5% to $13.4 billion, from $8.7 billion in the same period in 2004. Oil and gas imports increased due to a 7.3% increase in gasoline consumption compared to 5.6% in the first nine months of 2004 and an increase in the average oil price, from $35.68 per barrel in first nine months of 2004 to $50.96 per barrel in same period in 2005.

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

Imports by Place of Origin

Place of Origin	2001	2002	2003	2004P	First nine months of 2005P
	(in millions of U.S. dollars)				
Africa	1,026	1,538	1,269	1,656	1,755
Americas:					
United States	3,926	3,318	3,494	4,055	3,646
South America	469	612	716	989	1,090
Canada	486	511	444	818	740
Others	61	39	45	35	52
Total Americas	4,943	4,480	4,699	5,897	5,528
Asia:					
ASEAN:					
Singapore	3,652	4,152	4,787	6,921	6,996
Thailand	1,255	1,439	2,183	2,866	3,130
Malaysia	1,120	1,207	1,448	1,879	1,838
Vietnam	82	45	232	104	77
Philippines	122	153	246	279	301
Myanmar	26	209	21	20	16
Brunei Darussalam	2	2	4	5	9
Cambodia	1	2	2	1	1
Laos	0	0	0	0	0
Total ASEAN	6,261	7,208	8,923	12,075	12,368
Japan	5,298	5,660	6,411	7,385	7,200
China	2,436	3,020	3,546	4,977	5,091
The Republic of Korea	2,264	1,815	2,058	2,321	1,656
Taiwan	1,430	1,289	1,129	1,420	1,194
Saudi Arabia	1,193	1,112	1,156	1,449	1,517
India	638	792	869	1,227	1,024
Hong Kong	326	304	305	323	275
Pakistan	89	61	62	61	48
Iraq	3	3	0	0	0
Others	3,290	3,217	3,843	5,028	5,488
Total Asia	23,228	24,482	28,302	36,266	35,860
Australia/Oceania	2,531	2,161	2,195	3,099	2,715
Europe:					
EU:					
Germany	1,644	1,616	1,617	2,174	1,664
Italy	522	548	469	604	601
Netherlands	440	452	507	545	392
United Kingdom	757	530	634	853	590
France	517	538	636	704	714
Belgium and Luxembourg	270	252	250	314	322
Others	392	321	806	1,403	1,480
Total EU	4,543	4,258	4,919	6,598	5,762
Russia	210	234	162	280	425
Eastern Europe	57	97	79	127	120
Others	993	1,059	620	943	635
Total Europe	5,803	5,648	5,779	7,948	6,943
Total imports	37,531	38,309	42,244	54,866	52,801

Source: Bank Indonesia.

P Preliminary

Asian countries have been the largest suppliers of Indonesia's imports for many years, especially Japan and Singapore. Imports from Asian countries represented a growing proportion of Indonesia's imports over the last five years, from 61.9% in 2001 to 67.0% in the first nine months of 2005. Indonesia also imports large amounts from the United States and Europe, though their share of Indonesia's imports, in percentage terms, has declined.

Balance of International 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.

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The following table sets forth the Republic's balance of payments for the periods indicated:

Balance of Payments[1]

Place of Origin	2000	2001	2002	2003	2004[P]	First nine months of 2005[P]
	(in millions of U.S. dollars)					
Current account:						
Merchandise trade:						
Exports (f.o.b.):						
Non-oil and gas exports	50,341	44,805	46,307	48,875	54,482	48,713
Oil and gas exports	15,066	12,560	12,858	15,234	17,685	14,951
Total exports	65,407	57,365	59,165	64,109	72,167	63,664
Imports (f.o.b.):						
Non-oil and gas imports	(34,378)	(28,961)	(28,990)	(31,723)	(39,456)	(36,218)
Oil and gas imports[2]	(5,988)	(5,707)	(6,662)	(7,823)	(11,159)	(12,294)
Total imports	(40,365)	(34,668)	(35,652)	(39,546)	(50,615)	(48,512)
Services (net):						
Non-oil and gas services[3]	(12,500)	(11,501)	(11,111)	(11,285)	(13,155)	(10,198)
Oil and gas services	(4,551)	(4,294)	(4,579)	(5,171)	(5,289)	(4,587)
Total services	(17,051)	(15,795)	(15,690)	(16,456)	(18,444)	(14,785)
Current account	7,991	6,902	7,823	8,106	3,108	366
Capital account:						
Public Sector:						
Official inflows:						
Consultative Group for Indonesia ("CGI") inflows[4]	2,420	1,963	1,503	1,625	1,375	522
Non-CGI inflows[5]	1,731	943	863	545	2,391	968
Total official inflows	4,151	2,906	2,366	2,170	3,766	1,490
Debt repayment[6]	(2,532)	(3,005)	(2,556)	(3,004)	(5,543)	(3,153)
Total official capital	1,617	(99)	(190)	(833)	(1,777)	(1,664)
Private Sector:						
Foreign direct investment[7]	(4,550)	(2,977)	145	(597)	1,023	2,623
Other private and miscellaneous capital[8]	(4,963)	(4,541)	(1,057)	481	3,367	(430)
Total private capital	(9,513)	(7,518)	(912)	(116)	4,390	2,193
Capital account	(7,894)	(7,617)	(1,102)	(949)	2,612	530
Total (current account and capital account)	96	(716)	6,721	7,157	5,720	896
Errors and omissions (net)	3,822	714	(1,691)	(3,502)	(5,412)	(5,172)
Overall balance	3,918	(2)	5,030	3,655	309	(4,276)
Monetary movements[9]	(3,918)	3	(5,029)	(3,654)	(309)	4,276
Changes in reserves assets	(5,042)	1,378	(4,023)	(4,257)	(24)	6,002
"of which" transactions[10]	—	—	—	—	674	5,165
International Monetary Fund:						
Purchases	1,123	397	1,415	1,959	0	0
Repurchases	—	(1,772)	(2,421)	(1,356)	(983)	(889)
Net	1,123	(1,375)	(1,006)	603	(983)	(889)
Reserve asset position	29,394	28,016	32,039	36,296	36,320	30,318

Source: Bank Indonesia.

[P] Preliminary

(1) 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 foreign direct investment 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 state-owned enterprises.

(7) Net figure includes private sector loans associated with foreign direct investment.

(8) Represents all capital movements not elsewhere specified. Does not include net borrowings of state-owned enterprises.

(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 2002, the Republic posted a balance of payments surplus of $5.0 billion. The balance of payments surplus was largely attributable to an 85.5% drop in the capital account deficit to $1.1 billion. The 13.3% increase in the current account surplus to $7.8 billion also contributed, to a lesser degree, to the turnaround in the Republic's balance of payments position for 2002. The increased surplus in the current account included increases in the trade balance surplus by 3.6% to $23.5 billion and in inflows from current transfers by 20.3% to $1.3 billion.

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, based on preliminary figures, the balance of payments recorded a slight surplus of $0.3 billion. The decline in the Republic's 2004 balance of payments surplus was primarily attributable to a 61.6% 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 $0.9 billion in 2003 to a capital account surplus of $2.6 billion in 2004. Using the revised BOP reporting system, the total current and capital/financial account recorded a surplus of $1.4 billion in 2004, errors and omissions was $5.4 billion under the old system, compared with $1.1 billion under the revised BOP reporting system.

Non-oil and gas exports in 2004 increased 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 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 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. During this same period, total net services calculated under the revised BOP reporting system recorded a deficit of $17.7 billion.

In 2004, the Republic's capital account improved significantly, from a capital account deficit of $0.9 billion 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. The net public sector for 2004 calculated under the old system recorded a deficit of $1.8 billion, compared to a deficit of $443 million under the revised BOP reporting system. The smaller deficit under the revised BOP reporting system results from reclassifying debt securities issued by the government and Bank Indonesia, which are recorded under portfolio investment in the private sector in the old reporting system and in the public sector under the revised BOP reporting system.

In the private sector portion of the capital account, in 2004, net foreign direct investment inflows improved significantly to a surplus of $1.0 billion, compared to a net foreign direct investment deficit of $0.6 billion in 2003. The increase in net foreign direct investment 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. The data for the private sector portion of the capital account calculated using the revised BOP reporting system showed a reversal from a net surplus of $4.4 billion into a net deficit of $2.0 billion. The deficit, on the one hand, was related to the expanding data coverage of foreign investment to include direct investment abroad, portfolio and other investment assets, and on the other hand related to reclassifying securities issued by the government and Bank Indonesia into the public sector.

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.

For the first nine months of 2005, the Republic experienced a much larger deficit of $4.3 billion in its overall balance of payments, compared to a deficit of $0.6 billion for the same period in 2004. The pressure on the overall balance of payments was attributable primarily to rising oil prices and increases in the U.S. federal funds rate. The current account recorded a surplus of $366 million and the capital account recorded a surplus of $530 million, with a deficit of $5.2 billion in net errors and omissions accounting for the remainder of the overall deficit. The current and capital account surplus for the first nine months of 2005 declined significantly to $0.9 billion, compared to $4.4 billion for the same period in 2004. Comparing the data under the revised BOP reporting system and the old system for the first nine months of 2005, the total current and capital/financial account recorded a surplus of $0.9 billion using the old system and a deficit of $2.4 billion using the revised BOP reporting system. For the first nine months of 2005, net errors and omissions calculated using the old system showed a deficit $5.2 billion and a deficit of $1.8 billion using the revised BOP reporting system.

In the current account balance for the first nine months of 2005, exports exceeded imports by $15.2 billion, but this figure was largely offset by a deficit of $14.8 billion in total services.

Non-oil and gas exports for the first nine months of 2005 reached $48.7 billion, an increase of 23.2% over the same period in 2004. The significant increase in non-oil and gas exports is attributable to strong demand for primary products such as copper, crude palm oil, coal and rubber and manufactured products such as wood, chemical and textile products and electrical appliances. Non-oil and gas imports for the first nine months of 2005 reached $36.2 billion, an increase of 25.9% over the same period of 2004. The increase in non-oil and gas imports included both capital goods and raw materials and was generally in line with increases in domestic investments and exports.

Oil and gas exports for the first nine months of 2005 reached $15.0 billion, representing an increase of 16.7% over oil and gas exports for the same period in 2004. During the same period, oil and gas imports increased by 54.5% to $12.3 billion. Oil export prices increased significantly in the first nine months of 2005 to an average of $51 per barrel, contributing to growth in both exports and imports. The deficit in the trade balance of oil was more than offset by the surplus in the trade balance of gas.

The deficit in total services for the first nine months of 2005 was $14.8 billion, representing a slight increase from the $12.8 billion deficit over the same period in 2004. During this period, total net services calculated using the revised BOP reporting system recorded a larger deficit of $15.4 billion partly due to reclassifying inflows of grants in the form of fixed investment from the current account to the capital account.

The capital account recorded a surplus of $530 million in the first nine months of 2005, with a public sector deficit of $1.7 billion being more than offset by a private sector surplus of $2.2 billion.

The deficit in the public sector was due to smaller loan disbursements from program aid and project aid and greater debt repayments, partially offset by the proceeds from the issuance of $1 billion of government bonds in April 2005 and agreements with Paris Club member countries to defer $2.7 billion in principal and interest payments following the December 2004 tsunami. During the first nine months of 2005, the net public sector calculated under the old BOP reporting system recorded a net deficit of $1.7 billion, compared to a small net surplus of $33 million under the revised BOP reporting system. The surplus in 2005 calculated using the revised BOP reporting system was related to reclassifying of debt securities issued by the government and Bank Indonesia, which under the old system are recorded under portfolio investment in the private sector and are recorded in the public sector under the revised BOP reporting system.

The surplus in the private sector for the first nine months of 2005 was attributable to an increase in net surpluses in FDI and portfolio investment of $2.6 billion and $1.5 billion, respectively. The private sector balance calculated under the old BOP reporting system showed a net surplus of $2.2 billion compared with a net deficit of $2.3 billion under the revised BOP reporting system. The 2005 deficit in net private sector balance calculated under the revised BOP reporting system was related to the inclusion of foreign investment (including direct investment abroad, portfolio and other investment assets), and the reclassifying of securities issued by the government to the public sector.

For the first nine months of 2005, the Republic's official reserves decreased to $30.3 billion, equivalent to 3.9 months of imports and official debt repayments, from $36.3 billion at year-end 2004.

Financial System

1997 Asian Financial Crisis

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.

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. As a first step to restore confidence in the banking system, the government revoked the licenses of 16 insolvent banks. 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.

Liquidity Supports, Government Guarantee and Deposit Insurance

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.

