OFFERING MEMORANDUM

Republic of Indonesia

US$1,000,000,000

7.25% Bonds due 2015

Offer Price: 99.127%

plus accrued interest, if any

The Republic of Indonesia (the "Republic" or "Indonesia") is offering US$1,000,000,000 aggregate principal amount of 7.25% Bonds due 2015 (the "Bonds"). Interest on the Bonds will be payable semi-annually in arrears on April 20 and October 20 of each year, commencing on October 20, 2005. The Bonds will mature on April 20, 2015. The Bonds will not be redeemable, in whole or in part, prior to maturity.

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

The Republic has applied to list the Bonds on the Luxembourg Stock Exchange. Currently, there is no public market for the Bonds.

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 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 April 20, 2005 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

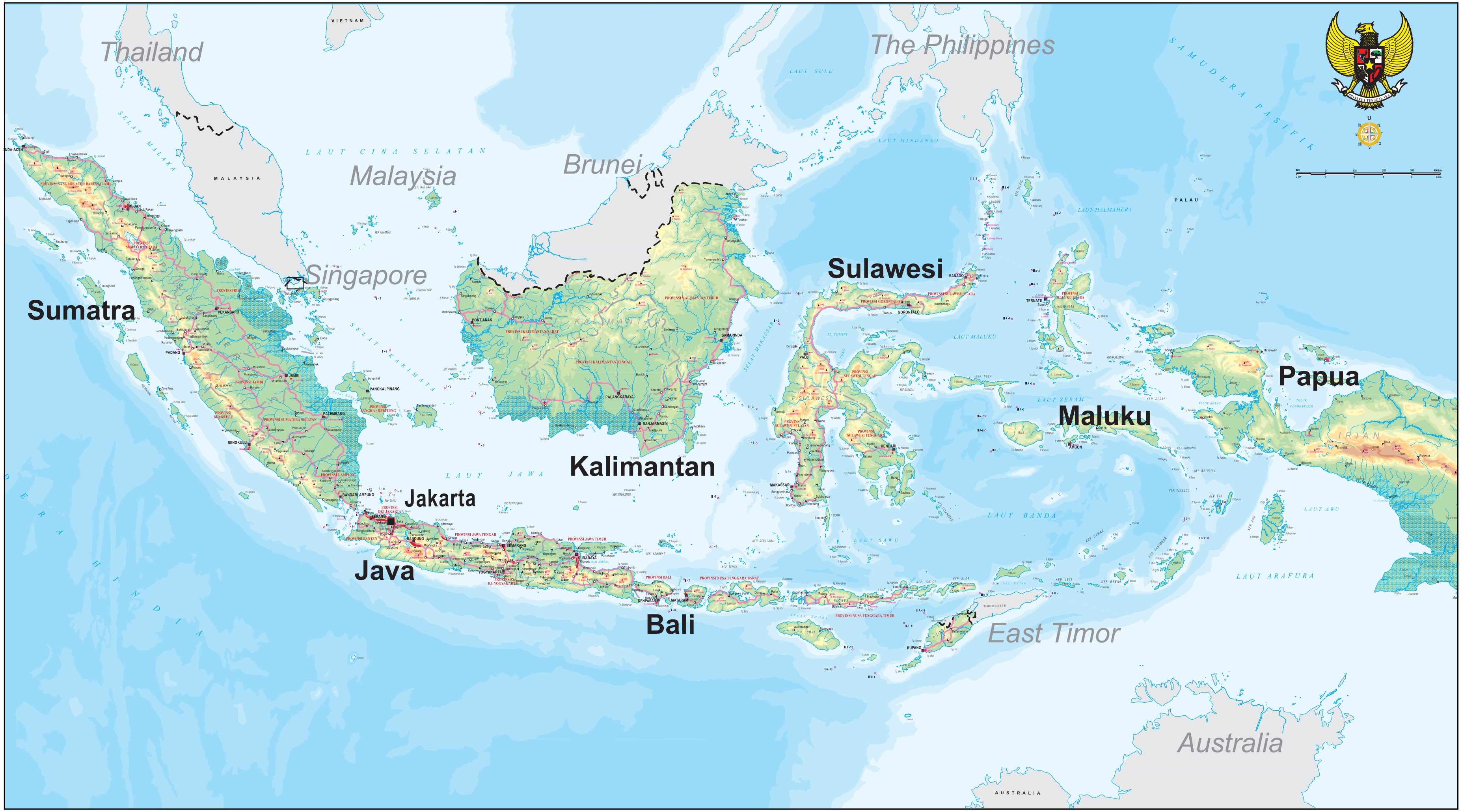
CITIGROUP   DEUTSCHE BANK SECURITIES   UBS INVESTMENT BANK

Co-managers

Credit Suisse First Boston   PT Danareksa Sekuritas   PT Mandiri Sekuritas

The date of this offering memorandum is April 13, 2005.

The Republic of Indonesia



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

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

The Luxembourg Stock Exchange takes no responsibility for the contents of this offering memorandum, makes no representation as to their accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

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."

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 April 13, 2005 was Rp9,488 = $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

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.

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. 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."

On March 10, 2005, the informal group of official sector foreign government lenders known as the "Paris Club" indicated that it would offer a temporary debt service moratorium to countries in South and Southeast Asia affected by the earthquake and tsunami which occurred on December 26, 2004. See "Recent Developments — December 2004 Earthquake and Tsunami" and "— Temporary Debt Service Moratorium Offer from the Paris Club." As of the date of this offering memorandum, the Republic has received offers from some, but not all, of the individual Paris Club members setting forth the specific loans to which the temporary debt service moratorium will apply and the concessional interest rates which will apply to deferred payments. Although the Republic has not received formal offers from all of the Paris Club members, the government intends to accept the general offer from the Paris Club members, as indicated in the press release of the Paris Club issued on March 10, 2005 and in contacts with individual Paris Club members. Accordingly, the government has proposed revisions to the its 2005 budget, which was originally approved by the House in September 2004 (the "2005 Budget") to reflect its decision to accept the Paris Club members' offers. See "Recent Developments — Proposed Revisions to the 2005 Budget." However, formal acceptance by the Republic of the Paris Club members' offers will require approval from the House. The public external debt figures, including anticipated public external debt servicing requirements until 2009, and ratios derived from those figures contained in this offering memorandum were prepared on the assumption that the Republic will formally accept the Paris Club members' temporary debt service moratorium offers and reflect assumed concessional interest rates on those deferred debt service payments. See "Republic of Indonesia — Public Debt."

Unless otherwise indicated, all statistical data and figures for 2004 and all GDP data for 2004 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.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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. 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 the consumer price index ("CPI")) is indicated on a year-on-year basis.

Selected Key Economic Indicators

	2000	2001	2002	2003	2004[P]
National account and prices:					
Real GDP growth	4.9%	3.8%	4.4%	4.9%	5.1%
Per capita GDP (in thousands of rupiah)	6,752	8,081	8,828	9,572	10,642
Per capita GDP (in U.S. dollars)[(1)]	804	789	943	1,116	1,182
Average exchange rate (Rp/$)	8,422	10,241	9,310	8,572	8,985
Inflation rate (change in CPI)	9.4%	12.6%	10.0%	5.1%	6.4%
External sector:					
Current account (% of GDP)	4.8%	4.2%	3.9%	3.4%	1.1%
Fiscal account:					
Budget surplus/(deficit) (% of GDP)	(1.1)%	(2.4)%	(1.3)%	(1.7)%	(1.1)%
External debt of the central government (in trillions of rupiah)[(2)]	519	596	596	588	617
Debt service ratio (% of government revenue)	28.1%	34.3%	34.8%	26.8%	32.7%

Source: BPS, Bank Indonesia and Ministry of Finance

P Preliminary.

(1) Per capita GDP in U.S. dollars has been converted from rupiah into U.S. dollars at the following exchange rates: Rp8,393.7 per U.S. dollar for 2000, 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 and Rp9,006.0 per U.S. dollar for 2004.

(2) The U.S. dollar amount of outstanding external debt of the central government for each year has been converted into rupiah at the exchange rates used by BPS for calculation of GDP into U.S. dollars as described in footnote (1) above.

Economic developments include modest economic growth (averaging approximately 4.8% real GDP growth from 2002 through 2004); a relatively stable exchange rate (averaging 9,310, 8,572 and 8,985 rupiah to the U.S. dollar in 2002, 2003 and 2004, respectively); consistent current account surpluses (3.9%, 3.4% and 1.1% in 2002, 2003 and 2004, respectively); and moderate levels of inflation (increases in the CPI of 10.0%, 5.1% and 6.4% in 2002, 2003 and 2004, respectively).

Prior to the Asian financial crisis, 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. 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 in 1997, the government of Indonesia received foreign loans from the IMF aimed 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. As a result of Indonesia's decision to exit the IMF lending program in 2003, the country is no longer able to conduct another Paris Club rescheduling, and the Republic's external debt service requirements are expected to rise as a result. On March 10, 2005, in an effort to assist countries in South and Southeast Asia affected by the earthquake and tsunami which occurred on December 26, 2004, the Paris Club has indicated that it would offer Indonesia (as well as other countries affected by the tsunami) a temporary debt moratorium for debt service payments through the end of 2005. Although the specific details of the offers for a temporary debt service moratorium have not been received by the Republic from all of the individual Paris Club members and formal acceptance of the offers by the Republic is dependent upon approval by the House, the government intends to accept the Paris Club members' offers for a temporary debt service moratorium. As a result, the Republic expects that its external debt servicing requirements in 2005 will be reduced and the government has accounted for those reduced debt service payments in its proposed revisions to the 2005 Budget. See "Recent Developments — December 2004 Earthquake and Tsunami," "—Temporary Debt Service Moratorium Offer from the Paris Club" and "— Proposed Revisions to the 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.

At the same time that Indonesia experienced the Asian financial crisis, the country entered a period of fundamental political change. In July and September 2004 Indonesia's voters went to the polls to participate in the country's first direct presidential election. On October 20, 2004, 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 this 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. 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.

On December 26, 2004 and March 28, 2005, Indonesia experienced earthquakes off the northwest coast of Sumatra. As a result of the December 2004 earthquake, a tsunami hit the coastal regions of northwest Sumatra, primarily the provinces of Aceh and North Sumatra, and caused widespread damage, destruction and death. The March 2005 earthquake primarily affected the Nias and Simeulue islands off the northwest coast of Sumatra and also caused significant damage, destruction and death. The Indonesian Disaster Relief and Refugees Coordination Agency estimates that at least 90,192 people were killed, 1,095 people are missing and 387,607 are refugees as a result of the December 2004 earthquake and tsunami and 676 people were killed and 36,830 people are refugees as a result of the March 2005 earthquake. The government estimates the destruction of property in the tsunami-devastated regions of Indonesia at around \$2.9 billion. Foreign governments and international organizations and non-profit relief agencies have pledged up to \$1.7 billion in aid to support the long-term reconstruction and rehabilitation efforts of Indonesia in Aceh and North Sumatra. The government estimates that the total aid and reconstruction costs for the regions of Indonesia affected by the December 2004 earthquake and tsunami and the March 2005 earthquake will be up to Rp48.8 trillion, although the actual aid and reconstruction costs may be significantly higher than this estimate. See "Recent Developments — December 2004 Earthquake and Tsunami" and "— March 2005 Earthquake."

The Offering

Issuer	The Republic of Indonesia
The Bonds	7.25% Bonds due 2015 (the "Bonds").
The Offering	US$1,000,000,000 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	99.127%, plus accrued interest, if any.
Maturity Date	April 20, 2015.
Interest	The Bonds will bear interest from and including April 20, 2005 at the rate of 7.25% per annum payable semi-annually in arrears.
Interest Payment Dates.	April 20 and October 20 of each year, commencing on October 20, 2005, up to and including the Maturity Date.
Optional Redemption	The Bonds are not redeemable, in whole or in part, prior to their maturity. See "Description of the Bonds."
Withholding Taxes	The Republic will make all payments of principal and interest on the Bonds, to the extent permitted by law, without withholding or deducting any present or future Indonesian Taxes (as defined in "Description of the Bonds"). 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 remains outstanding, the Republic will not create or permit the creation of any mortgage, charge, lien, pledge or any other security interest on any of its present or future assets or revenues, or any part thereof, to secure any Public External Indebtedness (as defined in "Description of the Bonds"), unless the Republic shall procure that all amounts payable under the Bonds are secured equally and ratably. See "Description of the Bonds — Negative Pledge."
Events of Default	Certain events will permit holders of at least 25% of the aggregate principal amount of the Bonds outstanding 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$5,000 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	The Republic has applied to list the Bonds on the Luxembourg Stock Exchange. Currently, there is no public market for the Bonds.

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 will be approximately US$989,970,000, 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. 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:

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Average exchange rate (Rp/$)	8,422	10,241	9,310	8,572	8,985
Inflation rate (change in CPI)	9.4%	12.6%	10.0%	5.1%	6.4%
External sector:					
Current account (% of GDP)	4.8%	4.2%	3.9%	3.4%	1.1%
Fiscal account:					
Budget surplus/(deficit) (% of GDP)	(1.1)%	(2.4)%	(1.3)%	(1.7)%	(1.1)%
External debt of the central government (in trillions of rupiah)[(2)]	519	596	596	588	617
Debt service ratio (% of government revenue)	28.1%	34.3%	34.8%	26.8%	32.7%

Source: BPS, Bank Indonesia and Ministry of Finance.

P Preliminary.

(1) Per capita GDP in U.S. dollars has been converted from rupiah into U.S. dollars at the following exchange rates: Rp8,393.7 per U.S. dollar for 2000, 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 and Rp9,006.0 per U.S. dollar for 2004.

(2) The U.S. dollar amount of outstanding external debt of the central government for each year has been converted into rupiah at the exchange rates used by BPS for calculation of GDP into U.S. dollars as described in footnote (1) above.

Economic developments include modest economic growth (averaging approximately 4.8% real GDP growth from 2002 through 2004); a relatively stable exchange rate (averaging 9,310, 8,572 and 8,985 rupiah to the U.S. dollar in 2002, 2003 and 2004, respectively); consistent current account surpluses (3.9%, 3.4% and 1.1% in 2002, 2003 and 2004, respectively); and moderate levels of inflation (increases in the CPI of 10.0%, 5.1% and 6.4% in 2002, 2003 and 2004, respectively).

Prior to the Asian financial crisis, 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. 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 in 1997, the government of Indonesia received foreign loans from the IMF aimed 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. As a result of Indonesia's decision to exit the IMF lending program in 2003, the country is no longer able to conduct another Paris Club rescheduling, and the Republic's external debt service requirements are expected to rise as a result. On March 10, 2005, in an effort to assist countries in South and

Southeast Asia affected by the earthquake and tsunami which occurred on December 26, 2004, the Paris Club has indicated that it would offer to Indonesia (as well as other countries affected by the tsunami) a temporary debt moratorium for debt service payments through the end of 2005. Although the specific details of the offers for a temporary debt service moratorium have not been received by the Republic from all of the individual Paris Club members and formal acceptance of the offers by the Republic is dependent upon approval by the House, the government intends to accept the Paris Club members' offers for a temporary debt service moratorium. As a result, the Republic expects that its external debt servicing requirements in 2005 will be reduced and the government has accounted for those reduced debt service payments in its proposed revisions to the 2005 Budget. See "Recent Development — December 2004 Earthquake and Tsunami," "— Temporary Debt Service Moratorium Offer from the Paris Club" and "— Proposed Revisions to the 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.

At the same time that Indonesia experienced the Asian financial crisis, the country entered a period of fundamental political change. In July and September 2004, Indonesia's voters went to the polls to participate in the country's first direct presidential election. On October 20, 2004, 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 this 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. 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.

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 216 million in 2004 and is the fourth most populous country in the world, after China, India and the United States. The population is concentrated in Java (approximately 127 million), and the capital of Jakarta is estimated to have a population of approximately 9 million. With a population density of approximately 991 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 approximately 1.5% from 1990 to 2003. During this time, 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 2004, 28.7% of the population was under fifteen years of age and 48.1% 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 afflicted 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. Mr. Susilo Bambang Yudhoyono was elected president and Mr. Muhammad Jusuf Kalla was elected vice president in those elections. On October 20, 2004, Mr. Yudhoyono was inaugurated as the new President and Mr. 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 the "MPR"), the House (Dewan Perwakilan Rakyat or the "DPR"), the Regional Representatives' Council (Dewan Perwakilan Daerah or the "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, which is the principal legislative body, and the Regional Representatives' Council. The House 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 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 parliamentary election held in April 2004, Indonesia's voters elected members of the House.

Each of the House and the president has the power to initiate legislation. All legislation, including the Republic's budget, must be approved by both the House and the president. The Regional Representatives' Council will be able to initiate legislation regarding regional matters, but the House 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 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, nominated by the House 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 2000 and 2004, 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 parliamentary election 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 parliaments, 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 which 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, through the Ministry of Finance after obtaining approval from the Ministry of Home Affairs.

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). Following the most recent election in 2004, six political parties held 456 seats, or 82.9%, of the House's 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 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%). The 2004 elections were contested by 24 political parties.

Recent Developments

December 2004 Earthquake and Tsunami

On December 26, 2004, Indonesia experienced an earthquake with a magnitude of 9.0 on the Richter scale off the northwest coast of Sumatra. As a result of the earthquake, a tsunami hit the coastal regions of northwest Sumatra, primarily the provinces of Aceh and North Sumatra, and caused widespread damage, destruction and death. The Indonesian Disaster Relief and Refugees Coordination Agency estimates that at least 90,192 people were killed, 1,095 people are missing, and 387,607 are refugees in northwest Sumatra as a result of the earthquake and tsunami. The government estimates the destruction of property in the tsunami-devastated regions of Indonesia at around $2.9 billion. The earthquake and tsunami caused widespread damage and destruction in the city of Banda Aceh, the capital of Aceh province, and other towns and villages in the coastal regions of northwest Sumatra. The natural disaster also significantly disrupted and damaged local industries, including the fishing industry, in the affected regions. As an immediate response to the earthquake and tsunami, numerous foreign governments, international organizations and non-profit relief agencies delivered food, water and other basic relief supplies to the affected regions. This effort is continuing, although on a lesser scale than during January and February 2005.

The government estimates that the aid and reconstruction costs for the tsunami-affected regions will be up to Rp41.7 trillion, although the actual aid and reconstruction costs may be significantly higher than this estimate. In its proposed revisions to the 2005 Budget, the government has allocated an aggregate amount of Rp10.7 trillion to the relief and reconstruction efforts in Aceh and North Sumatra in 2005. See "— Proposed Revisions to the 2005 Budget." Foreign governments and international organizations and non-profit relief agencies have pledged up to $1.7 billion in aid to support the long-term reconstruction and rehabilitation efforts of Indonesia in Aceh and North Sumatra. In addition, on March 10, 2005, the Paris Club indicated that it would offer Indonesia, as well as other countries affected by the tsunami, a deferral of debt service payments through the end of 2005 to allow Indonesia to commit additional government resources to the tsunami-related humanitarian and relief efforts. See "— Temporary Debt Service Moratorium Offer from the Paris Club." Although the specific details of the offers for a temporary debt service moratorium have not been received by the Republic from all of the individual Paris Club members and formal acceptance of the offers by the Republic is dependent upon approval by the House, the government intends to accept the Paris Club members' offers for a temporary debt service moratorium. The government estimates that its external debt servicing requirements will be US$2.4 billion lower this year due to this temporary debt service moratorium.

The government estimates that Aceh contributed approximately 2.2% to the national economy in 2004. The Aceh economy consists 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 are agriculture, transportation and communication. Aceh's mining sector was relatively unaffected since its production sites were inland from the coastal areas affected by the tsunami. In addition, oil and gas producers in Aceh have been able to find alternative means of transporting their products to ports on the northeastern coast of Sumatra. The manufacturing sector in Aceh was partly affected by the tsunami, particularly the cement industry. The government estimates that, as a result of the tsunami disaster, the Republic's GDP in 2005 will be lower than previously forecast by up to 0.45%, with the primary contraction in the agriculture sector (negative 1.12%), transportation and communication sector (0.91%), construction sector (0.49%) and manufacturing sector (0.56%).

March 2005 Earthquake

On March 28, 2005, Indonesia experienced an earthquake with a magnitude of 8.7 on the Richter scale off the northwest coast of Sumatra, approximately 75 miles from the island of Nias. The Indonesian Disaster Relief and Refugees Coordination Agency estimates that at least 676 people were killed and 36,830 people are refugees on Nias and Simeulue islands and other affected areas as a result of this earthquake. As an immediate response to this earthquake, international organizations and non-profit relief agencies, as well as some foreign governments, are delivering food, water and other basic relief supplies to affected areas of Nias and Simeulue islands. The government estimates that the aid and reconstruction costs for the areas affected by the March 2005 earthquake will be up to Rp7 trillion, although the actual aid and reconstruction costs may be significantly higher than this estimate. The government estimates that damage and destruction caused by this most recent earthquake will not have a significant effect on the Republic's anticipated GDP in 2005. In addition, since this earthquake occurred after the submission of the government's proposed revisions to the 2005 Budget to the House on March 24, 2005, the proposed revisions to the 2005 Budget do not take into account the costs of disaster relief and reconstruction efforts on Nias and Simeulue islands resulting from this earthquake. The government expects to determine the amount to allocate towards these efforts in 2005 when the House considers the proposed revisions to the 2005 Budget.

