Fiscal & Economic Updates

November 2021

"Maintaining The Momentum of Recovery"

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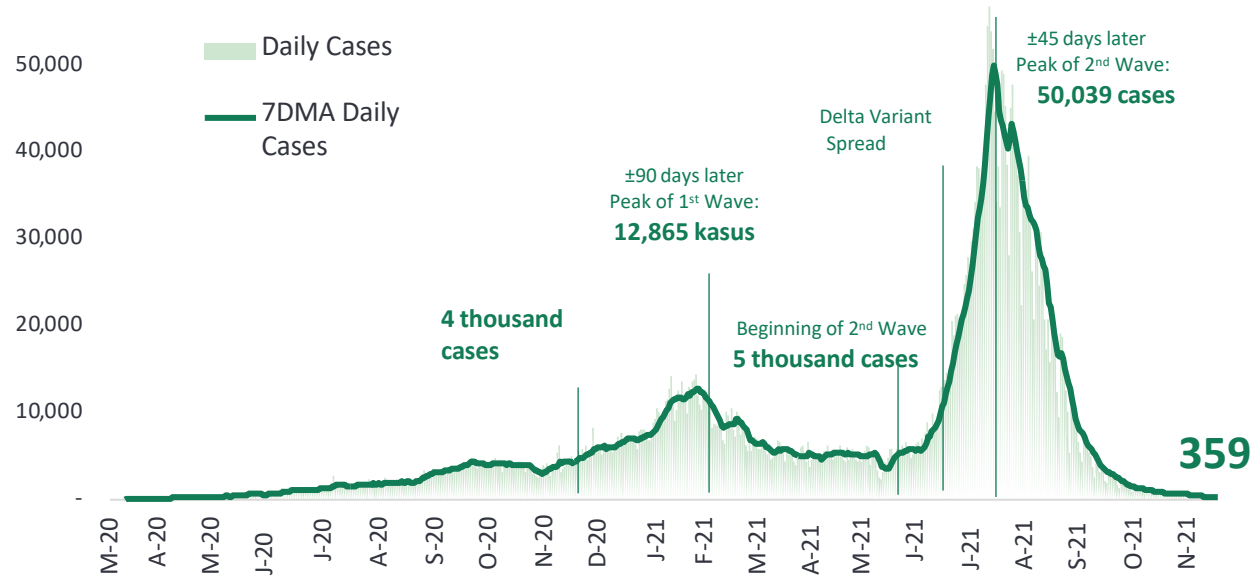
DEVELOPMENT OF THE COVID-19 PANDEMIC AND RECENT ECONOMIC UPDATES

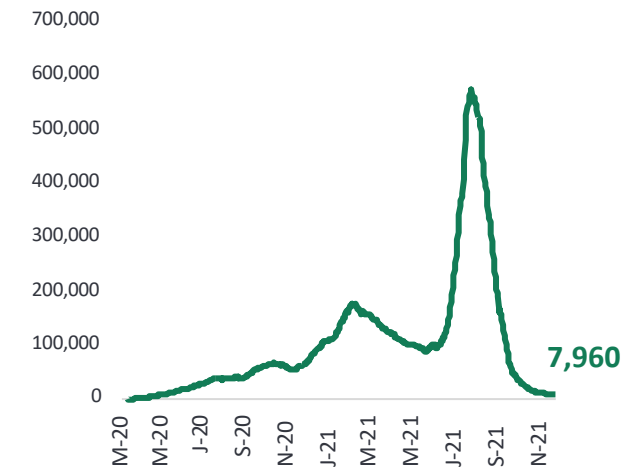
INDONESIA'S COVID-19 CASES ARE UNDER CONTROL, YET VIGILANCE IS STILL ALWAYS NEEDED

Vaccination also needs to be accelerated as one of the key instruments to curb the pandemic

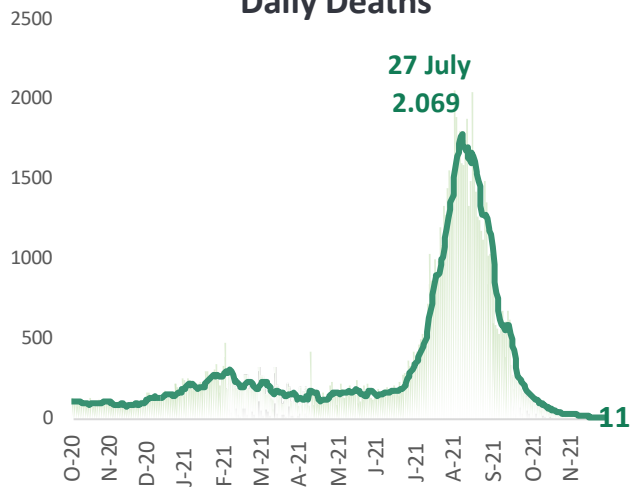
THE DAILY CASES ARE THE LOWEST SINCE MAY 2020 (AS OF 29 NOV '21)



Active Cases

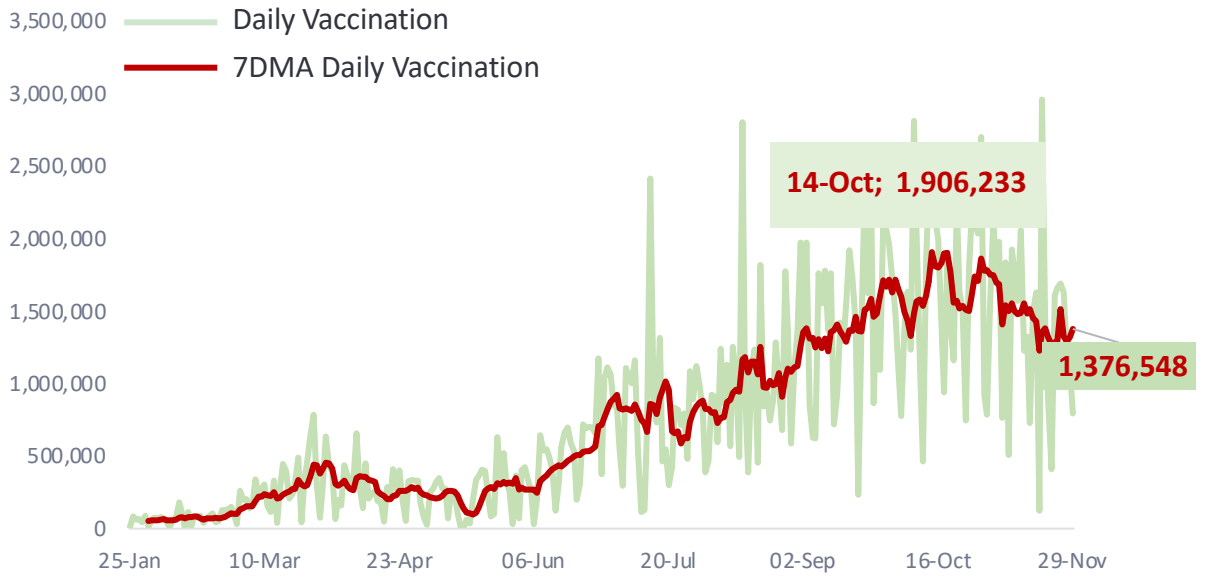


Daily Deaths



Source: Ministry of Health, 29 November 2021

DAILY VACCINATION IN INDONESIA (DOSES)



CUMULATIVE REALIZATION OF VACCINATION (MILL. DOSES)

Dose 1	Dose 2	Booster for Medical Workers
138.91 mn (51.41% population)	**94,76 mn** (35.07% population)	**1.22 mn** (0.45% population)

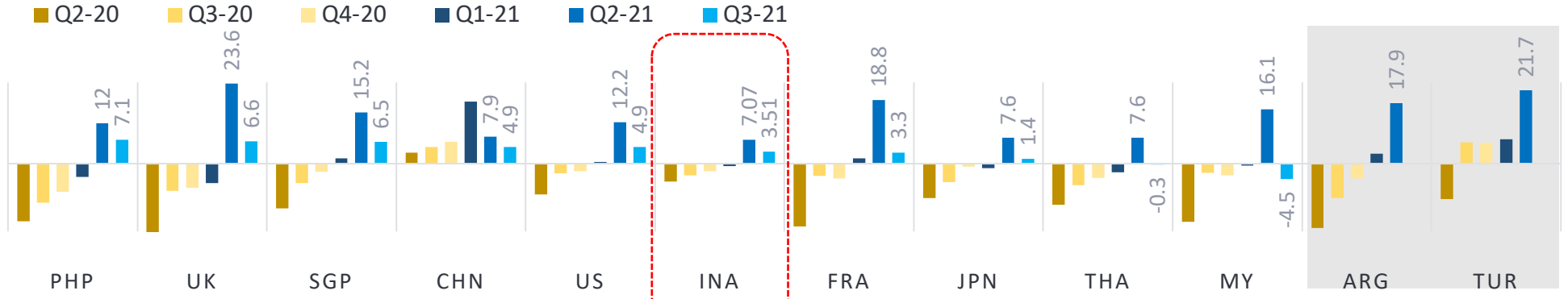
TESTING, BOR, DAN *POSITIVE RATE*

Testing 29 Nov	Positive Rate 29 Nov	BOR *Wisma Atlet* Jakarta 29 Nov
176,381 (Orang per Hari)	**0.2%** (7DMA)	**2.3%** (7DMA)

SOME OF COUNTRIES EXPERIENCING SLOWER GROWTH TREND IN Q3

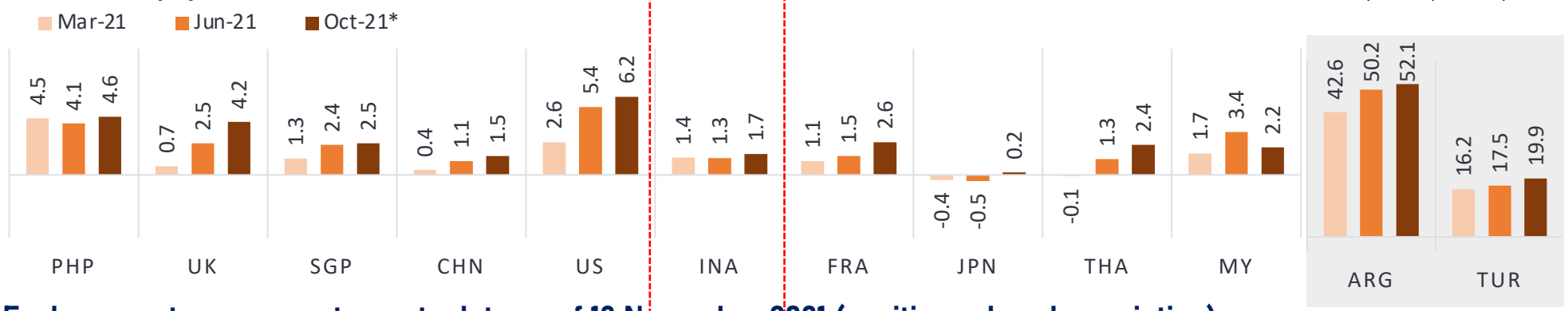
While the inflation tends to increase

G20 & ASEAN Economic Growth (% yoy)

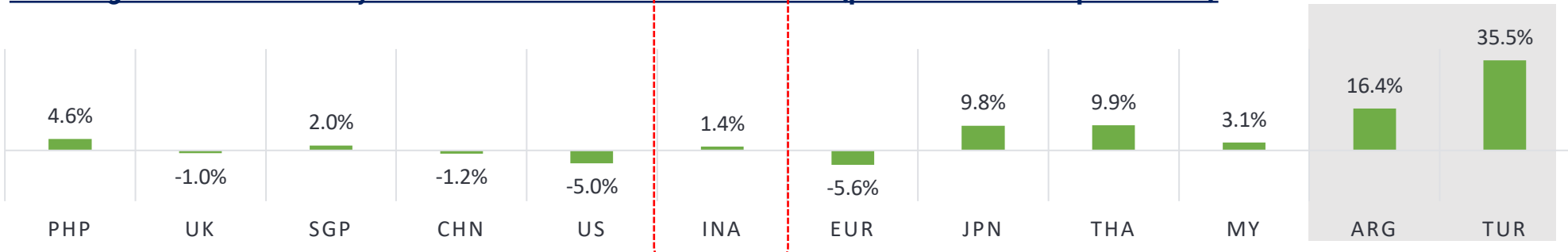


** Growth Q3-2021 for Argentina & Turkey are not published yet*

Inflation (% yoy)



Exchange rate movement year to date as of 19 November 2021 (positive value=depreciation)



Some of countries experiencing slower growth in Q3, driven by high base effect in Q2, the Delta variant outbreak, and the impact of supply chain disruption.

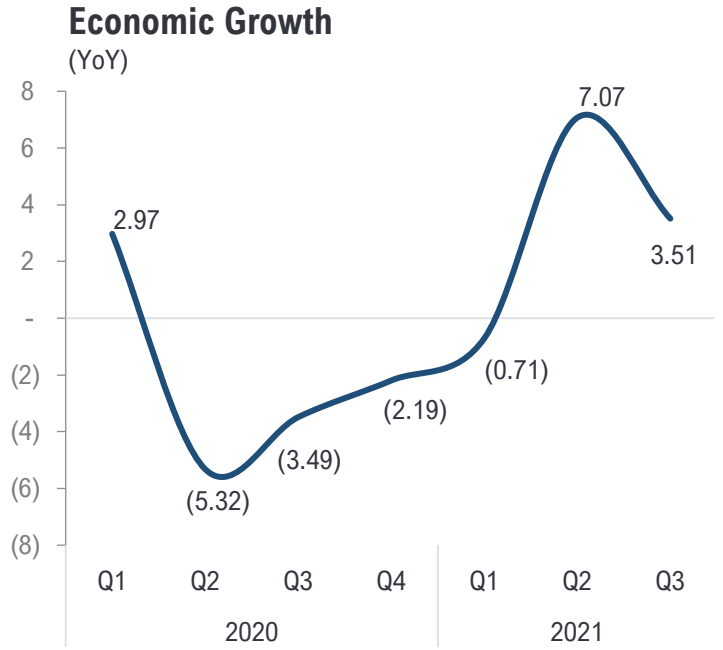
Inflation is in upward trend due to the gap between supply and demand, and persistent supply disruptions. Turkey and Argentina recorded very high inflation.