On September 22, 2005, a new law establishing a deposit insurance agency, the Indonesia Deposit Insurance Corporation, became effective and the Indonesian Deposit Insurance Agency became fully operational. The Indonesia Deposit Insurance Agency is responsible for protecting bank depositors.

Under this new law, the government guarantees:

- all third party deposits, but no longer interbank claims, during the first six months after the law is effective (from September 22, 2005 until the date falling six months after that date);
- third party deposits up to Rp5 billion only, during the next six-month period;
- third party deposits up to Rp1 billion only, during the next six-month period; and
- third party deposits up to Rp100 million only, thereafter.

PT Perusahaan Pengelola Aset

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 on February 27, 2004, the government established PT Perusahaan Pengelola Aset, or PPA, a state-owned asset management company, to hold and manage remaining assets previously owned by IBRA and not subject to other ownership claims. PPA is owned by the Republic and managed by the Ministry of Finance, and is scheduled to be dissolved in March 2009. As of September 30, 2005, PPA has sold, on behalf of the Ministry of Finance, a 51% ownership interest in PT Bank Permata Tbk to a consortium of investors led by Standard Chartered Bank and PT Astra International Tbk, an additional 20% ownership interest in PT Bank Permata Tbk to investors through a market placement on the Jakarta Stock Exchange and minority interests in PT Bank Danamon Indonesia Tbk, PT Bank Niaga Tbk, Bank Central Asia Tbk and PT Bank Internasional Indonesia Tbk to investors through market placements. Through these divestments, PPA earned income of Rp12.7 trillion.

The following table sets forth information regarding the recent divestment of equity interests in certain Indonesian banks by PPA in 2004 and 2005:

Divestments by PPA

Indonesian Bank	Month of Offering	PPA's Equity Interest Divested	Proceeds to the Government
			(in billions of rupiah)
PT Bank Permata Tbk	November 2004	51.0%	2,776
PT Bank Danamon Tbk	November 2004	10.0%	1,743
PT Bank Niaga Tbk	December 2004	16.3%	586
PT Bank Permata Tbk	December 2004	20.0%	1,161
PT Bank Internasional Indonesia Tbk	January 2005	15.3%	1,348
PT Bank Niaga Tbk	April 2005	5.2%	222
PT Bank Danamon Indonesia Tbk	August 2005	10.5%	2,679
PT Bank Central Asia Tbk	September 2005	5.0%	2,194

Source: PT Perusahaan Pengelola Aset

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.

Bank Indonesia has upgraded its banking regulations in recent years and they are now 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. In this respect, in late January 2006, Bank Indonesia introduced a regulation on consolidated risk management and sound corporate governance for commercial banks. Some important regulations adopted by Bank Indonesia in 2005 include tighter requirements for classifying non-performing loans, an increase in the rupiah reserve requirements for commercial banks, the inclusion of off-balance sheet transactions in the calculation of banks' net open positions (which is a bank's exposure to foreign exchange transactions) and the implementation of risk-based management policies for banks' Internet banking services. In order to reduce rupiah exchange rate volatility, since September 2005 Bank Indonesia has initiated some policies relating to the banking sector, such as increasing the maximum rate of government guarantees, increasing the reserve requirements in relation to bank lending ratios and increasing the banking interest account at Bank Indonesia.

Indonesia is committed to eradicating money laundering. 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"). PPATK has made arrangements to cooperate on investigations into suspect financial transactions with Bapepam, 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. PPATK and the Republic's other financial regulatory agencies have continued to take actions to eradicate money laundering. There have been three successful prosecutions involving money laundering offences since 2003. As of December 31, 2005, PPATK has also engaged in at least 87 cases of cooperation involving financial intelligence with other countries.

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

Indonesian Banking Architecture

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 over the next ten years.

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. Rural credit banks and other banks of limited scope will continue to serve their customers, with capital of less than Rp100 billion each, however. The government expects the number of Indonesian banks, which was 131 as of January 31, 2006, to decrease as it promotes consolidation in the banking sector through mergers and acquisitions in line with the Architecture.

Since the Architecture was proposed in early 2004, Bank Indonesia has adopted regulations to implement the principles set forth in the statement. In 2004, among its more notable actions, Bank Indonesia:

- strengthened the certification requirements for commercial bankers and Bank Indonesia's examiners involved in risk management;
- increased supervision of banks' risk management policies for development of an "early warning system"; and
- established a risk management certification agency jointly supervised by Bank Indonesia and the Indonesian Risk Professionals Association.

In an effort to strengthen the Indonesian banking system further, as part of the implementation of the Architecture, in January 2005, Bank Indonesia issued a new banking regulation package. These regulations address five major objectives: promoting consolidation in the banking sector, improving control and supervision of Bank Indonesia over Indonesian banks, encouraging banks to implement better credit risk management policies and banking practices, improving the quality of banking infrastructure through better corporate governance and enhancing bank customers' protections. Specifically, Bank Indonesia issued regulations governing:

- the treatment of foreign debt;
- the policies of commercial banks regarding asset quality;
- changes in the legal lending limits;
- the establishment of prudential principles for asset backed securitizations;
- special treatment of loans provided to the tsunami-affected areas of Aceh and North Sumatra;
- information transparency of banks' products;
- restrictions on the use of bank customers' personal data;
- the resolution of customers' complaints; and

- the creation of a debtor information system.

Bank Indonesia intends to encourage further consolidation within the Indonesian banking sector. In line with this policy, Bank Indonesia is currently identifying medium and large banks that meet certain performance criteria to act as "anchor banks" for the banking system. Under the consolidation plan proposed by Bank Indonesia, Bank Indonesia intends to encourage financially weaker banks to be acquired by an anchor bank or merge with one or more other banks. In order to accelerate bank consolidation, Bank Indonesia issued the following criteria for further banks to qualify as anchor banks:

- Tier I capital in excess of Rp100 billion;
- Soundness as measured by specified criteria;
- Minimum capital adequacy ratio of 10%; and
- Good corporate governance.

As part of its continuing effort to strengthen the banking sector, on January 30, 2006, Bank Indonesia issued new banking regulations. These regulations are aimed at promoting more flexibility for commercial banks to improve their role in the economy, improving supervision over banks, improving the quality of banking infrastructure through better corporate governance, as well as enhancing customer protections. Specifically, Bank Indonesia issued regulations to:

- implement policies on asset quality (uniform loan classification);
- adjust the calculation of risk weighting for loans extended to small-scale enterprises, small mortgages and civil service and military employees and retirees;
- consolidate risk management;
- implement good corporate governance for commercial banks;
- provide for non-judicial dispute resolution; and
- provide greater access for Islamic banking in conventional commercial banks.

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-a-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 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 (primarily loans from the IMF) are liabilities of Bank Indonesia.

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

Balance Sheet of Bank Indonesia

	December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
	(in billions of rupiah)				
Assets					
Gold and foreign assets	301,351	294,437	319,842	342,026	343,898
Claims on public sector	252,055	280,703	246,637	273,670	286,756
Claims on private sector	46,161	45,077	43,676	33,736	23,963
Other assets	1,391	(5,287)	(17,699)	(10,812)	18,686
Total assets	600,958	614,930	592,456	638,620	673,303
Liabilities					
Monetary liabilities	127,796	138,250	166,473	199,446	241,598
Foreign exchange demand deposits	7,460	6,862	7,751	6,736	8,499
Foreign liabilities	108,744	81,993	93,858	97,254	93,755
Government accounts	91,295	112,180	72,418	47,050	47,608
Bank Indonesia certificates (SBI)	102,645	113,281	136,519	144,548	121,325
Capital and reserves	14,709	32,355	35,207	36,686	35,421
Other liabilities	148,309	130,009	80,230	106,900	125,097
Total liabilities	600,958	614,930	592,456	638,620	673,303

Source: Bank Indonesia.

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 and pawn shops. As of December 31, 2005, the assets of Indonesian banks comprised 75.0% 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, 2005.

Indonesian Financial Institutions

	Number of Institutions	Assets (in trillions of rupiah)	Percentage of Total Assets
Banking:			
Commercial banks	131	1,469.8	81.0%
Rural credit banks	1,982	19.4	1.1
Total banking	2,113	1,489.2	82.1
Insurance:			
Life insurance	51	44.9	2.5
General insurance	97	19.2	1.1
Social insurance[(1)]	5	54.9	3.0
Reinsurance	4	1.0	0.1
Total insurance	157	120.0	6.6
Pensions funds:			
Financial institutions	31	4.1	0.2
Employer pensions	307	45.5	2.5
Total pensions funds	338	49.6	2.7
Finance companies[(2)]	237	95.2	5.2
Venture capital companies	60	1.7	0.1
Securities companies[(3)]	124	25.4	1.4
Mutual funds	328	29.4	1.6
Pawn shop	1	3.5	0.2
Total	3,358	1,814.0	100.0%

Source: Ministry of Finance and Bank Indonesia.

N/A Not Available

(1) Social insurance encompasses the workers' social security program and insurance for civil servants and the armed forces.

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

(3) Excludes 41 securities companies that are not members of a securities exchange but act as broker-dealers.

(4) Excludes assets of the 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 shariah (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 131 at the end of 2005. As of December 31, 2005, there were 131 commercial banks with 8,043 offices, consisting of 5 state-owned banks, 71 private national banks (34 of which are licensed to conduct foreign exchange transactions), 26 regional development banks, 29 joint venture and foreign banks. In addition to the commercial banks, there are 1,982 rural credit banks operating throughout the country.

In December 2005, there were three shariah commercial banks, 17 shariah divisions of commercial banks and 92 shariah divisions of rural credit banks.

As of the end of December 2005, there were 157 insurance and reinsurance companies with business licenses to operate in Indonesia, consisting of 51 life insurance companies, 97 non-life insurance companies, five companies administering social insurance programs and four reinsurance companies. Gross premiums collected by the insurance industry reached Rp41.4 trillion in 2005, an increase of 7.0% from the previous year's figure of Rp38.7 trillion. Gross premiums have averaged an annual growth of approximately 24.8% over the last five years. Total assets of the insurance industry in 2005 were Rp120.0 trillion, a decrease of 4.0% over the previous year. The total investments of the insurance industry in 2004 were Rp100.6 trillion, an increase of 26.2% over the figure of Rp79.7 trillion in 2003. 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 requires 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%.

Pension funds are divided into two categories: employer pension funds and financial institution pension funds. As of December 31, 2005, there were 338 pension funds actively operating, including 307 employer pension funds and 31 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 year end 2005, net assets of pension funds totaled Rp49.6 trillion. The investment portfolios of the pension funds consist largely of bank deposits, bonds, short-term securities, land and buildings, and mutual funds.

Indonesia's other non-bank financial institutions include finance companies, which provide financing through leasing, factoring, credit cards and consumer finance. There were 237 such companies as of December 31, 2005, with total assets of Rp95.2 trillion. In addition, there were also 60 venture capital companies as of December 31, 2005, managing assets of Rp1.7 trillion.

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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]

	December 31,				
	2001	2002	2003	2004	2005
	(in billions of rupiah)				
Assets					
Reserve assets[2]	48,983	56,871	72,251	88,033	114,357
Foreign assets	109,774	90,147	77,340	68,202	118,731
Claims on the central government, official entities and state-owned enterprises	427,174	401,157	368,686	335,449	337,228
Claims on the private sector	303,056	358,174	434,253	549,303	684,932
Other assets	150,938	153,467	215,364	174,701	155,090
Total assets	1,039,925	1,059,816	1,167,894	1,215,688	1,410,338
Liabilities					
Demand deposits[3]	99,716	109,646	128,037	144,328	157,522
Time and savings deposits	511,556	551,504	592,407	643,836	732,049
Foreign exchange accounts	154,640	140,336	139,152	135,600	188,946
Foreign liabilities	68,406	51,895	31,458	49,327	55,791
Government accounts	39,963	36,509	38,970	37,130	49,416
Import guarantees	7,966	—[5]	—[5]	—[5]	—[5]
Credits from Bank Indonesia	15,225	12,694	10,971	11,932	11,757
Capital and equity[4]	66,788	93,697	112,141	131,590	144,289
Other liabilities	75,665	63,535	114,758	61,945	70,568
Total liabilities	1,039,925	1,059,816	1,167,894	1,215,688	1,410,338

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.

(5) Included in "Other liabilities" beginning in 2002.

About 71% of the total assets of the banking industry are controlled by 15 large commercial banks. The other 116 banks control the remainder. As a group, the four state-owned banks (PT Bank Mandiri (Persero) Tbk, PT Bank Rakyat Indonesia (Persero) TBK, PT Bank Negara Indonesia (Persero) Tbk and PT Bank Tabungan Negara (Persero)) controlled around 38% of the total assets of the banking system as of December 31, 2005.