Temporary Debt Service Moratorium Offer from the Paris Club

On January 12, 2005 and March 9 and 10, 2005, the Paris Club held meetings to discuss an offer for a debt moratorium for debtor countries affected by the December 2004 tsunami disaster. The stated purpose of the debt moratorium offer was to allow those debtor countries affected by the tsunami to dedicate sufficient resources to address their humanitarian and reconstruction needs in affected areas. At the January 2005 meeting, the Paris Club decided to assess moratorium offers after the IMF and the World Bank conducted assessments of the needs of each affected country. At the March 2005 meetings, the Paris Club reviewed the findings of the IMF and the World Bank. On March 10, 2005, the Paris Club issued a press release in which it stated that its member countries had agreed not to expect any debt payments on eligible sovereign claims from tsunami-affected countries until December 31, 2005. According to the Paris Club press release, the Paris Club intends to offer that deferred amounts be repaid over five years with a one year grace period. Interest accrued during the moratorium period would be capitalized and paid as deferred amounts. Interest rates on those deferred amounts would be determined on a bilateral basis between each individual Paris Club member and the affected country. The Paris Club has indicated that this offer will not be dependent on acceptance of IMF-monitored economic reform programs by the affected countries and that it will not require "comparable treatment" for the debt of the affected countries from the informal group of private sector lenders known as the "London Club."

The Republic has received offers from some, but not all, of the individual Paris Club members setting forth the specific loans to which the temporary debt service moratorium will apply and the concessional interest rates which will apply to deferred payments. Although the Republic has not received formal offers from all of the individual Paris Club members, the government intends to accept the general offer from the Paris Club members, as indicated in the press release of the Paris Club issued on March 10, 2005 and in contacts with individual Paris Club members. Accordingly, the government's proposed revisions to the 2005 Budget reflect its decision to accept the Paris Club members' offers. See "— Proposed Revisions to the 2005 Budget." However, formal acceptance by the Republic of the Paris Club members' offers will require approval from the House. The Republic's external debt servicing requirements in 2005 will be reduced and the government has accounted for those reduced debt service payments in its proposed revisions to the 2005 Budget. See "Republic of Indonesia — Public Debt" and "— Proposed Revisions to the 2005 Budget."

Reduction of Subsidies for Various Fuel Products

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. The government decided to lower these subsidies since the amounts required to maintain relatively low fuel prices had recently increased significantly due to the escalating world market price for oil. The government also reduced the fuel subsidies 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 "— Proposed Revisions to the 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. Due to the inflationary pressures caused by these price increases, on March 8, 2005, Bank Indonesia announced that it will continue to pursue a tight monetary policy by absorbing excess liquidity and increasing interest rates gradually and measurably. In line with this policy, on April 6, 2005, Bank Indonesia raised the interest rate on one month debt certificates issued by Bank Indonesia, known as "SBIs," from 7.44% to 7.53%.

Proposed Revisions to the 2005 Budget

In September 2004, the House approved the 2005 Budget. The 2005 Budget was drafted by the administration of former President Megawati Soekarnoputri and reflects the spending priorities of that former administration. The 2005 Budget was formulated with the objective of preserving fiscal continuity, but retaining sufficient flexibility for a new administration to set new fiscal and government budget policies and priorities. In addition, the 2005 Budget's assumptions regarding sources of revenue and expenditure needs were based on assumptions and circumstances existing in mid-2004. Since the 2005 Budget was approved in September 2004, Indonesia has been affected by the December 2004 earthquake and tsunami in northwest Sumatra, and the price of oil, which affects the anticipated level of government revenues and expenditures, has continued to remain at historically high levels.

On March 24, 2005, the government of President Yudhoyono submitted to the House for consideration and approval proposed revisions to the 2005 Budget (the "Proposed 2005 Budget Revisions") to change certain of the assumptions underlying the 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.

Changes in the Assumptions Underlying the 2005 Budget. The Proposed 2005 Budget Revisions incorporate a a number of changes to the assumptions about the Republic's economic performance for 2005 underlying the 2005 Budget. These revised macroeconomic assumptions for 2005 are as follows:

- a real GDP growth rate of 5.5%, compared to 5.4% in the 2005 Budget;
- an inflation rate of 7.0%, compared to 5.5% in the 2005 Budget;
- an average exchange rate of Rp8,900 to US$1.00, compared to Rp8,600 in the 2005 Budget;
- an interest rate of 8.0% on three month short-term debt certificates, or "SBIs," issued by Bank Indonesia, compared to 6.5% in the 2005 Budget; and
- an average price for oil of $35 per barrel, compared to $24 per barrel in the 2005 Budget.

Like the 2005 Budget, the Proposed 2005 Budget Revisions assume that the Republic will produce 1.125 million barrels of oil per day in 2005.

Effect of the Temporary Debt Service Moratorium from the Paris Club. The Proposed 2005 Budget Revisions reflect the government's decision to accept the temporary debt service moratorium offer announced by the Paris Club on March 10, 2005. The Republic has received offers from some, but not all, of the individual Paris Club members setting forth the specific loans to which the temporary debt service moratorium will apply and the concessional interest rates which will apply to deferred payments. Although the Republic has not received formal offers from all of the Paris Club members, the government intends to accept the general offer from the Paris Club members, as indicated in the press release of the Paris Club issued on March 10, 2005, and in contacts with individual Paris Club members. However, formal acceptance by the Republic of the Paris Club members' offers will require approval from the House. This formal approval will be granted if the House approves the Proposed 2005 Budget Revisions which allow for the reduction in debt service payments permitted under the Paris Club members' offers. Based upon discussions with the individual Paris Club members, the government anticipates that it will be able to defer approximately US$2.4 billion in debt service payments in 2005 under the offer. This anticipated reduction of US$2.4 billion in debt service payments in 2005 is reflected in the Proposed 2005 Budget Revisions discussed below.

Significant Changes Reflected in the Proposed 2005 Budget Revisions. In addition to the revisions to the government's revenues, expenditures and financing sources directly associated with the changes in the macroeconomic assumptions underlying the Proposed 2005 Budget Revisions, the Proposed 2005 Budget Revisions reflect three significant changes to the 2005 Budget.

First, the Proposed 2005 Budget Revisions allocate approximately Rp10.7 trillion to the relief and reconstruction efforts in Aceh and North Sumatra in 2005. The government expects to pay for these expenditures from funds previously earmarked for general disaster relief expenditures in the 2005 Budget in the amount of Rp1.2 trillion, grants (primarily from countries in the Consultative Group on Indonesia ("CGI")) in the amount of Rp2.6 trillion, project loans (primarily from CGI countries) in the amount of Rp2.9 trillion and deferred debt service payments under the Paris Club temporary debt service moratorium in the amount of Rp4.0 trillion. Under the Proposed 2005 Budget Revisions, these amounts will be available for food, education, health and public works projects in Aceh and Sumatra. The government intends to make specific allocations of these amounts after discussions and negotiation with the House during the approval process for the Proposed 2005 Budget Revisions.

Second, as a result of the government's decision to reduce fuel subsidies, the government has proposed to reallocate funds in the amount of Rp10.8 trillion which were previously earmarked for fuel subsidies to a social compensation fund to finance social programs for the poor, including education, health care and food assistance programs, and rural infrastructure projects. See "— Reduction of Fuel Subsidies." Out of this Rp10.8 trillion in social welfare expenditures, the government has proposed to spend approximately Rp4.1 trillion on education programs (primarily scholarships for low-income students), Rp3.3 trillion for rural infrastructure projects, including roads, bridges and water purification and supply projects, Rp2.8 trillion for health care programs (primarily free and subsidized medicines for low-income individuals) and Rp0.5 trillion for food assistance programs.

Third, the government has allocated approximately Rp0.5 trillion for the costs of the administration of regional elections expected to take place in 2005.

Government Revenues under the Proposed 2005 Budget Revisions. 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 Proposed 2005 Budget Revisions:

Government Revenues
2005 Budget and Proposed 2005 Budget Revisions

	2005 Budget		Proposed 2005 Budget Revisions	
	(in trillions of rupiah)	(% of GDP)	(in trillions of rupiah)	(% of Revised GDP)
Domestic Revenue:				
Tax revenue:				
Domestic taxes:				
Income tax:				
Oil and gas	13.6	0.5	21.3	0.8
Non-oil and gas	128.6	5.0	134.9	5.2
Total income taxes	142.2	5.6	156.2	6.0
Value added tax	98.8	3.9	98.8	3.8
Land and building tax	10.3	0.5	12.8	0.5
Duties on land and building transfer	3.2	0.1	3.7	0.1
Excises	28.9	1.1	31.4	1.2
Other taxes	2.0	0.1	2.2	0.1
Total domestic taxes	285.5	11.1	305.1	11.7
International trade taxes:				
Import duties	12.0	0.5	14.0	0.5
Export tax	0.3	—	0.4	—
Total international trade taxes	12.4	0.5	14.4	0.6
Total tax revenue	297.8	11.6	319.4	12.3
Non-tax revenue:				
Natural resources:				
Oil	31.9	1.2	58.8	2.3
Gas	15.3	0.6	23.4	0.9
General mining	2.0	0.1	2.0	0.1
Forestry	1.1	—	2.7	0.1
Fishery	0.7	—	0.7	—
Total natural resources	50.9	2.0	87.7	3.4
Profit transfer from SOEs	10.6	0.4	8.9	0.3
Other non-tax revenue	20.3	0.8	22.0	0.8
Total non-tax revenue	81.8	3.2	118.6	4.6
Total domestic revenue	379.6	14.8	438.0	16.8
Grants	0.8	—	5.8	0.2
Total revenue and grants	380.4	14.9	443.8	17.1

Source: Ministry of Finance.

The Proposed 2005 Budget Revisions assume total revenue and grants of Rp443.8 trillion, compared to Rp380.4 trillion in the 2005 Budget. Of this amount, the government expects total domestic revenue to increase to Rp438.0 trillion, compared to Rp379.6 trillion in the 2005 Budget, and grants to increase to Rp5.8 trillion, compared to Rp0.8 trillion in the 2005 Budget. The government expects total revenue and grants under the Proposed 2005 Budget Revisions to reach 17.1% of the government's revised 2005 GDP, compared to 14.9% of GDP under the 2005 Budget.

In the Proposed 2005 Budget Revisions, the government projects income taxes to increase to Rp156.2 trillion, from Rp142.2 trillion in the 2005 Budget, primarily due to a higher assumed average oil price. As a result, total domestic taxes are projected to increase to Rp305.1 trillion, compared to Rp285.5 trillion in the 2005 Budget. International trade taxes are expected to increase to Rp14.4 trillion from Rp12.4 trillion in the 2005 Budget.

Total non-tax revenues are forecast to be Rp118.6 trillion, compared to Rp81.8 trillion in the 2005 Budget. This projected increase is based on the higher assumed price of oil underlying the Proposed 2005 Budget Revisions.

The government expects grants to increase substantially in 2005, as reflected in the revision of revenue from grants from Rp0.8 trillion in the 2005 Budget to Rp5.8 trillion in the Proposed 2005 Budget Revisions. The government expects most of the grants to come from CGI countries. Of the Rp5.0 trillion in additional grants expected in 2005, the government expects to receive additional grants related to the relief and reconstruction efforts in Aceh and North Sumatra of Rp2.6 trillion and non-tsunami-related grants of Rp2.4 trillion.

Government Expenditures under the Proposed 2005 Budget Revisions. 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 Proposed 2005 Budget Revisions:

Government Expenditures
2005 Budget and Proposed 2005 Budget Revisions

	2005 Budget		Proposed 2005 Budget Revisions	
	(in trillions of rupiah)	(% of GDP)	(in trillions of rupiah)	(% of Revised GDP)
Central government expenditures:				
Personnel	60.7	2.4	60.9	2.3
Material expenditures	34.0	1.3	34.0	1.3
Capital expenditures	43.1	1.7	43.1	1.7
Interest payments:				
Domestic	39.0	1.5	41.6	1.6
External	25.1	1.0	18.1	0.7
Total interest payments	64.1	2.5	59.7	2.3
Subsidies:				
State company	31.2	1.2	54.0	2.1
Private company	0.1	—	0.1	—
Tax subsidies	—	—	6.3	0.2
Total subsidies	31.3	1.2	60.3	2.3
Grant expenditures	—	—	—	—
Social expenditures	17.1	0.7	28.6	1.1
Other expenditures	15.8	0.6	35.7	1.4
Total central government expenditures	266.2	10.4	322.4	12.4
Regional expenditures:				
Balancing funds				
Revenue sharing	31.2	1.2	40.1	1.5
General allocation funds	88.8	3.5	88.8	3.4
Special allocation funds	4.3	0.2	4.8	0.2
Total balancing funds	124.3	4.9	133.7	5.1
Funds for special autonomy				
Special autonomy funds	1.8	0.1	1.8	0.1
Adjustment funds	5.5	0.2	5.5	0.2
Total funds for special autonomy	7.2	0.3	7.2	0.3
Total regional expenditures	131.5	5.1	140.9	5.4
Total expenditures	397.8	15.5	463.3	17.8

Source: Ministry of Finance.

The Proposed 2005 Budget Revisions assume total government expenditures of Rp463.3 trillion, compared to Rp397.8 trillion in the 2005 Budget. Of this amount, total central government expenditures are expected to increase to Rp322.4 trillion, compared to Rp266.2 trillion in the 2005 Budget, and regional expenditures are expected to increase to Rp140.9 trillion, compared to Rp131.5 trillion in the 2005 Budget. The government's total expenditures under the Proposed 2005 Budget Revisions are predicted to reach 17.8% of GDP, compared to 15.5% of GDP under the 2005 Budget.

In the Proposed 2005 Budget Revisions, central government expenditures are projected to increase primarily due to increases in social expenditures, other expenditures and subsidies. These increases are expected to be partially offset by decreases in interest payments resulting from the temporary debt service moratorium offered by the Paris Club members.

Social expenditures are expected to increase to Rp28.6 trillion in the Proposed 2005 Budget Revisions from Rp17.1 trillion allocated under the 2005 Budget. Most of the increase in social expenditures proposed in the Proposed 2005 Budget Revisions is related to the social welfare compensation fund to be created with the funds which would have otherwise been allocated to fuel subsidies. These social expenditures are proposed to be allocated to welfare assistance programs for low-income Indonesians and for rural infrastructure development programs.

The government projects other expenditures to increase to Rp35.7 trillion in the Proposed 2005 Budget Revisions from Rp15.8 trillion in the 2005 Budget. The proposed increase in other expenditures relates to the costs of the relief and reconstruction efforts in Aceh and North Sumatra and the administrative costs associated with regional elections scheduled to occur in 2005.

Rp60.3 trillion has been allocated for subsidies in the Proposed 2005 Budget Revisions, compared to Rp31.3 trillion in the 2005 Budget. Although the amount of subsidies to be paid by the government for fuel products was reduced on March 1, 2005, the aggregate amount of subsidies expected to be paid by the government, as reflected in the Proposed 2005 Budget Revisions, is expected to increase due to the higher assumed price of oil.

In addition to central government expenditures, total regional expenditures are projected to increase under the Proposed 2005 Budget Revisions to Rp140.9 trillion, compared to Rp131.5 trillion in the 2005 Budget, primarily due to sharing of higher oil revenues with the regional governments.

Government Deficit Financing under the Proposed 2005 Budget Revisions. 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 Proposed 2005 Budget Revisions:

Deficit Financing
2005 Budget and Proposed 2005 Budget Revisions

	2005 Budget		Proposed 2005 Budget Revisions	
	(in trillions of rupiah)	(% of GDP)	(in trillions of rupiah)	(% of Revised GDP)
Domestic financing:				
Domestic bank financing	9.0	0.4	(3.4)	(0.1)
Domestic non-bank financing:				
Privatization	3.5	0.1	3.5	0.1
Assets recovery	4.0	0.2	4.0	0.2
Government bonds (net)	22.1	0.9	22.1	0.8
Secondary mortgage facility	(1.0)	—	(1.0)	—
Total domestic non-bank financing	28.6	1.1	28.6	1.1
Total domestic financing	37.6	1.5	25.1	1.0
Foreign financing:				
Gross drawing:				
Program loan	8.6	0.3	7.6	0.3
Project loan	18.0	0.7	21.6	0.8
Total gross drawing	26.6	1.0	29.1	1.1
Amortizations	(46.8)	(1.8)	(34.7)	(1.3)
Total foreign financing	(20.2)	(0.8)	(5.6)	(0.2)
Total financing	17.4	0.7	19.5	0.8

Source: Ministry of Finance.

The Proposed 2005 Budget Revisions include a deficit target of 0.8% of the government's revised forecasted GDP, compared to 0.7% under the 2005 Budget. The government's anticipated budget deficit under the Proposed 2005 Budget Revisions is Rp19.5 trillion, compared to Rp17.4 trillion under the 2005 Budget.

In the Proposed 2005 Budget Revisions, the government expects that Rp25.1 trillion in domestic financing will be used to finance the budget deficit and outflows of foreign financing. Unlike under the 2005 Budget, in the Proposed 2005 Budget Revisions, the government does not expect to incur any domestic bank financing to finance the deficit. In addition, the government has proposed that domestic non-bank financing levels remain the same as under the 2005 Budget.

The government has projected in the Proposed 2005 Budget Revisions that foreign financing will experience a net outflow of Rp5.6 trillion, compared to a net outflow of Rp20.2 trillion under the 2005 Budget. In the Proposed 2005 Budget Revisions, the government expects that foreign financing from project loans will increase to Rp21.6 trillion, compared to Rp18.0 trillion in the 2005 Budget. Additional project loans in the amount of Rp2.9 trillion are expected to come from the CGI countries and be related to the tsunami-related reconstruction efforts in Aceh and North Sumatra. In addition, in the Proposed 2005 Budget Revisions, the government has projected that amortization payments will decrease to Rp34.7 trillion, from Rp46.8 trillion in the 2005 Budget, primarily due to reduction in principal payments under the debt service moratorium offered by the Paris Club.

Approval of the Proposed 2005 Budget Revisions. Any revisions to the 2005 Budget must be approved by the House and enacted into law by the President. Although the government has submitted the Proposed 2005 Budget Revisions to the House on March 24, 2005, for consideration and approval, the final revisions to the 2005 Budget are subject to further changes. Therefore, the final revisions to the 2005

Budget, if any, may vary significantly from those contained in the Proposed 2005 Budget Revisions and described in this offering memorandum. In addition, although the government has submitted the Proposed 2005 Budget Revisions to the House for consideration on March 24, 2005, the House has recessed until May 7, 2005. Therefore, the government does not expect the Proposed 2005 Budget Revisions to be considered by the House until after the House resumes its session in May 2005.

The government may propose additional revisions to the 2005 Budget in mid-2005 covering proposed changes to other components of the government's budget, based on economic, fiscal and monetary developments in Indonesia in the first half of 2005.

Terrorism

In 2002, 2003 and 2004, several bombing incidents took 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 Indonesian government has taken steps to combat terrorism, including expanding cooperation with foreign law enforcement agencies, participating in bilateral and multilateral counter-terrorism activities, sending police and security officers to the United States and Canada for counter-terrorism training and becoming a signatory to the ASEAN-Australian Joint Declaration on Cooperation to Combat International Terrorism and the ASEAN-Russian Federation Joint Declaration on Cooperation to Combat International Terrorism. In addition, following the Bali bombing, the Republic enacted new anti-terrorism laws and amended its anti-money laundering laws, and it has prosecuted individuals on terrorism charges.

Separatist Movements in Aceh and Papua

Separatist movements are active in the provinces of Aceh and Papua. In May 2003, dialogue between the government and the separatists in Aceh broke down, and violence in the Aceh region escalated. The government declared martial law in Aceh for a period of six months and this period has since been extended to May 19, 2005. In February 2005, the government and the separatists in Aceh resumed negotiations seeking a long term plan for peace in the region. A small portion of the population in Papua has shown support for a separatist movement, the Free Papua Movement (Organisasi Papua Merdeka or "OPM"), and there have been some violent incidents involving the armed wing of the OPM. As a result of these incidents, the national army and police have taken measures to maintain security and order in the provinces.

Repatriation of Indonesian Workers from Malaysia

The government estimates that approximately 700,000 Indonesian citizens may be employed in Malaysia without official permission. The Malaysian government had set a deadline of January 31, 2005 for undocumented Indonesian workers to return to Indonesia without penalty, and without prejudice in applying for official permission from the Malaysian authorities. By the end of January 2005, approximately 290,000 undocumented Indonesian workers had returned to Indonesia. The Indonesian President and the Malaysian Prime Minister have held meetings to discuss an amicable solution to the problem of undocumented Indonesian workers in Malaysia, and the Indonesian authorities are working with the Malaysian authorities to facilitate the return of the undocumented workers and the recovery of unpaid wages due to those workers and to simplify the procedures to obtain official permission for Indonesian citizens to work in Malaysia. The government has also established a task force to provide temporary shelter for returning workers. The government anticipates that most of the undocumented workers will return to Malaysia once they receive proper immigration documentation from the Malaysian government.