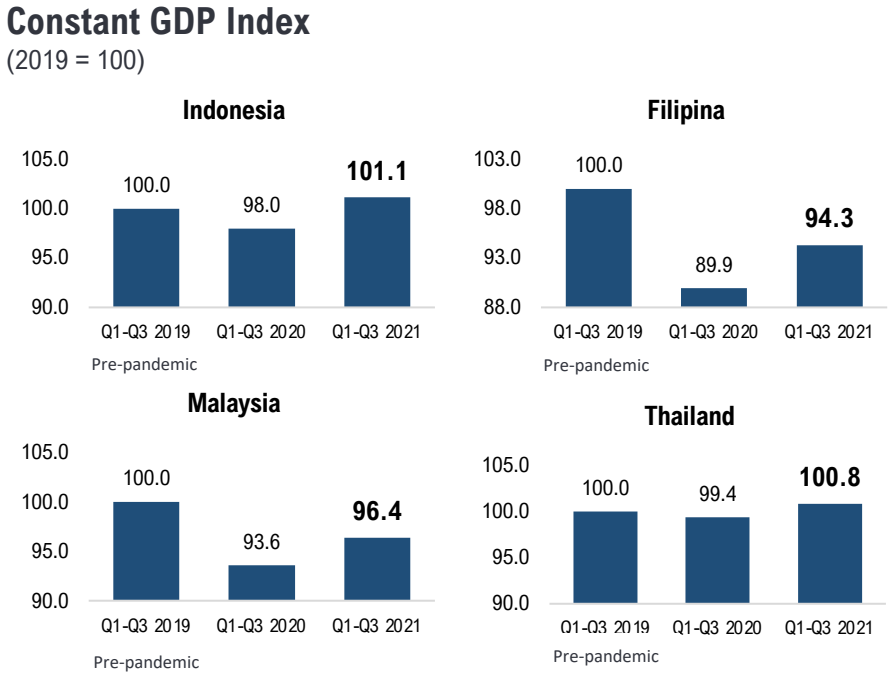
High inflation in Turkey and Argentina was followed by very sharp depreciation. While Indonesia exchange rate is relatively stable.

Source: Bloomberg; CEIC, calculated
**Malaysia inflation as of September 2021*

THE ECONOMIC RECOVERY HAS RESUMED

- The tightening of mobility restriction (PPKM) at the beginning of quarter-III resulted in a slowdown in public consumption as well as restrained private investment.
- Nevertheless, the recovery momentum is still relatively well maintained, reflected by positive QtoQ growth at 1.6%
- Maintained the recovery momentum is supported by positive growth in all expenditure components.
- From sectoral side, the main sector such as manufacturing, trade, and construction also showed an improvement.
- Indonesia economic recovery **is one among the fastest in ASEAN region**.





Household Consumption

1.0% (yoy)

Investment

3.7% (yoy)

Manufacture, Trade

Manuf. 3.7%

Trade 5.2% (yoy)

Government Consumption

0.7% (yoy)

Export Import

Export 29.2%

Import 30.1% (yoy)

Construction

3.8% (yoy)

Source: Statistics Indonesia

NATIONAL EMPLOYMENT IMPROVES AS THE ECONOMY RECOVERS

changes to August 2020

Workforce **+1.9** Million People

Job Creation **+2,6** Million People

Labor Absorption in Sector (Million People)	
Manufacturing	+ 1.22
Trade	+ 1.04
Construction	+ 0.22
Accommodation and Provision of F&B	+ 0.64
Mining	+ 0.09

- The economic recovery was able to continue to open new job opportunities to absorb a number of additions to the new workforce and workers who had been affected by layoffs during the pandemic.
- This job creation is also marked by an increase in the proportion of formal workers
- Recovery needs to continue to be strengthened to absorb the entire new workforce and workers previously affected by the pandemic

Open Unemployment Rate

7.1% Aug-20 → **6.5%** Aug-21

Unemployment Due to COVID-19

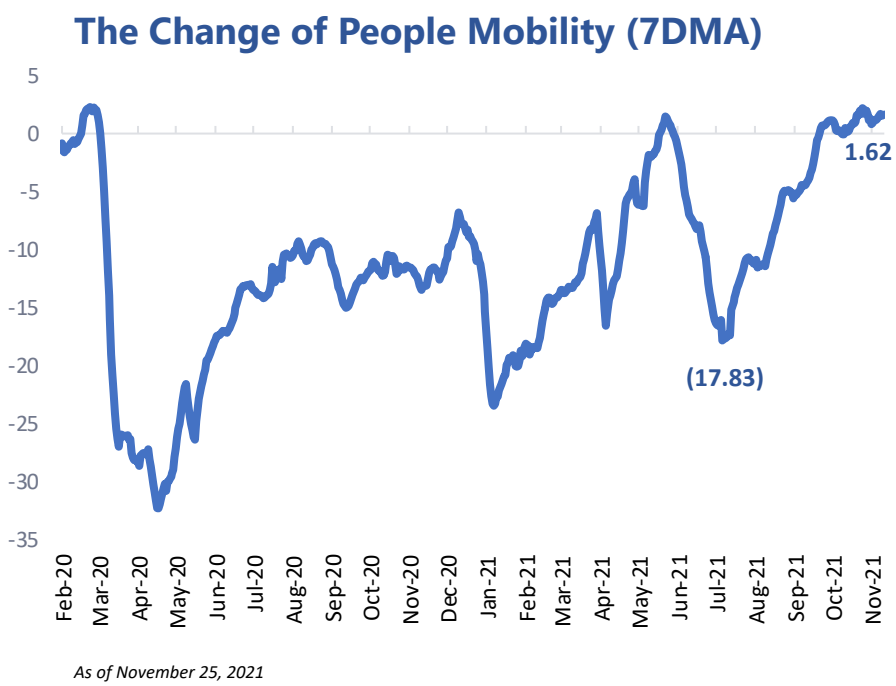
2.6 Million Ppl Aug-20 → Decrease 29.0% → **1.8** Million People Aug-21

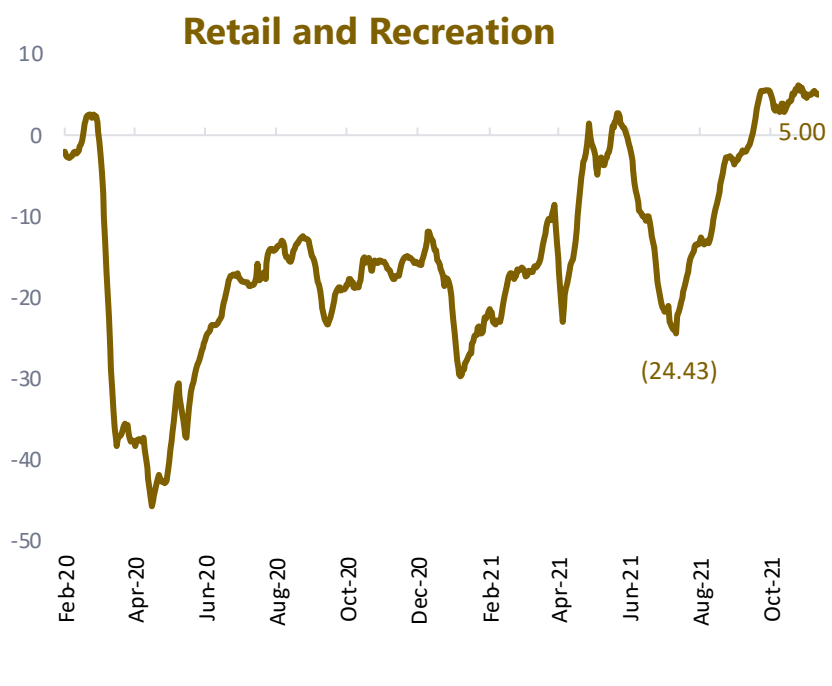
Fired Due to COVID-19

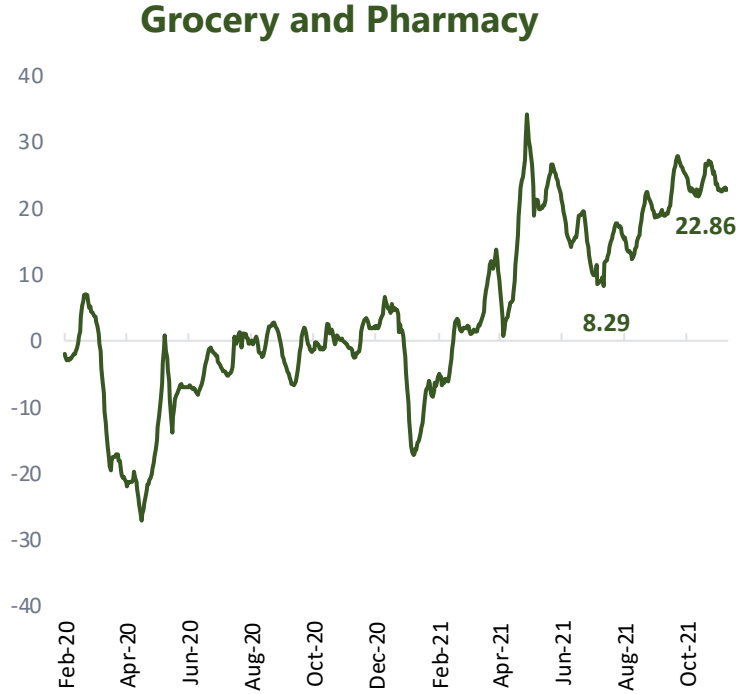
1.8 Million Ppl Aug-20 → Decrease 21.5% → **1.4** Million People Aug-21

PEOPLE MOBILITY HAS SURPASSED THE PRE-PANDEMIC LEVEL

Under controlled pandemic and easing of mobility restriction has boosted people confidence to resume activities





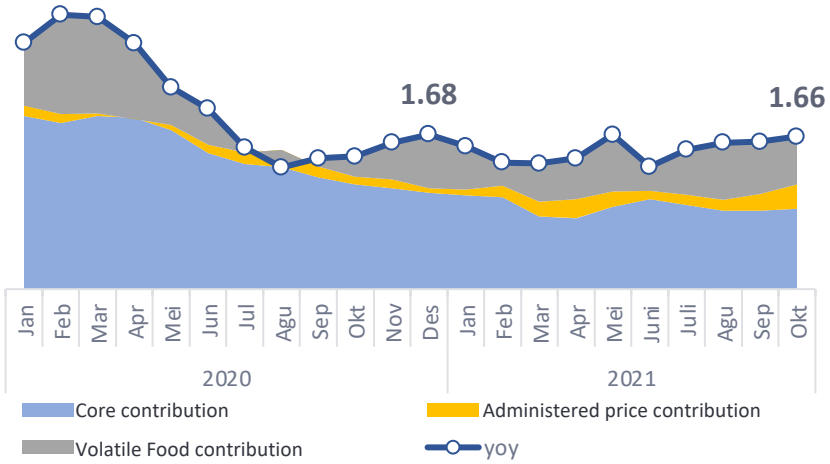


- As the Covid-19 start to be under controlled due to well pandemic handling, **people activities has resumed and increased.**
- In November, the mobility index increased by 1.6% (mtm) compared to October.
- **Consumption-related mobility also increases,** mainly in retail, recreation, and grocery and pharmacy

CONSUMPTION ACTIVITY HAS GRADUALLY IMPROVED

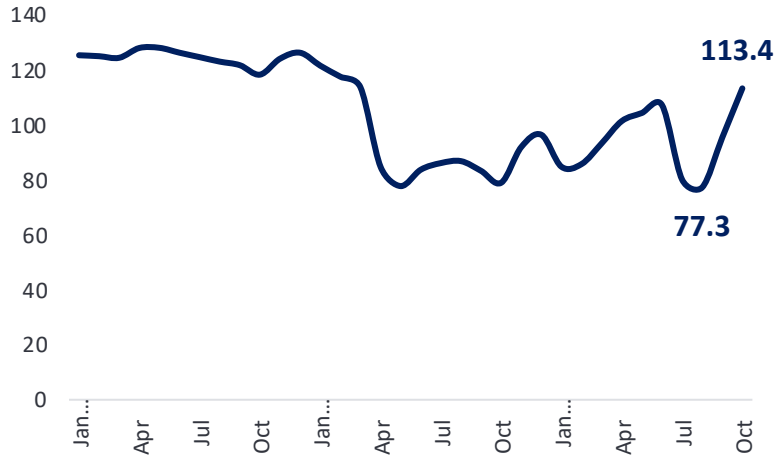
This is in line with the improving condition of the Covid-19 pandemic

Inflation rate (%)



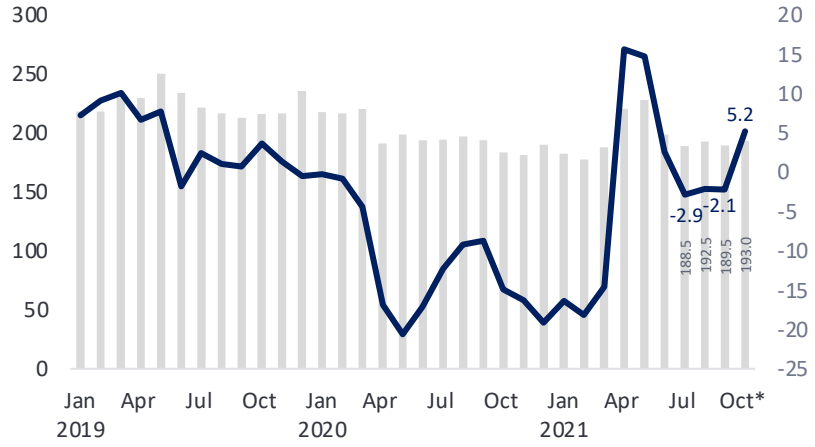
Inflation is under controlled along with improved consumption, supporting the economic recovery

Consumer Confidence Index (CCI)



Consumer Confidence Index kept improving up to October, indicating public optimism has improved after the peak period of delta variant

Retail Sales Index (RSI)



Retail Sales Index is expected to continue to increase in October owing to the increasing people mobility especially in sub grocery & pharmacy and retail and recreation .

Bank Mandiri Spending Index

Bank Mandiri Spending Index indicated consumption activity gradually return to pre pandemic level as people mobility increasing.