Operations of the banking system are progressively shifting back to normal commercial banking activities after the Asian financial crisis. This is indicated by a gradual shift in their portfolio from government bonds to commercial loans. As discussed above, many Indonesian banks have received government bonds in exchange for non-performing loans in government-financed recapitalizations conducted in response to the Asian financial crisis. But even with substantially improved balance sheets, some banks have been reluctant to extend commercial credit to businesses. Indonesian banks therefore currently hold a significant proportion of their assets in government bonds. Government bonds comprised 19.7% of the assets of banks as of December 31, 2005. Operating income from government bonds represented 16.5% of the income of banks as of December 31, 2005. The drop in assets levels and income from government bonds is attributable to a general decrease in the amount of government bonds outstanding, as well as the sale of government bonds by banks largely to mutual funds.

Most deposits in the banking sector are short term. As of December 31, 2005, around 72% of time deposits were for terms of one month and 17% were for terms of three months. Currently even pension funds and insurance companies hold a large proportion of their assets in short-term bank deposits rather than investing them in long-term instruments or in the capital markets.

The following table shows the average capital adequacy ratio of the banking system for each of the last five years:

Average Capital Adequacy Ratios

	2001	2002	2003	2004	2005
			(in percentages)		
Average Capital Adequacy Ratio (CAR)	19.9	22.4	19.4	19.4	19.5

Source: Bank Indonesia.

Capital adequacy ratios have remained relatively high, in part because banks continue to hold significant amounts of government bonds relative to commercial loans, as described above.

Non-Performing Loans

One legacy of the Asian financial crisis has been a rise in non-performing loans ("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.

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

Non-Performing Loan Ratios

	2001	2002	2003	2004	2005
	(in percentages)				
Gross NPL ratio	12.1	8.1	8.2	5.8	8.3[1]
Net NPL ratio	3.6	2.1	3.0	1.7	4.8[1]

Source: Bank Indonesia

(1) As calculated under the revised methodology.

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. Primarily because of the implementation of these new standards and greater prudence on the part of banks, as of the end of December 2005 the gross NPL ratio rose to 8.3%, compared with 5.8% at the end of December 2004 and the net NPL ratio to reach 4.8%, compared with 1.7% at the end of December 2004.

The number of banks with net NPL ratios above the indicative target of 5% declined from 45 banks as of year-end 2001 to 7 banks, representing less than 0.6% of total assets in the banking system, as of November 30, 2004. As of December 31, 2005, after the change in the methodology for calculating NPLs, the number of banks above the indicative threshold of 5% had increased to 14, and these included some of the largest banks in Indonesia. The 14 banks with NPLs over the 5% threshold held an aggregate of 38.4% of total assets in the banking system.

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 Loan[1][2]

	December 31, 2005			
	Working Capital Loans	Consumer Loans	Investment Loans	Total
	(in trillions of rupiah)			
Pass	301.49	186.44	95.63	583.54
Special Mention	25.58	15.64	18.30	59.51
Substandard	8.04	0.98	6.31	15.33
Doubtful	5.43	1.06	4.56	11.03
Loss	14.04	2.55	9.59	26.19
Total	354.58	206.67	134.39	695.64

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.

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, 2004, the banking sector accounted for around 74.0% of financial system assets. 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 Capital Market Executing Agency (Badan Pelaksana Pasar Modal or "Bapepam") to develop and regulate the country's capital markets. The first shares were listed on the Jakarta Stock Exchange 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 has approved a merger of Bapepam with the Ministry of Finance's Directorate General of Financial Institution (or DJLK in Indonesian acronym). The merger of these two agencies would subsequently produce a single new unit called BAPEPAM-LK. The new agency will assume the responsibilities currently held by DJLK and Bapepam.

Securities transactions in Indonesia are carried out on the country's two exchanges, the Jakarta Stock Exchange ("JSX") and the Surabaya Stock Exchange ("SSX"). Currently, there are only stocks listed on the JSX, whereas the SSX also lists bonds and futures in addition to stocks. The following table sets forth key indicators regarding the two exchanges and the respective securities traded on them as of the dates indicated:

Stock Exchanges

	JSX	SSX
Market capitalization (in billions of rupiah)(1)	801,253	695,561
Average daily transaction volume (in billions of rupiah)(2)	1,671	22
Listed shares (in millions of shares)(1)	712,985	531,827
Average daily transaction volume (in million of shares)(2)	1,654	64

Source: Bapepam, Ministry of Finance.

(1) Data as of December 31, 2005.

(2) Data from January 1, 2005 through December 31, 2005.

The JSX composite stock price index closed at 1,162.63 on December 31, 2005, compared with 1,000.23 on December 30, 2004, representing an increase of 16.2% during the year. The index closed at 1,232.32 on January 30, 2006, representing a 17.9% increase from January 31, 2005. Market capitalization of the JSX stood at Rp801.3 trillion at the end of 2005, compared with approximately Rp680 trillion at the end of 2004, an increase of 17.8%.

The following table sets forth certain information on the corporate bond market in Indonesia:

Corporate Bonds Outstanding

	2001	2002	2003	2004	2005
Listed bond issuers	94	100	136	152	159
Total outstanding value of rupiah-denominated bonds (in billions), at year-end	14,308	19,631	44,925	62,800	62,956
Total outstanding value of U.S. dollar-denominated bonds (in millions)	0	0	105	105	105
Trading volume (in billions of rupiah)	1,115	6,092	14,244	17,347	27,098

Source: Bapepam, Ministry of Finance.

Indonesian corporate bonds have been traded more actively since 2001, helped by declining SBI interest rates and favorable tax treatment for listed bonds. From a low of Rp1.1 trillion in 2001, trading volume for corporate bonds increased by 446% to Rp6.1 trillion in 2002, by another 133% to Rp14.2 trillion in 2003, and by a further 21.8% to Rp17.3 trillion in 2004 and 56.2% to Rp27.1 trillion in 2005. Total outstanding amount of rupiah-denominated bonds increased by 39.8% from Rp44.9 trillion in 2003 to Rp62.8 trillion in 2004, and rose slightly to Rp63.0 trillion in 2005.

Government bonds are also actively traded in the capital markets. At the end of 2001, there were Rp395 trillion of tradable rupiah-denominated government bonds outstanding, and this number stayed relatively steady thereafter, standing at Rp398 trillion at the end of 2002, Rp390 trillion at the end of 2003, Rp399 trillion at the end of 2004 and Rp390 trillion at the end of 2005. 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 total number of funds operating and the total of unit holders is as follows:

Mutual Funds

	2001	2002	2003	2004	2005
Number of funds	108	131	186	246	328
Number of unit holders	51,723	125,820	171,712	299,063	254,660
Net asset value (in billions of rupiah)	8,004	46,614	69,448	104,038	29,406

Source: Bapepam, Ministry of Finance.

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 2002, total net asset value grew 482.4% from Rp8.0 trillion to Rp46.6 trillion; during 2003, total net asset value grew 48.9% to Rp69.5 trillion; and during 2004, total net asset value grew a further 49.8% 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, approximately 80% of mutual fund assets were invested in fixed income debt securities, of which 84.6% 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 47.1%, 36.2% of which were invested in government debt securities. In 2005, higher interest rates made investments in bonds less attractive, and 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.

Bapepam has introduced rules to strengthen its supervisory and enforcement capacity over Indonesia's capital markets. In the last two years, Bapepam 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. Bapepam has also reviewed rules on asset-backed securities and issued rules on options trading.

Bapepam promulgates rules as necessary to establish a strong regulatory framework for sound and transparent capital markets. In 2004, Bapepam issued six new regulations and revised eleven 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 fair market value of fixed income securities traded over the counter. In addition, Bapepam 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. Through December 2005, Bapepam had approved registration statements for the public offering of 22 capital protected funds.

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. In the absence of short-term treasury bills, Bank Indonesia uses short-term debt certificates issued by Bank Indonesia and referred to as "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. In the first quarter of 2005, Bank Indonesia started to apply tight monetary policies, and in the second half of 2005 the BI rate was increased to curb inflationary pressure.

In January 2005, Bank Indonesia eliminated its overnight rupiah placement facility for commercial banks, which had been established to permit Indonesian banks to place excess liquidity with Bank Indonesia. Bank Indonesia eliminated this facility in response to concerns that its initial purpose of absorbing excess temporary monetary liquidity in the financial markets was no longer necessary given the stabilization of the Indonesian financial system in the prior three years. Indonesian banks are still permitted to place excess liquidity with Bank Indonesia in seven-day time deposits known as Bank Indonesia Deposit Facilities (FASBIs). However, due to pressure on the rupiah, at the end of August 2005 Bank Indonesia reopened its overnight rupiah placement facility to absorb excess rupiah liquidity in the market.

In July 2005, Bank Indonesia implemented a new monetary policy framework consistent with its inflation targeting framework. The new framework has four fundamental elements: the use of the Bank Indonesia reference 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 maintain price stability by targeting base money supply levels to achieve a medium-term inflation projection in the low single-digits. However, in an effort to provide clearer information to the financial system regarding the goals of, and changes in, Bank Indonesia's monetary policy and future money supply, Bank Indonesia now targets changes in the SBI interest rate, rather than base money, through the BI rate. Bank Indonesia may also intervene in the foreign exchange markets to help absorb liquidity and minimize excessive exchange rate fluctuations.

In line with a tightening monetary policy and the implementation of the new monetary policy framework, Bank Indonesia increased the BI rate to 8.25% on June 30, 2005, and to 8.50% on July 5, 2005. These two steps were taken to manage inflation in the medium term while still maintaining growth. On August 9, 2005, Bank Indonesia further raised the BI rate to 8.75%, on August 30, 2005 to 9.50% and again on September 6 to 10.00%. The decision to raise rates further was due to increasing global oil prices and raises in U.S. interest rates as well as the weakening rupiah exchange rate.

Following the fuel price increases that took effect on October 1, 2005, which have 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.

Effective September 8, 2005, Bank Indonesia raised bank reserve requirements up to 5.0% (depending on the bank's loan deposit ratio), raised its deposit rate for U.S. dollar deposits by 1.25% to 4.25%, and raised the Bank Indonesia Discount Facility rate (a 7-day liquidity instrument) by 1.0% to 8.5%. To prevent further depreciation of the rupiah, Bank Indonesia intervened in the domestic foreign exchange market and increased its monitoring of commercial banks' foreign exchange activities. The average annual interest rate for working capital loans from commercial banks had been 19.2% at the end of 2001, and it declined to 16.2% as of December 31, 2005; for investment loans; at the end of 2001 the equivalent rate had been 17.9%, and it declined to 15.7% as of December 31, 2005.

Effective September 15, 2005, Bank Indonesia banned rupiah margin trading against all foreign currencies in an effort to help stabilize the exchange rate.

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.

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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**	**Currency**	**Demand Deposits**	**Total (M1)**	**Quasi-Money**	**Foreign Assets (Net)**	**Claims on Gov't (Net)[(1)]**	**Claims On Business Sectors**	**Other Items (Net)[(2)]**
					(in billions of rupiah)				
2000	125,615	72,370	89,815	162,185	584,842	210,733	520,317	294,923	(278,946)
2001	127,796	76,342	101,389	177,731	666,323	233,975	529,706	329,153	(248,780)
2002	138,250	80,686	111,253	191,939	691,969	250,696	510,350	389,296	(266,434)
2003	166,474	94,542	129,257	223,799	731,893	271,820	479,885	466,826	(261,839)
2004	199,446	109,265	144,553	253,818	779,710	263,647	498,019	615,802	(343,940)
2005	241,598	124,316	157,589	281,905	921,310	313,082	498,901	738,843	(347,610)

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 8.2% from Rp128 trillion at the end of 2001 to Rp138 trillion at the end of 2002. This increase largely originated with a rise in currency, which was itself largely due to seasonal needs, and an increase in commercial banks' current account balances at Bank Indonesia, which rose primarily due to a rise in minimum reserve requirements in light of expanded mobilized deposits. M1 rose 8.0% from Rp178 trillion in 2001 to Rp192 trillion in 2002, while M2 rose 4.7% from Rp844 trillion in 2001 to Rp884 trillion in 2002. The increases in both M1 and M2 were much slower than in the previous year, mainly due to declining policy interest rates that triggered a downward trend in time deposit interest rates.

M0 increased 20.4% to Rp166 trillion in 2003. The increase was due to a surge in public needs in conjunction with seasonal factors, in particular a longer holiday season in the second half of the year. For its part, the rise in commercial banks' current account balance at Bank Indonesia was mainly attributable to temporary operational policies at the end of the year. M1 rose 16.6% to Rp224 trillion in 2003, while M2 rose 8.1% to Rp956 trillion. The increase in M1 was in line with improvements in economic growth, and the increase in M2 was mainly due to an increase in quasi-money (mainly savings deposits) following a shift from time to savings deposits triggered by declining interest rates.