Territorial Dispute with Malaysia

On February 16, 2005, Petroliam Nasional Berhad, the state-owned oil company of Malaysia, granted oil exploration rights and production sharing contracts to Petronas Carigali Sdn Bhd and two Malaysian subsidiaries of the Royal Dutch/Shell Group in an area in the Sulawesi Sea off the coast of northeastern

Kalimantan known as the "Ambalat block." The Republic also claims territorial rights to certain parts of the Ambalat block. On March 22 and 23, 2005, representatives of the Republic and Malaysia held a first round of talks on the Indonesian island of Bali in an effort to resolve the dispute. However, no resolution of the dispute was achieved at those meetings. The governments of the Republic and Malaysia have agreed to continue negotiating to resolve this territorial dispute amicably.

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 ASEAN member states, Japan, China, South Korea, the United States and the European Union.

Indonesia is one of five founding members of the Association of Southeast Asian Nations ("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 Indonesia, Malaysia, the Philippines, Singapore, Brunei Darussalam, Thailand, Vietnam, Cambodia, Laos and Myanmar. The ASEAN member nations have made agreements on mutual assistance and cooperation in a number of areas.

In January 1992, ASEAN established the ASEAN Free Trade Area ("AFTA"). AFTA's ultimate objective is to promote ASEAN's competitive edge in the world market through the elimination of intra-regional tariffs and non-tariff barriers. In December 1995, the ASEAN nations, including Indonesia, entered into the ASEAN Framework Agreement on Services which seeks to promote a liberal trading framework for trade in services among the member nations.

During the November 2001 ASEAN summit conference in Brunei, the leaders of the ten ASEAN countries issued a "Roadmap for Integration of ASEAN" as the umbrella for other ASEAN economic agreements and initiatives that are intended to lead towards ASEAN economic integration in 2020. Currently, ASEAN is studying the feasibility of creating legally binding commitments to integrate eleven key sectors of member state economies over the next several years, prior to the complete economic integration called for by 2020.

In November 2004, ASEAN adopted a plan, called the "Vientiane Action Programme", to serve as a blueprint for the development of ASEAN over the next six years. The focus of the Vientiane Action Programme is 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 2000, in discussions among the ASEAN nations and Japan, China and South Korea (generally referred to as "ASEAN+3"), ASEAN agreed to extend the membership of the ASEAN Swap Arrangement ("ASA") to create an expanded Bilateral Swap Arrangement ("BSA") among the full ASEAN+3 group. The BSA, like the ASA, is aimed at providing short-term financial assistance in the form of swap arrangements to address balance of payments imbalances between the member countries. Extension of these arrangements promotes closer cooperation among the ASEAN+3 countries in the financial sector. Following the approval of main principles in 2001, each ASEAN country negotiated bilaterally with the three non-ASEAN countries. Indonesia signed separate BSAs with Japan, China, and South Korea in 2003. Indonesia also participates in the Asian Bond Market Initiative.

In late 2004, ASEAN, Australia and New Zealand agreed to begin negotiations in 2005 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 South Korea have agreed to commence negotiations on the creation of a free trade zone among those countries.

Indonesia places importance on promoting relations with neighboring countries within the Pacific Islands Forum and the Southwest Pacific Dialogue. Indonesia recently joined together with Australia and East Timor in establishing the Tripartite Consultation.

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 Asian Development Bank ("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 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.

The following table shows Indonesia's capital participation in, and loans obtained from, major international financial organizations as of December 31, 2004, except as otherwise indicated:

Capital Participation in, and Loans from, International Financial Organizations

		As of December 31, 2004			
		Capital		Loans	
Name of Organization	Date of Admission	Subscribed	Paid In	Approved	Outstanding
		(in millions of U.S. dollars)			
International Monetary Fund[1]	1967[2]	2,079	2,079	17,188	9,654
World Bank	1967[2]	1,807[5]	110[5]	17,721	8,618
Asian Development Bank	1966	2,863[6]	201[6]	13,673	8,869
International Finance Corporation	1968[3]	29[5]	29[5]	—	—
International Development Association	1968	15[5]	—[5]	1,735	944
Islamic Development Bank[4]	1975	185[7]	185[7]	588	160
Multilateral Investment Guarantee Agency	1988	20[5]	4[5]	—	52[8]
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 ID (ID 1 = SDR 1).

(5) Data as of June 2004.

(6) Data as of December 2003.

(7) Data as of February 2004.

(8) Guarantees outstanding.

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 5.1% in 2004. However, GDP growth remains 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 9.9% in 2004. Manufacturing is still the largest sector of the economy, but has grown more slowly than the economy as a whole in recent years. Economic growth since the crisis has been primarily driven by consumption and, beginning in 2004, increased investment and exports.

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

Key Economic Indicators

	2000	2001	2002	2003	2004[P]
National account and prices:					
Real GDP growth	4.9%	3.8%	4.4%	4.9%	5.1%
Nominal GDP (in billions of U.S. dollars)(1)	166	165	200	238	256
Per capita GDP (in thousands of rupiah)	6,752	8,081	8,828	9,572	10,642
Per capita GDP (in U.S. dollars)(1)	804	789	943	1,116	1,182
Gross national savings (% of GNP)	26.4%	24.3%	23.6%	23.1%	22.9%
Average exchange rate (Rp/$)	8,422	10,241	9,310	8,572	8,985
Inflation rate (change in CPI)	9.4%	12.6%	10.0%	5.1%	6.4%
Unemployment rate	6.1%	8.1%	9.1%	9.5%	9.9%
External sector:					
Current account (% of GDP)	4.8%	4.2%	3.9%	3.4%	1.1%
Fiscal account:					
Budget surplus/(deficit) (% of GDP)	(1.1)%	(2.4)%	(1.3)%	(1.7)%	(1.1)%
External debt of the central government (in trillions of rupiah)(2)	519	596	596	588	617
Total debt of the central government (in trillions of rupiah)(2)	1,164	1,253	1,254	1,238	1,270
Debt service ratio (% of government revenue)	28.1%	34.3%	34.8%	26.8%	32.7%

Source: BPS, Bank Indonesia and Ministry of Finance.

P Preliminary.

(1) Nominal GDP and per capita GDP in U.S. dollars has been converted into U.S. dollars from rupiah at the following exchange rates: Rp8,393.7 per U.S. dollar for 2000, 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 and Rp9,006.0 per U.S. dollar for 2004.

(2) The U.S. dollar amount of outstanding external debt and total debt of the central government for each year has been converted into rupiah at the exchange rates used by BPS for calculation of GDP into U.S. dollars as described in footnote (1) above.

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 averaged 4.8% from 2002 to 2004. 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 vulnerability to external shocks.

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

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

	2000	2001	2002	2003	2004[P]	
		(in billions of rupiah)			(in billions of rupiah and percentage of GDP)	
GDP	1,389,770	1,684,281	1,863,275	2,045,853	2,303,031	100.0%
Add: Imports of goods and services	423,318	506,426	480,815	470,998	620,184	26.9
Total supply of goods and services	1,813,087	2,190,707	2,344,090	2,516,851	2,923,216	126.9
Less: Exports of goods and services	569,490	642,595	595,514	627,065	711,778	30.9
Total domestic expenditures	1,243,597	1,548,112	1,748,576	1,889,786	2,211,438	96.0%
Allocation of total domestic expenditures:						
Private consumption	856,798	1,039,655	1,231,965	1,372,078	1,532,388	66.5%
Public consumption	90,780	113,416	132,219	163,701	187,774	8.2
Total consumption	947,578	1,153,071	1,364,183	1,535,779	1,720,162	74.7
Gross domestic fixed capital formation	275,881	323,875	353,967	386,219	483,441	21.0
Change in stocks (residual)(1)	20,138	71,166	30,426	(32,212)	7,835	0.3
Total domestic expenditures	1,243,597	1,548,112	1,748,576	1,889,786	2,211,438	96.0%

Source: BPS.

P Preliminary.

(1) Includes statistical discrepancies.

In 2000, Indonesia's economy continued to recover from the Asian financial crisis, and real GDP grew by 4.9% (based on 1993 Base Year constant market prices). Growth was driven on the expenditure side mainly by higher exports, investment and consumption with increases of 26.5%, 12.9% and 2.0%, respectively, over 1999 (based on 1993 Base Year constant market prices). Manufacturing remained the main engine of the economy, followed by the trade sector. The financial services sector, which had contracted in 1999, recorded positive growth of 4.6% (based on 1993 Base Year constant market prices). Domestic investment remained weak due to high levels of corporate debt and unfavorable social and political conditions.

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 4.9%, 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, however.

In 2004, real GDP grew by 5.1%, a slight increase from 4.9% in 2003. This growth was mainly driven by the transportation and communication sector, which experienced growth of 12.7%, followed by the construction and financial sectors, with had growth of 8.2% and 7.7%, respectively. The two largest sectors, manufacturing and trade, grew by 6.2% and 5.8%, respectively. Positive growth was recorded in all sectors, except for the mining sector, which declined by 4.6%, mainly due to continued lower investment in the oil and gas industry. Private consumption remained relatively constant from 2003 to 2004 at approximately 67% of GDP. However, investment grew 15.7% in 2004, compared to 1.0% in 2003. As a percentage of GDP, investment increased from 18.9% in 2003 to 21.0% in 2004.

Prices

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 has been relatively subdued in recent years, declining to 6.4% in 2004. 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 in 2005 is between 5% to 7%. 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

	2000	2001	2002	2003	2004
CPI (1996 (average) = 100)	221.37	249.15	274.13	287.99	N/A
CPI (2002 (average) = 100)[(1)]	N/A	N/A	104.44	109.83	116.86
Annual percentage year on year	9.4%	12.6%	10.0%	5.1%	6.4%

Source: BPS.

(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.

The following table shows inflation for individual sectors of the economy for the periods indicated:

Inflation Year on Year
(in percentages)

	2000	2001	2002	2003	2004
Overall	9.4	12.6	10.0	5.1	6.4
Food	4.0	12.0	9.1	(1.7)	6.4
Processed food, beverages and cigarettes	11.1	14.5	9.2	6.2	4.8
Housing	10.1	13.6	12.7	9.2	7.4
Clothing	10.2	8.1	2.7	7.1	4.9
Health	9.6	8.9	5.6	5.7	4.8
Education, recreation and sports	17.5	11.9	10.9	11.7	10.3
Transportation and communication	12.7	14.2	15.5	4.1	5.8

Source: BPS.

In 2002, inflation decreased 2.6% to 10.0%, compared to 12.6% in 2001. The reduction was due mainly to appreciation of the rupiah, improved inflationary expectations and more limited impact of government-administered price adjustments than in 2001. The decline in inflation was also influenced by substantial rice imports, which lowered rice prices. Housing made a large contribution to inflation during 2002 due to higher residential costs, including electricity, housing rent, and servant salaries, which increased significantly. Prices also increased for food materials other than rice, transportation and communications, and for processed food, beverages, and cigarettes. Transportation and communications recorded the highest inflation of 15.5%. This increase was mainly attributable to rising prices for fuel, diesel, and transportation tariffs and increased telephone tariffs.

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.

Recent Economic Policy Measures

On October 20, 2004, the new administration of President Yudhoyono took office. The new administration's economic policy has three goals: (1) to achieve higher, sustainable economic growth through export growth and increased investment, both domestic and foreign, in the country, (2) to stimulate the performance of the real sectors to raise the employment level and (3) to promote development in the rural economy and agricultural sectors to alleviate poverty.

The Yudhoyono administration has set aggressive targets for economic growth, from an actual rate of 5.1% in 2004 to a target rate of 7.6% in 2009, and a reduction in the unemployment rate, from an actual rate of 9.9% in 2004 to a target rate of 5.1% in 2009. In order to achieve these targets, the government intends to maintain a low inflation rate, macroeconomic stability and prudent fiscal policy in government spending and to implement economic reforms. The government has announced that it will implement economic reforms to improve the investment climate and the flexibility of the labor market and to aggressively combat corruption to lower the costs of business and investment. The government also intends to improve the country's infrastructure by encouraging cooperation between the public and private sectors.

Privatization

The sale by the government of state-owned enterprises ("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 Bank Mandiri (Persero) Tbk ("Bank Mandiri") and PT Indonesian Satellite Corporation Tbk. In addition, the government, through IBRA, has sold its stake in certain non-SOE entities and assets. The government does not plan any major privatizations of SOEs during 2005, but may privatize remaining SOEs after 2005. In 2005, the government intends to pursue a strategy of restructuring and consolidation among the remaining SOEs.

The following table sets forth significant interests in 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 Pelabuhan Indonesia II (Persero)	1999	51.0%	—	US$190
PT Pelabuhan Indonesia III (Persero)	1999	49.0%	—	US$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%	US$45.4	—
PT Telekomunikasi Indonesia (Persero) Tbk	2001	54.0%	Rp3,100	—
PT Indonesian Satellite Corporation Tbk	2002	15.0%	US$608.4	—
			Rp967	—
PT Telekomunikasi Indonesia (Persero) Tbk	2002	51.0%	Rp1,100	—
PT Tambang Batubara Bukit Asam (Persero) Tbk	2002	84.0%	Rp160	Rp4.2
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	Rp1,412
PT Perusahaan Gas Negara (Persero) Tbk	2003	61.0%	Rp1,235	Rp1,163
PT Pembangunan Perumahan	2004	51.0%	Rp60.5	—
PT Adhi Karya	2004	51.0%	Rp65.0	—
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.

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 2000 to 2004:

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

	2000	2001	2002	2003	2004P	
	(in billions of rupiah)				(in billions of rupiah and percentage of GDP)	
Manufacturing industries:						
Oil and gas	54,280	63,345	69,660	78,641	86,982	3.8%
Manufacturing (excluding oil and gas)	331,318	442,975	484,087	511,410	565,747	24.6
Total manufacturing	385,598	506,320	553,747	590,051	652,729	28.3
Agriculture, livestock, forestry and fisheries:						
Farm food crops	111,324	137,752	153,666	163,826	170,912	7.4
Non-food crops	31,720	36,759	43,956	48,830	57,419	2.5
Livestock and products	25,627	34,285	41,329	44,499	49,122	2.1
Forestry	17,215	17,595	18,876	20,202	21,717	0.9
Fisheries	30,945	36,938	41,050	48,297	55,266	2.4
Total agriculture, livestock, forestry and fisheries	216,831	263,328	298,877	325,654	354,435	15.4
Trade, hotel and restaurant services	224,452	267,656	314,647	337,840	372,340	16.2
Financial, ownership and business services	115,463	135,370	154,442	174,324	194,542	8.4
Mining and quarrying:						
Oil and gas	117,156	115,335	93,092	94,780	120,641	5.2
Mining and quarrying (excluding oil and gas)	50,536	66,673	67,932	74,755	76,252	3.3
Total mining and quarrying	167,692	182,008	161,024	169,536	196,892	8.5
Construction	76,573	89,299	101,574	112,571	134,388	5.8
Transport and communication	65,012	77,188	97,970	118,267	140,604	6.1
General government	69,461	81,851	83,294	101,606	121,130	5.3
Private sector services	60,294	70,407	82,309	96,464	113,115	4.9
Electricity, gas and water supply	8,394	10,855	15,392	19,541	22,855	1.0
Total GDP	1,389,770	1,684,281	1,863,275	2,045,853	2,303,031	100.0%

Source: BPS.

P Preliminary.

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

	2000	2001	2002	2003	2004P	
	(in billions of rupiah)				(in billions of rupiah and percentage of GDP)	
Manufacturing industries:						
Oil and gas	54,280	50,895	52,180	52,609	50,184	3.0%
Manufacturing (excluding oil and gas)	331,318	347,429	367,209	389,146	418,935	25.2
Total manufacturing	385,598	398,324	419,388	441,755	469,118	28.3
Agriculture, livestock, forestry and fisheries:						
Farm food crops	111,324	113,020	115,926	120,139	124,579	7.5
Non-food crops	31,720	34,845	36,586	38,192	39,920	2.4
Livestock and products	25,627	27,770	29,394	30,727	32,158	1.9
Forestry	17,215	17,610	17,987	18,118	18,396	1.1
Fisheries	30,945	32,441	33,082	35,900	37,900	2.3
Total agriculture, livestock, forestry and fisheries	216,831	225,686	232,974	243,076	252,953	15.2
Trade, hotel and restaurant services	224,453	234,273	243,409	256,300	271,177	16.3
Financial, ownership and business services	115,463	123,086	130,928	140,117	150,936	9.1
Mining and quarrying:						
Oil and gas	117,156	111,451	108,131	103,084	98,638	5.9
Mining and quarrying (excluding oil and gas)	50,536	56,794	61,801	65,343	62,017	3.7
Total mining and quarrying	167,692	168,244	169,932	168,427	160,655	9.7
Construction	76,573	80,080	84,470	90,103	97,467	5.9
Transport and communication	65,012	70,276	76,173	84,979	95,772	5.8
General government	69,460	70,200	70,482	71,148	72,324	4.4
Private sector services	60,294	63,757	68,500	73,207	79,112	4.8
Electricity, gas and water supply	8,394	9,058	9,868	10,448	11,066	0.7
Total GDP	1,389,770	1,442,985	1,506,124	1,579,559	1,660,579	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
Paper	Thousand tons	6,849	7,635	8,451	9,025
Cement	Thousand tons	28,225	31,449	30,720	28,951
Urea fertilizer	Thousand tons	6,334	5,316	6,117	5,701
Automobiles (vans and sedans)	Thousand units	293	278	375	352
Motorcycles	Thousand units	983	1,645	2,318	2,814
Textiles (including knitted)	Million units	65	68	29	57

Source: BPS.

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 (6.0%) while the oil and gas sub-sector also increased slightly (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 6.2%, slightly more than the growth rate of 5.3% in 2003. An increase in non-oil and gas manufacturing of 7.6% was offset by a decline in the oil and gas sector of 4.6% 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%) in 2004. Increased demand for housing and infrastructure resulted in higher cement manufacturing output.

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

	2000	2001	2002	2003P	2004P
	(in thousands of tons)				
Food crops:					
Rice	51,899	50,461	51,490	52,138	54,061
Corn	9,677	9,347	9,654	10,886	11,163
Cassava	16,089	17,055	16,913	18,524	19,264
Sweet potato	1,828	1,749	1,772	1,991	1,889
Soya beans (shelled)	1,018	827	673	672	721
Peanuts (shelled)	737	710	718	786	839
Fish products:					
Openwater fish	4,126	4,277	4,378	4,709	4,837
Farmed fish/aquaculture	995	1,077	1,137	1,224	1,944
Cash crops:					
Dry rubber:					
Large Plantation	376	398	403	406	410
Small Plantation	1,125	1,209	1,227	1,387	1,441
Coffee:					
Large Plantation	40	28	28	28	49
Small Plantation	515	541	654	658	671
Cacao:					
Large Plantation	57	60	60	61	79
Small Plantation	364	477	511	512	522
Tea:					
Large Plantation	124	127	120	123	130
Small Plantation	39	40	45	45	46
Sugar cane:					
Large Plantation	899	912	788	726	897
Small Plantation	791	814	967	909	1,123
Tobacco:					
Large Plantation	3	3	3	3	10
Small Plantation	201	196	189	205	209
Palm oil:					
Large Plantation	5,094	5,598	6,195	6,171	6,480
Small Plantation	1,906	2,798	3,427	3,646	3,828
Palm kernel:					
Large Plantation	1,019	1,118	1,210	1,249	1,310
Small Plantation	381	558	621	729	766
Livestock:					
Meat	1,265	1,367	1,770	1,872	1,931
Eggs	783	795	946	974	1,051
Milk(1)	496	505	493	553	596
Forestry(2):					
Logs	13,798	10,051	8,660	10,086	N/A
Sawn timber	2,790	675	623	1,135	N/A
Plywood	4,443	2,101	1,694	3,295	N/A

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

(1) In millions of liters.

(2) In thousands of cubic meters. Data for 2000 covers the period of April to December 2000 only.

P Preliminary.

Agriculture, which had been a mainstay of economic growth at the beginning of the Asian financial crisis, experienced low growth of only 3.2% in 2002 compared to 2001. The small increase was mainly due to increased productivity and expansion of the nation's agricultural land, which boosted growth in the food crop sub-sector. In addition, the natural weather phenomenon El Niño did not take place, although its return had been predicted. Because of this prediction, the Ministry of Agricultural had encouraged an expansion of arable land and improved the supply of seeds to farmers in anticipation of possible reductions in production expected to result from an El Niño drought. The good harvest in 2002 was also due in part to an adequate supply of domestic fertilizer, as there were no disruptions in the supply of gas to the fertilizer industry. A shift in the 2002 harvest season also positively affected the year's output. The plantation sub-sector, primarily palm oil, cocoa and rubber, also made a significant contribution to agricultural growth. Offsetting gains in other sub-sectors, the forestry sub-sector contracted due to environmental protection restrictions put in place by the government.