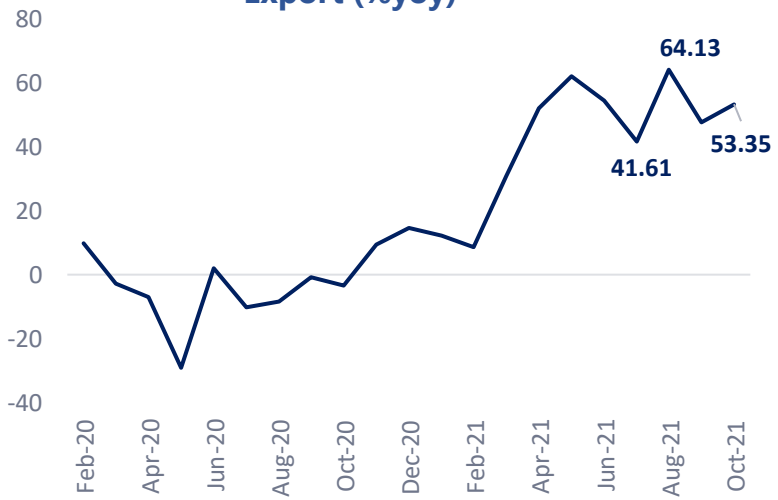
Source: BPS, Bank Indonesia, Mandiri

LEADING PRODUCTION INDICATORS CONTINUED TO STRENGTHEN

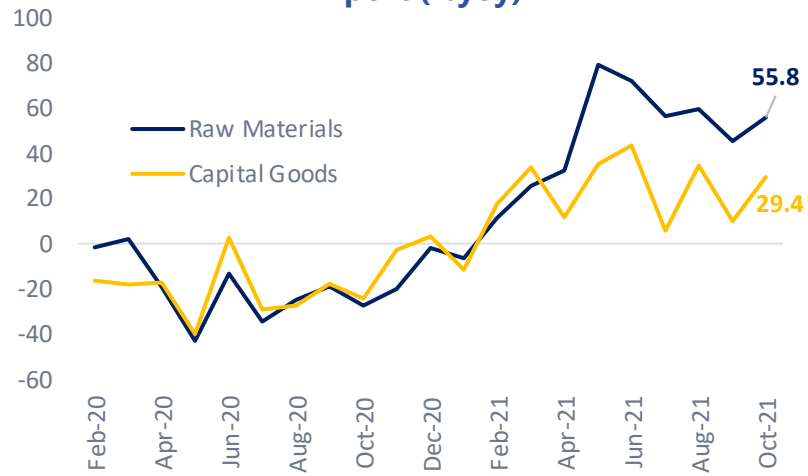
After experiencing a drop in July due to mobility restriction, production activities started to recover

Indonesia's Manufacturing PMI

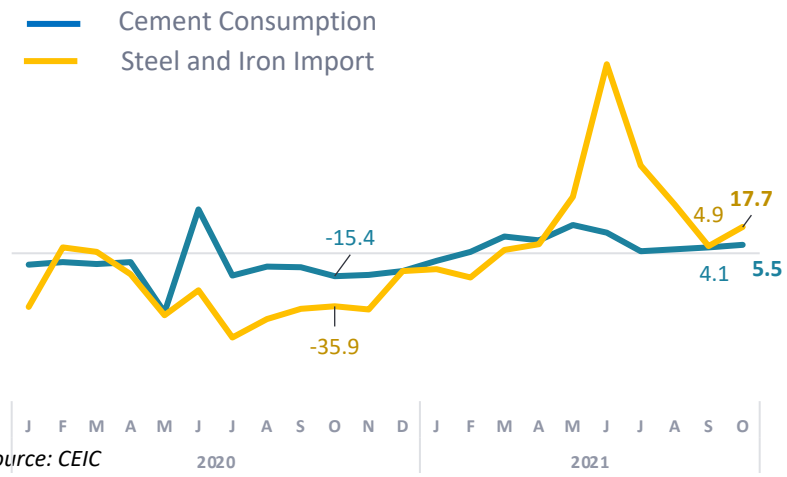
Export (%yoy)



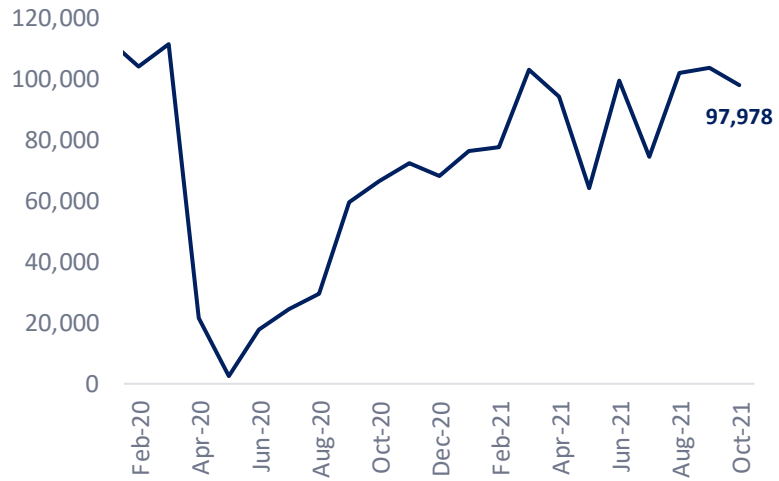
Import (%yoy)



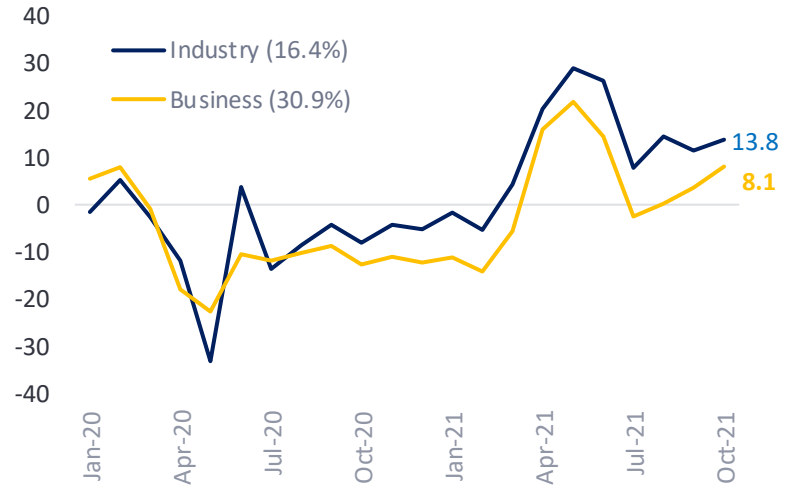
Cement Consumption and Steel & Iron Import (%yoy)



Car Production (Unit)



Electricity Consumption (%yoy)



Source: CEIC

GLOBAL RISKS EXPECTED TO REMAIN IN 2022

Global Risks

FROM THE US
- Tapering & increasing the FFR interest rate
- Debt limit/ceiling

FROM EUROPE
- Tapering from ECB and BOE
- Brexit impacts on labor shortages and supply disruption

FROM CHINA
- Evergrande default risk
- China's medium-term economic slowdown

FLUCTUATING COMMODITY PRICES, SUPPLY DISRUPTION, AND STAGFLATION
- Increasing energy commodity prices (Due to winter and crisis energy in China
- Input shortage, rising wages & shipping cost
- Increasing producer price & stagflation risks

POTENTIAL IMPACTS

Rising Volatility in Financial Market
- a decrease in capital flow
- an increase in the safe-haven asset purchases
- Strengthening of US Dollar
- depreciation in EM currencies, including IDR
- an increase in yields, including SBN
- a drop in stock prices

Global Economic Slowdown
- Disruption in the domestic supply chain, which will impact the manufacturing sector
- Global economic slowdown, particularly in US & China,
- Declining demand for exported goods

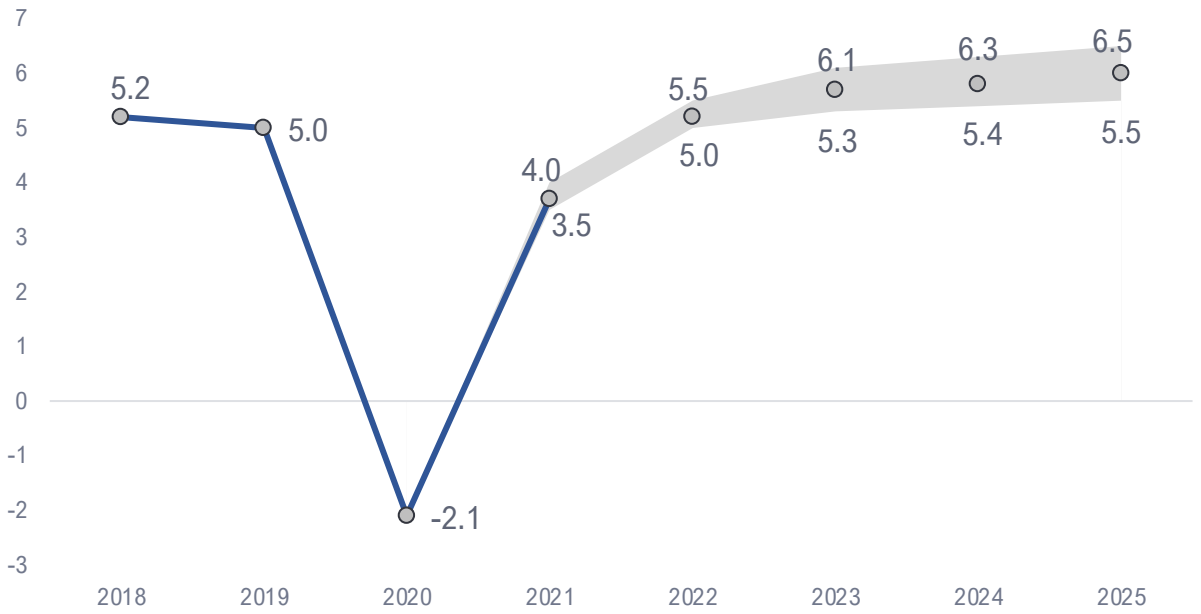
Potential of Imported Inflation
- increasing energy and food commodity prices, which potentially drive inflation and increase subsidies
- increasing material costs (especially in import-dependent sectors)
- Increasing producer prices → Increasing import costs

Other risks should be anticipated:
Covid-19, Geopolitics and Climate Change

STRONG STRUCTURAL REFORM MOMENTUM WILL SUPPORT ECONOMIC RESILIENCY

Economic recovery in 2021 and 2022 is on track yet the global economic risk remains

Indonesia Medium Term Economic Framework Trajectory



Source: BPS, Ministry of Finance estimation

Anticipated downside risk

- **The potential of Covid-19 reescalation** & the emergence of new variants of virus
- **Normalization for global commodities prices,** reflecting on post- commodity boom back in 2013
- **An increase on FFR** which will putting pressure on the domestic economy, particularly from the monetary side
- **The dynamics of global economic** potentially put a pressure on the export performance of main commodities

Strategy for economic growth in 2022-2025

- **Adoption of "*Living with Endemic*".**
- **Reformation of social protection program,** including the improvement of database accuracy
- **Infrastructure construction,** including digital infrastructure and connectivity
- **Strategy on geopolitical dynamics** and the change on global trade map
- **Strengthening structural reforms** to support productivity and investment competitiveness

Structural Reform Focus

1 **Industrialization and commodities downstreaming**

2 **Digitalization**

3 **Transition for Green Economy**

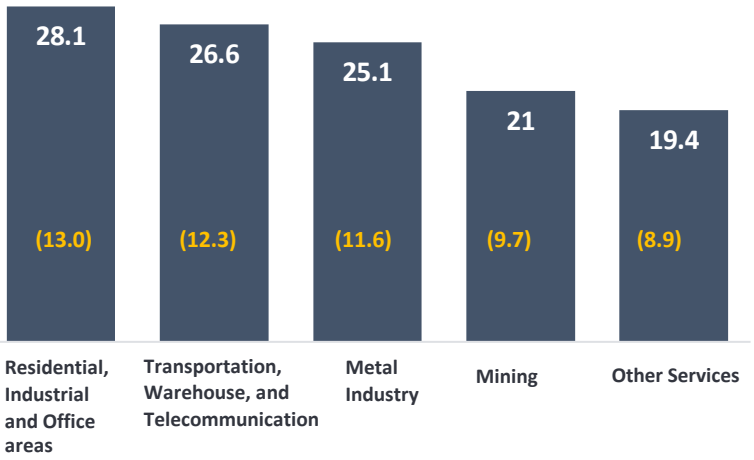
DESPITE A SLOW DOWN IN Q3, DOMESTIC AND FOREIGN INVESTMENT REMAINED RELATIVELY SOLID

In the first three quarter of 2021, total investment recorded by the Investment Board recorded 7,8% growth, higher than 2,1% in 2020.

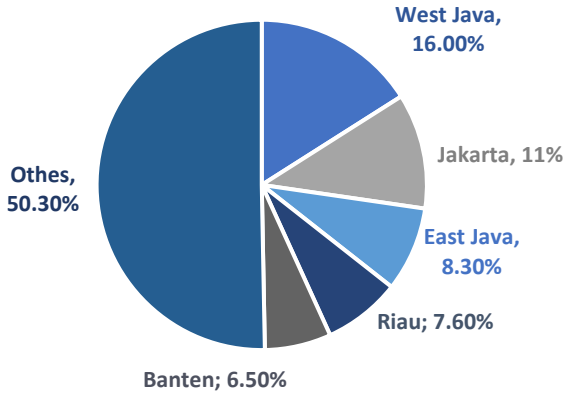
Investment Realization

	2020		Q1 2021		Q2 2021		Q3 2021		Cumulative up to Q3 2021	
	IDR T	%,yoy	IDR T	%,yoy	IDR T	%,yoy	IDR T	%,yoy	IDR T	%,yoy
DDI	413.5	**7.0**	108.0	-4.2	106.2	12.7	113.5	10.3	**327.7**	**5.8**
FDI	412.8	**-2.4**	111.7	14.0	116.8	19.6	103.2	-2.7	**331.7**	**9.9**
Total	826.3	2.1	219.7	4.3	223.0	16.2	216.7	3.7	**659.4**	**7.8**

5 Largest Sector Investment Realization in Q3 2021 (IDR trillion) (share, %)



Investment Realization in Q3 2021 by Province



Rising trend of the investment activities was somewhat halted by the Delta variant pandemic. In Q3 2021, investment recorded by the Investment Board slowed down to 3.7% (yoy) compared to 16,2% in the previous quarter.

Cumulatively, however, total investment in the first three quarters of 2021 remained relatively strong, grew by 7,8%, in which domestic (DDI) and foreign investment (FDI) posted 5,8% and 9,9% growth rate, respectively.

Four major sectors of investment; (i) residential, industrial and office areas, (ii) transportation, warehouse and telecommunication, (iii) metal industry, and (iv) mining.

The government efforts to further improve the ease of doing business are continued. Completion of the operational regulation of the Job Creation Law has continued to progress well, in tandem with the launch of a risk-based Online Single Submission (OSS) platform in August 2021. It is hoped that the integration and centralization of permits in a platform will shorten significantly licensing times.