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 21.2%, 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.

Government Budget

Fiscal Policy

The government's current fiscal policy focuses on three major economic policy objectives: (1) achieving fiscal consolidation and reducing government debt; (2) maintaining sustainable medium-term fiscal policy; and (3) providing a modest degree of stimulus to the overall economy, within the constraints set by the government's fiscal policies. As Indonesia continues to have substantial internal and external debt levels and incur new financing needs, the Ministry of Finance has focused on fiscal consolidation, while recognizing the need for public investment in key infrastructure and social sectors. In 2006, the budget deficit was 0.5% of GDP, and the 2006 Budget has a budget deficit target of 0.7% of GDP in 2006. With these deficit levels, the 2005 debt-to-GDP ratio was below 50% and, based on the assumptions in the 2006 Budget, the ratio is expected to decline to below 44% by the end of 2005. See "—2006 Budget."

Indonesia transfers a significant proportion of central government revenue to regional and local governments. Under a law adopted in 1999, revenues apportioned for regional and local governments are obtained from taxes (personal income tax, land and building tax, and duties on land and building transfers) and natural resource revenues (oil and gas, general mining, forestry and fishery), calculated as a percentage of regional and local government output. In 2005, 25.5% of net domestic revenues were transferred to regional and local governments; the 2006 Budget allocates 26.0% of net domestic revenues for this purpose. A law adopted in 2004 requires that at least 26% of net domestic revenues be allocated to regional and local governments beginning 2008. In addition, each region retains a percentage of certain revenues, principally tax revenues and natural resource revenues, derived from that region. Regional and local governments use the transfer payments for specific resource-related projects, such as the reforestation program, and also for general programs relating to education, health and infrastructure.

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

Government Revenues and Expenditures

	FY 2001	2002	2003	2004[U]	2005[P]
	(in trillions of rupiah)				
Revenue and grants:					
Domestic revenue:					
Tax revenue	185.5	210.1	242.0	280.9	346.8
Non-tax revenue	115.1	88.4	98.9	126.7	147.3
Total domestic revenue	300.6	298.5	340.9	407.6	494.1
Grants	0.5	0.1	0.5	0.3	1.3
Total revenue and grants	301.1	298.6	341.4	407.9	495.4
Expenditures:					
Current expenditures	218.9	186.7	186.9	238.7	N/A(2)
Development expenditures	41.6	37.3	69.2	69.4	N/A(2)
Total central government expenditures	260.5	224.0	256.2	308.1	358.9(2)
Transfers to regions:					
Balanced funds	81.1	94.7	111.1	122.9	143.3
Fund for specific autonomy and balancing	—	3.5	9.2	6.8	7.2
Total transfers to regions	81.1	98.2	120.3	129.7	150.5
Total expenditures	341.6	322.2	376.5	437.7	509.4
Primary balance(1)	46.6	64.1	30.3	32.4	43.6
Surplus/(deficit)	(40.5)	(23.6)	(35.1)	(29.9)	(14.0)
Financing:					
Domestic financing	30.2	17.0	34.6	52.9	30.3
Foreign financing	10.3	6.6	0.5	(23.0)	(11.3)
Total financing	40.5	23.6	35.1	29.9	19.0

Source: Ministry of Finance.

P Preliminary

U Unaudited figures.

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

(2) Due to budget accounting reforms enacted in 2005, current expenditures and development expenditures have been merged.

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

Government Revenues

	FY 2000	2001	2002	2003	2004[U]	2005[P]
			(in trillions of rupiah)			
Domestic Revenue:						
Tax revenue:						
Domestic taxes:						
Income tax:						
Oil and gas	18.7	23.1	17.5	19.0	22.9	35.0
Non-oil and gas	38.4	71.5	84.4	96.1	112.0	140.4
Total income taxes	57.1	94.6	101.9	115.0	134.9	175.4
Value added tax	35.2	56.0	65.2	77.1	87.6	101.3
Land and building tax	3.5	5.2	6.2	8.8	11.8	16.2
Duties on land and building transfer	0.9	1.4	1.6	2.1	2.9	3.4
Excises	11.3	17.4	23.2	26.3	29.2	33.3
Other taxes	0.8	1.4	1.5	1.7	1.8	2.1
Total domestic taxes	108.9	176.0	199.5	230.9	268.2	331.6
International trade taxes:						
Import duties	6.7	9.0	10.3	10.9	12.4	14.9
Export tax	0.3	0.5	0.2	0.2	0.3	0.3
Total international trade taxes	7.0	9.6	10.6	11.1	12.7	15.2
Total tax revenue	115.9	185.5	210.1	242.0	280.9	346.8
Non-tax revenue:						
Natural resources:						
Oil	51.0	59.0	47.7	43.0	63.1	72.8
Gas	15.7	22.1	12.3	18.5	22.2	30.9
General mining	0.9	2.3	1.5	2.0	1.7	3.1
Forestry	8.7	2.2	3.1	3.7	4.1	3.2
Fishery	0.1	0.1	0.2	0.3	0.3	0.3
Total natural resources	76.3	85.7	64.8	67.5	91.4	110.4
Profit transfer from SOEs	4.0	8.8	9.8	12.6	9.8	12.8
Other non-tax revenue	9.1	20.6	13.9	18.8	25.5	24.1
Total non-tax revenue	89.4	115.1	88.4	98.9	126.7	147.3
Total domestic revenue	205.3	300.6	298.5	340.9	407.6	494.1
Grants	0.0	0.5	0.1	0.5	0.3	1.3
Total revenue and grants	205.3	301.1	298.6	341.4	407.9	495.4

Source: Ministry of Finance.

[P] Preliminary

[U] Unaudited figures.

In 2005, realized tax revenues of Rp346.8 trillion were 98.5% of the government's target for the year. Domestic tax revenues were 99.2% of the government's target for the year, while international trade tax revenues were 86.7% of the government's target. Realized non-tax revenues in 2005 were Rp147.3 trillion, or 81.5% of the government's budgeted figure. Total revenues and grants of Rp495.4 trillion for 2005 were 91.7% of the government's target.

Since 2001, revenues from non-oil and gas income taxes have outstripped revenues from natural resources. The VAT also outstripped revenues from natural resources in 2002 and 2003, though not in 2004. Together, these three sources of revenue accounted for 73.0% of total revenues in 2000 and 71.3% of total revenues in 2004. These three sources of revenue plus excise taxes and oil and gas income taxes accounted for 87.6% of total revenues in 2000 and 84.2% of total revenues in 2004. In 2005, these three sources of revenues plus excise taxes and oil and gas income taxes accounted for 84.9% of total revenues in 2005.

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

Government Expenditures(1)

	FY 2000	2001	2002	2003	2004U
	(in trillions of rupiah)				
Current expenditures:					
Personnel expenditures	29.6	38.7	39.5	47.7	54.4
Material expenditures	9.6	9.9	12.8	15.0	16.6
Interest payments:					
Domestic debt	31.2	58.2	62.3	46.4	39.6
Foreign debt	18.8	28.9	25.4	19.0	22.8
Total interest payments	50.1	87.1	87.7	65.4	62.4
Subsidies:					
Oil subsidies	53.8	68.4	31.2	30.0	69.0
Non-oil subsidies	8.9	9.1	12.5	13.9	16.4
Total subsidies	62.7	77.4	43.6	43.9	85.5
Other current expenditures	10.5	5.7	3.1	15.0	19.8
Total current expenditures	162.6	218.9	186.7	187.0	238.7
Development expenditures:					
Rupiah financing	8.8	21.4	25.6	50.3	50.9
Project financing	17.0	20.2	11.7	18.9	18.5
Total development expenditures	25.8	41.6	37.3	69.2	69.4
Transfers to regions:					
Balanced funds:					
Revenue sharing	4.3	20.0	24.9	31.4	36.7
General allocation fund	28.8	60.3	69.2	77.0	82.1
Special allocation fund	0.0	0.7	0.6	2.7	4.1
Total balanced funds	33.1	81.1	94.7	111.1	122.9
Fund specific autonomy and balancing	0.0	0.0	3.5	9.2	6.8
Total transfers to regions	33.1	81.1	98.2	120.3	129.7
Total expenditures	221.5	341.6	322.2	376.5	437.7

Source: Ministry of Finance.

U Unaudited figures.

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

Government Expenditures[1]

	FY 2005[P] (in trillions of rupiah)	FY 2005[P] (% of GDP)
Central government expenditures:		
Personnel expenditures	55.6	1.8
Material expenditures	33.1	1.1
Capital expenditures	36.9	1.2
Interest payments:		
Domestic debt	43.5	1.4
Foreign debt	14.1	0.5
Total interest payments	57.6	1.9
Subsidies:		
Oil subsidy	95.7	3.1
Non-oil subsidy	25.0	0.8
Total subsidies	120.7	4.0
Grants expenditures	0.0	0.0
Social expenditures	24.2	0.8
Other current expenditures	30.8	1.0
Total central government expenditures	358.9	11.8
Regional expenditures:		
Balanced funds:		
Revenue sharing	49.8	1.6
General allocation funds	88.7	2.9
Special allocation funds	4.7	0.2
Total balancing funds	143.3	4.7
Fund for specific autonomy and balancing:		
Special autonomy fund	1.8	0.1
Adjustment funds	5.4	0.2
Total funds for special autonomy	7.2	0.2
Total regional expenditures	150.5	4.9
Total expenditures	509.4	16.8

Source: Ministry of Finance.

[P] Preliminary.

(1) Presented under reclassified expenditure categories.

In 2005, the government's actual public expenditures were Rp509.4 trillion, equivalent to 90.2% of the year's budgeted figure. Public expenditures consisted of central government expenditures and transfers to regions. Central government expenditures in 2005 were Rp358.9 trillion, 87.2% of the budgeted amount. Transfers to regions in 2005 were Rp150.5 trillion, or 98.1% of the budgeted amount.

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

Development Expenditures by Sector(1)

	FY 2000	2001	2002	2003	2004U
			(in percentages)		
Economy:					
Transportation and communication	15.1	16.2	13.0	13.2	14.8
Agriculture and forestry	15.8	14.1	14.1	12.7	13.5
Energy	4.8	5.8	4.1	5.6	4.1
Mining and industry	0.6	1.8	0.9	1.3	1.0
Other economic services	5.6	12.0	3.3	3.7	2.6
Total economy	41.9	50.0	35.4	36.5	36.0
Housing and settlement	19.2	9.5	12.4	7.8	3.5
Education	18.1	20.8	25.6	23.9	21.1
General government	12.3	11.6	16.8	21.1	26.6
Health	7.2	5.5	6.6	7.6	7.0
Recreation and religion	0.4	0.5	0.3	0.6	0.5
Social security and welfare	0.9	2.2	3.0	2.5	3.7
Total	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance.

U Unaudited figures.

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

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

Deficit Financing(1)

	FY 2000	2001	2002	2003	2004U
			(in trillions of rupiah)		
Domestic financing:					
Domestic bank financing	(13.0)	(1.2)	(8.1)	10.7	26.8
Domestic non-bank financing:					
Privatization	0.0	3.5	7.7	7.3	3.5
Assets recovery	18.9	28.0	19.4	19.7	15.8
Government bonds (net)	0.0	0.0	(1.9)	(3.1)	6.9
Total domestic non-bank financing	18.9	31.4	25.2	23.9	26.1
Total domestic financing	5.9	30.2	17.0	34.6	52.9
Foreign financing:					
Gross drawing:					
Program loan	0.8	6.4	7.2	1.8	5.1
Project loan	17.0	19.7	11.6	18.6	18.4
Total gross drawing	17.8	26.2	18.8	20.4	23.5
Amortizations	(7.6)	(15.9)	(12.3)	(19.8)	(46.5)
Total foreign financing	10.2	10.3	6.6	0.5	(23.0)
Total financing	16.1	40.5	23.6	35.1	29.9

Source: Ministry of Finance.

U Unaudited figures.

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

Actual public expenditures in 2004 were Rp437.7 trillion. Because actual revenue and grants in the same period totaled Rp407.9 trillion, there was a deficit of approximately Rp29.8 trillion. The government financed this deficit through domestic bank financing of Rp26.8 trillion, proceeds from privatizations and asset recoveries of Rp19.3 trillion and net bond issuances of Rp6.9 trillion. The increase in financing from these sources was partially offset by a net amortization outflow of foreign financing (other than bonds) of Rp23.0 trillion.