In 2003, agriculture expanded 4.3%, higher than the previous year's growth of 3.2%. 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. Cocoa 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 4.1%, a slight decline 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 54,061 thousand tons.

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 2.0% in 2002, 1.3% in 2003 and 3.7% in 2004. The slight increase in 2002 and 2003 was due to higher levels 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.

Soybean production decreased during 2002 and 2003, but increased significantly in 2004 as domestic demand for soy bean products grew. Peanut production has also increased during the last three years as domestic demand for peanuts has grown. Corn production increased from 2002 to 2004, due to a higher demand for feed. Production of sweet potatoes has remained relatively stable during the past three years, but declined in 2004 as potato farmers shifted use of their land to other uses.

Fishing. Productive fishing grounds within Indonesia are located in the straits of Malacca, around the coast of Kalimantan, within the Molucca islands, near the western coast of Sumatra, off the southern coast of Java and near the western coast of Papua. In recent years, fishery products from aquaculture, particularly shrimp, have become important export commodities. From 2000 to 2003, the export volume of fishery products increased significantly.

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 5% in 2004 due to increases in land area cultivated and higher productivity spurred by high demand for palm oil products in the domestic and international markets. Increases in world demand for dry rubber products in 2004 contributed to a 3.2% increase in dry rubber products. Sugar cane production increased 23.5% in 2004 due to increased cultivated land and productivity, while coffee production increased by just 5.0% primarily due to productivity gains.

Livestock. Livestock contributed 13.9% of the total agriculture output in 2004 and has maintained a relatively stable portion of total agriculture output during the past three years. Growth of livestock output (in rupiah terms) has averaged around 5% per year during the past three years. Livestock production is steadily increasing and expected to increase along with income levels.

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%. In 2002, the export value of processed wood was $3.3 billion, or 7.2% of Indonesia's total non-oil and gas exports, making exports of wood products the second largest category among export of non-oil and gas commodities, after textiles and textile products. The export value of processed wood decreased to $3.2 billion and to slightly less than $3.2 billion in 2003 and 2004, respectively. In 2004, the Ministry of Forestry enacted a number of priority programs promoting the preservation and sustainability of forests within Indonesia.

Transportation and Communications

In 2002, the transportation and communications sector grew by 8.4%, making it one of the fastest growing economic sectors that year. The sector achieved this growth rate despite suffering the effects of the Bali bombing. The sector's high growth was spurred by the transportation sub-sector, in particular by lower airline ticket prices, which resulted in an increase in air travel. The establishment of new airlines and government policies limiting prices resulted in tighter competition, which in turn caused airline ticket prices to drop. The Bali tragedy, however, caused air transportation to slow during the final quarter of the year. The communications sub-sector's 2002 growth was partly a result of telecommunications deregulation. This deregulation increased competition among companies and promoted investments by the main operators. Also, new mobile telecommunication technology provided by mobile telephone operators gave a boost to growth, as did private investments in both telephone companies and mobile telephone operations. The transportation and communications sector experienced high inflation in 2002 in both transportation (prices for fuel, diesel, and transportation tariffs) and communications (telephone tariffs).

In 2003, the transportation and communication sector grew by 11.6% 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 12.7%, which was higher than the growth rate of 11.6% 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.

Trade, Hotel and Restaurant

The trade, hotel and restaurant sector recorded growth of 3.9% in 2002. An increase in the retail sector offset the lower growth in the hotel sector that was mainly due to the continuing effects of the Bali bombing in 2002, which disrupted activity in the hotel sub-sector during the last three months of the year.

In 2003, the trade, hotel and restaurant sector recorded growth of 5.3%, 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 5.8% in 2004, a slight increase from the rate of 5.3% in the previous year. The hotel sub-sector recorded the highest growth of 11% 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.

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 2002, the financial services sector grew at a rate of 6.4%. The improvement in growth was largely due to the improved performance in the banking sub-sector, reflected in higher levels of lending. Non-bank financial services growth decreased slightly from the prior year.

In 2003, the financial services sector grew at a rate of 7.0%. 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%, relative to 7.0% in 2003. The growth was driven by business services, which grew at 10%, non-bank financial services, which grew at 8.7%, and commercial leasing, which grew at 8.3%. Bank financial services showed higher growth in 2004 at 6.4% 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.

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 2004 comprised 61.3% of the sector.

Although oil and gas production has declined over the past eight years, due primarily to decreased investment, oil and gas are still Indonesia's biggest exports, contributing approximately 24.6% of total exports and about 27.5% of government revenues (inclusive of tax revenue from the oil and gas sector) in the actual 2004 budget. 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 prices. Investment levels are important to the sector's longer term performance, however.

In 2002, the mining and quarrying sector grew by 1.0%, due to growth in the non-oil and gas mining subsector. The oil and gas subsector contracted by 3.0% due to low oil prices and a further decrease in production.

In 2003, the mining and quarrying sector contracted by 0.9% primarily due to a contraction of the oil and gas subsector as a result of a decline in oil production despite higher oil prices, which increased to $28.77 per barrel in 2003 from $24.40 per barrel in 2002. This was partially offset by growth in the non-oil and gas mining subsector.

In 2004, the mining and quarrying sector contracted by 4.6%, increasing from the previous year's contraction of 0.9%. The contraction was mainly due to continued low investment in mining and quarrying, particularly in the oil and gas sector.

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. 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.

Indonesia's oil production has declined in the last five years from 517 million barrels in 2000 to approximately 401 million barrels in 2004. This decrease was due mainly to a substantial drop in oil exploration investments, caused in part by regulatory uncertainty.

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
			(in millions of barrels)		
Pertamina[2]	46	46	43	42	41
Production sharing contracts[3]	471	443	413	377	360
Total	517	489	456	419	401

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.

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[2]
			(in billions of standard cubic feet)		
Pertamina[3]	346	347	335	336	285
Production sharing contracts[4]	2,555	2,460	2,707	2,818	1,995
Total	2,901	2,807	3,042	3,154	2,280

Source: Ministry of Energy and Mineral Resources.

(1) Includes LPG.

(2) As of September 30, 2004.

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

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

As of December 31, 2004, oil reserves stood at 8.2 billion barrels and natural gas reserves stood at 188.3 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
			(in millions of barrels)		
Pertamina crude[2]	54	44	47	41	28
Production sharing contracts[3]	169	190	171	148	151
Total	223	234	218	189	179

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.

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

Average Price of Crude Oil

2000	2001	2002	2003	2004
		(in US$ per barrel)		
28.15	23.44	24.40	28.77	37.58

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), 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 either as contractors to the state-owned mining enterprises, as partners in joint ventures with private Indonesian companies or through entities with 100% foreign ownership.

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

Production of Principal Mineral Products

	2000	2001	2002	2003	2004
Tin ore concentrate (thousands of tons)	50	62	88	72	66(2)
Nickel ore (thousands of tons)	3,349	3,635	4,365	4,395	4,095
Bauxite (thousands of tons)	1,175	1,276	1,283	1,263	1,331
Copper ore concentrate (thousands of tons)	3,194	3,289	3,787	3,238	2,810
Coal (thousands of tons)(1)	76,820	90,352	103,060	114,278	131,531
Iron sand concentrate (thousands of tons)	538	490	379	245	90
Gold (tons)(1)	118	165	142	141	93
Silver (thousands of tons)(1)	335	348	289	285	263

Source: Ministry of Energy and Mineral Resources.

(1) Represents total production from state-owned and private companies.

(2) Tin ore concentrate data available through September 2004 for PT Tambang Timah and through December 2004 for PT Koba Timah.

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: Aneka Tambang 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. In 2004, total production of copper concentrate was 2.8 million tons. In 2004, environmental issues and accidents slowed production.

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. Most domestic consumption, around 30% of production in 2004, is used for electricity generation.

Gold. Gold exploration in Indonesia has fluctuated in recent years. In 2002, 2003 and 2004, gold production in Indonesia was 142 tons, 141 tons and 93 tons, respectively. Over 96% of Indonesia's gold in 2004 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.

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 open 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 "open 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 reached 39.6% of the work force. The rising open unemployment level was mainly attributable to rationalizations in several manufacturing industries such as textile, shoes 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 open 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 open 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 (people working less than 35 hours per week) 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.

The following table sets forth the proportion of the employed labor force in each sector of the economy for the four years from 2000 through 2004, together with the actual number employed in each sector in 2004:

Employment by Sector of the Economy

Product	2000	2001	2002	2003	2004	
		(in percentages)			(in percentages and millions)	
Agriculture, forestry, hunting and fishery	45.1%	43.8%	44.3%	46.3%	43.3%	40.6
Mining and quarrying	0.5	—	0.7	0.8	1.1	1.0
Manufacturing	13.0	13.3	13.2	12.0	11.8	11.1
Electricity, gas and water	0.1	—	0.2	0.2	0.3	0.2
Construction	3.9	4.2	4.7	4.5	4.8	4.5
Wholesale and retail trade and restaurants	20.6	19.2	19.4	18.6	20.4	19.1
Transportation, storage and communications	5.1	4.9	5.1	5.5	5.9	5.5
Finance, insurance, real estate and business services	1.0	1.2	1.1	1.4	1.2	1.1
Public services	10.7	12.1	11.3	10.7	11.2	10.5
Others	—	1.2	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%	93.7

Source: BPS.

Three important changes in labor policy have occurred within the last two 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.

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 will be a national program with the objective of ensuring social protection and welfare to all Indonesian citizens. The program is being established to provide 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. The program, as mandated by law, will be operated by four existing social insurance companies: PT Taspen, PT Asabri, PT Jamsostek and PT Askes.

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
Lowest 40%	20.9%	20.6%	20.8%
Middle 40%	36.9%	37.1%	37.1%
Highest 20%	42.2%	42.3%	42.1%
Gini Index	0.33	0.32	0.32

Source: BPS.

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

Income distribution improved during the Asian financial crisis, as the manufacturing sector suffered the greatest losses, and the agricultural sector performed relatively well by comparison. In addition, the depreciated rupiah provided better returns to primary commodities producers. 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 2004.

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 development conference which described the infrastructure projects it is considering undertaking in the future and to foster cooperative efforts between the government and foreign private investors.

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 was still very slow. The number of fixed lines increased by only 3.4%, while the number of mobile subscribers grew by another 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 2003. 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.

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. In the coming years, the government expects this program to be funded entirely by telecom operators.

Transportation

Indonesia, with its many islands, relies more heavily on ships and airplanes for transportation than do most other countries of comparable size. In terms of land transportation, Indonesia possesses 5,825 kilometers of railways, of which 4,338 kilometers are operated, and 347,591 kilometers of highways (as of 2003), of which about 67% are paved. Roads in and around major cities are heavily congested, while many inter-urban and rural roads are in poor condition and are deteriorating. Public funds for road construction are insufficient, and the government is encouraging private investment in toll roads in Java, Sumatra and

Sulawesi. In terms of sea transportation, Indonesia has 2,133 ports, including inland waterways, Indonesia operates 187 airports, of which 23 are international airports. International flights into and out of Indonesia are serviced by over 30 international airlines, while the domestic market is serviced by over 20 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 4.6% per year between 2001 and 2003.

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 annullment 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 2003, Indonesia had an installed electrical generating capacity of approximately 24 gigawatts, with 85% coming from thermal (oil, gas, and coal) sources, 13% from hydropower and 2% from geothermal sources. PLN owns about 87% of the installed capacity, with the rest belonging to the private sector. Higher levels of investment in power generation, transmission and distribution lines and rural electrification will be necessary to meet projected future demand, perhaps as much as $31 billion by the year 2010. 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.

Water

Only about 40% of Indonesia's urban population has access to a clean water supply. Sewage systems are relatively underdeveloped, which may affect the quality of surface and groundwater. Population growth will put increasing pressure on the existing water supply system.

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

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 1.7 % 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 1.0% 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 2.3% 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 also decreased, from 1.7% of GDP in 2003 to 1.1% 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.

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

	2000	2001	2002	2003	2004
	(current prices in trillions of rupiah)				
Government:					
Savings	28.9	31.1	48.7	76.4	92.9
Investment	60.1	71.6	72.2	111.5	119.2
Surplus/(deficit)	(31.2)	(40.5)	(23.6)	(35.1)	(26.3)
Private:					
Savings	314.2	363.6	378.2	379.3	416.3
Investment	215.8	252.3	281.8	274.8	364.3
Surplus/(deficit)	98.4	111.3	96.5	104.5	52.0
Total:					
Savings	343.1	394.6	426.9	455.7	509.2
Investment	275.9	323.9	354.0	386.2	483.4
Surplus/(deficit)	67.2	70.8	72.9	69.5	25.7
	Percentage of GDP				
Government:					
Savings	2.1	1.8	2.6	3.7	4.0
Investment	4.3	4.2	3.9	5.4	5.2
Surplus/(deficit)	(2.2)	(2.4)	(1.3)	(1.7)	(1.1)
Private:					
Savings	22.6	21.6	20.3	18.5	18.1
Investment	15.5	15.0	15.1	13.4	15.8
Surplus/(deficit)	7.1	6.6	5.2	5.1	2.3
Total:					
Savings	24.7	23.4	22.9	22.3	22.1
Investment	19.9	19.2	19.0	18.9	21.0
Surplus/(deficit)	4.8	4.2	3.9	3.4	1.0
GDP (in trillions of rupiah)	1,389.8	1,684.3	1,863.3	2,045.9	2,303.0
Current account (in billions of US$)	8.0	6.9	7.8	8.1	2.9
Average exchange rate (Rp/US$)(1)	8,405	10,256	9,318	8,572	8,940
Current account balance (% of GDP)	4.8	4.2	3.9	3.4	1.1

Source: Bank Indonesia

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

Foreign Investment

In 1973, the Republic established the Investment Coordinating Board (Badan Koordinasi Penanaman Modal, or "BKPM") to accelerate economic growth by attracting foreign capital investment, excluding investments in the oil, financial and certain other sectors. BKPM's main function is to implement the government's objectives for investment in the country. One of the central government's key policies for improving the investment climate is to enact a new unified investment law, and the government is preparing such a law. The new law is to replace both the 1968 Domestic Capital Investment Law and the 1967 Foreign Investment Law. The new law is expected to provide for equal treatment of domestic and foreign investors and provide a range of investment incentives. The new law is also expected to reduce the number of separate approvals required to establish a foreign investment in Indonesia. The current regulatory regime has frequently been cited as an impediment to investment.

The Asian financial crisis in Indonesia was accompanied by unstable socio-political conditions that substantially reduced foreign direct investment in the following years.

The new political freedoms 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 2004, the Ministry of Finance has issued recommendations for the revocation of a total of 337 regional government regulations and the Ministry of Home Affairs has revoked 282 of these regulations.

In 2004, the government adopted several measures to promote foreign direct investment and improve the investment climate in the country. First, the government issued a regulation which requires all approvals for foreign investment to be made through one central government agency, BKPM, streamlining the licensing procedure under one government agency. Until the late 1990s, approvals related to foreign investment were required to be obtained from one central government agency, BKPM. However, in the late 1990s, approvals were required to be obtained from several central government agencies and, after enactment of the 1999 regional autonomy law, from regional or local government agencies depending on the location of the proposed foreign investment. The purpose of this regulation is to simplify the foreign investment approval process and to restrict regional and local governments from adopting their own foreign investment approval requirements which may discourage 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.

Since the Asian financial crisis, foreign investment approvals have tended to fluctuate from year to year. In 2004, approved foreign direct investment decreased by 26.4% to $10.3 billion from $14.0 billion in 2003 which, in turn, had risen 41.4% from the 2002 level of $9.9 billion.

The rate of realization for approved foreign direct investment, that is, the proportion of approved investments that were actually made, also fluctuated during the period from 2000 to 2004. The realization rate was 62% of foreign investment approvals ($9.9 billion realized) in 2000. Subsequently, the realization rate dropped to only 23% of foreign investment approvals ($3.5 billion realized) in 2001, but increased to 31% ($3.1 billion realized) in 2002. The realization rate for approved foreign direct investment increased again to 39% ($5.4 billion realized) in 2003. From the estimated figures in 2004, the realization rate for foreign direct investment increased to 44% (about $4.6 billion realized).

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

Approved Foreign Direct Investment by Sector[(1)]

	2000	2001	2002	2003	2004
	(millions of U.S. dollars)				
Primary sector:					
Agriculture, forestry and fishery:					
Food crop and plantation	427	264	443	109	158
Livestock	39	17	23	14	39
Forestry	6	101	9	95	0
Fishery	52	7	4	27	133
Total agriculture, forestry and fishery	522	389	479	244	330
Mining	55	120	49	18	66
Total primary sector	577	509	528	263	396
Secondary sector:					
Food industries	739	315	268	509	722
Textiles industries	225	391	104	129	408
Leather goods and footwear industries	206	33	14	35	20
Wood industries	125	24	37	242	16
Paper and printing industries	92	742	13	1,300	67
Chemical and pharmaceutical industries	7,329	2,310	1,871	3,038	3,414
Rubber and plastic industries	169	231	284	77	176
Non-metal minerals industries	13	108	41	715	38
Metal machinery and electronic industries	1,524	652	353	320	1,014
Medical precision and optical instruments, watches and clocks	10	31	3	5	3
Motor vehicle and other transport equipment	248	327	262	160	425
Other industry	76	51	38	92	36
Total secondary sector	10,756	5,215	3,286	6,619	6,336
Tertiary sector:					
Electricity, gas and water supply	1	37	90	363	276
Construction	216	48	324	899	954
Trade and repair	1,990	412	883	486	592
Hotels and restaurant	183	6,892	259	510	587
Transportation, storage and communication	1,170	376	3,718	4,592	587
Real estate and industrial estates	175	175	8	10	340
Other services	952	1,526	834	307	213
Total tertiary sector:	4,688	9,466	6,117	7,167	3,547
Total	16,021	15,190	9,931	14,049	10,280

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.

Foreign investment in Indonesia may be divided into direct investments, portfolio investments and other investments. The following table sets out investments in Indonesia by non-residents:

Foreign Investment in Indonesia

	2000	2001	2002	2003	2004[P]
	(in millions of U.S. dollars)				
Direct investments:					
Equity capital	892	988	2,560	1,483	1,262
Other capital	(5,442)	(3,966)	(2,415)	(2,080)	(219)
Total direct investments	(4,550)	(2,977)	145	(597)	1,043
Portfolio investments:					
Equity securities	81	442	877	1,130	2,043
Debt securities	(1,991)	(686)	345	1,121	751
Total portfolio investments	(1,911)	(244)	1,222	2,251	2,794
Total other investments	(1,435)	(4,396)	(2,469)	(2,604)	(1,600)

Source: Bank Indonesia.

[P] Preliminary.

Foreign Direct Investment

Foreign direct investment ("FDI") covers equity investment (either "green field" or cross-border mergers or acquisitions) and loans of FDI investors (headquarters or affiliated companies) to their Indonesian affiliates. FDI showed a growing net deficit during the crisis period up to 2001. FDI has been quite low since 1997, although it has increased in the last three years with 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. The reduction in the FDI deficit from $4.6 billion in 2000 to an FDI surplus of $1.0 billion in 2004 was caused, in part, by a reduction in debt repayments since 2000. In 2004, debt repayments were $2.8 billion, compared to $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 an increase in debt repayments. Net FDI reversed again in 2004 from the previous year's deficit to a surplus of $1 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.

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

Direct Investments[(1)]

	2000	2001	2002	2003	2004[P]
	(in millions of U.S. dollars)				
Total direct investments	(4,550)	(2,977)	145	(597)	1,043
Equity capital[(2)]	892	988	2,560	1,483	1,262
Other capital	(5,442)	(3,966)	(2,415)	(2,080)	(219)
Disbursements	2,081	1,606	2,603	1,681	2,588
Debt repayments	(7,523)	(5,572)	(5,018)	(3,761)	(2,806)

Source: Bank Indonesia.

(1) Investments in Indonesia by non-residents.

(2) Includes privatization and banking restructuring.

[P] Preliminary.

Foreign Portfolio Investment

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 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 $2.8 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 $0.8 billion, down 33.0% from net purchases of $1.1 billion in 2003. The increase in equity transactions was due to asset sales under the Indonesian bank restructuring program and the additional privatizations. Asset sales under the bank restructuring program included divestments by the government of equity interests in PT Bank Danamon 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.

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

Portfolio Investments

	2000	2001	2002	2003	2004[P]
	(in millions of U.S. dollars)				
Total portfolio investments	(1,911)	(244)	1,222	2,251	2,793
Equity securities	81	442	877	1,130	2,043
Inflows	1,597	1,145	1,243	2,357	6,367
(Outflows)	(1,516)	(703)	(367)	(1,227)	(4,325)
Debt securities (net)	(1,991)	(686)	345	1,121	751

Source: Bank Indonesia.

P Preliminary.

Other Foreign Investment

The net outflow under the category of other investments reflects mounting short-term debt principal payments. Debt repayments reached a peak of almost $4.4 billion in 2001 and have subsequently declined. Recently, 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.