FITCH AFFIRMS INDONESIA AT BBB WITH STABLE OUTLOOK

Fitch assessment has confirmed Indonesia economic fundamental

FitchRatings

Indonesia's rating balances a favorable medium-term growth outlook and a still low, but rising, government debt/GDP ratio

November 22nd 2021

Indonesia Key Rating Driver

- Limited pandemic impact on fiscal metrics and economic growth compared to its peers
- Effective fiscal and monetary policy to maintain macroeconomic condition during pandemic
- Implementation of structural reform, including SWF establishment, will boost medium term economic growth prospect
- Tax reform will to raise revenue and help the fiscal consolidation

CRA's rating action on peer country

Philippines outlook revised to negative by Fitch due to downside risk to medium-term growth prospect (Fitch)

India downgraded due to deterioration in fiscal position, stress in financial sector and weak policymaking

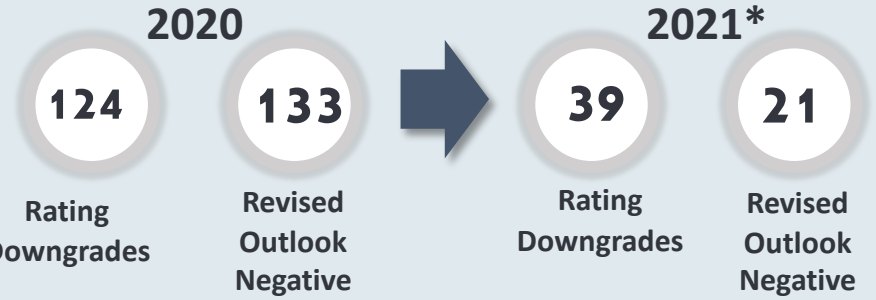
South Africa downgraded due to high and rising government debt

Mexico downgraded by Moody's and Fitch due to weak **economic growth prospect, pressured fiscal metrics**, and **weak policy making capacity**

Malaysia downgraded by Fitch due to higher fiscal burden relatively to peers as impact of pandemic

Italy downgraded by fitch due to pandemic impact to fiscal and economy

Rating Action by 3 Major Credit Rating Agency During Pandemic



During pandemic, credit rating agencies frequently took negative rating action, reflecting significant pressure caused by the pandemic, especially on countries fiscal consolidation and medium term prospect

**as of 18th Nov*

Indonesia's Rating Position

Rating Agency	Sovereign Credit Rating	Outlook	Date of Rating Action
Moody's	Baa2	Stable	14 Feb 2020
JCR Agency	BBB+	Stable	1 Dec 2020
Fitch	BBB	Stable	22 Nov 2021
S&P	BBB	Negative	22 April 2021
R&I	BBB+	Stable	22 April 2021

2021 REALIZATION

AS OF OCTOBER 2021, STATE BUDGET CONTINUES ITS GOOD PERFORMANCE

Revenue and Expenditure signaled that economic recovery continue to take place

Account (IDR T)	2020				2021			
	Budget[1]	Realized As of Oct 31st	% of Budget	YoY (%)	Budget	Realized As of Oct 31st	% of Budget	YoY (%)
Revenue	**1,700.0**	**1,277.0**	**75.1**	**(15.3)**	**1,743.6**	**1,510.0**	**86.6**	**18.2**
Tax Revenue	1,198.8	826.9	**69.0**	(18.8)	1,229.6	953.6	77.6	15.3
Customs & Excise	205.7	164.0	**79.7**	5.5	215.0	205.8	95.7	25.5
Non Tax Revenue	294.1	278.9	**94.8**	(16.3)	298.2	349.2	117.1	25.2
Expenditure	**2,739.2**	**2,041.8**	**74.5**	**13.6**	**2,750.0**	**2,058.9**	**74.9**	**0.8**
Central Government Expenditure	1,975.2	1,343.9	68.0	19.9	1,954.5	1,416.2	72.5	5.4
Regional Transfer & Village Funds	764	698.0	91.4	74.3	795.5	642.6	80.8	(7.9)
Primary Balance	**-700.4**	**(513.2)**	**73.3**	**648.4**	**(633.1)**	**(266.9)**	**42.2**	**(48.0)**
Surplus (Deficit)	**-1,039.2**	**(764.8)**	**73.6**	**164.4**	**(1,006.4)**	**(548.9)**	**54.5**	**(28.2)**
% to GDP	**(6.34)**	**(4.67)**			**(5.70)**	**(3.29)**		
Financing	**1,039.2**	**926.3**	**89.1**	**142.5**	**1,006.4**	**608.3**	**60.4**	**(34.3)**

Note
(1) Presidential Regulation 72/2020

Revenue

- As of October 2021, Government revenue continues performing strongly, rising at 18.2% (yoy), equivalent to 86.6% from the target, reconfirming a strong economic recovery.
- This strong revenue collection is in line with improving economic and strong international trade activities, nearly reaching the pre-pandemic level.
- The Non-tax revenue reaches 117.1% of its target, mainly due to the rising commodity prices.

Expenditures

- Government spending grew slightly by 0.8% (yoy) in October 2021, mainly due to the base effect as the disbursement of the recovery-related spending was relatively high in October 2020.
- Government spending to be accelerated to benefit the community. Government continues to support COVID-19 pandemic handling and economic recovery efforts, both at the central and regional levels.

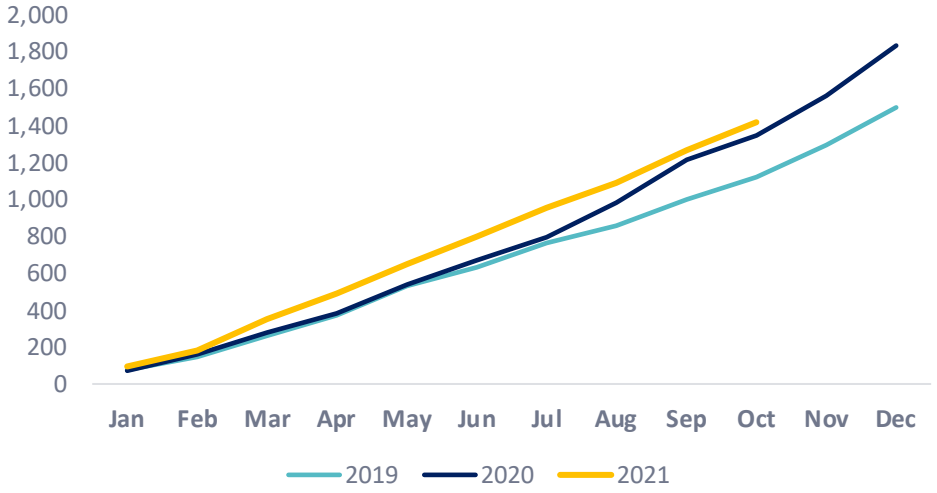
Financing

- The overall and primary budget deficit are on track. Debt financing was maintained, supported by a conducive domestic financial market.

AS OF OCTOBER 2021, GOVERNMENT SPENDING HAS SHOWN GOOD PERFORMANCE

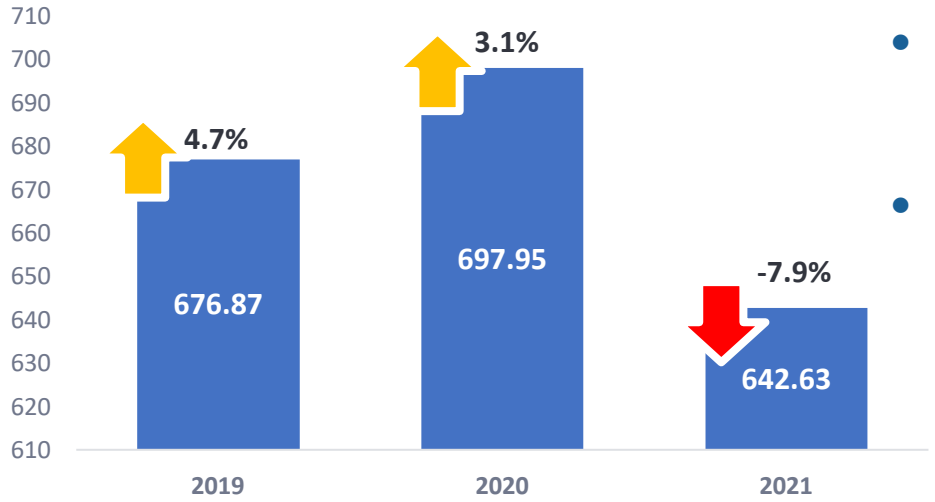
The hard work of the state budget continue to support the pandemic handling as well as economic recovery

Accumulative Central Government Spending (IDR Trillion)



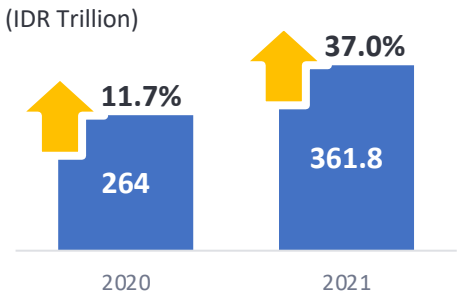
- The realization of central government budget in 2021 is higher compare to 2019 and 2020
- Expenditure grew significantly and brought positive impact to Indonesian people

Transfer to Region (IDR Trillion)



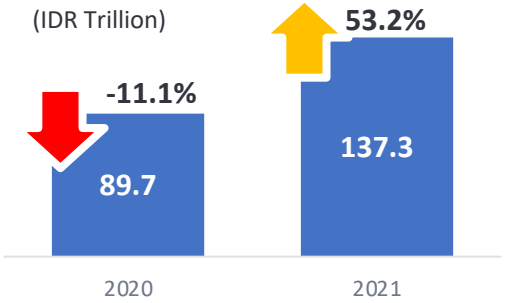
- Transfer to region disbursement in 2021 is lower compare to 2020
- Regions need to accelerate meeting the requirement of the disbursement

Line Ministries' Operational (Goods and Services) Spending



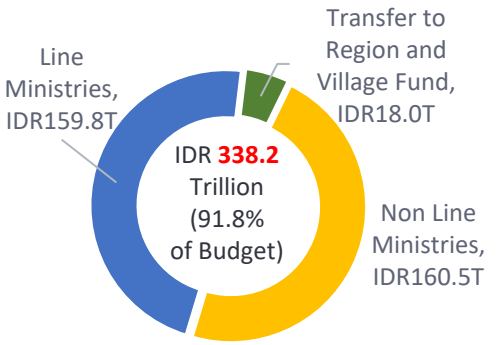
Accelerated payments for vaccines, Covid-19 treatments, assistance for Micro Business

Line Ministries' Capital Expenditure



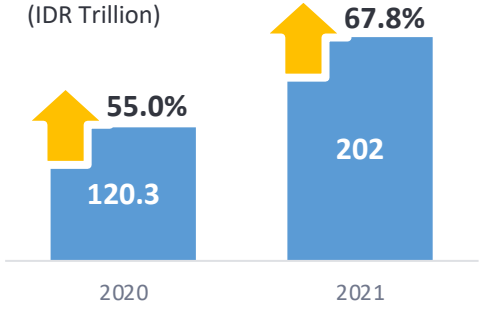
Basic infrastructure and connectivity projects still continue: dam, irrigation network and connectivity

Social Protection Budget



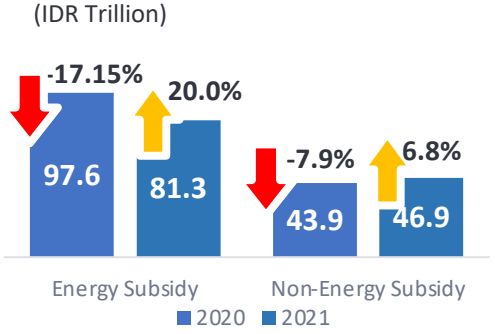
Distribution of PEN Program assistance as a cushion for poor and vulnerable families affected by the Covid-19 pandemic

Health Budget



Health spending mainly used for Covid-19 handling: vaccine, patient care, health workers incentives

Subsidy

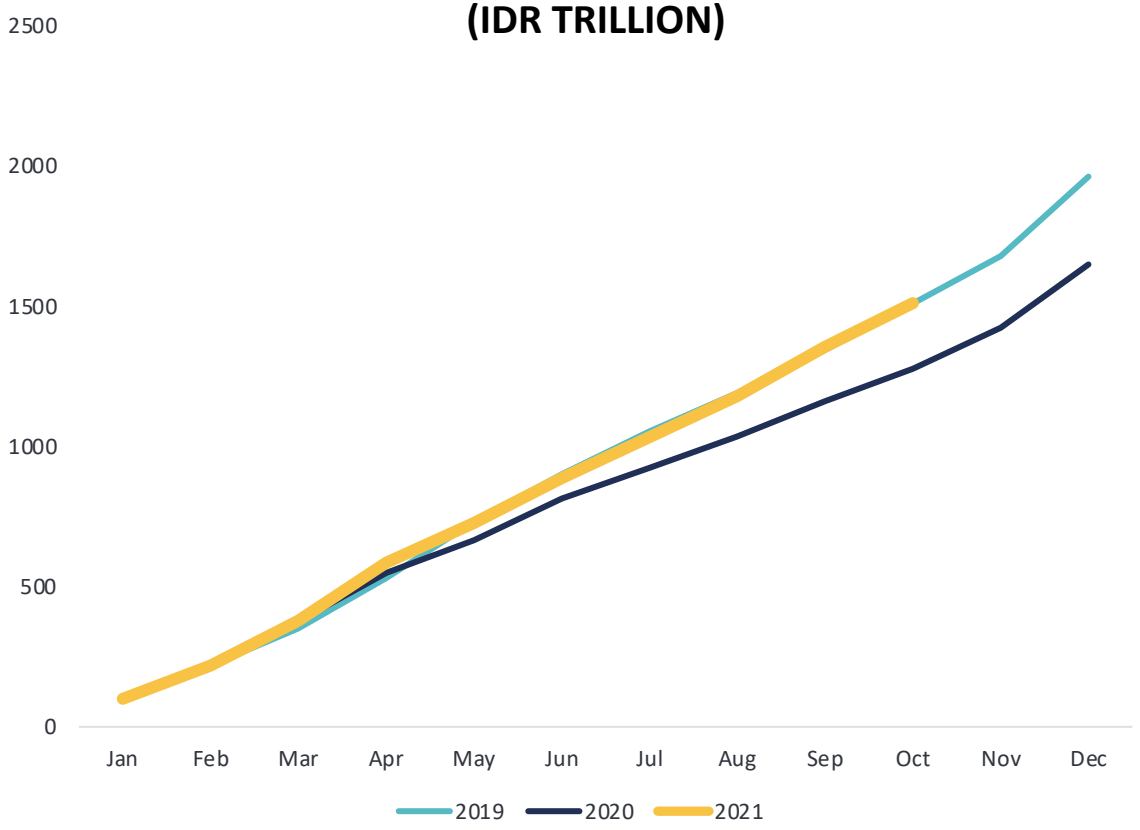


Influenced by economic prices and the realization of the distributed subsidized goods