Deficit Financing[1]

	2005[P]	
	(in trillions of rupiah)	(% of GDP)
Domestic financing:		
Domestic bank financing	6.8	0.2
Domestic non-bank financing:		
Privatization assets	0.0	0.0
Assets recovery	6.2	0.2
Government bonds (net)	22.5	0.7
Government capital participation	(5.2)	(0.2)
Total domestic non-bank financing	23.5	0.8
Total domestic financing	30.3	1.0
Foreign financing:		
Gross drawing		
Program loan	12.3	0.4
Project loan	13.6	0.4
Total gross drawing	25.8	0.8
Amortizations	(37.1)	(1.2)
Total foreign financing	(11.3)	(0.4)
Total financing	19.0	0.6

Source: Ministry of Finance.

P Preliminary.

(1) Presented under reclassified categories.

Actual public expenditures in 2005 were Rp509.4 trillion, while actual revenues and grants in 2005 were Rp495.4 trillion. The government financed this deficit of approximately Rp14 trillion through net bond issuances of Rp22.5 trillion, domestic bank financing of Rp6.8 trillion and proceeds from asset recoveries of Rp6.2 trillion. The increase in financing from these sources was partially offset by a net amortization outflow of foreign financing (other than bonds) of Rp11.3 trillion and government capital participation of Rp5.2 trillion.

2005 Budget

In September 2004, the House of Representatives approved a budget for 2005. The Original 2005 Budget was drafted by the administration of former President Megawati Soekarnoputri and reflects the spending priorities of that former administration. On March 24, 2005, the government of President Yudhoyono submitted to the House of Representatives for consideration and approval proposed revisions to the Original 2005 Budget to change certain of the assumptions underlying the Original 2005 Budget, to reflect the spending priorities of the new administration and to allocate expenditures to the tsunami-related relief and reconstruction efforts in Aceh and North Sumatra, additional spending for social welfare programs and the regional elections scheduled in 2005. These revisions were approved by the House of Representatives and became law on July 11, 2005. On August 15, 2005, the government submitted a second set of revisions to the House of Representatives. These revisions included changes in some of the previous macroeconomic assumptions (mainly increasing the average oil price and decreasing the value of the rupiah relative to the U.S. dollar), changes in the levels of fuel and non-fuel subsidies, adjustments in how the government allocates foreign loans for projects extending over more than one year and increases in the budget allocation for certain ministries in light of actual expenditures in the first half of 2005, along with certain amendments. The House of Representatives approved the revisions on September 27, 2005.

2006 Budget

On August 16, 2005, President Yudhoyono delivered the government's proposed budget for 2006 (the "2006 Budget") to a plenary session of the House of Representatives. The 2006 Budget is the first budget reflecting the policy goals and objectives of the Yudhoyono administration. The main targets of the 2006 Budget are to continue fiscal consolidation by gradually lowering the budget deficit to 0.7% of GDP and to lower the country's total debt to 42.8% of GDP, in each case by the end of 2006. The 2006 Budget was approved by the House of Representatives in October 2005.

The key macroeconomic assumptions underlying the 2006 Budget are as follows:

- a real GDP growth rate of 6.2%, compared to 6.0% in the 2005 Budget;
- an average inflation rate of 8.0%, compared to 8.6% in the 2005 Budget;
- an interest rate on three-month short-term SBI of 9.5%, compared to 8.4% in the 2005 Budget;
- an average exchange rate of Rp9,900 to $1.00, compared to Rp9,800 in the 2005 Budget;
- average production by the Republic of 1.050 million barrels of oil per day, compared to 1.075 million from the 2005 Budget; and
- an average price for oil of $57.00 per barrel, compared to $54.00 per barrel in the 2005 Budget.

Government Revenues. The following table sets forth the budgeted revenues of the government, by amount and as a percentage of GDP, set forth in the 2005 Budget and in the 2006 Budget:

Government Revenues

	2005 Budget		2006 Budget	
	(in trillions of rupiah)	(% of Revised GDP)	(in trillions of rupiah)	(% of Revised GDP)
Domestic Revenue:				
Tax revenue:				
Domestic taxes:				
Income tax:				
Oil and gas	37.2	1.4	37.5	1.2
Non-oil and gas	143.0	5.4	173.2	5.7
Total income taxes	180.3	6.8	210.7	6.9
Value added tax	102.7	3.9	128.3	4.2
Land and building tax	13.4	0.5	15.7	0.5
Duties on land and building transfer	3.7	0.1	5.3	0.2
Excises	32.2	1.2	36.5	1.2
Other taxes	2.2	0.1	2.8	0.1
Total domestic taxes	334.4	12.6	399.3	13.1
International trade taxes:				
Import duties	16.6	0.6	16.6	0.5
Export tax	1.0	—	0.4	—
Total international trade taxes	17.6	0.7	17.0	0.6
Total tax revenue	352.0	13.3	416.3	13.7
Non-tax revenue:				
Natural resources:				
Oil	102.2	3.9	110.1	3.6
Gas	36.4	1.4	36.1	1.2
General mining	2.8	0.1	3.0	0.1
Forestry	2.7	0.1	2.0	0.1
Fishery	0.4	—	0.4	—
Total natural resources	144.4	5.4	151.6	5.0
Profit transfer from SOEs	12.0	0.5	23.3	0.8
Other non-tax revenue	24.3	0.9	30.4	1.0
Total non-tax revenue	180.7	6.8	205.3	6.8
Total domestic revenue	532.7	20.1	621.6	20.4
Grants	7.5	0.3	3.6	0.1
Total revenue and grants	540.1	20.4	625.2	20.6

Source: Ministry of Finance.

The 2006 Budget calls for total revenue and grants of Rp625.2 trillion, compared to Rp540.1 trillion in the 2005 Budget. Measured as a percentage of projected GDP, this represents an increase from 20.4% to 20.6%. The 2006 Budget assumes that revenues from natural resources will increase by 5.0% to Rp151.6 trillion, compared to Rp144.4 trillion in the 2005 Budget. This Rp7.2 trillion increase in natural resource revenue is expected mainly due to higher oil prices and depreciating rupiah.

Government Expenditures. The following table sets forth the budgeted expenditures of the government, by amount and as a percentage of GDP, set forth in the 2005 Budget and in the 2006 Budget:

Government Expenditures

	2005 Budget		2006 Budget	
	(in trillions of rupiah)	(% of Revised GDP)	(in trillions of rupiah)	(% of Revised GDP)
Central government expenditures:				
Personnel	61.2	2.3	79.9	2.6
Material expenditures	42.3	1.6	55.2	1.8
Capital expenditures	54.7	2.1	63.0	2.1
Interest payments:				
Domestic	42.3	1.6	48.6	1.6
External	18.7	0.7	28.0	0.9
Total interest payments	61.0	2.3	76.6	2.5
Subsidies:				
Oil subsidies	89.2	3.4	54.3	1.8
Non-oil subsidies	29.9	1.1	25.2	0.8
Total subsidies	119.1	4.5	79.5	2.6
Grant expenditures	—	—	—	—
Social expenditures	30.0	1.1	36.9	1.2
Other expenditures	43.4	1.6	36.5	1.2
Total central government expenditures	411.7	15.5	427.6	14.1
Regional expenditures:				
Balancing funds:				
Revenue sharing	52.6	2.0	59.4	2.0
General allocation funds	88.8	3.3	145.7	4.8
Special allocation funds	4.8	0.2	11.6	0.4
Total balancing funds	146.2	5.5	216.6	7.1
Funds for special autonomy:				
Special autonomy funds	1.8	0.1	2.9	0.1
Adjustment funds	5.5	0.2	0.6	0.0
Total funds for special autonomy	7.2	0.3	3.5	0.1
Total regional expenditures	153.4	5.8	220.1	7.2
Total expenditures	565.1	21.3	647.7	21.3

Source: Ministry of Finance.

The expenditure side of the 2006 Budget, as compared with the 2005 Budget, shows total expenditures forecast to increase by 14.6% in rupiah terms, to Rp647.7 trillion from Rp565.1 trillion. In terms of percentage of projected GDP, total expenditures in the 2006 Budget represent 21.3% of projected GDP, unchanged from the 2005 Budget. The split between central government expenditures and regional government expenditures in the 2006 Budget shows a shift from central to regional spending, when compared with the 2005 Budget. Central government spending is projected to increase from Rp411.7 trillion (or 15.5% of projected GDP) in the 2005 Budget to Rp427.6 trillion (or 14.1% of projected GDP) in the 2006 Budget; regional government spending, over the same comparison, is expected to rise from Rp153.4 trillion (or 5.8% of projected GDP) to Rp220.1 trillion (or 7.2% of projected GDP). The 2006 Budget projects higher levels of interest payments compared with the 2005 Budget, increasing from Rp61.0 trillion (or 2.3% of GDP) to Rp76.6 trillion (or 2.5% of projected GDP), reflecting the resumption of debt service on Paris Club debt.

Government Deficit Financing. The following tables set forth the budgeted deficit financing of the government, by amount and as a percentage of GDP, set forth in the 2005 Budget and in the 2006 Budget:

Deficit Financing

	2005 Budget		2006 Budget	
	(in trillions of rupiah)	(% of Revised GDP)	(in trillions of rupiah)	(% of Revised GDP)
Domestic financing:				
Domestic bank financing	4.3	0.2	23.0	0.8
Domestic non-bank financing:				
Privatization	3.5	0.1	1.0	0.0
Assets recovery	5.1	0.2	2.4	0.1
Government bonds (net)	22.1	0.8	24.9	0.8
Government share on capital	(5.2)	(0.2)	(0.4)	—
Total domestic non-bank financing	25.5	1.0	27.9	0.9
Total domestic financing	29.8	1.1	50.9	1.7
Foreign financing:				
Gross drawing:				
Program loan	11.3	0.4	9.9	0.3
Project loan	24.3	0.9	25.2	0.8
Total gross drawing	35.5	1.3	35.1	1.2
Amortizations	(40.4)	(1.5)	(63.6)	(2.0)
Total foreign financing	(4.8)	(0.2)	(28.5)	(0.9)
Total financing	24.9	0.9	22.4	0.7

Source: Ministry of Finance.

The 2006 Budget has a projected budget deficit of Rp22.4 trillion, representing 0.7% of the forecast 2006 GDP; this compares with a projected deficit in the 2005 Budget of Rp24.9 trillion, or 0.9% of 2005 GDP. Due to the late revision of the 2005 Budget and new expenditure procedure introduced, the realized budget deficit was 0.7% of the GDP. Approximately Rp12.5 trillion of unspent budgeted amount from the 2005 Budget, most of which had been allocated for reconstruction projects in Aceh and Nias, is available to be carried over to 2006, which will likely increase the 2006 budget deficit.

The methodology for calculating budgetary revenue, expenditure and financing numbers differs from the methodology for calculating historical revenue, expenditure and financing numbers.

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. As a result of the pilot program, more medium-sized and small taxpayer offices have been established in 2005, and will continue in following years. 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.

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. The government is in the process of proposing improvements to the tax system by 2007 by introducing amendments to the tax laws, including the general rule of taxation, income tax law, VAT law, custom law and excise law. The government believes that these changes will provide incentives for increased investment and employment. The government expects that the reduction in government revenue resulting from reduced tax rates will be partially offset by the reduction or elimination of income exclusions, particularly VAT exclusions, used to determine the tax payable and through improvements in tax administration and collection.

The government is seeking to expand the tax base of Indonesia by increasing the number of registered taxpayers. The government has reviewed non-tax databases, including property records, 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 by an additional 10 million taxpayers.

Public Debt

Over the last five 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 2000 and the end of 2004, the Republic successfully reduced its public debt as a percentage of GDP from 98.1% in 2000 to 60.7% of GDP in 2004. Progress in managing the public debt of Indonesia continued through September 30, 2005, with total public debt falling to $136.1 billion from $147.6 billion as of December 31, 2004. The decline in the first nine months of 2005 was due primarily to the decline in value of the rupiah relative to the U.S. dollar. Public debt as a percentage of GDP also continued to decline over this period, reaching 53.6%.

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)]

	2000	2001	2002	2003	2004	September 30, 2005[P]
	(in billions of U.S. dollars)					
Concessional Loans:						
Multilateral creditors	31.5	29.0	29.1	30.0	28.9	26.7
Bilateral creditors	24.6	22.7	26.1	29.9	30.3	28.3
Semi-concessional Loans:						
Export agency creditors	15.7	14.9	16.6	18.4	18.0	16.4
Leasing	0.6	0.4	0.4	0.2	0.2	0.2
Commercial	2.4	2.3	2.3	2.4	3.2	3.8
Total	74.9	69.4	74.5	80.9	80.7	75.3
Total public external debt of the Republic, as a percentage of GDP for the year indicated	45.1%	42.1%	37.3%	34.1%	31.9%	27.5%
Total public external debt of the Republic, as a percentage of exports for the year indicated	101.0%	104.7%	110.0%	114.0%	102.7%	83.5%

Source: 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 2002, public external debt of the Republic as a percentage of GDP decreased to 37.3% of GDP from 42.1% at year-end 2001. While decreasing in percentage of GDP terms, in U.S. dollar terms it increased 7.3% to $74.5 billion in 2002 from the $69.4 billion in 2001. The increase in debt in U.S. dollar terms in 2002 was due to disbursements of bilateral and export agency creditor loans. In 2002, the Republic's public external debt as a percentage of exports increased to 110.0% in 2002 from 104.7% in 2001.