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	2004[P]
	(in millions of U.S. dollars)				
Total other investments	(1,435)	(4,396)	(2,469)	(2,604)	(1,600)
Bank sector	(1,419)	(1,867)	(1,217)	(69)	388
Disbursements	1,273	2,042	2,365	4,106	6,009
Debt repayments	(2,692)	(3,909)	(3,581)	(4,175)	(5,621)
Corporate	(2,655)	(3,328)	(1,854)	(2,025)	(177)
Disbursements	1,189	1,530	837	1,908	2,965
Debt repayments	(3,844)	(4,858)	(2,691)	(3,933)	(3,142)
Others (net)[(1)]	2,640	799	601	509	(1,811)

Source: Bank Indonesia.

(1) Includes public sector.

P Preliminary.

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

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 state-owned enterprises were adopted to promote efficiency through transfers of technology and improvements in corporate governance and corporate culture.

Over the last five years, from 2000 through 2004, Indonesia's total exports increased by roughly 9.7%, through growth in oil and gas exports of 17.2% and growth in non-oil and gas exports of 7.5%. In the immediate aftermath of the Asian financial crisis, in 1998 and 1999, Indonesian exports dropped sharply, accompanied by a large drop in imports. Not until 2000 did Indonesian exports start 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 roughly 25.7% 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 12.0% 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 29.7% as a result of higher economic growth and increased purchases of foreign capital goods for investment. In 2004, Indonesia's trade surplus decreased to $17.0 billion from $21.9 billion in 2003.

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

Exports and Imports[(1)]

	2000	2001	2002	2003	2004[P]
	(in millions of U.S. dollars)				
Exports:					
Oil and gas exports (f.o.b.)	15,066	12,560	12,858	15,234	17,657
Non-oil and gas exports (f.o.b.)	50,341	44,805	46,307	48,875	54,127
Total exports (f.o.b.)	65,407	57,365	59,165	64,109	71,784
Total imports (c&f)	(43,595)	(37,531)	(38,309)	(42,243)	(54,802)
Balance of trade	21,812	19,834	20,856	21,866	16,982

Source: Bank Indonesia.

(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.

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 65.5% in 2004. Indonesia faces increasing competition in labor-intensive sectors such as textiles, clothing and footwear from countries like China and Vietnam. Agricultural products declined, from 4.4% of the total in 2000 to 3.6% in 2004. The proportion of oil and gas has risen slightly over the same period from 23.0% to 24.6%, and that of minerals has risen from 4.9% to 6.3%.

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 cacao 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 5.3% 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 high 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 12.0% to $71.8 billion from $64.1 billion in 2003. Non-oil and gas exports increased by 10.7% to $54.1 billion, compared to $48.9 billion in 2003. This increase in non-oil and gas exports was mainly attributable to a 12.0% increase in manufactured product exports, to $47.0 billion from $42.0 billion in 2003, and a 9.2% increase in mineral product exports, to $4.5 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 31.7% to $3.3 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 22.9% reduction in copper exports caused by a decline in copper production. Agricultural product exports decreased 6.5% 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 $4.8 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 $15.2 billion in 2003. The export price of oil increased significantly in 2004, to an average of $36.74 per barrel, which increased the value of Indonesia's oil and gas exports, despite a decline in oil and gas production to approximately 1 million barrels per day in 2004, compared to 1.1 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, South Korea and Taiwan.

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

Exports by Sector

	2000	2001	2002	2003	2004P
			(in millions of U.S. dollars)		
Agricultural products:					
Coffee	329	187	225	273	262
Tea	114	97	101	100	73
Spices	332	179	191	203	168
Tobacco	67	83	68	48	50
Cacao	249	284	536	410	393
Shrimp and prawns	1,057	964	864	928	878
Others	709	707	655	787	749
Total agricultural products	2,856	2,501	2,640	2,750	2,572
Mineral products:					
Copper	1,709	1,626	1,804	1,924	1,484
Nickel	44	57	52	62	110
Coal	1,346	1,659	1,812	2,054	2,815
Bauxite	13	13	21	20	22
Others	93	307	159	85	94
Total mineral products	3,205	3,661	3,848	4,145	4,525
Manufactured products:					
Textiles and textile products	8,787	7,782	7,158	7,294	7,715
Processed wood products	3,753	3,349	3,343	3,247	3,179
Palm oils	1,146	1,108	2,151	2,521	3,319
Chemicals	1,357	1,270	1,308	1,576	1,781
Metal products	1,005	780	614	887	1,639
Electrical appliances	3,333	2,672	2,776	3,205	3,392
Cement	150	165	115	92	105
Papers	2,415	2,086	2,156	2,061	2,223
Rubber products	1,391	1,238	1,604	2,146	2,920
Others	20,942	18,101	18,594	18,952	20,757
Total manufactured products	44,280	38,642	39,819	41,981	47,029
Oil and gas:					
LNG, LPG & Natural Gas	7,112	5,638	6,310	7,765	9,268
Crude oil	6,279	5,679	5,270	5,841	6,619
Oil products	1,675	1,243	1,278	1,628	1,772
Total oil and gas	15,066	12,560	12,858	15,234	17,657
Total exports	65,407	57,365	59,165	64,109	71,784

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, South Korea and China. In 2004, these five countries were still Indonesia's largest destinations for exports, and their overall share of Indonesian exports had fallen slightly from 58.9% (in 2000) to 57.9% (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. Otherwise, exports to Japan fell from 23.2% (in 2000) to 22.5% (in 2004), the United States from 13.6% (in 2000) to 12.0% (in 2004), Singapore from 10.5% (in 2000) to 9.3% (in 2004) and South Korea from 7.3% (in 2000) to 7.0% (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%, 1.9% 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 17.9% (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 12.4% (in 2004).

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

Exports by Destination

Destination	2000	2001	2002	2003	2004[P]
	(in millions of U.S. dollars)				
Africa	1,157	1,120	1,126	1,255	1,295
America:					
USA	8,867	7,654	7,704	7,602	8,585
South America	626	557	577	525	726
Canada	446	405	381	390	396
Others	458	406	387	320	347
Total America	10,397	9,023	9,049	8,836	10,054
Asia:					
ASEAN:					
Singapore	6,884	5,660	5,732	5,813	6,666
Malaysia	1,861	1,706	1,929	2,346	2,737
Thailand	928	955	998	1,108	1,365
Philippines	861	807	789	966	1,439
Vietnam	337	299	477	558	521
Cambodia	55	68	61	51	51
Myanmar	64	66	51	68	63
Brunei Darussalam	25	29	32	31	28
Laos	1	1	—	—	1
Total ASEAN	11,015	9,591	10,068	10,941	12,871
Japan	15,207	13,258	12,319	14,308	16,119
South Korea	4,786	3,966	4,247	4,814	4,992
China	2,757	2,066	2,684	3,480	5,227
India	1,088	981	1,245	1,726	2,115
Hong Kong	1,574	1,267	1,258	1,286	1,300
Taiwan	1,487	1,228	1,209	1,220	1,416
Saudi Arabia	535	477	463	409	357
Pakistan	148	182	246	306	398
Iraq	95	89	28	17	44
Others	3,927	2,855	4,317	4,066	4,155
Total Asia	42,620	35,961	38,084	42,573	48,994
Australia/Oceania	1,702	2,578	2,245	2,496	2,560
Europe:					
EU:					
Germany	1,435	1,277	1,257	1,461	1,636
Netherlands	1,895	1,639	1,548	1,425	1,771
United Kingdom	1,575	1,594	1,412	1,140	1,192
Belgium and Luxembourg	892	730	786	889	847
Italy	708	605	622	766	809
France	731	598	618	696	622
Others	1,540	1,275	1,289	2,048	1,549
Total EU	8,775	7,718	7,532	8,424	8,427
Eastern Europe	243	237	309	305	217
Russia	81	60	71	108	126
Others	433	667	749	112	110
Total Europe	9,532	8,683	8,661	8,949	8,880
Total exports	65,407	57,365	59,165	64,109	71,784

Source: Bank Indonesia.

[P] Preliminary.

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 decreases 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 increased by 29.7%, from $42.2 billion in 2003 to $54.8 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 26.5% 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 21.6% 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 44.6% 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 34.8% 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.

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

Imports by Sector

Item	2000	2001	2002	2003	2004[P]
	(in millions of U.S. dollars)				
Consumer goods:					
Foods and beverages (primary)	428	382	485	324	477
Foods and beverages (processed)	384	355	969	807	868
Passenger car	135	82	71	146	304
Transport equipment not for industry	490	488	18	13	35
Durable consumer goods	361	350	208	175	323
Semi-durable consumer goods	289	233	343	294	378
Non-durable consumer goods	454	517	640	472	650
Military equipment and others	148	85	46	92	95
Total consumer goods	2,688	2,492	2,780	2,322	3,130
Raw materials and auxiliary goods:					
Processed raw materials	16,432	14,156	13,965	14,911	18,867
Primary raw materials	3,528	2,798	2,082	2,201	2,624
Spare parts for transportation equipment	2,493	1,689	2,349	2,918	3,191
Spare parts for capital goods	1,866	1,880	2,781	3,105	3,733
Food and beverages (mainly for industry)	1,225	1,034	1,375	1,644	1,867
Processed food and beverages	982	847	587	724	714
Processed fuel and lubricants	146	162	179	157	203
Primary fuel and lubricants	17	13	3	4	16
Total raw materials and auxiliary goods	26,688	22,578	23,322	25,665	31,214
Capital goods:					
Capital goods (excluding transportation equipment)(1)	5,776	5,167	4,399	5,217	6,803
Passenger cars	135	82	71	202	368
Transportation equipment for industry(2)	1,800	1,008	498	334	1,150
Total capital goods	7,711	6,258	4,967	5,753	8,321
Oil and gas	6,508	6,203	7,241	8,504	12,137
Total imports	43,595	37,531	38,309	42,243	54,802

Source: Bank Indonesia.

P Preliminary.

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

(2) Includes railway equipment, ships and aircraft.

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 62.0% in 2000 to 66.5% in 2004. Indonesia also imports large amounts from the United States and Europe, though their share of Indonesia's imports, in percentage terms, has declined.

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

Imports by Place of Origin

Place of Origin	2000	2001	2002	2003	2004[P]
	(in millions of U.S. dollars)				
Africa	933	1,026	1,538	1,268	1,716
Americas:					
United States	4,362	3,926	3,318	3,503	4,074
South America	722	469	612	710	1,050
Canada	868	486	511	442	673
Others	133	61	39	45	35
Total Americas	6,086	4,943	4,480	4,699	5,831
Asia:					
ASEAN:					
Singapore	4,020	3,652	4,152	4,792	6,821
Thailand	1,397	1,255	1,439	2,178	2,835
Malaysia	1,271	1,120	1,207	1,447	1,907
Vietnam	142	82	45	234	25
Philippines	159	122	153	245	271
Myanmar	29	26	209	21	121
Brunei Darussalam	2	2	2	4	6
Cambodia	1	1	2	2	1
Laos	2	—	—	—	—
Total ASEAN	7,023	6,261	7,208	8,922	11,986
Japan	7,094	5,298	5,660	6,432	7,203
China	2,680	2,436	3,020	3,535	4,987
South Korea	2,474	2,264	1,815	2,071	2,447
Taiwan	1,718	1,430	1,289	1,130	1,489
Saudi Arabia	1,506	1,193	1,112	1,159	1,435
India	627	638	792	869	1,438
Hong Kong	488	326	304	303	340
Pakistan	73	89	61	63	54
Iraq	0	3	3	0	0
Others	3,362	3,290	3,217	3,743	5,037
Total Asia	27,046	23,228	24,482	28,228	36,416
Australia/Oceania	2,579	2,531	2,161	2,186	3,050
Europe:					
EU:					
Germany	1,727	1,644	1,616	1,615	2,218
Italy	455	522	548	474	592
Netherlands	611	440	452	508	540
United Kingdom	934	757	530	630	878
France	648	517	538	638	750
Belgium and Luxembourg	395	270	252	250	318
Others	485	392	321	889	1,230
Total EU	5,255	4,543	4,258	5,003	6,525
Former Soviet Union	319	210	234	162	281
Eastern Europe	65	57	97	79	85
Others	1,312	993	1,059	620	897
Total Europe	6,951	5,803	5,648	5,863	7,788
Total imports	43,595	37,531	38,309	42,242	54,802

Source: Bank Indonesia.

P Preliminary.

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.

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	2004P
	(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	54,127
Oil and gas exports	15,066	12,560	12,858	15,234	17,657
Total exports	65,407	57,365	59,165	64,109	71,784
Imports (f.o.b.):					
Non-oil and gas imports	(34,378)	(28,961)	(28,990)	(31,723)	(39,389)
Oil and gas imports(2)	(5,988)	(5,707)	(6,662)	(7,823)	(11,166)
Total imports	(40,365)	(34,668)	(35,652)	(39,546)	(50,555)
Services (net):					
Non-oil and gas services(3)	(12,500)	(11,501)	(11,111)	(11,285)	(13,477)
Oil and gas services	(4,551)	(4,294)	(4,579)	(5,171)	(4,876)
Total services	(17,051)	(15,795)	(15,690)	(16,456)	(18,353)
Current account	7,991	6,902	7,823	8,106	2,878
Capital account:					
Public Sector:					
Official inflows:					
Consultative Group for Indonesia ("CGI") inflows(4)	2,420	1,963	1,503	1,625	1,295
Non-CGI inflows(5)	1,731	943	863	545	2,337
Total official inflows	4,151	2,906	2,366	2,170	3,632
Debt repayment(6)	(2,532)	(3,005)	(2,556)	(3,004)	(5,543)
Total official capital	1,617	(99)	(190)	(833)	(1,911)
Private Sector:					
Foreign direct investment(7)	(4,550)	(2,977)	145	(597)	1,043
Other private and miscellaneous capital(8)	(4,963)	(4,541)	(1,057)	481	3,104
Total private capital	(9,513)	(7,518)	(912)	(116)	4,148
Capital account	(7,894)	(7,617)	(1,102)	(949)	2,237
Total (current account and capital account)	96	(716)	6,721	7,157	5,115
Errors and omissions (net)	3,822	714	(1,691)	(3,502)	(4,805)
Monetary movements(9)	(3,918)	3	(5,029)	(3,654)	(309)
Changes in reserves assets	(5,042)	1,378	(4,023)	(4,257)	(24)
o/w transactions(10)	—	—	—	—	674
International Monetary Fund:					
Purchases	1,123	397	1,415	1,959	—
Repurchases	—	(1,772)	(2,421)	(1,356)	(983)
Net	1,123	(1,375)	(1,006)	603	(983)
Reserve asset position	29,394	28,016	32,039	36,296	36,320

Source: Bank Indonesia.

(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.

P Preliminary.

In 2002, the Republic posted a balance of payments surplus of $6.7 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 increased by 6.5% to $7.2 billion. The increase 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 state-owned enterprises 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 surplus of $5.1 billion. The decline in the Republic's 2004 balance of payments surplus was primarily attributable to a 64.5% decline in the current account surplus, from $8.1 billion in 2003 to $2.9 billion in 2004. In 2004, a 12.0% increase in total exports of $7.7 billion was more than offset by a 27.8% increase in total imports of $11.0 billion and a 11.5% increase in the net services deficit of $1.9 billion. The decline in the Republic's current account surplus of $5.2 billion was partially offset by a $3.2 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 $2.2 billion in 2004.

Non-oil and gas exports in 2004 increased 10.7%, from $48.9 billion in 2003 to $54.1 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 "— Trade Balance and Balance of Payments-Exports and Imports." Non-oil and gas imports increased 24.2%, 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 15.9% over oil and gas exports of $15.2 billion in 2003. In 2004, oil export prices increased significantly to an average of $36.74 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% increase in freight charges, to $4.2 billion, on imports, in line with the rising level of imports during the same period and increases in freight rates.

In 2004, the Republic's capital account improved significantly, from a capital account deficit of $0.9 billion in 2003 to a capital account surplus of $2.2 billion in 2004. In 2004, total official inflows increased by $1.5 billion as a $0.3 billion decrease in CGI inflows was more than offset by a $1.8 billion increase in non-CGI inflows, primarily inflows related to increased export credit facilities for Indonesian companies. In 2004, principal repayments of government debt increased by $2.5 billion to $5.5 billion. In 2003, debt repayments were lowered through a Paris Club rescheduling. However, due to Indonesia's termination of its IMF program in 2003, it was no longer eligible for Paris Club reschedulings and its debt repayment obligations increased in 2004. In addition, undisbursed program loan levels were higher in 2004 because, in part, the Republic failed to meet agreed policy and performance targets required by those foreign lenders.

In the private sector, 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 $3.1 billion in 2004 compared to $0.5 billion in 2003 primarily due to increased purchases of Indonesian securities, particularly equities on the Jakarta Stock Exchange, by foreign investors.

By the end of 2004, the Republic's official reserves increased to slightly over $36.3 billion, the highest level since the onset of the Asian financial crisis in 1997, or the equivalent of 5.6 months of imports and official debt repayments.

In 2005, the Republic's balance of payments surplus is projected to decrease slightly compared to 2004 (taking into account the temporary debt service moratorium offered by the Paris Club members). The 2005 current account surplus is projected to decline and the capital account is expected to record a deficit in 2005. In the current account, the government anticipates that non-oil and gas exports will increase in 2005 in line with new government policies to promote exports and an expected increase in world trade volumes. However, this increase in exports is expected to be partially offset by an increase in non-oil and gas imports fueled by higher anticipated economic growth and greater capital investment needs in 2005, and by the import of goods, primarily food, basic necessities and construction materials, necessary to support reconstruction efforts in the areas of Aceh and North Sumatra affected by the December 2004 tsunami. Oil and gas imports are expected to increase in 2005 as domestic demand for oil remains strong. The government anticipates that the services deficit to narrow as it receives international aid for the tsunami relief effort. In the capital account, the government expects to record a lower surplus in 2005 compared to 2004 due to repayment of a significant amount of private debts maturing in 2005. The public sector capital account deficit is projected to decrease significantly in 2005 due to lower official debt repayments resulting from the temporary debt service moratorium offered by the Paris Club members, which is expected to lower the Republic's 2005 official debt service payments by US$2.4 billion. International reserves are anticipated to increase in line with an increase in the balance of payments surplus. The government's policy is not to permit international reserves to fall below four months of imports and official debt repayments.

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 and Government Guarantee

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 covers 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 has repeatedly extended the guarantee program for commercial banks and rural credit banks.

On September 22, 2004, a new law establishing a deposit insurance agency, the Indonesia Deposit Insurance Corporation, was adopted. The new law becomes effective and the Indonesian Deposit Insurance Agency will become fully operational on September 22, 2005. When it becomes operational, the Indonesia Deposit Insurance Agency will assume the responsibility for protecting bank depositors. As an interim measure from the date of the enactment of this new law and its effective date, the president issued a decree on October 18, 2004 which provides that the government will continue to guarantee all commercial bank payment liabilities (which consists of all third party deposits, including demand deposits, time deposits, deposit certificates, savings and other liabilities treated as deposits, and interbank claims, including liabilities in the form of interbank money market transactions) only during the five month period from April 19, 2005 to September 22, 2005.

After the new law becomes effective on September 22, 2005, the government will guarantee:

- 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.

Indonesian Bank Restructuring Agency

In response to the financial crisis, IBRA was established in January 1998 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. By March 1998, IBRA was supervising 54 commercial banks — four state banks, 37 private national banks, two joint venture banks and 11 local development banks. Assets acquired by IBRA principally consisted of bank non-performing loans ("NPLs"), industrial assets pledged by former owners of closed banks that were found to have been in violation of prudential norms and equity stakes in banks.

IBRA's five-year mandate ended on February 27, 2004, and the government shut down IBRA on schedule since the government determined that the financial crisis had ended. During its existence, IBRA contributed Rp126.9 trillion to the Republic's finances. This includes proceeds from the sale of controlling stakes in PT Bank Bukopin, PT Bank Central Asia Tbk, PT Bank Niaga Tbk, PT Bank Danamon Indonesia Tbk, PT Bank Internasional Indonesia Tbk and PT Bank Lippo Tbk. IBRA still held a majority equity interest in PT Bank Permata Tbk, one of Indonesia's largest banks in terms of total assets, and minority interests in five other banks, in addition to a substantial quantity of other bank-related assets, at the time that it ended operations.

PT Perusahaan Pengelola Aset

Upon IBRA's closure, the government established PT Perusahaan Pengelola Aset (Persero) ("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 the date of this offering memorandum, 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 and PT Bank Internasional Indonesia Tbk to investors through market placements. Through these divestments, PPA earned income of Rp7.6 trillion.

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

Source: PT Perusahaan Pengelola Aset

Bank Recapitalization Program

In early 1999 the government began implementing a bank recapitalization program. As part of the program, the government issued bonds worth Rp282 trillion in 1999 to finance the recapitalization of a total of seven private national banks, 12 regional development banks, four private banks, that had been taken over by the government and four state-owned banks, including Bank Mandiri, a new bank formed by merging four state-owned banks. During 2000, an additional Rp149 trillion in government bonds were issued in connection with bank recapitalizations, bringing the total value of the government recapitalization bonds issued to Rp430 trillion (including Rp9 trillion of excess recapitalization bonds which were redeemed). In order to encourage the resumption of commercial lending by banks and the development of a secondary market in bonds, the government and Bank Indonesia allowed all bank recapitalization bonds to be traded beginning July 31, 2001.