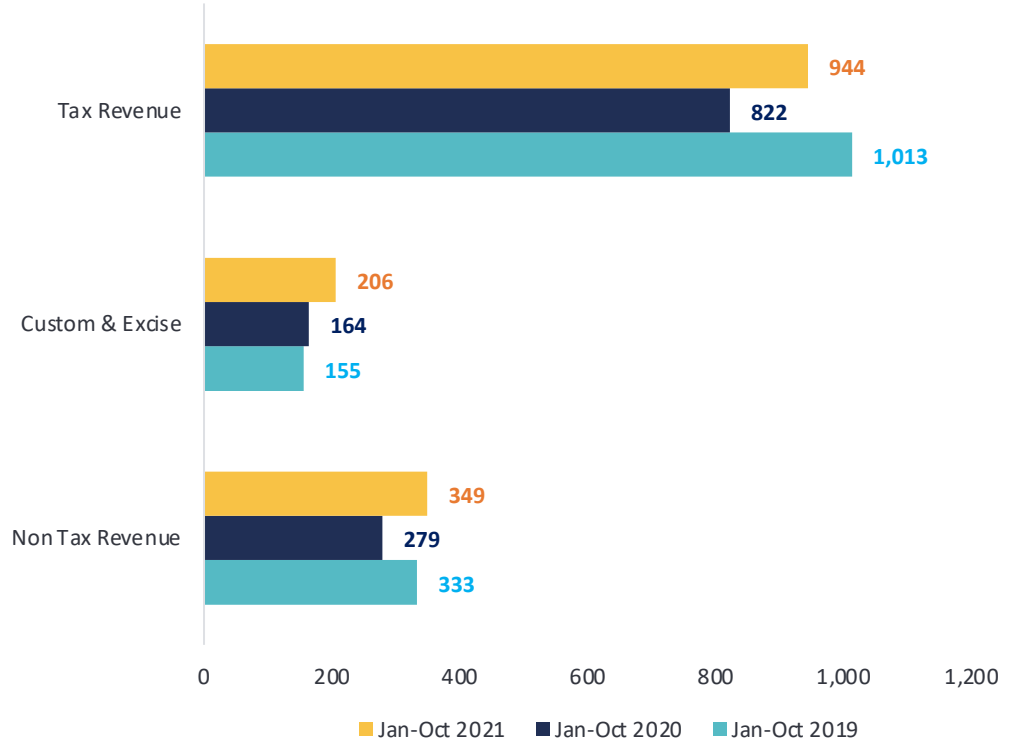
ECONOMIC RECOVERY DRIVES A STRONG INCREASE IN STATE REVENUE REALIZATION

As of October 2021, the revenue shows a strong performance – reconfirm the strong economic recovery

ACCUMULATIVE TOTAL REVENUE (IDR TRILLION)



TAXATION AND NON-TAXATION REVENUE PERFORMANCE (IDR TRILLION)

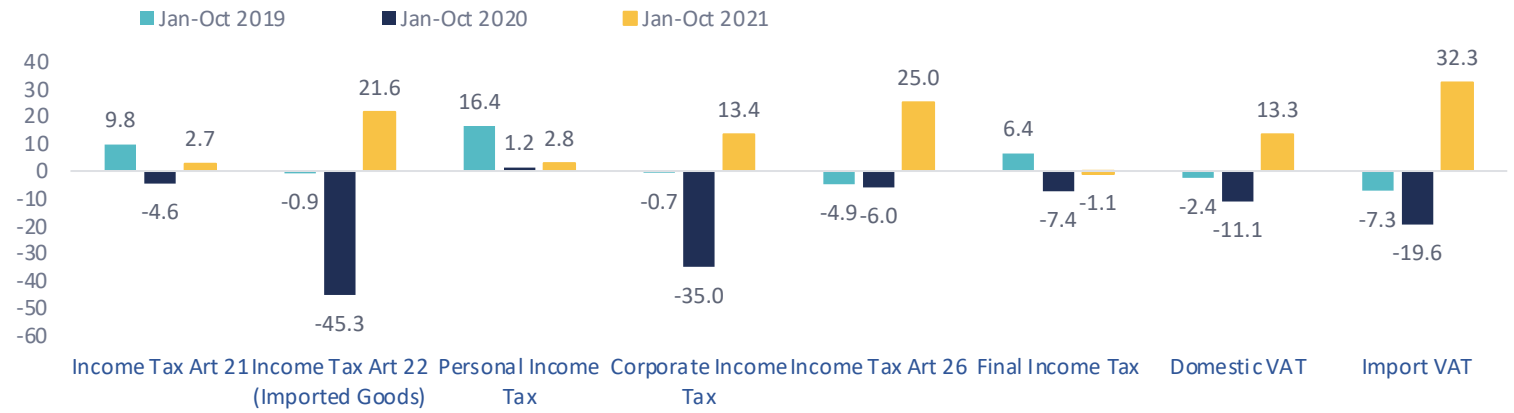


- Until October 2021, tax collection keeps showing improvements and gets closer to the pre-pandemic level in 2019.
- Customs and Excise grew strongly, mainly supported by increased export volume and rising commodity prices of copper, bauxite, and palm oil products.
- Non-tax revenue also increased excellently from all the components.

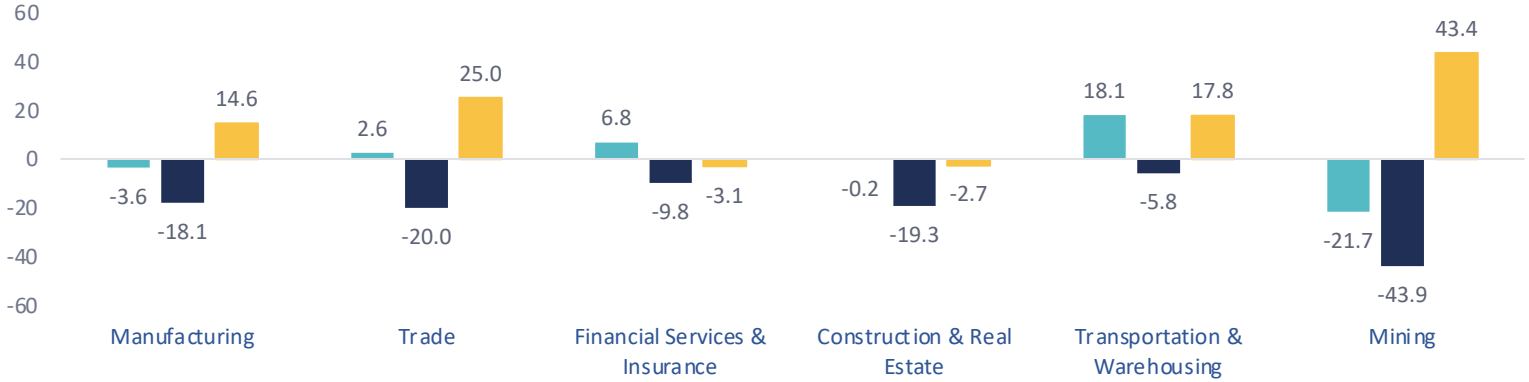
TAXATION COLLECTION CONTINUES TO WELL PERFORMED

Major sources of tax posted positive growth up to October 2021

TAX REVENUE GROWTH BY TYPES (%)



TAX REVENUE GROWTH BY SECTORS (%)



- As Covid-19 has caused a slowdown in economic activities, the government provided fiscal stimulus to protect business through tax cut and incentive, which led to a deep fall in 2020 tax collection.
- In 2021, major taxes has started to show a positive performance and has been consistent with economic recovery trend. Tax receipt booked growth of 17.0% in Ocktober (ytd), exceeded the target of 14.7% in the 2021 state budget.
- The income tax, especially corporate income tax, and tax form import activities grew strongly.
- Tax collection of most sectors hike can align with the recovering performance of those sectors. Even though some other sectors contracted, the realization up to October was way better compared to in early 2021.

AS OF OCTOBER 2021, CUSTOM & EXCISE REVENUE REALIZATION GREW SIGNIFICANTLY

Driven by positive performance of all revenue components

Custom & Excise revenue realization reached IDR205.8 Trillion
(95.7% of the target, grew by 25.5% yoy)

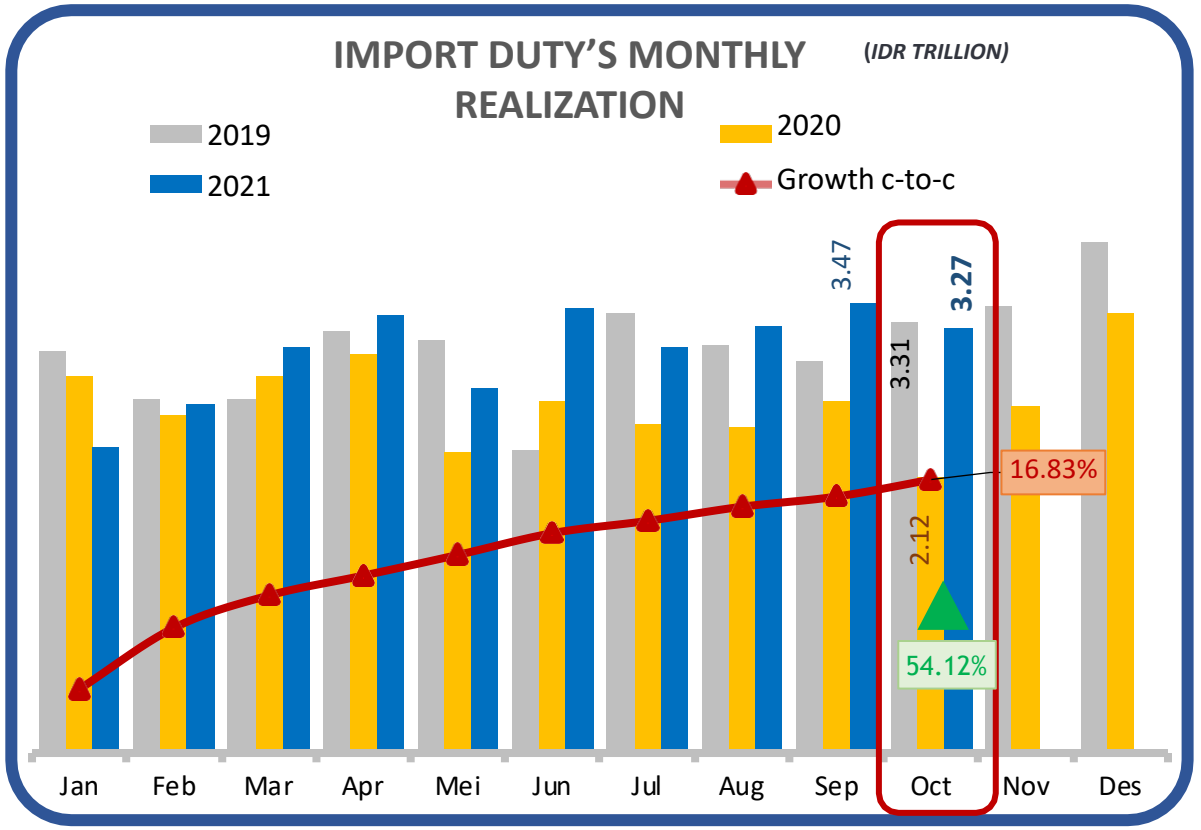
Import Duty grew by 16.8% yoy
Affected by increasing domestic import trend

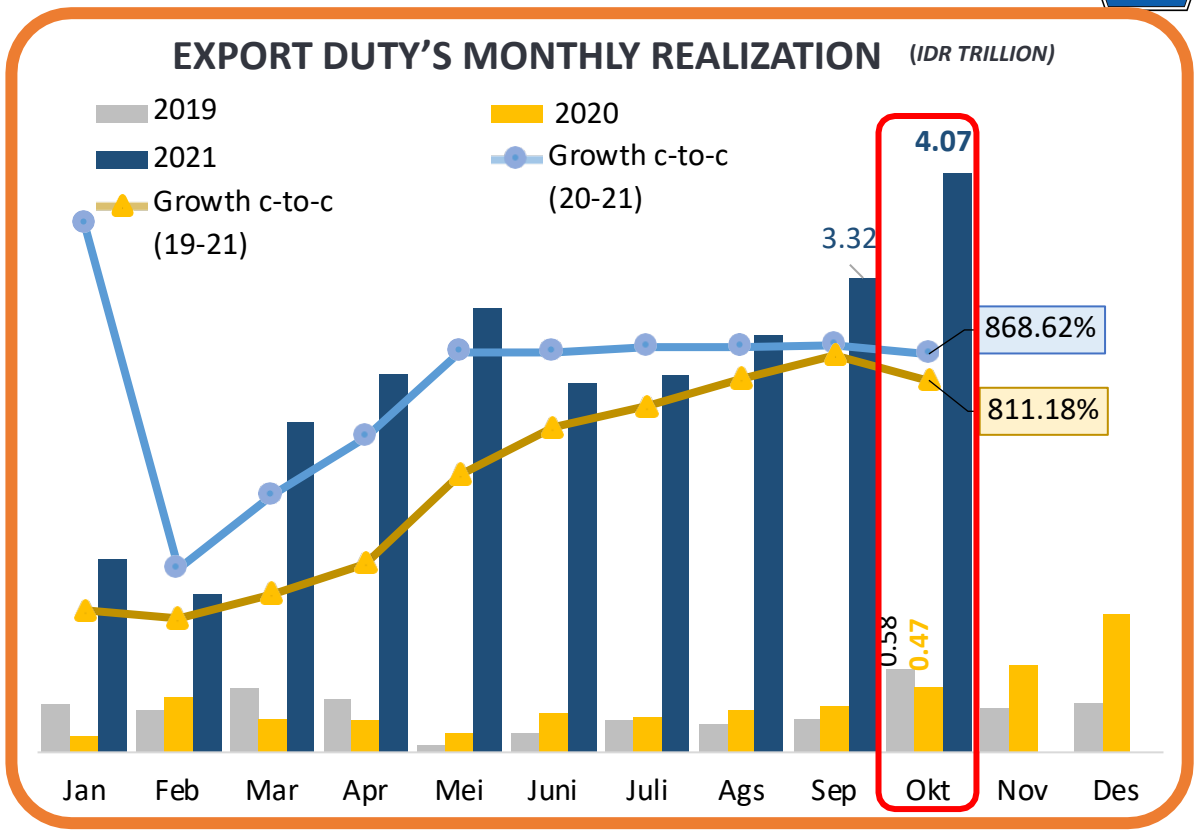
Excises grew by 10.3% yoy
Driven by the policy effectiveness (tariff adjustment) and supervision in excise.
Also supported by improving pandemic condition nationally and tourism destinations.

Export Duty grew by 1,056.7% yoy
Driven by commodities of copper and high price of palm products.