In 2003, public external debt of the Republic as a percentage of GDP decreased to 34.1% of GDP from 37.3% at year-end 2002. In U.S. dollar terms the amount increased 8.6% to $80.9 billion in 2003 from $74.5 billion in 2002. The increase in debt in U.S. dollar terms in 2003 was due to the strengthening of the Japanese yen, and to a lesser extent, other currencies, against the U.S. dollar. Japanese yen-denominated debt accounted for 33% of the Republic's total outstanding external debt as of December 31, 2003. The external debt of the Republic as a percentage of exports increased from 110.0% in 2002 to 114.0% in 2003.

In 2004, the public external debt of the Republic as a percentage of GDP decreased to 31.9% of GDP from 34.1% of GDP at year-end 2003. In U.S. dollar terms, public external debt decreased to $80.7 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 102.7% in 2004 from 114.0% in 2003. The improvement in the Republic's debt service to export ratio in 2004 was attributable to repayment of loans and a significant increase in exports in 2004.

As of September 30, 2005, the public external debt of the Republic as a percentage of GDP decreased to 27.5% of GDP from 31.9% of GDP at year-end 2004. Public external debt decreased to $75.3 billion as of September 30, 2005, from $80.7 billion at the end of 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 38% of the Republic's total outstanding external debt as of September 30, 2005. During the first three quarters of 2005 the Republic's public external debt as a percentage of exports decreased to 83.5% from 102.7% at year-end 2004. The improvement in the Republic's debt service-to-export ratio was attributable to repayment of loans and a significant increase in exports in the first nine months of 2005.

Sources of Public External Borrowings

The sources of the Republic's public external borrowings are multilateral creditors (which accounted for $26.7 billion (or 35.4%) of the total outstanding external debt as of September 30, 2005), bilateral creditors ($28.3 billion (or 37.6%)), export agency creditors ($16.4 billion (or 21.7%)), commercial creditors ($3.8 billion (or 5.0%)) and leasing creditors ($0.2 billion (or 0.3%)).

Of the Republic's $26.7 billion of multilateral debt outstanding as of September 30, 2005, IMF debt accounted for $8.5 billion. Following the Asian financial crisis, the IMF disbursed a total of $16 billion in funds to the Republic between late 1997 and December 2003. Since all of the IMF loans committed under the IMF post-crisis program have been disbursed to the Republic and the government formally ended the IMF program at the end of 2003, the Republic is currently only servicing its outstanding debt to the IMF. Like many countries that have decided to end their reliance on IMF disbursements, the Republic is participating in IMF post-program monitoring, under which the IMF monitors, supervises and reports on economic reform programs designed and conducted by the Republic.

In addition to the IMF, the World Bank and the ADB have also 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. As of September 30, 2005, the total World Bank and ADB debt outstanding was $16.7 billion. In 2005, the Republic received disbursements of loans from the ADB and the World Bank in the amounts of $981.5 million and $545.9 million, respectively. These loans have been used to fund development projects. The World Bank and ADB loans have been used to fund development programs in nearly all sectors of the Indonesian economy, including loans made in 2004 that were used by the government to enhance corporate governance. Multilateral lending programs such as those of the World Bank and the ADB are subject to regular compliance reviews.

The Consultative Group for Indonesia ("CGI"), is a group of 30 donor countries and international organizations, including the World Bank and the ADB, that meets annually to coordinate important donor assistance programs for Indonesia. The CGI members were owed approximately $46.4 billion as at September 30, 2005. The CGI has pledged to provide Indonesia loans and grants in an amount of up to $5.1 billion in 2005, including $1.7 billion earmarked to support reconstruction efforts in the province of Aceh and North Sumatra devastated by the tsunami which hit those regions in December 2004. See "—Recent Developments—December 2004 Earthquake and Tsunami and March 2005 Earthquake."

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 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 December 31, 2005 to Indonesia (as well as other nations affected by the tsunami). The Paris Club took this action to allow those debtor 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, Indonesian reduced its debt service payments by $2.6 billion in 2005. See "—2005 Budget" and "—Public Debt."

The government has also 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. These bonds mature on March 10, 2014. 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 billion in 7.25% bonds due 2015 and in October 2005, the Republic issued $900 million in 7.50% bonds due to 2016 and $600 million in 8.50% bonds due to 2035, in the international capital markets.

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The following table sets forth amounts of international development assistance received by the Republic since 2000:

International Development Assistance[1]

	2000	2001	2002	2003	2004	As of September 30, 2005[P]	
	(in millions of U.S. dollars and percentages)						
Bilateral loans	24,645	22,719	26,074	29,883	30,339	28,272	51.5%
Multilateral loans:							
International Monetary Fund	10,983	9,105	8,829	10,239	9,654	8,485	15.4
International Bank for Reconstruction and Development	11,774	11,577	10,802	9,776	8,943	8,177	14.9
Asian Development Bank	7,544	7,179	8,310	8,582	8,869	8,564	15.6
International Development Association	719	726	788	884	949	973	1.8
Islamic Development Bank	215	184	138	151	163	156	0.3
Nordic Investment Bank	200	186	170	155	139	128	0.2
European Investment Bank	8	8	7	111	109	104	0.2
International Fund for Agricultural Development	65	57	65	79	79	71	0.1
Multilateral Investment Guarantee Agency	0	7	3	0	0	0	0.0
Total multilateral loans	31,508	29,029	29,112	29,977	28,905	26,659	48.5
Total loans	56,152	51,749	55,186	59,860	59,244	54,930	100.0%

Source: 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 chart 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 September 30, 2005[P]	
	(in millions of original currency)	(in millions of U.S. dollars[1])
U.S. dollars	25,607	25,607
Japanese yen	3,225,563	28,546
SDR	6,220	9,023
Euros	8,080	9,734
British pounds	753	1,327

Source: Bank Indonesia.

P Preliminary

(1) Calculated based on exchange rates as of September 30, 2005.

External Debt of the Central Government

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

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

	As of December 31,					As of September 30,
	2000	2001	2002	2003	2004	2005[P]
	(in billions of U.S. dollars)					
Concessional Loans						
Multilateral creditors	20.5	19.9	20.3	19.8	19.3	18.2
Bilateral creditors	24.6	22.7	26.1	29.9	30.3	28.3
Semi concessional Loans						
Export agency creditors	15.7	14.9	16.6	18.4	18.0	16.4
Leasing	0.6	0.4	0.4	0.2	0.2	0.2
Commercial	0.3	0.3	0.3	0.3	1.2	2.3
Total	61.8	58.2	63.6	68.5	69.0	65.2

Source: 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.

The central government's external debt includes both fixed and floating rate obligations. As of September 30, 2005, 69.7% of the central government's external debt consisted of fixed rates loans and 30.3% floating rates 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 Repayments	Interest Payments	Total
	(in millions of U.S. dollars)		
1999[2]	2,579	2,683	5,262
2000[2]	1,769	2,860	4,629
2001[2]	1,821	2,820	4,641
2002[2]	2,576	2,020	4,596
2003[2]	2,629	2,186	4,815
2004[2]	5,194	2,518	7,712
2005[2]	3,812	1,411	5,222
2006[3]	6,351	2,587	8,937
2007[3]	6,505	2,399	8,904
2008[3]	6,548	2,176	8,724
2009[3]	6,593	1,933	8,526
2010[3]	5,249	1,725	6,974
2011[3]	4,549	1,608	6,156

Source: Bank Indonesia.

(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 "—Recent Developments—Temporary Suspension of Debt Service from the Paris Club" 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, 2004 and on the transaction exchange rates as of January 31, 2005. These calculations assume the deferral of $2.9 billion under the suspension of debt service payments to the Paris Club in 2005.

In 2002, external debt service requirements of the central government remained relatively constant at $4.6 billion compared to 2001. In 2003, external debt service requirements of the central government increased by 4.8% to $4.8 billion from $4.6 billion in 2002. In 2004, the central government's public external debt service requirements increased 60.2% to $7.7 billion, from $4.8 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. Fluctuations in external debt service requirements are dependent upon loan repayment schedules and currency movements.

Debt service payments on the central government's external debt are expected to increase from $5.2 billion in 2005 to $8.9 billion in 2006. This projected increase is the result of the acceptance by the Republic of the suspension of debt service payments offered by the Paris Club members for debt service payments due in 2005 and maturity management actions by the government. Payments in 2006 will be higher than in 2005 because of both the resumption of payments on the Paris Club debt and because of some deferrals of 2005 Paris Club payments coming due in 2006. As shown in the table above, the debt service requirements of currently outstanding external debt increase in 2006 and decline slowly through 2009. This trend is the result of the deferral of 2005 Paris Club debt service payments to 2006 through 2009 and maturity management practiced by the central government. See "—Sources of Public External Borrowings."

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. Since 1997 the majority of the external debt of Bank Indonesia has been owed to the IMF, primarily as a result of the IMF lending program. As of September 30, 2005, the total outstanding external debt of Bank Indonesia was $10.0 billion, or approximately 13.3% 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,					As of September 30,
	2000	2001	2002	2003	2004	2005[P]
	(in millions of U.S. dollars)					
Multilateral	10,982.5	9,105.3	8,829.3	10,238.6	9,653.9	8,485.3
Commercial	2,142.6	2,069.1	2,076.4	2,086.8	2,075.9	1,537.4
Total	13,125.2	11,174.4	10,905.7	12,325.4	11,729.8	10,022.7

Source: Bank Indonesia.

P Preliminary

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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)		
1999(1)	0.9	536.8	537.8
2000(1)	—	684.4	684.4
2001(1)	1,798.2	608.5	2,406.7
2002(1)	2,433.2	345.2	2,778.4
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(2)	2,306.7	350.5	2,657.2
2007(2)	2,114.7	256.1	2,370.8
2008(2)	2,662.2	171.0	2,833.2
2009(2)	1,499.7	81.2	1,580.9
2010(2)	716.8	35.1	751.9
2011(2)	87.3	17.9	105.2

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 January 31, 2005.

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 BSAs with other countries. Bank Indonesia on behalf of the government has signed BSAs with Japan, China and the Republic of Korea. The recent signing of the second-stage BSA agreement between The People's Bank of China and Bank Indonesia on October 17, 2005, enables Indonesia to swap rupiah for U.S. dollars in amounts up to $2 billion to provide short-term liquidity. Currently, a total of $9 billion is available to be drawn under these facilities; however, Indonesia would have to accept the conditions of an IMF program to become eligible to access more than 20% of the amounts under the BSAs. See "—Foreign Trade and Balance of Payments—Membership in International and Regional Free Trade Agreements."

Ratings History

The following table sets forth changes in the credit ratings of the Republic since 2000:

Changes in the Credit Rating of the Republic since 2000(1)

Date	Rating Agency	Credit Rating
December 22, 2004	Standard & Poor's	B+
October 8, 2003	Standard & Poor's	B
May 5, 2003	Standard & Poor's	B-
September 5, 2002	Standard & Poor's	CCC+
April 23, 2002	Standard & Poor's	Selective Default
November 2, 2001	Standard & Poor's	CCC
May 21, 2001	Standard & Poor's	CCC+
October 2, 2000	Standard & Poor's	B-
April 17, 2000	Standard & Poor's	Selective Default
September 30, 2003	Moody's	B2
January 27, 2005	Fitch	BB-
November 20, 2003	Fitch	B+
August 1, 2002	Fitch	B

Source: Bloomberg.

(1) All of the listed ratings are in respect of the Republic's $7\frac{3}{4}\%$ Bonds due 2006, $6\frac{3}{4}\%$ Bonds due 2014, $7\frac{1}{4}\%$ Bonds due 2015, $7\frac{1}{2}\%$ Bonds due 2016 and $8\frac{1}{2}\%$ Bonds due 2035.

On December 22, 2004, Standard & Poor's upgraded its long-term foreign currency sovereign credit rating on Indonesia to B+ from B, with a positive outlook. Standard & Poor's cited ongoing progress in Indonesia's macroeconomic stability, reliable fiscal management, a declining debt and debt servicing burden and favorable external liquidity in raising its rating.