Exchange Offer Programs

To ease the pressure on foreign exchange reserves, in 1998 and 1999 the government sponsored two exchange offer programs with creditors of certain Indonesian banks that were eligible for this program. The first exchange offer program commenced in late 1998 and the second in mid-1999. These programs assisted in the restructuring of loans by modifying, for example, their interest rates and maturities.

Under the 1998 exchange offer program, eligible debt was exchanged for new loans with maturities of between one and four years. All of the loans issued under the 1998 exchange offer program had matured and were repaid by August 27, 2002. In the 1999 exchange offer program, participants exchanged eligible debt for new loans with maturities of between three and six years. All of the loans issued under the 1999 exchange offer program are expected to mature and be repaid by June 1, 2005. Bank Indonesia originally provided an unconditional and irrevocable guarantee of the obligations of the obligors under the eligible debt; after the passage of the Central Bank Law of 1999, the government guaranteed those obligations.

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 in compliance with 16 of the 25 core principles. Some important regulations adopted by Bank Indonesia in 2004 include tighter requirements for classifying banks in determining the appropriate level of Bank Indonesia supervision, 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.

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. PPATK plans to make similar arrangements 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.

The health of Indonesia's banking sector has improved significantly since the Asian financial crisis. IBRA has sold several banks taken over during the crisis, largely to foreign investors, and the government has begun reducing its stake in state-owned banks. The country's banks have reduced their non-performing loan (including channeling credit) levels and increased their capital adequacy ratios. Non-performing loans ("NPLs") in gross terms decreased from 32.8% as of December 1999 to 5.8% as of December 2004, while NPLs in net terms decreased from 7.3% as of December 1999 to 1.7% as of December 2004. Indonesian banks' capital adequacy ratios increased from a negative 9.1% as December 1999 to 19.4% as of December 2004, their loans to deposits ratio increased from 26.2% as of December 1999 to 50.0% as of December 2004, their return on assets increased from negative 6.1% as of December 1999 to 3.5% as of December 2004 and their total assets increased from Rp1,007 trillion as of December 1999 to Rp1,272 trillion as of December 2004.

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 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 133 as of December 31, 2004, 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, Bank Indonesia:

- issued regulations facilitating the opening of rural credit banks;

- approved a credit guarantee scheme provided to banks by local governments in cooperation with the Indonesian credit insurance agency, PT Askrindo (Persero);

- established a panel of banking sector experts to provide advice in the policy making process for the banking sector;

- 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";

- established a risk management certification agency jointly supervised by Bank Indonesia and the Indonesian Risk Professionals Association;

- completed a blueprint for the regulation of, and prepared a code of conduct for, credit bureau; and

- enhanced the regulatory protections for banking customers by implementing procedures for banks to deal with customer complaints, provide more complete information on their banking products and restrict public disclosure of banking customers' personal data.

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 eight 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 2005. In line with this policy, Bank Indonesia is currently identifying medium and large banks with strong fundamentals 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 financially weaker 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-à-vis* either domestic or external goods. Rupiah-stability relative to domestic goods is reflected in the inflation rate, while stability relative to external goods is represented by the exchange rate of the rupiah against other currencies. Market conditions determine the rupiah exchange rate, consistent with the floating exchange rate system adopted by Bank Indonesia in August 1997. See "— Foreign Exchange and Reserves — Exchange Rates." Bank Indonesia may, however, continue to use its policy instruments to minimize exchange rate fluctuations.

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

In January 2004, the Central Bank Law was amended. The amendment, among other things, provides that Bank Indonesia shall conduct monetary policy to achieve an inflation target as determined by the government in consultation with Bank Indonesia. It also provides for the creation of the Bank Indonesia Supervisory Board (the "Supervisory Board") to assist the House in conducting oversight of Bank Indonesia's internal financial management. The Supervisory Board comprises five members chosen by the House 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,				
	2000	**2001**	**2002**	**2003**	**2004**
	(in billions of rupiah)				
Assets					
Gold and foreign assets	289,489	301,351	294,437	319,842	342,026
Claims on public sector	226,045	252,055	280,703	246,637	273,670
Claims on private sector	47,026	46,161	45,077	43,676	33,736
Other assets	16,885	1,391	(5,287)	(17,699)	(10,812)
Total assets	579,445	600,958	614,930	592,456	638,620
Liabilities					
Monetary liabilities	125,615	127,796	138,250	166,473	199,446
Foreign exchange demand deposits	7,636	7,460	6,862	7,751	6,736
Foreign liabilities	88,261	108,744	81,993	93,858	97,254
Government accounts	92,324	91,295	112,180	72,418	47,050
Bank Indonesia certificates (SBI)	78,918	102,645	113,281	136,519	144,548
Capital and reserves	11,793	14,709	32,355	35,207	36,686
Other liabilities	174,898	148,309	130,009	80,230	106,900
Total liabilities	579,445	600,958	614,930	592,456	638,620

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 2003, the assets of Indonesian banks comprised 81.4% 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 2003.

Indonesian Financial Institutions(1)

	Number of Institutions	Assets (in trillions of rupiah)	Percentage of Total Assets
Banking:			
Commercial banks	138	1,213.6	80.6%
Rural credit banks	2,141	12.6	0.8
Total banking	2,279	1,226.1	81.4
Insurance:			
Life insurance	60	32.9	2.2
General insurance	104	16.4	1.1
Social insurance(2)	5	44.0	2.9
Reinsurance	4	0.8	0.1
Total insurance	173	94.1	6.3
Pensions funds:			
Financial institutions	28	3.9	0.3
Employer pensions	299	45.8	3.0
Total pensions funds	327	49.8	3.3
Finance companies(3)	237	49.5	3.3
Venture capital companies	60	1.5	0.1
Securities companies(4)	192	12.3(5)	0.8
Mutual funds	186	69.5	4.6
Pawn shop	1	2.6	0.2
Total	3,455	1,505.4	100.0%

Source: Ministry of Finance and Bank Indonesia.

(1) As of December 2003.

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

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

(4) Excludes 34 securities companies that are not members of a securities exchange and act as broker-dealers.

(5) 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 138 at the end of 2003. As of December 2004, there were 133 commercial banks with 7,939 offices, consisting of 5 state-owned banks, 72 private national banks (34 of which are licensed to conduct foreign exchange transactions), 26 regional development banks, 19 joint venture banks and 11 foreign banks. In addition to the commercial banks, as of September 2004, there were 2,164 rural credit banks operating throughout the country.

In December 2004, there were three shariah commercial banks, 15 shariah divisions of commercial banks and 88 shariah divisions of rural credit banks.

As of the end of December 2003, there were 173 insurance and reinsurance companies with business licenses to operate in Indonesia, consisting of 60 life insurance companies, 104 non-life insurance companies, four reinsurance companies, two companies administering social insurance programs and three companies administering insurance for civil servants and for the military and the police. Gross premiums collected by the insurance industry reached Rp34.1 trillion in 2003, an increase of 13.1% from the previous year's figure of Rp30.2 trillion. Gross premiums have averaged an annual growth of approximately 19.4% over the last five years. Total assets of the insurance industry in 2003 were Rp94.1 trillion, an increase of 21.3% over the previous year. The total investments of the insurance industry in 2003 were Rp79.7 trillion, an increase of 24.8% over the figure of Rp63.9 trillion in 2002. 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 requires that effective beginning in 2005 each insurance company, including reinsurance companies, 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, 2003, there were 327 pension funds actively operating, including 299 employer pension funds and 28 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 2003, net assets of pension funds totaled Rp49.8 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, 2003, with total assets of Rp49.5 trillion. In addition, there were also 60 venture capital companies as of December 31, 2003, managing assets of Rp1.5 trillion.

Bank Assets and Liabilities

About 74% of the total assets of the banking industry are controlled by 15 large commercial banks. The other 118 banks control the remainder. As a group, the four state-owned banks (Bank Mandiri, BRI, PT Bank Negara Indonesia (Persero) Tbk and PT Bank Tabungan Negara (Persero)) controlled around 40.1% of the total assets of the banking system as of December 31, 2004.

Operations of the banking system are gradually 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 22.8% of the assets of banks at the end of 2004. Operating income from government bonds represented 11.9% of the income of banks at the end of 2004. 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 2004, around 59% of time deposits were for terms of one month and 11% 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 sets forth the consolidated balance sheets of the commercial banks:

Consolidated Balance Sheet of Commercial Banks[1]

	December 31,				
	2000	2001	2002	2003	2004
	(in billions of rupiah)				
Assets					
Reserve assets[2]	49,708	48,983	56,871	72,251	88,033
Foreign assets	102,179	109,774	90,147	77,340	68,202
Claims on the central government, official entities and state-owned enterprises	443,986	427,174	401,157	368,686	335,449
Claims on the private sector	272,956	303,056	358,174	434,253	549,303
Other assets	115,671	150,938	153,467	215,364	174,701
Total assets	984,500	1,039,925	1,059,816	1,167,894	1,215,688
Liabilities					
Demand deposits[3]	87,830	99,716	109,646	128,037	144,328
Time and savings deposits	444,651	511,556	551,504	592,407	643,836
Foreign exchange accounts	139,999	154,640	140,336	139,152	135,600
Foreign liabilities	92,675	68,406	51,895	31,458	49,327
Government accounts	43,106	39,963	36,509	38,970	37,130
Import guarantees	4,783	7,966	—[5]	—[5]	—[5]
Credits from Bank Indonesia	16,547	15,225	12,694	10,971	11,932
Capital and equity[4]	50,637	66,788	93,697	112,141	131,590
Other liabilities	104,272	75,665	63,535	114,758	61,945
Total liabilities	984,500	1,039,925	1,059,816	1,167,894	1,215,688

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.

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

Average Capital Adequacy Ratios

	2000	2001	2002	2003	2004
	(in percentages)				
Average Capital Adequacy Ratio (CAR)	12.5	19.9	22.4	19.4	19.4

Source: Bank Indonesia.

Non-Performing Loans

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

NPL levels in Indonesian banks have improved steadily from 1998. Gross NPLs declined from 48.6% in December 1998 to 32.8% in December 1999, and fell further to 18.8% in December 2000 and 12.1% in December 2001. This decline was mainly due to the write-offs of NPLs (made possible in large part by the bank recapitalization program), restructuring and settlement of credits and transfer of credits to IBRA, as well as extension of new credits. Similarly, net NPL levels dropped sharply from 34.7% in December 1998 to 7.3% in December 1999, declining further to 5.8% in December 2000 and 3.6% in December 2001. The quality of bank credits, as reflected in the nominal value and the ratio of NPLs, improved further from 2002 through 2004, due to the extension of new credit, credit restructuring and additional write-offs. In line with declining nominal NPLs and rising outstanding bank credits, the gross NPL ratio improved from 12.1% in December 2001 to 5.8% in December 2004, while the net NPL ratio improved from 3.6% to 1.7%.

The number of banks with net NPL ratios above 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 2004.

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, 2004			
	Working Capital Loans	Consumer Loans	Investment Loans	Total
	(in trillions of rupiah)			
Pass	252.19	139.45	93.03	484.67
Special Mention	23.02	8.78	17.82	49.62
Substandard	6.25	1.04	3.62	10.91
Doubtful	2.17	0.50	1.56	4.23
Loss	6.04	1.31	2.69	10.04
Total	289.67	151.08	118.72	559.47

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 2003, the banking sector accounted for around 81.4% 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, Bapepam is expected to merge with the Ministry of Finance's Directorate General of Financial Institutions in an effort to centralize regulation and strengthen oversight of the non-bank financial sector.

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:

Stock Exchanges(1)

	JSX	SSX
Market capitalization (in billions of rupiah)	679,949	605,390
Average daily transaction volume (in billions of rupiah)	1,025	34
Listed shares (in millions of shares)	656,447	526,051
Average daily transaction volume (in million of shares)	1,709	78

Source: Bapepam, Ministry of Finance.

(1) Data as of December 31, 2004.

The JSX composite stock price index closed at 1,000.23 on December 31, 2004, compared with 691.90 on December 30, 2003, representing an increase of 44.6% during the year. Market capitalization of the JSX stood at Rp680 trillion at the end of 2004, compared with approximately Rp460 trillion at the end of 2003, an increase of 47.8%.

Indonesian corporate bonds have been trading 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 134% to Rp14.3 trillion in 2003 and by a further 25% to Rp17.9 trillion in 2004. Total outstanding amount of rupiah-denominated bonds increased by 39.9% from Rp44.9 trillion in 2003 to Rp62.8 trillion in 2004.

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

Corporate Bonds Outstanding

	2000	2001	2002	2003	2004
Listed bond issuers	91	94	100	136	152
Total outstanding value of rupiah-denominated bonds (in billions), at year-end	12,073	14,308	19,631	44,925	62,800
Total outstanding value of U.S. dollar-denominated bonds (in millions)	—	—	—	105	105
Trading volume (in billions of rupiah)	8,512	1,115	6,092	14,353	17,911

Source: Bapepam, Ministry of Finance.

Government bonds are also actively traded in the capital markets. At the end of 2001, there were Rp395 trillion of tradable 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 and Rp399 trillion at the end of 2004. 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 a Secondary Market for Domestic Debt Securities."

Mutual funds were first introduced in Indonesia in 1996, but it took several years for them to become popular with investors. Since late 2001, mutual funds have 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 49.1% to Rp69.5 trillion; and during 2004, total net asset value grew a further 49.7% to Rp104.0 trillion. Lower interest rates on bank deposits in 2003 and 2004 encouraged investment in mutual funds, while favorable tax treatment for new mutual funds with less than five years of history also attracted investors. In 2004, approximately 80% of mutual fund assets were invested in fixed income debt securities, of which 84.6% were invested in government debt securities.

The total number of funds operating and the total of unit holders is as follows:

Mutual Funds

	2000	2001	2002	2003	2004
Number of funds	94	108	131	186	246
Number of unit holders	39,487	51,723	125,820	171,712	299,063
Net asset value (in billions of rupiah)	5,516	8,004	46,614	69,448	104,038

Source: Bapepam, Ministry of Finance.

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.

Monetary Policy

Monetary Policy

The Republic has adopted three elements of monetary policy since the crisis. First, inflation targeting has been adopted as the anchor of monetary policy. Second, a floating exchange rate system has been 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 has been given higher priority. The above three policy measures have resulted in reduced 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.

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%.

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 increased SBI rates 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 lowered SBI rates 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%. This decline in the policy rate has led to much lower deposit rates, but lending rates have not yet dropped to the same extent. The average annual interest rate for working capital loans from commercial banks had been 19.2% at the end of 2001, and it was still 13.6% at the end of 2004; for investment loans, at the end of 2001 the equivalent rate had been 17.9%, and at the end of 2004 it was still 16.1%.

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. Historically, Bank Indonesia has 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 intends to target changes in the SBI interest rate, rather than base money, through its announcement system in mid-2005. Bank Indonesia may also intervene in the foreign exchange markets to help absorb liquidity and minimize excessive exchange rate fluctuations.

In January 2005, Bank Indonesia eliminated its overnight rupiah placement facility for commercial banks which was 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 last three years. Indonesian banks are still permitted to place excess liquidity with Bank Indonesia in seven-day time deposits.

M0 increased 7.8% 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. Demand for base money, particularly currency, increased significantly in June and September 2004 due to spending on activities related to the legislative and presidential elections. Demand for currency also surged in November and December 2004 because of Moslem and Christian holidays. 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.

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

Money and Quasi-Money

End of Period	Base Money	Money: Currency	Money: Demand Deposits	Money: Total (M1)	Quasi-Money	Domestic Assets: Foreign Assets (Net)	Domestic Assets: Claims on Gov't (Net)(1)	Domestic Assets: Claims on Business Sectors	Domestic Assets: 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)
2004P	199,446	109,265	144,553	253,818	779,710	263,647	498,019	615,802	(343,940)

Source: Bank Indonesia.

P Preliminary.

(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.

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 2004, the government achieved a budget deficit of 1.1% of GDP, and it is currently targeting a budget deficit of 0.7% of GDP in 2005. With these deficit levels, the 2004 debt-to-GDP ratio was below 53% and, based on the assumptions in the 2005 Budget, the ratio is expected to decline to below 50% by the end of 2005. However, the government is in the process of proposing revisions to the 2005 Budget. See "— The 2005 Budget."

Currently, 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 2004, 25.5% of net domestic revenues were transferred to regional and local governments; the 2005 budget allocates the same percentage of net domestic revenues for this purpose. A law adopted in 2004 increases this percentage to 26% in 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.

Central Government Finances

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

Government Revenues and Expenditures

	FY 2000	2001	2002	2003	2004P	2005 Budget[(2)]	
	(in trillions of rupiah)					(in trillions of rupiah)	(% of GDP)
Revenue and grants:							
Domestic revenue:							
Tax revenue	115.9	185.5	210.1	242.0	279.2	297.8	11.6
Non-tax revenue	89.4	115.1	88.4	98.9	123.8	81.8	3.2
Total domestic revenue	205.3	300.6	298.5	340.9	403.0	379.6	14.8
Grants	—	0.5	0.1	0.5	0.7	0.8	—
Total revenue and grants	205.3	301.1	298.6	341.4	403.8	380.4	14.9
Expenditures:							
Current expenditures	162.6	218.9	186.7	186.9	228.1	N/A[(1)]	N/A[(1)]
Development expenditures	25.8	41.6	37.3	69.2	71.9	N/A[(1)]	N/A[(1)]
Total central government expenditures	188.4	260.5	224.0	256.2	300.0	266.2	10.2
Transfers to regions:							
Balanced funds	33.1	81.1	94.7	111.1	123.1	124.3	4.9
Fund for specific autonomy and balancing	—	—	3.5	9.2	6.9	7.2	0.3
Total transfers to regions	33.1	81.1	98.2	120.3	130.0	131.5	5.1
Total expenditures	221.5	341.6	322.2	376.5	430.0	397.8	15.5
Primary balance	33.9	46.7	64.1	30.2	37.0	46.7	1.8
Surplus/(deficit)	(16.1)	(40.5)	(23.6)	(35.1)	(26.3)	(17.4)	(0.7)
Financing:							
Domestic financing	5.9	30.2	17.0	34.6	50.0	37.6	1.5
Foreign financing	10.2	10.3	6.6	0.5	(23.8)	(20.2)	(0.8)
Total financing	16.1	40.5	23.6	35.1	26.3	17.4	0.7

Source: Ministry of Finance.

P Preliminary.

(1) Total central government expenditures divided into current expenditures and development expenditures are unavailable for the 2005 Budget since the government discontinued classifying central government expenditures according to these sub-categories beginning with the 2005 Budget. See "— Government Budget — The 2005 Budget."

(2) Figures based on the 2005 Budget approved by the House in September 2004. The government has proposed revisions to the 2005 Budget. See "— Government Budget — The 2005 Budget" and "Recent Developments — Proposed Revisions to the 2005 Budget."

Government Revenues. In 2004, realized tax revenues were 102.6% of the government's target for the year, or Rp279 trillion. Domestic tax revenues were 102.6% of the government's target for the year, while international trade tax revenues were 101.9% of the government's target. Realized non-tax revenues reached Rp124 trillion in 2004, or 160.6% of the government's budgeted figure. Realized tax and non-tax revenues were higher than 2004 budgeted figures primarily as a result of the increase in oil prices in 2004 to $37.58 per barrel, compared to $28.77 per barrel in 2003. Total revenues and grants for 2004 were 115.4% of the government's target, or Rp404 trillion.

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

Government Revenues

	FY 2000	2001	2002	2003	2004P
	(in trillions of rupiah)				
Domestic Revenue:					
Tax revenue:					
Domestic taxes:					
Income tax:					
Oil and gas	18.7	23.1	17.5	19.0	23.1
Non-oil and gas	38.4	71.5	84.4	96.1	112.8
Total income taxes	57.1	94.6	101.9	115.0	135.9
Value added tax	35.2	56.0	65.2	77.1	87.5
Land and building tax	3.5	5.2	6.2	8.8	10.2
Duties on land and building transfer	0.9	1.4	1.6	2.1	3.2
Excises	11.3	17.4	23.2	26.3	28.4
Other taxes	0.8	1.4	1.5	1.7	1.8
Total domestic taxes	108.9	176.0	199.5	230.9	267.0
International trade taxes:					
Import duties	6.7	9.0	10.3	10.9	11.8
Export tax	0.3	0.5	0.2	0.2	0.3
Total international trade taxes	7.0	9.6	10.6	11.1	12.2
Total tax revenue	115.9	185.5	210.1	242.0	279.2
Non-tax revenue:					
Natural resources:					
Oil	51.0	59.0	47.7	43.0	63.9
Gas	15.7	22.1	12.3	18.5	23.8
General mining	0.9	2.3	1.5	2.0	1.8
Forestry	8.7	2.2	3.1	3.7	2.7
Fishery	0.1	0.1	0.2	0.3	0.3
Total natural resources	76.3	85.7	64.8	67.5	92.4
Profit transfer from SOEs	4.0	8.8	9.8	12.6	9.1
Other non-tax revenue	9.1	20.6	13.9	18.8	22.3
Total non-tax revenue	89.4	115.1	88.4	98.9	123.8
Total domestic revenue	205.3	300.6	298.5	340.9	403.0
Grants	0.0	0.5	0.1	0.5	0.7
Total revenue and grants	205.3	301.1	298.6	341.4	403.8

Source: Ministry of Finance.