IMPORT AND EXPORT DUTY REVENUE GREW POSITIVELY

Import grew on the back of increasing imports; export duty grew, driven by palm products and copper





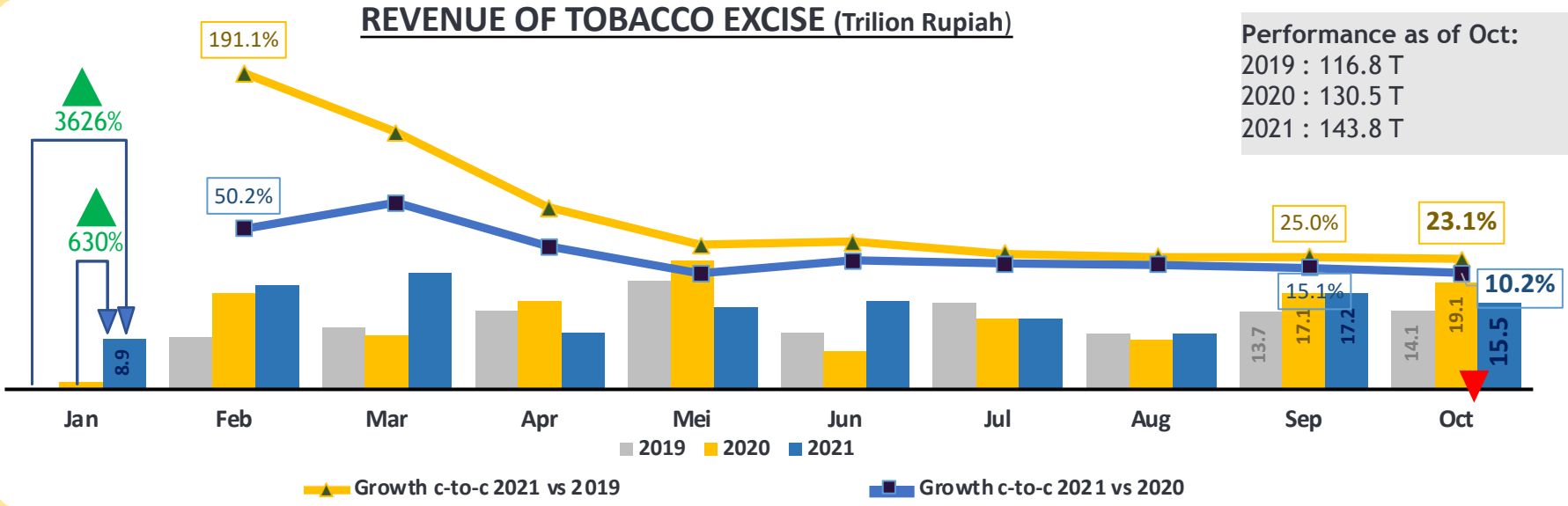
Import Duty

- Was sluggish at the beginning of the year, but improved and **its performance trend continued to increase** (16.83% ytd);
- The positive performance was driven by **continued improvement in national import** activities

Export Duty

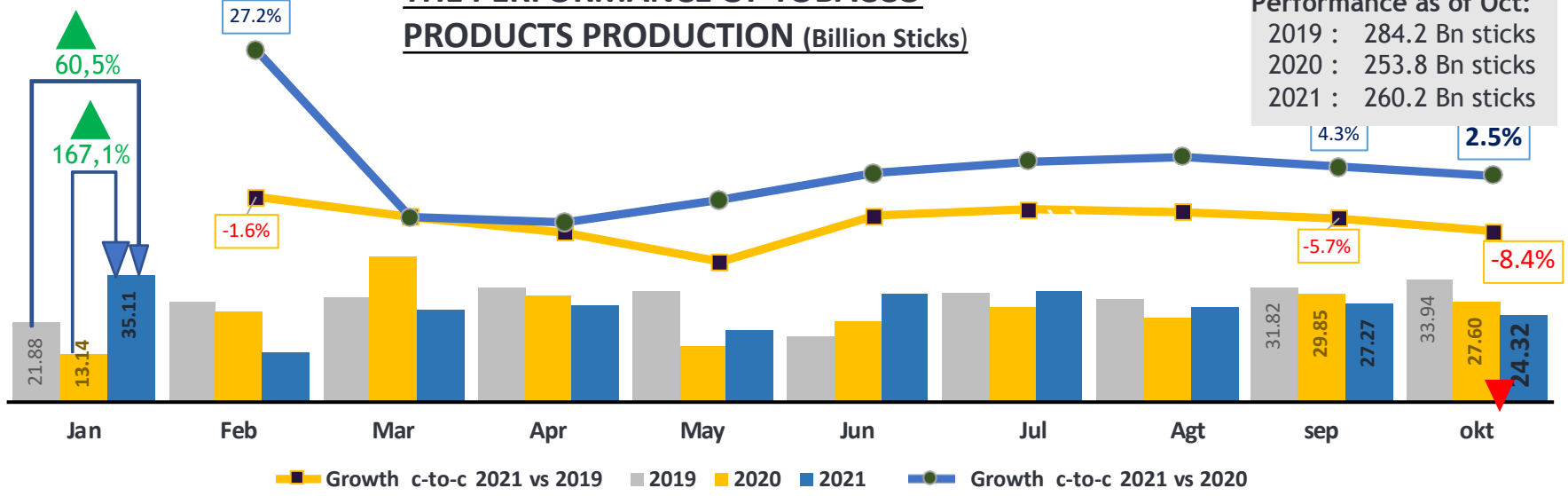
- ✓ 2021 Performance is better than 2019 and 2020, contributed by the commodity of Palm Oil and Copper Products:
- ✓ The receipts for Palm Oil and Copper Products grew significantly, affected by an **increase in export volume and prices** which pushed the tariff in 2021 to be higher than in previous years.

THE PERFORMANCE OF EXCISE OF TOBACCO AS OF OCTOBER CONTINUED TO IMPROVE THE ALTHOUGH TOBACCO PRODUCTION SLOWED DOWN



Performance as of Oct:
2019 : 116.8 T
2020 : 130.5 T
2021 : 143.8 T

1. **CHT revenues grew at a slower pace**, influenced by October's performance;
2. **Oct'21 revenue grew negatively,** due to differences in the pattern, i.e. the implementation of the relaxation policy for paying off the excise stamps.

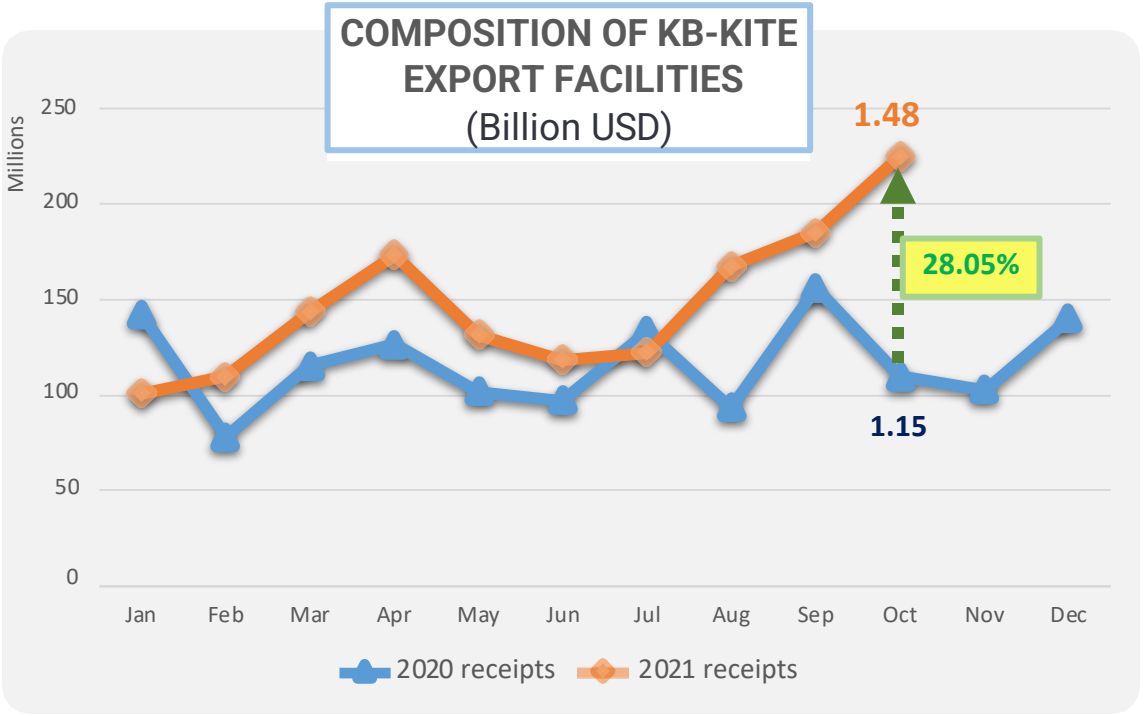


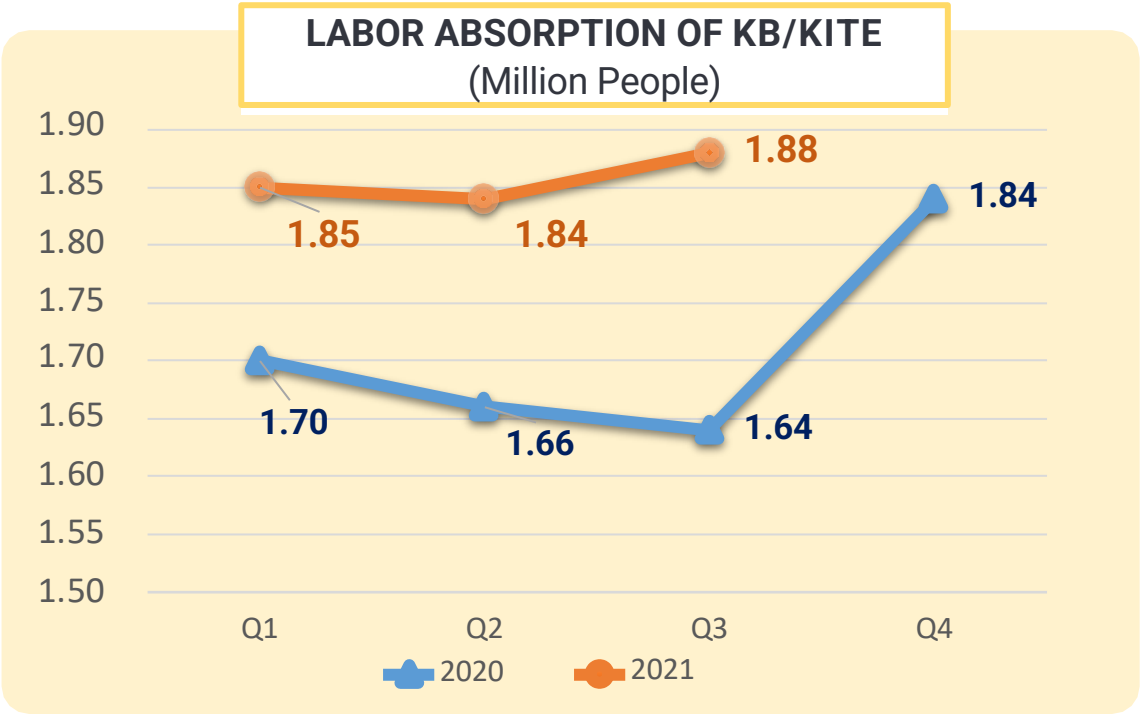
Performance as of Oct:
2019 : 284.2 Bn sticks
2020 : 253.8 Bn sticks
2021 : 260.2 Bn sticks

1. **Production performance is accumulatively growing** but tends to slow down (ytd: 2020);
2. The slowdown in production (ytd) was affected by the decline in production performance in October;
3. The production performance that tends to decline (ytd: 2020) even lower than in 2019, an indication of the **supervision function** being maintained.

Investment and Labor Absorption Improved in the Bonded Zone (KB) and Import Ease for Export Goods (KITE), Indicating Manufacturing's Resilience and Recovery Are Getting Better

Meanwhile, fiscal incentive in Custom & Excise in 2021 for pandemic has reached IDR7.14 Trillion





FISCAL INCENTIVE IN CUSTOM & EXCISE IN 2021

IDR7.14 T

- Import of Medical Equipment
  IDR1.72 Trillion
- Import of Vaccines
  IDR5.42 Trillion
- Business Sector
  IDR7.36 Billion

REALIZATION OF NON-TAX REVENUE AS OF OCTOBER 2021 ACHIEVED 117.1% OF THE 2021 BUDGET

Realization of Non-Tax Revenue grew by 25.2%, mainly driven by increase in Natural Resources Revenue, Other Non-Tax Revenue and Public Service Agency

Non-Tax revenue IDR349.2 T (117.1% of the Budget)

Oil and Gas Revenue Grows 23.1% (94.3% of the Budget)

The increase in Oil and Gas Revenue was mainly **due to the increase in ICP in the last 10 months**

Non-Oil and Gas Revenue Grows 85.6% (139.0% of the Budget)

- **Commodity prices increase:** coal, copper, tin and nickel prices
- **Supported by the increase in the forestry and geothermal sectors:** increased wood production, use of forest area areas, payment of PNBP receivables from the use of forest areas, as well as increased revenues from geothermal exploitation

Separate State Asset Revenue (114.8% of the Budget)

Influenced by the decline in the financial performance of banking SOEs in 2020 Fiscal Year due to the impact of Covid-19 pandemic and **absence of BI surplus deposit**

Other Non-Tax Revenue Revenues Grow 35.9% (102.2% of the Budget)

Increase in revenue from Other State Rights (Mine Sales, DMO, Premium State Bonds, & Previous Budget) and Line Ministries Service Revenue (Police, Ministry of Transportation, Ministry of Law and Human Rights, Health, and Agrarian Affairs)

Public Service Agency Revenue Grows 84.8% (164.1% of the Budget)

The increase in revenue from the management of oil palm plantation funds, education services, telecommunications services, area management, and income from Public Service Agency from the Central Government Entities.

The potential increase in Non-Tax Revenue from **Natural Resources Revenue** is indicated by the upward trend in the average price of crude oil and commodity prices which has increased since early 2021.

- ICP realization in the last 10 months (Dec2020-Sep 2021) of US$63.51 per barrel (Budget: US$45 per barrel).
- Reference Coal Price Average (Jan-Oct 2021)of US$108.29/ton (APBN: US$70/ton).