On January 27, 2005, Fitch also 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 starting 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 February 12, 2006, Fitch revised its outlook on the foreign currency rating and local currency rating of Indonesia to stable from positive and affirmed both ratings at "BB-." Fitch stated that the downward revision to the outlook reflected concern over risk to the external balances that needed to be addressed with greater urgency and importance.

External Debt of State-Owned Enterprises

The following tables set forth the outstanding external debt of SOEs as of the dates indicated:

Outstanding Direct External Debt of State-Owned Enterprises

	2000	2001	2002	2003	2004	As of September 30, 2005[P]
	(in millions of U.S. dollars)					
Financial Institution:						
Bank	4,150	3,695	2,767	2,874	2,356	3,938
Non-bank	145	134	193	156	145	203
Total financial institution	4,295	3,829	2,960	3,030	2,501	4,142
Non-financial institution	4,937	4,209	3,555	4,836	4,621	4,526
Total	9,232	8,038	6,514	7,866	7,122	8,668

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 SOE debt. As of September 30, 2005, total outstanding external debt of SOEs was $8.7 billion, $4.5 billion of which was non-financial institutions debt. Non-financial institutions, primarily in the oil and gas sector, accounted for the largest portion of the SOE external debt outstanding.

Domestic Debt of the Central Government

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

Outstanding Domestic Debt of the Central Government

	2000	2001	2002	2003	2004[P]	2005[P]
	(in trillions of rupiah)					
Total domestic debt[(1)]	645	657	658	650	653	659
Total domestic public debt, as a percentage of GDP for the year indicated	46.4%	39.0%	35.3%	31.9%	28.9%	24.1%

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 fixed and floating rate bonds and promissory notes to Bank Indonesia, which may be tradable or non-tradable. As of December 31, 2005, 52.7% of the central government's tradable domestic debt had floating rates and 47.3% 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 Repayments and Redemption[2]	Interest Payments	Total
	(in trillions of rupiah)		
2000	7	31	38
2001	0	58	58
2002	13	62	75
2003	26	46	73
2004	26	40	66
2005	25	43	68
2006[3]	34	47	81
2007[3]	46	43	89
2008[3]	50	37	87
2009[3]	47	32	79
2010[3]	44	27	71

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) Projected, based on debt outstanding as of December 31, 2005.

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, and conducted bond exchange offers and 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

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IBRA's loan assets conducted through asset-bond swap programs and (4) funds appropriated in the Republic's budget. As of December 31, 2005, bonds with a principal amount of Rp27 trillion had been purchased pursuant to the buyback program.

Since February 2004, the government has conducted auctions of government bonds monthly. The government conducts these auctions to provide an alternative source of financing and to lower its cost of financing. By the end of December 2005, the government had sold Rp22.5 trillion in government debt securities through auctions.

Starting from early September 2005, the government has purchased government bonds for cash management and market stabilization purposes. On September 7, 2005, the government bought Rp944 billion in government debt securities for these purposes. The government redeemed the bonds on November 21, 2005, resulting in a profit of Rp30.5 billion.

Regulatory Developments

On October 22, 2002, the Government Debt Securities Law became effective (the "Government Securities Law"). Under this law, 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. Issuance of the government's debt securities pursuant to the new law began in December 2002.

As a further implementation of the Government Securities Law, several regulations have been enacted by the government, including regulations on government securities, information and publicity. The Ministry of Finance has 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 June 2005, the Ministry of Finance issued regulations to govern the procedures for the issuance of treasury bills, but the tax treatment of original issue discount is still under discussion with other departments.

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

	2000	2001	2002	2003	2004	2005
Average daily trading volume (in billions of rupiah)	126	268	522	1,395	2,122	2,549
Number of trades	1	5	16	51	112	102

Source: Ministry of Finance.

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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 ("IDM") 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 buy-back (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 has increased by 167.2% in 2003, 52.1% in 2004 and 20.1% in 2005, in each case compared with the preceding year. Average daily volume for 2005 amounted to Rp2,549 billion.

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 0.5% of the total amount in December 2000 to 28.0% in December 2004. Foreign ownership of tradable debt securities has increased from 0.5% of the total amount in December 2002 to 2.7% in December 2004. As of December 31, 2005, foreign ownership of tradable government debt securities was 6.6% of the total outstanding.

To widen the investor base and its funding sources, the government has initiated research on retail and sharia-compliant bonds. To accommodate the possible issuance of sharia-compliant bonds, the government is planning to amend the Government Debt Securities Law in 2006.

Contingent Liabilities

The government guarantees third party deposits under the deposit insurance law that became effective on September 22, 2005. Over the eighteen months following effectiveness of the deposit insurance law, the maximum amount of third party deposits guaranteed will be gradually reduced until the maximum amount of third party deposits guaranteed by the government is set at Rp100 million. A deposit guarantee corporation was established in September 2005 with an initial capital of Rp4 trillion provided by the government. 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 a restructured electric power generation project. The government has also guaranteed the liabilities of the state-owned airline in respect of a convertible bond and a standby letter of credit. The government is in the process of establishing a directorate under the Ministry of Finance to manage contingent liabilities from SOEs.

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 US$	Rupiah per 100 Japanese Yen	Rupiah per Singapore $
2000	9,595	8,357	5,539
2001	10,400	7,916	5,621
2002	8,940	7,540	5,154
First Quarter 2003	8,908	7,450	5,048
Second Quarter 2003	8,285	6,913	4,716
Third Quarter 2003	8,389	7,553	4,854
Fourth Quarter 2003	8,465	7,917	4,977
First Quarter 2004	8,587	8,212	5,118
Second Quarter 2004	9,415	8,680	5,485
Third Quarter 2004	9,170	8,264	5,421
Fourth Quarter 2004	9,290	9,042	5,685
First Quarter 2005	9,480	8,848	5,749
Second Quarter 2005	9,713	8,799	5,764
Third Quarter 2005	10,310	9,124	6,105
Fourth Quarter 2005	9,830	8,342	5,907
January 2006	9,395	8,008	5,768
February 2006	9,230	7,926	5,679
March 2006 (through March 2)	9,200	7,913	5,679

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. From the beginning of 1997 to mid-1998, the value of the rupiah relative to the U.S. dollar declined from a high of Rp2,362 = $1 as at January 2, 1997 to a low of Rp16,950 = $1 at June 17, 1998.

During the second half of 1998, following the disbursement of funds under the IMF lending program and other international aid, the value of the rupiah began to increase. Reforms in monetary policy and its implementation and progress in banking and commercial debt restructuring also contributed to the increase. In 1999, enhanced implementation of monetary policy, specifically with respect to banking liquidity management, and positive expectations on inflation caused a further increase in the value of the rupiah.

In 2000, the rupiah's value depreciated due to supply demand imbalances, excess liquidity in the money market, negative market sentiment regarding the domestic political and security situation and increased rupiah-denominated transactions by non-residents.

During 2001, the value of the rupiah decreased due to socio-political uncertainty, including public incidents of social unrest and the threat of regional separatism.

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 end the year 2005 at Rp9,751 per U.S. dollar from Rp8,985 per U.S. dollar as of December 31, 2004.

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 off-shore 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.

As of October 3, 2005, Bank Indonesia began providing swap hedging facilities for investors. In an effort to reduce pressure on the rupiah from speculative activities, on September 15, 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

	2000	2001	2002	2003	2004	2005
	(in millions of U.S. dollars, except for months)					
Gold	762	768	1,071	1,284	1,316	1,583
SDRs	32	18	16	4	2	7
Reserve position with the IMF	190	183	197	215	225	208
Foreign exchange and others	28,411	27,047	30,754	34,792	34,777	32,926
Total	29,394	28,016	32,039	36,296	36,320	34,724
Total as number of months of imports and government external debt repayments	6.2	5.9	6.6	7.1	5.5	4.4

Source: Bank Indonesia.

Indonesia's foreign currency reserves decreased from $36.3 billion at year-end 2004 to $34.7 billion at the end of 2005. The decrease occurred primarily in August and September, when the rupiah was under heavy pressure and Bank Indonesia purchased rupiah in the market. With the appreciation of the rupiah following the market reaction to policies taken by the government and Bank Indonesia, reserves increased in the fourth quarter, to end the year at $34.7 billion, equal to 4.4 months of imports and government debt repayments.

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 2017 Bonds

The 2017 Bonds will mature and be repaid at 100% of their principal amount on March 9, 2017. The 2017 Bonds will bear interest from and including March 9, 2006 at the rate of 6.875% per annum. Interest on the 2017 Bonds will accrue and be payable semi-annually in arrears in equal installments on March 9 and September 9 of each year, commencing September 9, 2006 (each, a "payment date").

The New 2035 Bonds

The New 2035 Bonds will mature and be repaid at 100% of their principal amount on October 12, 2035. The New 2035 Bonds will bear interest from and including October 12, 2005 at the rate of 8.50% per annum. Interest on the New 2035 Bonds will accrue and be payable semi-annually in arrears in equal installments on April 12 and October 12 of each year commencing April 12, 2006 (each, a "payment date").

The New 2035 Bonds constitute a further issuance of the Old 2035 Bonds. Upon issuance, the New 2035 Bonds will rank *pari passu* with the Old 2035 Bonds in all respects. The 2035 Regulation S Bonds will be fungible with the Old 2035 Bonds that were initially offered and sold outside the United States in reliance on Regulation S from and including the 41st day after the Issue Date, and the 2035 Rule 144A Bonds will be fungible with the Old 2035 Bonds that were initially offered and sold in the United States to QIBs in reliance on Rule 144A, from and including the Issue Date.

Interest 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."

Approval in-principle has been received for the listing of the Bonds on the SGX-ST.

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 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 such series has occurred and is continuing;

- holders of at least 25% of the aggregate principal amount of outstanding Bonds of such 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 such 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 a 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 such 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 such 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 such series that would:

- change the due dates for the payment of principal of or interest on the Bonds of such series;

- reduce the principal amount payable under the Bonds of such series;

- reduce the interest rate on the Bonds of such series;

- reduce the portion of the principal amount payable upon acceleration of the maturity of the Bonds of such series;

- change the currency or place of payment of any amount payable under the Bonds of such series;

- permit early redemption of the Bonds of such 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 such series whose vote or consent is needed to amend, supplement or modify the Indenture (as it relates to the Bonds of such series) or the terms and conditions of the Bonds of such series;

- change the Republic's obligation to pay any Additional Amounts;

- change the governing law provision of the Bonds of such 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 such series arising out of or based on the Bonds of such series, as described above under "—Jurisdiction, Consent to Service and Enforceability;"

- in connection with an exchange offer for the Bonds of a series, amend any Event of Default under the Bonds of such series; or

- change the status of the Bonds of such 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 such 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, whether or not notation of such modification is made upon the Bonds of such 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 of such series.

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, create and issue additional Bonds with the same terms and conditions as the Bonds (or that are the same except for the amount of the first interest payment and for the interest paid on the Bonds prior to the issuance of the additional Bonds). The Republic may consolidate such additional Bonds with the outstanding Bonds to form a single series, so long as such additional Bonds are not issued with a greater amount of original issue discount for United States federal income tax purposes than the outstanding Bonds had as of the date of the issue of such outstanding Bonds.

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.

Form of the Bonds

The 2017 Bonds sold in offshore transactions in reliance on Regulation S (the "2017 Regulation S Bonds") will be represented by one or more permanent global Regulation S bonds in fully registered form without interest coupons (the "2017 Regulation S Global Bond"), 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 New 2035 Bonds sold in offshore transactions in reliance on Regulation S (the "2035 Regulation S Bonds" and together with the 2017 Regulation S Bonds, the "Regulation S Bonds") will originally be represented by a temporary Regulation S global bond (the "Temporary 2035 Regulation S Global Bond") from the Issue Date until the 41st day thereafter, when the Temporary 2035 Regulation S Global Bond will be replaced by a permanent Regulation S global bond (the "Permanent 2035 Regulation S Global Bond" together with the Temporary 2035 Regulation S Global Bond, the "2035 Regulation S Global Bonds") and will be registered in the name of a nominee of DTC and deposited with the Trustee as custodian for DTC. The 2017 Regulation S Global Bond together with the 2035 Regulation S Global Bonds are referred to as the "Regulation S Global Bonds." Prior to the expiration of the 40-day period after the later of the commencement of the offering and the original issue date of the Bonds (the "distribution compliance period"), beneficial interests in the Regulation S Global Bonds may be held only through the facilities of Euroclear Bank S.A./N.V., as operator for the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream, Luxembourg. Accordingly, any transfers of beneficial interests in the Regulation S Global Bonds during this distribution compliance period must be made to a transferee who takes delivery through Euroclear or Clearstream, Luxembourg unless the transferee takes delivery in the form of a beneficial interest in the Rule 144A Global Bonds after complying with the certification requirements described below.