P Preliminary.

Government Expenditures. In 2004, the government's actual public expenditures were Rp430 trillion, equivalent to 114.9% of the year's budgeted figure. Actual public expenditures were significantly above 2004 budgeted figures mainly as a result of an increase in current expenditures. In 2004, public expenditures consisted of current expenditures, development expenditures and transfers to regional governments.

Current expenditures in 2004 were Rp228 trillion, 123.7% of the budgeted amount. Actual current expenditures were considerably above 2004 budgeted figures due to higher fuel subsidies resulting from significantly higher oil and gas prices in 2004.

Development expenditures in 2004 was approximately Rp72 trillion, 101.5% of the government's budgeted amount. Development expenditures in 2004 were slightly above the budgeted figures due to increased spending, primarily on infrastructure and health programs, given higher than expected oil revenues resulting from high oil prices.

In 2004, the total amount of actual transfers to regional and local governments was Rp130 trillion, or 109.2% of budget. Actual transfers to regional and local governments in 2004 exceeded budgeted transfers due to higher revenue sharing resulting from higher oil and gas prices.

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

Government Expenditures

	FY 2000	2001	2002	2003	2004[P]
	(in trillions of rupiah)				
Current expenditures:					
Personnel expenditures	29.6	38.7	39.5	47.7	54.2
Material expenditures	9.6	9.9	12.8	15.0	16.8
Interest payments:					
Domestic debt	31.2	58.2	62.3	46.4	39.8
Foreign debt	18.8	28.9	25.4	19.0	23.4
Total interest payments	50.1	87.1	87.7	65.4	63.2
Subsidies:					
Oil subsidies	53.8	68.4	31.2	30.0	59.2
Non-oil subsidies	8.9	9.1	12.5	13.9	10.7
Total subsidies	62.7	77.4	43.6	43.9	69.9
Other current expenditures	10.5	5.7	3.1	15.0	24.0
Total current expenditures	162.6	218.9	186.7	187.0	228.1
Development expenditures:					
Rupiah financing	8.8	21.4	25.6	50.3	52.7
Project financing	17.0	20.2	11.7	18.9	19.2
Total development expenditures	25.8	41.6	37.3	69.2	71.9
Transfers to regions:					
Balanced funds:					
Revenue sharing	4.3	20.0	24.9	31.4	37.4
General allocation fund	28.8	60.3	69.2	77.0	82.1
Special allocation fund	0.0	0.7	0.6	2.7	3.7
Total balanced funds	33.1	81.1	94.7	111.1	123.1
Fund specific autonomy and balancing	0.0	0.0	3.5	9.2	6.9
Total transfers to regions	33.1	81.1	98.2	120.3	130.0
Total expenditures	221.5	341.6	322.2	376.5	430.0

Source: Ministry of Finance.

P Preliminary.

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

Development Expenditures by Sector

	FY 2000	2001	2002	2003	2004[P]
	(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	2.8
Total economy	41.9	50.0	35.4	36.5	36.2
Housing and settlement	19.2	9.5	12.4	7.8	6.9
Education	18.1	20.8	25.6	23.9	22.0
General government	12.3	11.6	16.8	21.1	24.8
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	2.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance.

[P] Preliminary.

Deficit Financing. Actual public expenditures in 2004 were Rp430 trillion. Because actual revenue and grants in the same period totaled Rp404 trillion, there was a deficit of Rp26 trillion. The government financed this deficit through domestic bank financing of Rp24 trillion, proceeds from privatizations and asset recoveries of Rp18 trillion and net bond issuances of Rp8 trillion. The increase in financing from these sources was partially offset by a net amortization outflow of foreign financing (other than bonds) of Rp24 trillion.

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

Deficit Financing

	FY 2000	2001	2002	2003	2004[P]
	(in trillions of rupiah)				
Domestic financing:					
Domestic bank financing	(13.0)	(1.2)	(8.1)	10.7	23.9
Domestic non-bank financing:					
Privatization	0.0	3.5	7.7	7.3	5.0
Assets recovery	18.9	28.0	19.4	19.7	12.9
Government bonds (net)	0.0	0.0	(1.9)	(3.1)	8.2
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	50.1
Foreign financing:					
Gross drawing:					
Program loan	0.8	6.4	7.2	1.8	3.1
Project loan	17.0	19.7	11.6	18.6	18.6
Total gross drawing	17.8	26.2	18.8	20.4	21.7
Amortizations	(7.6)	(15.9)	(12.3)	(19.8)	(45.5)
Total foreign financing	10.2	10.3	6.6	0.5	(23.8)
Total financing	16.1	40.5	23.6	35.1	26.3

Source: Ministry of Finance.

[P] Preliminary.

The 2005 Budget

The 2005 Budget was approved by the House in September 2004. The government has proposed revisions to the 2005 Budget. See "— Recent Developments — Proposed Revisions to the 2005 Budget."

The following tables set forth the revenues, expenditures and deficit financing of the government, by amount and as a percentage of GDP, set forth in the 2005 Budget:

Government Revenues — 2005 Budget

	2005 Budget (in trillions of rupiah)	2005 Budget (% of GDP)
Domestic Revenue:		
Tax revenue:		
Domestic taxes:		
Income tax:		
Oil and gas	13.6	0.5
Non-oil and gas	128.6	5.0
Total income taxes	142.2	5.6
Value added tax	98.8	3.9
Land and building tax	10.3	0.5
Duties on land and building transfer	3.2	0.1
Excises	28.9	1.1
Other taxes	2.0	0.1
Total domestic taxes	285.5	11.1
International trade taxes:		
Import duties	12.0	0.5
Export tax	0.3	—
Total international trade taxes	12.4	0.5
Total tax revenue	297.8	11.6
Non-tax revenue:		
Natural resources:		
Oil	31.9	1.2
Gas	15.3	0.6
General mining	2.0	0.1
Forestry	1.1	—
Fishery	0.7	—
Total natural resources	50.9	2.0
Profit transfer from SOEs	10.6	0.4
Other non-tax revenue	20.3	0.8
Total non-tax revenue	81.8	3.2
Total domestic revenue	379.6	14.8
Grants	0.8	—
Total revenue and grants	380.4	14.9

Source: Ministry of Finance.

Government Expenditures — 2005 Budget

	2005 Budget (in trillions of rupiah)	2005 Budget (% of GDP)
Central government expenditures:		
Personnel	60.7	2.4
Material expenditures	34.0	1.3
Capital expenditures	43.1	1.7
Interest payments:		
Domestic	39.0	1.5
External	25.1	1.0
Total interest payments	64.1	2.5
Subsidies:		
State company	31.2	1.2
Private company	0.1	—
Total subsidies	31.3	1.2
Grants expenditures	—	—
Social expenditures	17.1	0.7
Other expenditures	15.8	0.6
Total central government expenditures	266.2	10.4
Regional expenditures:		
Balancing funds		
Revenue sharing	31.2	1.2
General allocation funds	88.8	3.5
Special allocation funds	4.3	0.2
Total balancing funds	124.3	4.9
Funds for special autonomy		
Special autonomy funds	1.8	0.1
Adjustment funds	5.5	0.2
Total funds for special autonomy	7.2	0.3
Total regional expenditures	131.5	5.1
Total expenditures	397.8	15.5

Source: Ministry of Finance.

Deficit Financing — 2005 Budget

	2005 Budget (in trillions of rupiah)	2005 Budget (% of GDP)
Domestic financing:		
Domestic bank financing	9.0	0.4
Domestic non-bank financing:		
Privatization	3.5	0.1
Assets recovery	4.0	0.2
Government bonds (net)	22.1	0.9
Secondary mortgage facility	(1.0)	—
Total domestic non-bank financing	28.6	1.1
Total domestic financing	37.6	1.5
Foreign financing:		
Gross drawing:		
Program loan	8.6	0.3
Project loan	18.0	0.7
Total gross drawing	26.6	1.0
Amortizations	(46.8)	(1.8)
Total foreign financing	(20.2)	(0.8)
Total financing	17.4	0.7

Source: Ministry of Finance.

The 2005 Budget includes a deficit target of 0.7% of GDP, down from 1.1% in the 2004 budget. The primary balance is budgeted to remain at 1.8% of GDP in 2005, with a projected decrease in oil revenues being offset by a projected decrease in subsidies. The 2005 Budget assumes a drop in crude oil prices to an average of $24 per barrel (from $36 per barrel in 2004). Total revenues and grants are predicted to reach 14.9% of GDP (from 17.5% of GDP in 2004), primarily due to the projected decreases in oil and gas revenues.

Government expenditures are budgeted to decrease to 15.5% of GDP (from 18.7% of GDP in 2004). Interest payments are projected to fall to 2.5% of GDP (from 2.7% of GDP in 2004). Central government expenditures are projected to decrease to 10.4% of GDP (from 13.0% of GDP in 2004), due mainly to a decrease in lower subsidy outlays to 1.2% of GDP (from 3.0% of GDP in 2004). Transfers to regional and local governments are projected to decrease to 5.1% of GDP (from 5.6% of GDP in 2004) reflecting lower oil and gas revenues.

The 2005 Budget incorporates a number of assumptions about the Republic's economic performance for 2005. The budget projects economic growth of 5.4% in 2005, slightly higher than the real growth of 5.1% in 2004. The projected increase in economic growth assumes that current economic trends will continue, investment will increase moderately and growth in the world economy will be slightly higher than in 2004. Inflation and SBI interest rates in 2005 are assumed to be approximately 5.5% and 6.5%, respectively, under the 2005 Budget. The 2005 Budget also assumes that the rupiah exchange rate averages approximately Rp8,600 to the U.S. dollar and that the Republic's oil production remains relatively stable at around 1.125 million barrels per day. Actual results may differ from these assumptions and cause actual revenues and expenditures to differ from budgeted amounts. Some budget items are expected to decrease as a percentage of GDP despite increasing in nominal amounts.

Key fiscal challenges facing Indonesia in 2005 are the cost of reconstruction in Aceh and North Sumatra in the wake of the tsunami in December 2004, and the need to replace $3 billion in budget financing previously available to the Republic under the Paris Club rescheduling. In the absence of the Paris Club debt rescheduling, under the 2005 Budget (but before accounting for the Paris Club temporary debt service moratorium), net external debt repayments are projected to reach $2.3 billion in 2005 (0.8% of GDP). The 2005 Budget assumes foreign loans of $3.1 billion against projected principal repayments of $5.4 billion. Under the 2005 Budget, the resulting net financing requirement is expected to be covered partly through sales of government bonds (net issues of 0.9% of GDP), privatization and asset sales (0.3% of GDP) and a drawdown of government deposits with Bank Indonesia (0.4% of GDP).

At the time of preparing and submitting the 2005 Budget to the House, the government was in a transitional period due to the 2004 elections. Therefore, the 2005 Budget was formulated with the objective of preserving fiscal continuity, but retaining sufficient flexibility for the new administration to set new fiscal and government budget policies and priorities. To reflect the new government's policies in light of significant developments in the fourth quarter of 2004 and the first quarter of 2005, including the December 2004 earthquake and tsunami and the reduction of fuel subsidies on March 1, 2005, on March 24, 2005 the new government submitted proposed revisions to the 2005 Budget. The Proposed 2005 Budget Revisions allocate significant additional resources to the aid and reconstruction efforts in Aceh and North Sumatra, reallocate funds previously allocated for fuel subsidies to social programs for the poor, earmark funds for upcoming regional elections in 2005 and revise the macroeconomic assumptions which underly the 2005 Budget. The final revisions to the 2005 Budget will be subject to debate and further revision by the House and the government and approval by both the House and the President. Therefore, the final revisions to the 2005 Budget, if any, may vary significantly from those contained in the Proposed 2005 Budget Revisions and described in this offering memorandum. Since the House has recessed until May 7, 2005, the government does not expect the Proposed 2005 Budget Revisions to be considered by the House until that time. The government may also propose further revisions to the revenue, expenditure and financing amounts contained in the 2005 Budget in mid-2005 based upon economic, fiscal and monetary developments in Indonesia during the first half of 2005. See "— Recent Developments — Proposed Revisions to the 2005 Budget."

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.

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, value-added 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. 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 introducing amendments to the income tax and VAT laws to reduce the highest individual and corporate tax rates and increase the minimum income amounts which trigger the payment of income tax. 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.

Public Debt

Due to the bank recapitalization and exchange offer programs, the Republic's ratio of public debt (which consists of the public external debt of the Republic and the public domestic debt of the central government) to GDP rose substantially after the onset of the Asian financial crisis in late 1997. The reduction of public debt in percentage of GDP terms has been a key fiscal policy of the government since then. Government policy has emphasized the strengthening of public debt management, the lengthening and balancing of the maturities of its public debt and the growth of public debt at sustainable levels. In line with these policies, since 1998, the Republic has reduced its public debt as a percentage of GDP to 59.7% of GDP in 2004. As of December 31, 2004, the Republic's public debt totaled approximately $152.7 billion.

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. (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[P]
	(in billions of U.S. dollars)				
Concessional Loans:					
Multilateral creditors	31.5	29.0	29.1	30.0	28.6
Bilateral creditors	24.6	22.7	26.1	29.9	30.3
Semi-concessional Loans:					
Export agency creditors	15.7	14.9	16.6	18.4	17.9
Leasing	0.6	0.4	0.4	0.2	0.2
Commercial	2.4	2.3	2.3	2.4	3.2
Total	74.9	69.4	74.5	80.9	80.3
Total public external debt of the Republic, as a percentage of GDP for the year indicated	45.2%	42.2%	37.4%	33.9%	31.4%
Total public external debt of the Republic, as a percentage of exports for the year indicated	101.0%	104.7%	110.0%	114.0%	100.2%

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.

In 2002, public external debt of the Republic as a percentage of GDP decreased to 37.4% of GDP from 42.2% 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 33.9% of GDP from 37.4% 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 31.4% of GDP from 33.9% of GDP at year-end 2003. In U.S. dollar terms, public external debt decreased to $80.3 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 100.2% 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.

Sources of Public External Borrowings

The sources of the Republic's public external borrowings are multilateral creditors (which accounted for $28.6 billion (or 35.6%) of the total outstanding external debt as of December 31, 2004), bilateral creditors ($30.3 billion (or 37.8%)), export agency creditors ($17.9 billion (or 22.3%)), commercial creditors ($3.2 billion (or 4.0%)) and leasing creditors ($0.2 billion (or 0.3%)).

In October 1997, following the Asian financial crisis, the Republic sought and obtained financial assistance from the IMF. The IMF agreed to provide financial assistance to Indonesia, contingent upon the Republic's implementation of numerous economic reforms. Under the IMF lending program, the IMF disbursed a total amount of $16 billion in funds to the Republic between late 1997 and December 2003, when the Republic exited the IMF lending program. The most recent and last disbursement by the IMF to the Republic was on December 23, 2003, when it disbursed approximately $507 million. Of the Republic's $28.6 billion of multilateral debt outstanding as of December 31, 2004, IMF debt accounted for $9.6 billion. Since all of the IMF loans committed under the IMF program have been disbursed to the Republic and the government has decided to formally end the IMF program, 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 this program, 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 Asian Development Bank ("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 December 31, 2004, the total World Bank and ADB debt outstanding was $17.5 billion. These loans have been used to fund development programs in nearly all sectors of the Indonesian economy. In addition, loans made by the ADB and the World Bank in 2004 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 $49.1 billion as at December 31, 2004. In January 2005, the CGI held a meeting at which it 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."

The Paris Club, an informal voluntary group of 19 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. On March 10, 2005, the Paris Club offered to permit Indonesia, as well as other countries affected by the tsunami, to defer debt services payments through the end of 2005 to allow Indonesia to commit additional government resources to the tsunami-related humanitarian and relief efforts. The Republic has received offers from some, but not all, of the individual Paris Club members setting forth the specific loans to which the temporary debt service moratorium will apply and the concessional interest rates which will apply to deferred payments. Although the Republic has not received formal offers from all of the individual Paris Club members, the government intends to accept the general offer from the Paris Club members, as indicated in the press release of the Paris Club issued on March 10, 2005 and in contacts with individual Paris Club members. See "Recent Developments — Temporary Debt Service Moratorium Offer from the Paris Club."

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.

The Republic's financing needs are expected to increase in 2005. The Republic expects to seek $3.1 billion in gross foreign financing in 2005. All of this amount was previously expected to come from CGI financing. However, the Republic intends to replace certain expected CGI financing facilities with the proceeds of this offering to the extent appropriate.

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	2004 (%)
	(in millions of U.S. dollars and percentages)					
Bilateral loans	24,645	22,719	26,074	29,883	30,334	51.5%
Multilateral loans:						
International Monetary Fund	10,983	9,105	8,829	10,239	9,654	16.4
International Bank for Reconstruction and Development	11,774	11,577	10,802	9,776	8,618	14.6
Asian Development Bank	7,544	7,179	8,310	8,582	8,869	15.1
International Development Association	719	726	788	884	944	1.6
Nordic Investment Bank	208	201	180	266	248	0.4
Islamic Development Bank	215	184	138	151	160	0.3
International Fund for Agricultural Development	65	57	65	79	79	0.1
Total multilateral loans	31,508	29,029	29,112	29,977	28,572	48.5
Total loans	56,152	51,749	55,186	59,860	58,906	100.0%

Source: Bank Indonesia.

(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

	December 31, 2004P	
	(in millions of original currency)	(in millions of U.S. dollars(1))
U.S. dollars	25,887	25,887
Japanese yen	3,213,272	31,276
SDR	6,388	9,887
Euros	7,912	10,776
British pounds	750	1,444

Source: Bank Indonesia.

P Preliminary.

(1) Calculated based on exchange rates as of December 31, 2004.

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,				
	2000	2001	2002	2003	2004P
	(in billions of U.S. dollars)				
Concessional Loans					
Multilateral creditors	20.5	19.9	20.3	19.8	18.9
Bilateral creditors	24.6	22.7	26.1	29.9	30.3
Semi concessional Loans					
Export agency creditors	15.7	14.9	16.6	18.4	17.9
Leasing	0.6	0.4	0.4	0.2	0.2
Commercial	0.3	0.3	0.3	0.3	1.2
Total	61.8	58.2	63.6	68.5	68.5

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.

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(3)	3,983	1,450	5,433
2006(3)	6,395	2,216	8,611
2007(3)	5,981	1,976	7,957
2008(3)	5,896	1,720	7,616
2009(3)	5,868	1,486	7,354

Source: Bank Indonesia.

(1) Reflects the acceptance of the temporary debt service moratorium 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 Debt Service Moratorium Offer 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.

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 decrease from $7.7 trillion in 2004 to $5.4 trillion in 2005. This projected decrease is the result of the expected acceptance by the Republic of the debt moratorium relief offered by the Paris Club members for debt service payments due in 2005. Consequently, however, as shown on the table above, the debt service requirements of currently outstanding external debt are expected to increase in 2006 and then decline after 2006. 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 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. As of December 2004, the total outstanding external debt of Bank Indonesia was $11.7 billion, or approximately 14.6% of the Republic's total public external debt. 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.

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,				
	2000	2001	2002	2003	2004[P]
	(in millions of U.S. dollars)				
Multilateral	10,982.5	9,105.3	8,829.3	10,238.6	9,653.9
Commercial	2,142.6	2,069.1	2,076.1	2,086.8	2,075.9
Total	13,125.2	11,174.4	10,905.7	12,325.4	11,729.8

Source: Bank Indonesia.

P Preliminary.

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

External Debt Service Requirements of Bank Indonesia

Period	Principal Repayment	Interest Repayment	Total
	(in millions of U.S. dollars)		
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(2)	1,711.6	343.6	2,055.2
2006(2)	2,306.7	293.1	2,599.8
2007(2)	2,114.7	215.8	2,330.5
2008(2)	2,662.2	144.2	2,806.4
2009(2)	1,499.7	68.6	1,568.3

Source: Bank Indonesia.

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

(2) Projected, based on exchange rates as of January 31, 2005.

Bank Indonesia has broadened its funding sources beyond its existing conventional sources by entering into BSAs or Bilateral Swap Arrangements with Japan, China, and South Korea. These BSAs enable Bank Indonesia to obtain financial support in the event of balance of payment difficulties. Currently, $5 billion is available to be drawn under these facilities. See "— Foreign Trade and Balance of Payments-Membership in International and Regional Free Trade Agreements."

Debt Record

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.

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 and $6\frac{3}{4}$% Bonds due 2014.

External Debt of State-Owned Enterprises

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 December 31, 2004, total outstanding external debt of SOEs was $7.1 billion, of which non-financial institutions accounted for $4.6 billion. Non-financial institutions, primarily in the oil and gas sector, have accounted for the largest portion of the SOE external debt outstanding for the last five years. The government's current policy is to privatize SOEs.