Public Service Agency revenue increased significantly, mainly from oil palm plantation fund revenues (growing 351.7%). There has been an increase in CPO prices in the last 11 months, the REF of the Ministry of Trade from US$782/MT to the highest of US$1,224/MT in June 2021

TRANSFER TO REGION AND VILLAGE FUND (TKDD) REALIZATION 2020-2021 AS 31 OCTOBER

TKDD 2021 disbursement is still lower compared to 2020

TKDD Realization and percentage to APBN

2020: Perpres 72/2020
2021: Perpes 113/2020

		2020	2021	Growth
Transfer to Region and Village Fund (TKDD)	IDR	697.95 T	642.63 T	(7.9)
		91.4 %	80.8 %	
Revenue Sharing (DBH)	IDR	93.54 T	73.35 T	(21.6)
		108.2 %	71.9 %	
General Allocation Fund (DAU)	IDR	351.30 T	338.24 T	(43.7
		91.4 %	86.7 %	
Physical Special Allocation Fund (DAK Fisik)	IDR	50.18 T	37.52 T	(25.2)
		93.3 %	57.5 %	
Non-Physical Special Allocation Fund (DAK NF)	IDR	109.69 T	110.82 T	1.0
		85.2 %	84.5 %	
Regional Incentive Fund (DID)	IDR	17.04 T	9.69 T	(43.1)
		92.1 %	71.8 %	
Special Autonomy & Privilege Fund for Yogyakarta	IDR	15.72 T	15.67 T	(0.4)
		75.3 %	73.5 %	
Village Fund	IDR	60.48 T	57.34 T	(5.2)
		85.0 %	79.6 %	

* Notes:
TKDD allocation 2021 have been adjusted based on refocusing program

HIGHLIGHT

- TKDD disbursement as October 31, 2021 amounting to 80.8% of the total allocation, lower compare to 2020 realization which was recorded by 91.4%
- The main factor of the low distribution of TKDD is that the local government have not meet the requirement of the disbursement for DBH, DAU, and DAK Physical
- Village fund also had low disbursement since the recipient number of village cash transfer was rationalized in line with the economic recovery
- Only DAK NF could reach positive growth. There was increasing number of teacher incentives recipient from 487 regions to 520 regions

LOCAL SPENDING REALIZATION AS OF OCTOBER 2021 STILL LOWER

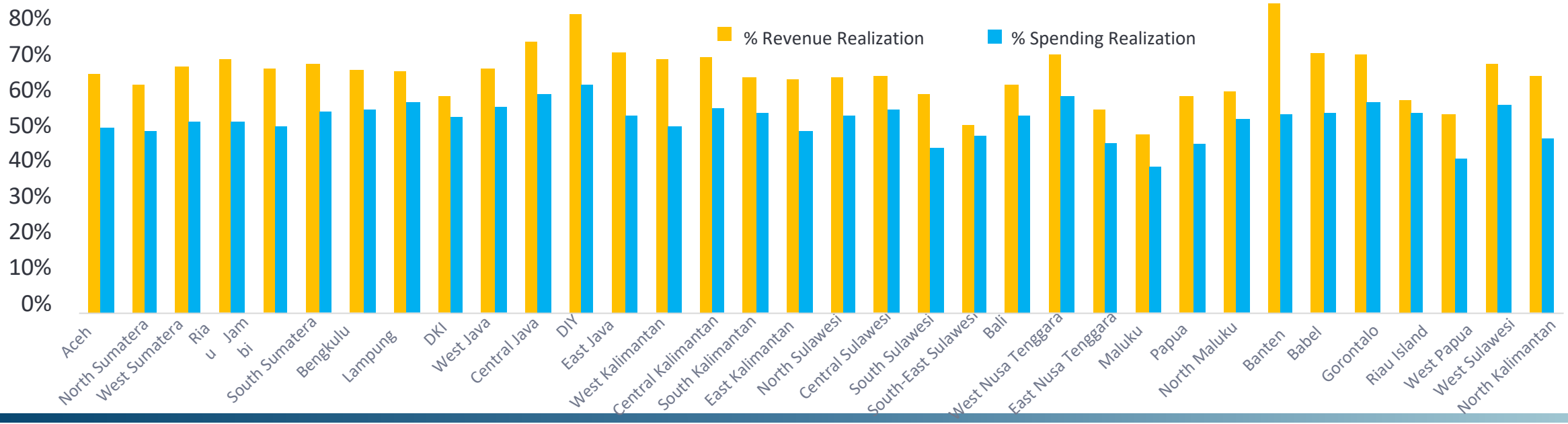
Revenue realization in all regions is still higher compared to the spending

Local Spending ▼ -2,21%

as of September 2021	689.76 T Allocation: 1223.82T	56.36% of allocation
As of September 2020	705.34 T Allocation: 1075.51 T	65.58% of allocation

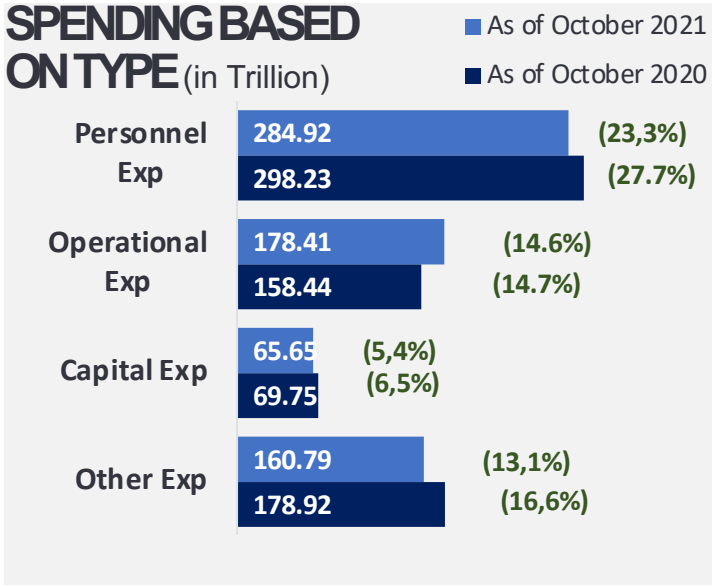
- ✓ **The realization of the local government budget was lower compared to its revenue. Low realization causes high of government deposits in bank. The local government need to accelerate their spending.**
- ✓ **Banten Province recorded the highest gap between revenue and expenditure realization,** due to high transfer from central government but with low disbursement level
- ✓ **Southeast Sulawesi Province recorded the lowest gap** between revenue and expenditure realization in line with lower realization of transfer from central government

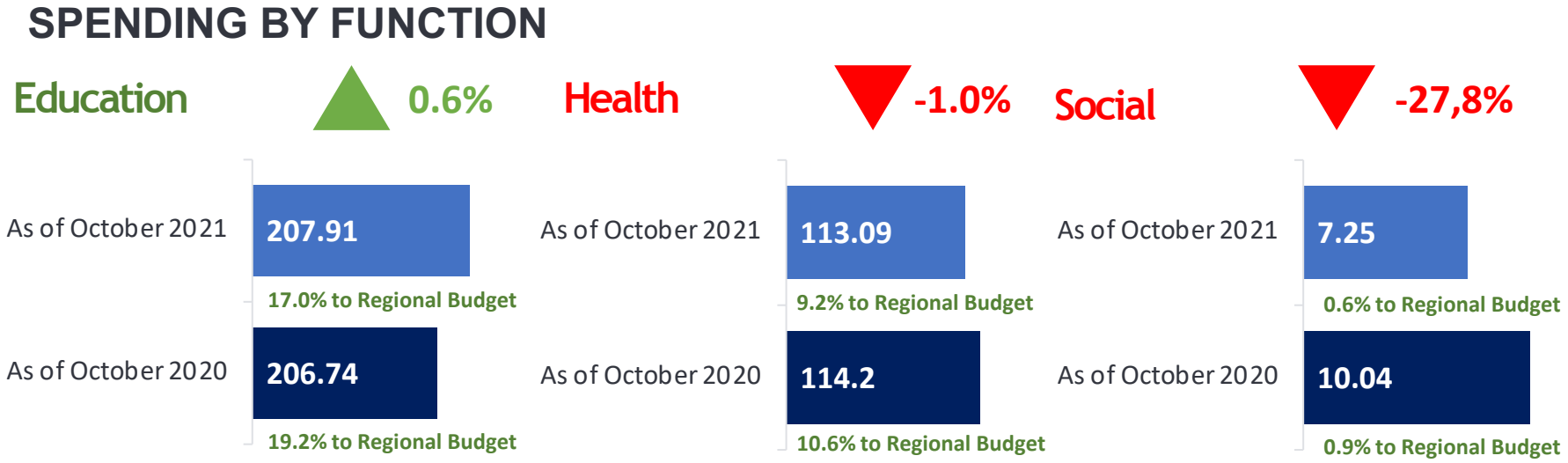
Local Revenue and Spending Realization as of 31 October 2021



HEALTH AND SOCIAL SPENDING IN THE REGIONS WERE LOWER THAN LAST YEAR

However, education spending recorded an increase





- ✓**Realization of education spending until October 2021 grew at 0.6% (yoy),** mainly the disbursement for teacher salary
- ✓**Realization of health spending grew by -1.0%.** The local government have to accelerate the disbursement, particularly for Covid-19 handling, vaccination program, and health worker related expenditure
- ✓**Realization of social spending grew by -27.8%** or equivalent to 0.6% of regional budget. Local government have to boost the social assistance to cushion the impact of pandemic and support the community

BUDGET FINANCING SUPPORTS ECONOMIC RECOVERY

Financing is still on track, supported by conducive market conditions and solid collaboration between authorities

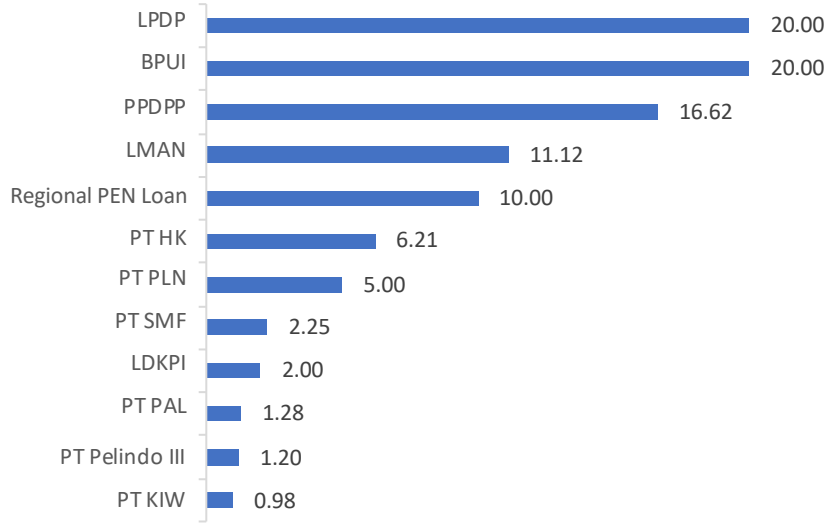
Budget Financing (IDR T)	2020			2021			
	Realization as of 31 Oct	% of Budget	YoY (%)	Budget	Realization as of 31 Oct	% of Budget	YoY (%)
Debt Financing	956.3	78.4	143.2	1,177.4	645.8	54.9	(32.5)
Government Bond (net)	934.5	80.4	130.1	1,207.3	668.7	55.4	(29.1)
Government Borrowing (net)	12.8	27.4	(176.1)	(29.9)	(29.9)	76.4	(278.5)
Investment Financing	(28.9)	11.3	143.1	(184.5)	(96.7)	52.4	(278.5)
Government Lending	2.2	37.1	233.3	0.4	3.0	659.9	37.2
Guarantee	(0.4)	579.3	-	(2.7)	-	-	-
Other Financing	0.2	0.3	103.1	15.8	56.1	356.1	26,377.0
Total	926.3	89.1	142.5	1,006.4	608.3	60.4	(34.73

- Budget Financing reached IDR608.3 T (60.4% target, -34.3% yoy)
- SBN issuance through auction & Retail SBN FY 2021 has been completed and stopped in early November in line with the frontloading strategy, in line with the improving outlook for the State Budget, optimization of liquidity (utilization of SAL), as well as plans to issue SBN with SKB 3 scheme (IDR215T) in November-December 2021.
- BI's contribution in purchasing SBN under the SKB I scheme reached IDR143.32 T (SUN IDR97.89 T & SBSN IDR45.44 T).
- Investment financing is carried out according to the schedule and stages of implementation in support of the hard work of the State Budget for national economic recovery efforts.

Realization of Investment Financing IDR96.6 T*

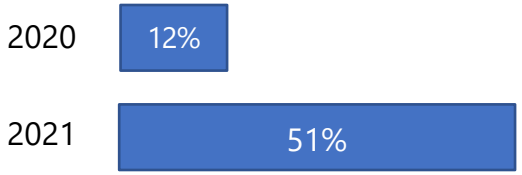
as of October 31, 2021

Disbursement to **PT HK, PT PLN, PT SMF, PT PAL, PT Pelindo III, PT KIW, PT BPUI, BLU LPDP, BLU PPDPP, BLU LMAN, BLU LDKPI, and Regional PEN Loans**



Comparison of Investment Financing Realization

January - October



The realization of investment is **accelerated**, for **faster utilization**.

Governance is improved with the Key Performance Indicator (KPI) of Investment Financing

Disbursement of Investment Financing allocation is based on performance and urgency analysis

Investment Financing Realization in October of IDR21.5 T

State Equity Participation to PT BPUI **IDR20.0 T**

BAHANA

Improving the capital structure of PT BPUI (Persero) in structuring the insurance industry through the establishment of a subsidiary of life insurance (IFG life).

State Equity Participation PPDPP: **IDR1.5 T**

To implement the Housing Financing Liquidity Facility program and improve MBR's accessibility to housing loans.

MACROECONOMIC INDICATORS DEVELOPMENT

INDICATOR	2020	2021	
	Realization	State Budget	Latest update
Economic Growth (%, yoy)	-2.07	5.0	Q3: 3.51% (yoy) 3.24 (ytd)
Inflation (%, yoy)	1.6	3.0	0.93 (ytd) 1.66 (yoy) *(as of October)*
Exchange Rates (Rp/US$)	14,578	14,600	14,237(eop) 14,310(ytd) *(as of Nov 23rd)*
10-years treasury bond yield (%)	n/a	7.29	5.99 (eop) 6.35 (ytd) *(based on latest auction on Oct 26th)*
ICP (Oil Price) (US$/Barrel)	40.4	45	81.80(eop) 66.87(ytd) *(as of October)*
Oil Lifting (thousand barrel per day)	706	705	668.93(eop) 660.89 (ytd) *(as of September)*
Gas lifting (thousand barrel – equal oil per day)	975	1,007	901.62 (eop) 997.70 (ytd) *(as of September)*

Economic Indicator Development 2021

- **Economic growth:** GDP for the third quarter of 2021 grew by 3.51% yoy or 3.24% (ytd)
- **Inflation rate:** inflation in Octover was recorded at 0.12% (mtm) due to higher administered price inflation along recovery of people mobility, while core inflation recorded limited growth and volatile food slowed down.
- **Rupiah Exchange Rate:** The rupiah was steady in the mid of November 2021. Up to November 23rd 2021, the Rupiah (ytd) depreciated by 2.7% compared to the initial exchange rate in 2021.
- **SBN 10 Years:** The weighted average yield of 10-Year Government Securities is 6.35% (ytd). The last auction was on October 26, 2021, with a yield of 5.99%.
- **Indonesian Crude Oil Prices:** The ICP price increased as the fundamental of the crude oil market strengthened, particularly due to higher demand from Europe and the OPEC+ agreement to maintain current supply
- **Oil and Gas Lifting:** Oil and gas lifting up to September 2021 is 901.62 thousand bpd and 997.7 thousand bpd, respectively

GOVERNMENT BUDGET REMAINS FLEXIBLE AND RESPONSIVE TO THE DYNAMICS OF COVID19

As of November 26th, the realization of the National Economic Recovery program amounted IDR 501.97 T or 67.4% of its plan

The allocation of the 2021 The National Economic Recovery program (IDR774.75 T) increased compared to the realization of the 2020 (IDR575.2 T)

HEALTH SECTOR

Budget: **IDR214.96 T**
Realization: **IDR136.80T**
(63.6%) of budget

- Vaccine Procurement (222.44m Doses)
- Medical Facilities and Infrastructure
- Treatment costs (759.94 thousand Patients)
- Incentives (1.30 million health workers) & death compensation (501 health workers)
- Health Insurance Aid for Non-Wage Workers (34.71m people)