The 2017 Bonds sold within the United States to QIBs in reliance on Rule 144A (the "2017 Rule 144A Bonds") will be represented by one or more permanent global Rule 144A bonds in fully registered form without interest coupons (the "2017 Rule 144A Global Bond"), and will be registered in the name of a nominee of DTC, and deposited with the Trustee as custodian for DTC. The New 2035 Bonds sold within the United States to QIBs in reliance on Rule 144A (the "2035 Rule 144A Bonds" and together with the 2017 Rule 144A Bonds, the "Rule 144A Bonds") will be represented by one or more permanent global Rule 144A bonds in fully registered form without interest coupons (the "2035 Rule 144A Global Bond," together with the 2017 Rule 144A Global Bond, 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." Prior to the expiration of the distribution compliance period, a beneficial owner of a Regulation S Bond may transfer a beneficial interest in the Regulation S Global Bond to a person who takes delivery in the form of an interest in the Rule 144A Global Bond 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 to a person that beneficial owner reasonably believes to be a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of the United States or any other jurisdiction. This certification requirement will not apply after the expiration of the distribution compliance period.

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.

So long as the 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.

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 summary of certain United States federal income tax considerations that would generally be relevant to a beneficial owner of the Bonds that is a citizen or resident of the United States or a domestic corporation or otherwise subject to United States federal income tax on a net income basis in respect of the Bonds (a "U.S. holder"). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular investor's decision to invest in the Bonds.

In addition, this summary deals only with investors that are U.S. holders who acquire the Bonds as part of this offering of the Bonds, who will own the Bonds as capital assets, and whose functional currency is the U.S. dollar. It does not address U.S. federal income tax considerations applicable to investors who may be subject to special tax rules, such as banks, financial institutions, tax-exempt entities, insurance companies or dealers in securities or currencies, certain short-term holders of the Bonds, or persons that hedge their exposure in the Bonds or will hold Bonds as a position in a "straddle" or conversion transaction or as part of a "synthetic security" or other integrated financial transaction. U.S. holders should be aware that the U.S. federal income tax consequences of holding the Bonds may be materially different for investors described in the prior sentence.

IRS Circular 230 Notice: To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that (a) any discussion of U.S. federal tax issues contained or referred to in this offering memorandum or any other document referred to herein is not intended or written to be used, and cannot be used, by prospective investors for the purpose of avoiding penalties that may be imposed on them under the Internal Revenue Code, (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters addressed herein, and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

Payments of Interest and Additional Amounts

Payments of the gross amount of interest and Additional Amounts (as defined in "Description of the Bonds—Payment of Additional Amounts by the Republic," *i.e.*, including amounts withheld in respect of Indonesian withholding taxes) with respect to a Bond will be taxable to a U.S. holder as ordinary interest income at the time that such payments are accrued or are received, in accordance with the U.S. holder's method of tax accounting.

Notwithstanding the foregoing, a U.S. holder may exclude the pre-issuance accrued interest payable in respect of the New 2035 Bonds from the issue price of the New 2035 Bonds. In this case, a U.S. holder can exclude from income the portion of the stated interest payable on April 12, 2006 that is attributable to pre-issuance accrued interest and can treat that portion of the stated interest as a return of the pre-issuance interest.

Foreign Source Income and Foreign Tax Credits

The Indonesian withholding tax that is imposed on interest at the rate applicable to the U.S. holder under the U.S.-Indonesia Treaty will be treated as a foreign income tax eligible, subject to generally applicable limitations and conditions under U.S. tax law, for credit against a U.S. holder's federal income tax liability or, at the U.S. holder's election, for deduction in computing the holder's taxable income. Interest and Additional Amounts paid on the Bonds will constitute income from sources without the United States for foreign tax credit purposes. Gain or loss realized by a U.S. holder on the sale or disposition of a Bond generally will be treated as U.S. source income or loss for foreign tax credit purposes.

As discussed under "—Indonesian Taxation—Taxation of Interest," interest payments to non-residents generally are subject to a 20% withholding tax. Under the U.S.-Indonesia Treaty, this rate is reduced to 10%. At current Indonesian withholding tax rates, interest payments made by Indonesia to non-resident U.S. holders generally will be subject to the separate foreign tax credit limitation for "high withholding tax interest" for taxable years beginning before January 1, 2007, and thereafter generally will be subject to the separate foreign tax credit limitation for "passive 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.

Disposition of the Bonds

A U.S. holder generally will recognize gain or loss on the sale, redemption or other disposition of the Bonds in an amount equal to the difference between the amount realized on such sale, redemption or other disposition (less any amounts attributable to accrued but unpaid interest, which will be taxable as such as described above) and the U.S. holder's adjusted tax basis in the Bonds. Gain or loss realized by a U.S. holder on such sale, redemption or other disposition generally will be long-term capital gain or loss if, at the time of the disposition, the Bonds have been held for more than one year.

Bonds Purchased at a Premium

A U.S. holder that purchases a Bond for an amount greater than the Bond's redemption amount will be considered to have purchased the Bond at a premium. A U.S. holder may elect to amortize the premium as an offset to interest income, using a constant yield method, over the remaining term of the Bond. This election generally will apply to all debt instruments held by the U.S. holder at the time of the election, as well as any debt instruments a U.S. holder subsequently acquires. This election can be revoked only with the consent of the Internal Revenue Service. A U.S. holder that elects to amortize the premium must reduce its tax basis in the Bond by the amount of the premium amortized during the period. A U.S. holder that does not elect to amortize premium will include the amount of premium in its adjusted tax basis in the Bond. In general, a U.S. holder that does not elect to amortize premium and holds the Bond to maturity will recognize at maturity a capital loss equal to the amount of the premium.

Information Reporting and Backup Withholding

The Trustee may be required to file information returns with the U.S. Internal Revenue Service ("IRS") with respect to payments made to certain U.S. holders on the Bonds. A U.S. holder may be subject to backup withholding on the payments that the U.S. holder receives on the Bonds unless such U.S. holder (i) is a corporation or comes within certain other exempt categories and demonstrates this fact, or (ii) provides a correct taxpayer identification number on an IRS Form W-9, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amounts withheld under these rules will be allowed as a credit against such U.S. holder's U.S. federal income tax liability and may entitle such U.S. holder to a refund, provided that the required information is furnished to the IRS.

Non-U.S. Holders

A holder or beneficial owner of Bonds that is not a U.S. holder (a "non-U.S. holder") generally will not be subject to U.S. federal income or withholding tax on interest received on the Bonds. In addition, a non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on gain realized on the sale of Bonds unless, in the case of gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement to be dated the date of the offering memorandum in final form (the "Purchase Agreement") between the Republic and the initial purchasers named below (the "Initial Purchasers"), for whom Barclays Bank PLC, J.P. Morgan Securities Ltd. and UBS AG 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 2017 Bonds	Principal Amount of New 2035 Bonds
Barclays Bank PLC	US$333,333,334	US$333,333,334
J.P. Morgan Securities Ltd.	333,333,333	333,333,333
UBS AG	333,333,333	333,333,333
Total	US$1,000,000,000	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 2017 Bonds will be the initial offering price set forth on the cover page of this offering memorandum, plus accrued interest, if any. The purchase price for the New 2035 Bonds will be the initial offering price set forth on the cover page of this offering memorandum, plus accrued interest from and including October 12, 2005. 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 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 price 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 Bonds are a new issue of securities with no established trading market. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. 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 the Issue Date, 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. To facilitate compliance with this provision of the U.S. Securities Act, for the 40-day period following the date of delivery of the New 2035 Bonds, the 2035 Regulation S Bonds offered hereunder will have a different Common Code, ISIN and CUSIP No. than those of the Old 2035 Bonds that were initially offered and sold outside the United States in reliance on Regulation S (the "Old 2035 Regulation S Bonds"). During this 40-day period, neither Clearstream nor Euroclear will monitor compliance by broker/dealers with Section 4(3) of the Securities Act. On the 41st day following the Issue Date, the 2035 Regulation S Bonds will trade fungibly with and will have the same Common Code, ISIN and CUSIP No. as the Old 2035 Regulation S Bonds. The 2035 Rule 144A Bonds offered hereunder will have the same Common Code, ISIN and CUSIP No. as those of the Old 2035 Bonds that were initially offered and sold in the United States to QIBs in reliance on Rule 144A (the "Old 2035 Rule 144A Bonds").

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 it has complied and will comply with all applicable provisions of the Financial Services and Markets Act of 2000 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

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 Securities 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 Securities 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, which came into force on October 15, 2005 (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) and/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 acquired pursuant to an offer made under Section 275 of the Securities and Futures Act by:

(i) a corporation (which is not an accredited investor under 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 under the Securities and Futures Act, the shares, debentures or units of the shares or debentures of that corporation, or the beneficiaries' rights and interest in that trust, as the case may be, 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. In any case, the Bonds will not be sold, either in the primary or in the secondary market, to individuals residing in the Republic of Italy.

Each of the Initial Purchasers has represented that it has not offered, sold or delivered, and will not offer, sell or deliver any Bonds or distribute copies of this offering memorandum or any other document relating to the Bonds in the Republic of Italy except to "Professional investors", as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1st July 1998 ("Regulation No. 11522"), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24th February 1998 ("Decree No. 58"), or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14th May 1999 applies, provided however, that any such offer, sale or delivery of Bonds or distribution of copies of this offering memorandum or any other document relating to the Bonds in the Republic of Italy must be:

(a) 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 1st September 1993 ("Decree No. 385"), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;

(b) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which the issue, offer or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending *inter alia*, on the aggregate amount of securities issued, offered or placed and the characteristics of the securities, applies; and

(c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

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.

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.

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 a non-U.S. person 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, prior to the expiration of 40 days after the later of the commencement of the offering and the original issuance (the "distribution compliance period") 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), or

(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 securities laws of any state of the United States or any other jurisdiction; and

(3) Until the expiration of the distribution compliance period, Regulation S 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. IN CONNECTION WITH ANY TRANSFER, 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. UPON THE EXPIRATION OF THE PERIOD 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF BONDS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT AND THE ORIGINAL ISSUE DATE OF SUCH BONDS, THIS BOND SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION, THE OFFER OF SALE OF THIS BOND IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION."

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.

Upon the expiration of the distribution compliance period, the Regulation S Bonds offered in the offering in reliance on Regulation S shall no longer be subject to the restrictions set out above, if, at the time of such expiration, the offer or sale of such Regulation S Bonds in the United States would not be restricted under the securities laws of the United States or any state of the United States or any other jurisdiction.

Until the expiration of the distribution compliance period referred to above, an offer or sale of Regulation S Bonds within the United States by a dealer (including a dealer that is not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such reoffer, resale, pledge, transfer or other disposal is made otherwise than in accordance with Rule 144A under the U.S. Securities Act or pursuant to another exemption from registration under the U.S. Securities Act.

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 Cleary Gottlieb Steen & Hamilton 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, Cleary Gottlieb Steen & Hamilton LLP will rely as to all matters of Indonesian law upon the opinion of the Head of the Legal and Public Relations 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

The Bonds to be listed on the SGX-ST have been accepted for clearance through The Depository Trust Corporation, Euroclear and Clearstream, Luxembourg. The 2017 Bonds have been assigned Common Code 024704963, ISIN US455780AU06, and CUSIP No. 455780AU0, with respect to the 2017 Rule 144A Global Bonds, and Common Code 024704998, ISIN USY20721AF61, and CUSIP No. Y20721AF6, with respect to the 2017 Regulation S Global Bonds. The New 2035 Bonds have been assigned Common Code 023224950, ISIN US455780AT33, and CUSIP No. 455780AT3, with respect to the 2035 Rule 144A Global Bonds. The New 2035 Bonds have been assigned Common Code 024714675, ISIN USY20721AG45, and CUSIP No. Y20721AG4, with respect to the Temporary 2035 Regulation S Global Bond, and Common Code 023225077, ISIN USY20721AE96, and CUSIP No. Y20721AE9, with respect to the Permanent 2035 Regulation S Global Bond, which will replace the Temporary 2035 Regulation S Global Bond on the 41st day after the Issue Date.

The Bonds will be issued pursuant to Indonesia's Law No. 24 of 2002 on Government Debt Securities, dated October 22, 2002, and were approved by the House of Representatives in Law No. 13 of 2005 on the State Budget for 2006.

Except as disclosed in this offering memorandum, there has been no material change in the fiscal condition or affairs of Indonesia which is material in the context of the issue of the Bonds since December 31, 2005.

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

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