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[P]
	(in millions of U.S. dollars)				
Financial Institution:					
Bank	4,150	3,695	2,767	2,874	2,345
Non-bank	145	134	193	156	145
Total financial institution	4,295	3,829	2,960	3,030	2,490
Non-financial institution	4,937	4,209	3,555	4,836	4,621
Total	9,232	8,038	6,514	7,866	7,112

Source: Bank Indonesia.

P Preliminary.

Domestic Debt of the Central Government

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, indexed bonds and promissory notes to Bank Indonesia, which may be tradable or non-tradable.

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
	(in trillions of rupiah)				
Total domestic debt(1)	645	657	658	650	653
Total domestic public debt, as a percentage of GDP for the year indicated	46.4%	39.0%	35.3%	31.8%	28.4%

Source: Ministry of Finance.

(1) Excludes SBIs.

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[(3)]	21	39	60
2006[(3)]	26	38	64
2007[(3)]	35	33	68
2008[(3)]	40	29	69
2009[(3)]	34	24	58

Source: Ministry of Finance.

(1) Excludes SBIs, which are obligations of Bank Indonesia and not 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, 2004.

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 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 proceeds from (1) the liquidation of assets owned by IBRA, (2) proceeds from privatization and divestments of state-owned enterprises, and (3) swaps of IBRA's loan assets conducted through asset-bond swap programs. As of December 2004, bonds with a principal amount of Rp22 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. In 2004, the government sold Rp25.6 trillion in government debt securities through these auctions. Investor response to these auctions has been positive.

Regulatory Developments

On October 22, 2002, the Government Debt Securities Law became effective. Under this law, the issuance of debt securities requires prior approval of the House. This law establishes a "standing appropriation," which ensures that all payments of principal and interest for both new, if approved by the House, and certain existing debt securities of the government are provided for without additional action by the House. The 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. The Ministry of Finance has issued a number of decrees to implement the goals of this law and to encourage the development of primary and secondary markets in domestic debt securities.

In September 2004, the government began drafting a regulation which would further regulate the issuance of treasury bills as part of its efforts to further develop the domestic debt securities market. The proposed regulation is expected to govern the procedures for treasury bill issuances, the qualifications of auction participants and the requirements for their participation in treasury bill auctions.

Development of the Secondary Market for Domestic Securities of the Government

To stimulate development of the secondary domestic government debt securities market, since 2002 the government has: (1) promoted the establishment 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 to enhance market liquidity, (3) created a benchmark yield curve through regular issuances, (4) implemented government securities buy-back 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. 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
Volume (in billions of rupiah)	126	268	522	1,395	2,122
Number of trades	1	5	16	51	112

Source: Ministry of Finance.

Average trading volume of government issued domestic debt securities has increased by 94.8% in 2002, 167.2% in 2003 and 52.1% in 2004, in each case compared with the preceding year. Average daily volume in 2004 was Rp2.1 trillion.

Government debt securities issued domestically in 1998 were initially held by the banks recapitalized in the wake of the Asian financial crisis. As a result of the government's efforts since December 2000 to develop a secondary domestic market for government debt securities, non-bank ownership of tradable government debt securities has increased significantly from 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 2001 to 2.7% in December 2004. In January 2005, foreign ownership of tradable government debt securities increased significantly to 4.1%.

Contingent Liabilities

In 1998, the government implemented a blanket guarantee for depositors and creditors of all Indonesian-incorporated banks. The blanket guarantee program is currently still in place, although the government is in the process of replacing it with a new law establishing a deposit insurance agency. Under the deposit insurance agency law adopted in September 2004 and a related presidential decree issued in October 2004, the government will continue the blanket guarantee until April 18, 2005. From April 19, 2005 until September 22, 2005, the government will only guarantee third party deposits and interbank claims. When the deposit insurance law becomes effective on September 22, 2005, the government will only guarantee third party deposits. 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.

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.

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 $	Rupiah per Thai baht
2000	9,595	8,357	5,539	221
2001	10,400	7,916	5,621	235
2002	8,940	7,540	5,154	207
2003	8,465	7,917	4,977	213
March 2004	8,587	8,212	5,118	218
June 2004	9,415	8,680	5,485	230
September 2004	9,170	8,264	5,421	221
December 2004	9,290	9,042	5,685	239

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, buying or selling rupiah 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 = US$1 as at January 2, 1997 to a low of Rp16,950 = US$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, improved implementation of monetary policy, specifically with respect to banking liquidity management, and improved inflationary expectations caused a further increase in the value of the rupiah.

In 2000, the rupiah's value declined 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 state-owned enterprises.

During 2003, the rupiah appreciated by 5.6% against the U.S. dollar and there was less exchange rate volatility than in the prior 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 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.

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 non-residents, regulations prohibit banks from conducting, among others, the following transactions: (1) extensions of loans or of overdrafts in rupiah or foreign currencies to non-residents, (2) transfers of rupiah to non-residents or off-shore banks, and (3) purchases of rupiah-denominated securities issued by non-residents. These regulations also restrict Indonesian banks from entering into derivative transactions, such as sell forwards, sell swaps and sell options, with nominal amounts in excess of $3 million or its equivalent, unless they are related to an underlying investment. Non-residents are, however, permitted to enter into rupiah-denominated transactions as long as settlement of these transactions is carried out through domestic banks and such derivative transactions are related to an underlying economic transaction in Indonesia. Derivative hedging transactions linked to investments in Indonesia are also permitted, as long as they are supported by required documentation.

Bank Indonesia limits an Indonesian commercial bank's net open position to a maximum of 20.0% of its capital. Under guidelines issued by Bank Indonesia, "net open position" means the sum of the absolute values of (i) the net differences between asset and liability balances for each foreign currency and (ii) the net differences between claims and liabilities in the form of both commitments and contingencies in administrative accounts, for each foreign currency, which is denominated in rupiah and calculated by consolidating all branch offices located in and outside Indonesia. In an effort to reduce volatility in the rupiah exchange rate, in 2004, Bank Indonesia adopted two regulations affecting the calculation and monitoring of an Indonesian bank's net open position. First, Indonesian banks are now required to calculate net open positions using asset and liability balances reflected on their balance sheets and using asset and liability balances taking into account off-balance sheet liabilities. Banks must comply with the percentage limitations under both calculations. Second, to permit Bank Indonesia to monitor compliance with the net open position limitations more closely and reduce interday volatility in the rupiah exchange rate, banks are required to provide Bank Indonesia their balance sheet and net open position calculations twice daily (at midday and at the end of the business day), rather than only at the end of the business day as previously required. In January 2005, Bank Indonesia adopted a regulation under which banks which have adopted sufficient risk management policies and demonstrated compliance with those policies are allowed to maintain a net open position of 30.0%, compared to 20.0% for other banks.

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.

International Reserves

Indonesia's gross official international reserves as of December 31, 2004 were equivalent to $36.3 billion (based on exchange rates as of the same date), a slight increase of $24.0 million from their year-end 2003 level. 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.

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.

Official International Reserves of the Republic

	2000	2001	2002	2003	2004
	(in millions of U.S. dollars, except for months)				
Gold	762	768	1,071	1,284	1,316
SDRs	32	18	16	4	2
Reserve position with the IMF	190	183	197	215	225
Foreign exchange and others	28,411	27,047	30,754	34,792	34,777
Total	29,394	28,016	32,039	36,296	36,320
Total as number of months of imports and government external debt repayments	6.2	5.9	6.6	7.1	5.6

Source: Bank Indonesia.

DESCRIPTION OF THE BONDS

General

The Bonds will be issued pursuant to an indenture (the "Indenture"), dated March 10, 2004, between the Republic and The Bank of New York, as Trustee (the "Trustee"). The following description briefly summarizes some of the provisions of the Bonds and the Indenture. This summary does not purport to be complete or to contain all of the information that is important to you as a potential investor and is qualified in its entirety by reference to the text of such documents.

The Bonds will mature and be repaid at 100% of their principal amount on April 20, 2015. The Bonds will bear interest from and including April 20, 2005 at the rate of 7.25% per annum. Interest on the Bonds will accrue and be payable semi-annually in arrears in equal installments on April 20 and October 20 of each year, commencing October 20, 2005 (each, a "payment 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."

The Republic has applied to the Luxembourg Stock Exchange for listing of, and permission to deal in, the Bonds in accordance with the rules of the Luxembourg Stock Exchange. So long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Republic will maintain a paying agent and transfer agent in Luxembourg. A copy of the Indenture will be available for inspection at the registered office of the Trustee and, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, at the specified office of the paying agent in Luxembourg. There can be no guarantee that the application to the Luxembourg Stock Exchange will be approved, and settlement of the Bonds is not conditioned on obtaining the listing.

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:

(1) the Republic defaults in any payment of the principal of or interest on any of the Bonds and such default is not cured within 30 days;

(2) the Republic defaults in the performance of any other covenant in the Bonds 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;

(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; 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 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 to be due and payable immediately.

Upon any declaration of acceleration, the principal, interest and all other amounts payable on the Bonds 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 may rescind a declaration of acceleration 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 has occurred and is continuing, the Trustee may institute judicial action to enforce the right of the holders of the Bonds. Except as set forth below, a holder of the Bonds has no right to bring a suit, action or proceeding with respect to the Bonds unless:

- such holder has previously given notice to the Trustee that a default with respect to the Bonds has occurred and is continuing;
- holders of at least 25% of the aggregate principal amount of outstanding Bonds 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.

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 the Bonds has or had some connection with the Republic other than merely owning or holding the Bonds or receiving principal and interest payments on the Bonds;

- the holder of the Bonds has failed to present any such Bonds 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 Bonds except to the extent that the holder of the Bonds thereof 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 the Bonds 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 at any time regarding the Indenture or the Bonds. 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 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 if the holders of at least 10% of the aggregate principal amount of the outstanding Bonds 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 the time, place and purpose of any meeting called by the holders of the Bonds not less than 30 days and not more than 60 days before the meeting.

Only holders of Bonds 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 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 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 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 may generally modify or take actions with respect to the Indenture or the terms of the Bonds (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 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.

However, the Republic and holders of not less than 75% of the aggregate principal amount of the outstanding Bonds, voting at a meeting or by written consent, must consent to any amendment, modification, change or waiver with respect to the Bonds that would:

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

- reduce the principal amount payable under the Bonds;

- reduce the interest rate on the Bonds;

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

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

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

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

- change the governing law provision of the Bonds;

- 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 Borough of Manhattan, The City of New York or the Republic's waiver of immunity, in respect of actions or proceedings brought by any holder of the Bonds arising out of or based on the Bonds, as described above under "— Jurisdiction, Consent to Service and Enforceability";

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

- change the status of the Bonds, 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 pursuant to the modification provisions will be conclusive and binding on all holders of the Bonds, 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. Any instrument given by or on behalf of any holder of a Bond in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of such Bond.

The Republic and the Trustee may, without the vote or consent of any holder of the Bonds, amend the Indenture or the Bonds 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;

- surrendering any of the Republic's rights or powers;

- providing security or collateral for the Bonds;

- curing any ambiguity or correcting or supplementing any defective provision in the Indenture or the Bonds; or

- making any other change that (1) is not inconsistent with the Bonds and (2) does not adversely affect the interest of any holder of the Bonds.

For purposes of determining whether the required percentage of holders of the Bonds has approved any amendment, modification or change to, or waiver of, the Bonds or the Indenture, or whether the required percentage of holders has delivered a notice of acceleration of the Bonds, any Bonds 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, only Bonds 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 do not have a greater amount of original issue discount ("OID") for United States federal tax purposes than the outstanding Bonds have as of the date of the issue of such additional 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. So long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices to holders of the Bonds will be valid if published in a daily newspaper of general circulation in Luxembourg (which is expected to be the Luxemburger Wort). Any such notice shall be deemed to have been given on the date of such publication, or if published more than once, on the first date on which publication is made. If publication is not practicable, the Republic will have validly given notice if it gives notice in accordance with the rules of the Luxembourg Stock Exchange.

Form of the Bonds

Bonds sold in offshore transactions in reliance on Regulation S will be represented by one or more permanent global Regulation S Bonds in fully registered form without interest coupons (the "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. 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 Bond 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 Bond 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 Bond after complying with the certification requirements described below.

Rule 144A Bonds sold within the United States to "qualified institutional buyers" as defined in and pursuant to Rule 144A under the U.S. Securities Act will be represented by a permanent global Rule 144A Bond or Bonds in fully registered form without interest coupons (the "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 Rule 144A Global Bond and the Regulation S Global Bond are collectively referred to herein as the "Global Bonds." The Republic will issue the Bonds in minimum denominations of US$5,000 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 (the "U.S. Exchange Act") 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.

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.

If certificated Bonds are issued, so long as the Bonds are listed on the Luxembourg Stock Exchange, payments and transfers of the Bonds may be made through the office of the Luxembourg paying agent. 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 Luxembourg paying agent. So long as the Bonds are listed on the Luxembourg Stock Exchange, transfers, exchanges and replacement of lost, stolen, mutilated or destroyed Bonds may be effected by holders of certificated Bonds at the office of the Luxembourg transfer 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. See "Description of the Bonds — Payments 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, 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.

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 Taxation

The following is a description of the principal U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of the Bonds by a holder thereof. This description only applies to Bonds held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as

- certain financial institutions,
- insurance companies,
- real estate investment trusts,
- regulated investment companies,
- grantor trusts,
- tax-exempt organizations,
- dealers or traders in securities or currencies,
- certain expatriates of the United States, or
- holders that will hold a Bond as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the Bonds and does not address the U.S. federal income tax treatment of holders that do not acquire the Bonds as part of the initial distribution at their initial issue price (which will equal the first price paid by the public, not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers, at which a substantial amount of the Bonds is sold for money). Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of the Bonds.

This description is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of Bonds who for U.S. federal income tax purposes is

- a citizen or resident of the United States;

- a corporation or partnership organized in or under the laws of the United States or any State thereof, including the District of Columbia;

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Bonds, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

A Non-U.S. Holder is a beneficial owner of Bonds other than a U.S. Holder.

Interest

If you are a U.S. Holder, interest paid to you on a Bond, including any Indonesian taxes withheld and any Additional Amounts, will be includible in your gross income as ordinary interest income in accordance with your usual method of tax accounting. In addition, interest on the Bonds will be treated as foreign source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Bonds generally will constitute "high withholding tax interest" because the interest is subject to withholding at a rate of 5% or more. U.S. Holders should note, however, that recently enacted legislation eliminates the "high withholding tax interest" category for taxable years beginning after December 31, 2006. Under this recently enacted legislation, the foreign tax credit limitation categories will be limited to "passive category income" and "general category income."

Subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," if you are a Non-U.S. Holder, payments to you of interest on a Bond generally will not be subject to U.S. federal income tax unless the income is effectively connected with your conduct of a trade or business in the United States.

Sale, Exchange or Retirement

If you are a U.S. Holder, upon the sale, exchange or retirement of a Bond you will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or retirement, other than accrued but unpaid interest which will be taxable as such, and your adjusted tax basis in the

Bond. Your adjusted tax basis in a Bond generally will equal the cost of the Bond to you. Any gain or loss recognized on the sale, exchange or retirement of a Bond (other than amounts attributable to accrued but unpaid interest) will be capital gain or loss. If you are a noncorporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if your holding period for the Bonds exceeds one year. Any gain or loss realized on the sale, exchange or retirement of a Bond generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations.

Subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," if you are a Non-U.S. Holder, any gain realized by you upon the sale, exchange or retirement of a Bond generally will not be subject to U.S. federal income tax, unless

- the gain is effectively connected with your conduct of a trade or business in the United States or
- if you are an individual Non-U.S. Holder, you are present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

A U.S. backup withholding tax and information reporting requirements generally apply to certain payments of principal of, and interest on, an obligation, including the Bonds, and to proceeds of the sale or redemption of an obligation, to certain noncorporate holders of an obligation that are United States persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Bond to a holder of a Bond that is a United States person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments made within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Bond that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 28% for taxable years through 2010. The amount of any backup withholding tax from a payment to a holder of a Bond that is a United States person will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

In the case of payments made within the United States to a foreign simple trust, a foreign grantor trust or a foreign partnership, other than payments to a foreign simple trust, a foreign grantor trust or foreign partnership that qualifies as a withholding foreign trust or a withholding foreign partnership within the meaning of the applicable U.S. Treasury Regulations and payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of a trade or business in the United States, the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements. Moreover, a payor may rely on a certification provided by a payee that is not a United States person only if the payor does not have actual knowledge or a reason to know that any information or certification stated in the certificate is incorrect.

THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF BONDS. PROSPECTIVE PURCHASERS OF BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement 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 Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and UBS Limited 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 Bonds	
Citigroup Global Markets Inc.	US$	300,000,000
Deutsche Bank Securities Inc.		300,000,000
UBS Limited		300,000,000
Credit Suisse First Boston (Europe) Limited		50,000,000
PT Danareksa Sekuritas		25,000,000
PT Mandiri Sekuritas		25,000,000
Total	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 Bonds will be the initial offering price set forth on the cover page of this offering memorandum, plus accrued interest, if any. 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. The Republic has applied to list the Bonds on the Luxembourg Stock Exchange. The Republic cannot guarantee that the application to the Luxembourg Stock Exchange to list the Bonds will be approved, and settlement of the Bonds is not conditioned on obtaining the listing. 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 commencement of the offering, an offer or sale of the Bonds within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration of the U.S. Securities Act.

As used herein, the term "United States" has the meaning given to it in Regulation S.

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.

Each Initial Purchaser has severally represented and agreed that (A) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (1) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that ordinance; or (2) 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 (B) 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 the 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.

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.

This offering memorandum has not been lodged as an information memorandum with the Monetary Authority of Singapore pursuant to Division 1, Part XIII of the Securities and Futures Act (Cap. 289) of Singapore (the "Securities and Futures Act"). Accordingly, each Initial Purchaser has severally represented and agreed that the Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase, nor may this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of, such Bonds be circulated or distributed, whether directly or indirectly, to the public or any members of the public in Singapore other than (1) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (2) to a sophisticated investor (as defined in Section 275 of the Securities and Futures Act), and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each Initial Purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Netherlands any Bonds other than (1) Bonds with a minimum denomination of €50,000 (or the equivalent thereof in another currency) which Bonds are fully paid up at their issuance, (2) to persons who trade or invest in securities in the conduct of a profession or business (which includes banks, stockbrokers, insurance companies, investment undertakings, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) or (3) in circumstances where one of the exceptions to or exemptions from the prohibition contained in article 3(1) of the Securities Transactions Supervision Act 1995 ("Wet toezicht effectenverkeer 1995") applies.

The offering of the Bonds has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Bonds may be offered, sold or delivered or may copies of this offering memorandum or of any other document relating to the Bonds be distributed in the Republic of Italy, except (i) to professional investors ("Operatori Qualificati"), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of July 1, 1998, as amended or (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998 (the "Financial Securities Act") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended.

Any offer, sale or delivery of the Bonds or distribution of copies of this offering memorandum or any other document relating to the Bonds in the Republic of Italy must be:

(1) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Legislative Decree No. 58 of February 24, 1998 and Legislative Decree No. 385 of September 1, 1993, as amended (the "Banking Act");

(2) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, pursuant to which the issue or offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia,* on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and

(3) in compliance with any other applicable laws and regulations.

In any case the Bonds shall not be placed, sold or offered either in the primary or secondary market to individuals residing in 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. 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. PT Mandiri Sekuritas, one of the co-managers, is wholly owned by PT Bank Mandiri (Persero) Tbk, which the government has a 70% equity interest in. PT Danareksa Sekuritas, one of the co-managers, is 99.99% owned by PT Danareksa (Persero), which is wholly owned by the government.

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 White & Case LLP, United States counsel for Indonesia, as to matters of U.S. and New York State law. Certain legal matters will be passed upon for the Initial Purchasers by Davis Polk & Wardwell, United States counsel for the Initial Purchasers, as to matters of U.S. and New York State law.

GENERAL INFORMATION

Application has been made to list the Bonds on the Luxembourg Stock Exchange. So long as the Bonds are listed on the Luxembourg Stock Exchange, copies of the Indenture will be made available for inspection and annual reports publicly published by Indonesia will be made available in English at the main office of The Bank of New York (Luxembourg) S.A. in Luxembourg. In addition, copies of the offering memorandum, so long as the Bonds are listed on the Luxembourg Stock Exchange, will be made available free of charge at the main office of The Bank of New York (Luxembourg) S.A. in Luxembourg. So long as the Bonds remain in global form, The Bank of New York (Luxembourg) S.A. will act as intermediary between the Luxembourg Stock Exchange and Indonesia and the holders of the Bonds.

The Bonds to be listed on the Luxembourg Stock Exchange have been accepted for clearance through The Depository Trust Corporation, Euroclear and Clearstream, Luxembourg. The Bonds have been assigned Common Code 021763128, ISIN US455780AQ93, and CUSIP No. 455780AQ9, with respect to the Rule 144A Global Bonds, and Common Code 021763209, ISIN USY20721AB57, and CUSIP No. Y20721AB5, with respect to the Regulation S Global Bonds.

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 in Law No. 36 of 2004 on the State Budget for 2005.

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, 2004.

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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