SOCIAL PROTECTION

Budget: **IDR186.64 T**
Realization: **IDR141.37T**
(75.7%) of budget

- Conditional Cash Transfer (10m families)
- Staple Food Assistance (18.1m Families)
- Pre-Employment Card (5.96m People)
- Cash Transfer (9.99m Families) & Village Fund Cash Transfer (5.62m Families)
- Internet Subsidy (64.59m People)
- Electricity Bill Discount (32.6m Beneficiary)
- Job Loss Guarantee Contribution (7.19m Workers)

FIRMS & MSMEs SUPPORT

Budget: **IDR162.40 T**
Realization: **IDR82.29T**
(50.7%) of budget

- Ultra-Micro business assistance (12.8m businesses)
- Guarantee Fee subsidy for MSMEs (2.31 M recipient) and for firms (43 recipient)
- Liquidity support for the banking sector (IDR 452.79T for 5.47M Debtors)
- Interest subsidy for MSMEs credit (6.88m businesses) and non MSMEs credit (13.84M businesses)
- Capital Injection to HK, Pelindo III, KIW, and LPI IDR23.39T
- Street vendors support (1 million businesses)

PRIORITY PROGRAMMES

Budget: **IDR117.94T**
Realization: **IDR77.99T**
(66.1%) of budget

- Tourism Supports
- Food Security/Food Estate
- Loan Facility for Regional Govt IDR10T through PT. SMI
- Labor Intensive Program (1.52m workers)
- Other Priority Programs

BUSINESS INCENTIVES

Budget: **IDR62.83T**
Realization: **IDR63.52T**
(101%) of budget

- Income Tax subsidy for employers (84,417) and MSMEs (134,223)
- Income Tax Exemption on Import (9,557 taxpayers)
- VAT Refund (2.659 taxpayers)
- Tax discount for Automotive (6 sellers)
- VAT discount for property sector (941 sellers)
- Subsidy on Import Duty (IDR2.68T)

2022 STATE BUDGET & STRUCTURAL REFORM FOR RECOVERY

INDONESIA QUICK AND RESPONSIVE POLICY DURING COVID-19 PANDEMIC

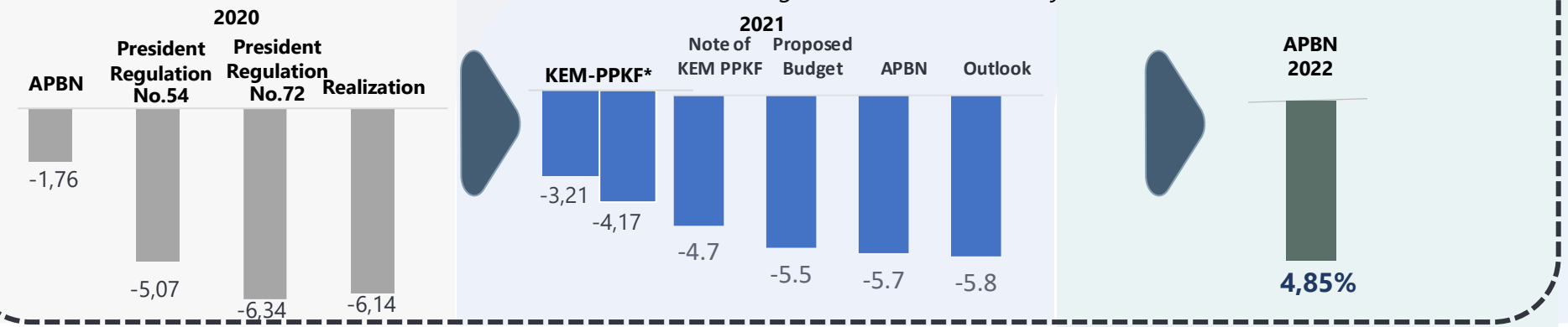
Flexible fiscal policy to support pandemic handling and recovery to pave the way toward economic transformation

Responsive Fiscal Policy

2020	2021	2022	2023
EXTRAORDINARY POLICY Immediate response to Covid-19: Health Measures, Protecting People and Business	**SURVIVING & FACILITATING RECOVERY** Health measures, Vaccine Rollout, social protection, support to businesses, structural reforms	**SUSTAINING & ACCELERATING RECOVERY** Sustaining and accelerating Recovery, further structural reform	**STRONGER & RESILIENT ECONOMY, FISCAL CONSOLIDATION** **REBUILDING FISCAL DISCIPLINE TOWARDS LONG-TERM SUSTAINABLE BUDGET** • Deficit 3% of GDP in 2023; • Manageable debt risk

Fiscal Deficit Dynamic

For COVID-19 handling and economic recovery



STRONG AND CONTINOUS ECONOMIC RECOVERY FRAMEWORK

EFFECTIVE COVID-19 PANDEMIC HANDLING

- Mass Vaccination
- 5M Internalization
- 3T Implementation

ECONOMIC JUMP START

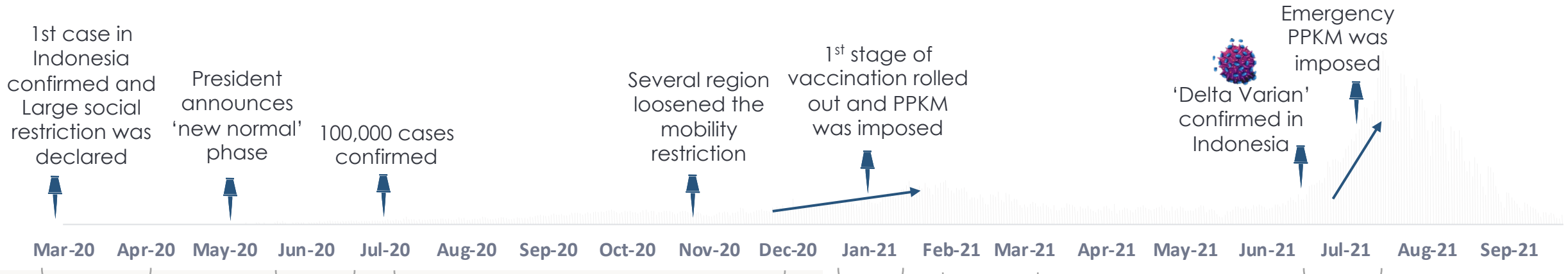
- Social assitances
- Support to businesses (tax incentives, subsidies & guarantee scheme)
- Integrated Policy Package (KSSK)

STRUCTURAL REFORM

- Omnibus law on job creation (including INA, OSS)
- Fiscal Reform
- Financial Sector Reform

FLEXIBLE GOVERNMENT BUDGET IN RESPONSE TO SHOCKS & UNCERTAINTIES

As countercyclical instrument to respond to the resurgence of COVID-19 as well as to stabilize and sustain the recovery



MAR-APR

IDR 46.5 T

Government announced measures to mitigate pandemic risk on domestic economy

JUNE

IDR 695.2.4 T

National Economic Recovery Program (PEN) was enacted through PP 23/2020 while the budget 2020 was revised

JUL-DES

IDR 575.2 T

Reallocating and refocusing budget between cluster to finance urgent programs. At the end of year, some of health measures budget for vaccination are carried forward to 2021

JAN

IDR 403.94T

The budget was adjusted in August 2020 with the easing of COVID-19 in Aug – Sept 2020

FEB-MAR

IDR 699.43T

PEN budget was increased due to surging cases of Covid-19 and vaccination program.

JUL

IDR 744.75 T

PEN is strengthened due to the new wave caused by the delta variant. Social restriction (PPKM) has been imposed, social protection has been re-expanded.

PEN 2020 | **PEN 2021**

THE COLLABORATION OF GOVERNMENT, CENTRAL BANK, OJK, IDIC IN SUPPORTING ECONOMIC STABILITY AND RECOVERY

INTEGRATED & COORDINATED MEASURES BY FINANCIAL SYSTEM STABILITY COMMITTEE (KSSK)

Central Bank

- **Monetary**: stabilizing exchange rate, participation in gov't bond primary market, lowering policy rate, QE
- **Macroprudential**: Sectoral RIM, relaxing reserve requirement rates
- **Payment system**: accelerating electronic transaction system, fintech

Government

Cash flow support: Tax expenditures, tax incentives, electricity bills discount

Financing support: Interest subsidy for MSME loan, guarantee of working capital loan

Recovery programs:

Labor intensive programs, support for tourism

Indonesia Deposit Insurance Corporation

- Lowering premium
- Relaxing payment period for insurance premium and reporting schedule of single customer view system

Financial Services Authority

- Relaxing loan restructuring regulation
- Relaxing maximum limit of credit exposure on certain sectors
- Relaxing risk-weighted assets for property and automotive loan

- Policies with direct implication to the economy in both supply and demand side
- Stimulating banks' role as intermediary agent in providing financing support to businesses to sustain the recovery process

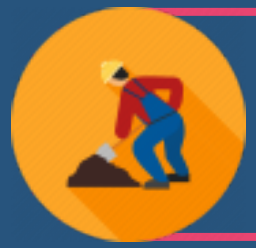
Stronger and more sustainable economic recovery

***Enablers*:**

- Accelerated vaccination
- Implementation of Job Creation Law

STRUCTURAL ECONOMIC REFORM STARTED WITH THE ENACTION OF LAW NO 11/2020 ON JOB CREATION

- Investment Growth & Licensing Simplification
- SOEs Simplification and Protection
- Human Resources
- Research and Innovation Support
- Ease of Doing Business
- Land Management
- Special Economic Zones (KEK)
- Government Administration
- Government Investment Authority & National Strategic Program
- Law Enforcement and Protection



Creating New Jobs

Increasing EoDB and Business Certainty

Simplifying Regulation and Licensing

Increasing Investment Climate

**Government has completed several operational regulations of Law No 11/2020, consisting of 47 Government Regulation (PP) and 4 Presidential Decree (Perpres)*

ESTABLISHMENT OF INDONESIA INVESTMENT AUTHORITY (INA) AS INDONESIA'S SWF

Strong institutions with good corporate governance to gain global investors' trust

Government Investment Objectives
(Pasal 154 ayat 2 UU Cipta Kerja)

- Receive economic benefits, social benefits, and / or other benefits that are predetermined
- Contribute to the development of the national economy in general and state revenues in particular
- Receiving benefits; and / or
- Carrying out public benefits (creating jobs).

Indonesia Investment Authority
a form of implementing government investment

Characteristics and Advantages

- Focus in Capital Maximation
- Governance Following International Business Practices
- Economic Goals Balanced with Commercial Benefits
- A Strong Legal Foundation for Certainty
- Flexibility in Investing
- Strong support from the State
- Able to capture Investors Appetite
- Strong Independence and Professional Management

INA's Target

- Optimize of Central Government Investment Value
- Increase Foreign Direct Investment (FDI)
- Enhance the improvement of the investment climate

*In "Pasal 154 ayat (3) UU Cipta Kerja", Central Government investment is carried out by the Minister of Finance and Investment Institutions (IIA)

POLICY DIRECTION FOR STATE BUDGET 2022

Maintaining the right balance between anticipating pandemic risk, accelerating economic recovery, and supporting structural reform

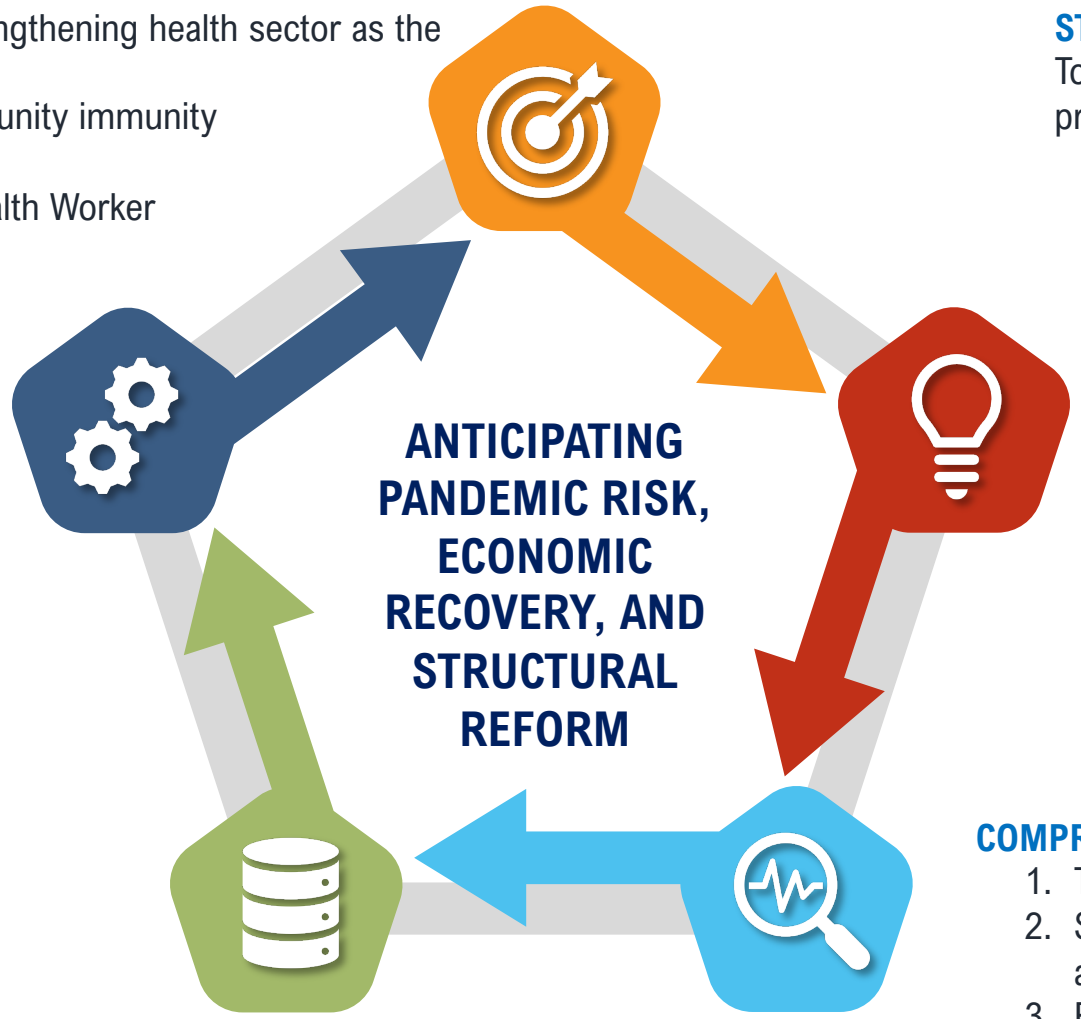
COVID-19 HANDLING: Strengthening health sector as the key to economic recovery

1. Vaccination for community immunity
2. Health Protocol
3. Health Facilities & Health Worker
4. Medicine

STRUCTURAL REFORM:

To improve competitiveness and enhance production capacity.

1. Education for excellent and integrity human resources
2. Reliable health system
3. Adaptive social protection
4. Improving investment climate
5. Infrastructure that support economic transformation
6. Institutional reform.



MAINTAINING THE RESILIENCY AND SURVIVAL ABILITY AS WELL AS ACCELERATING RECOVERY

Through social protection program for businesses and MSMEs.

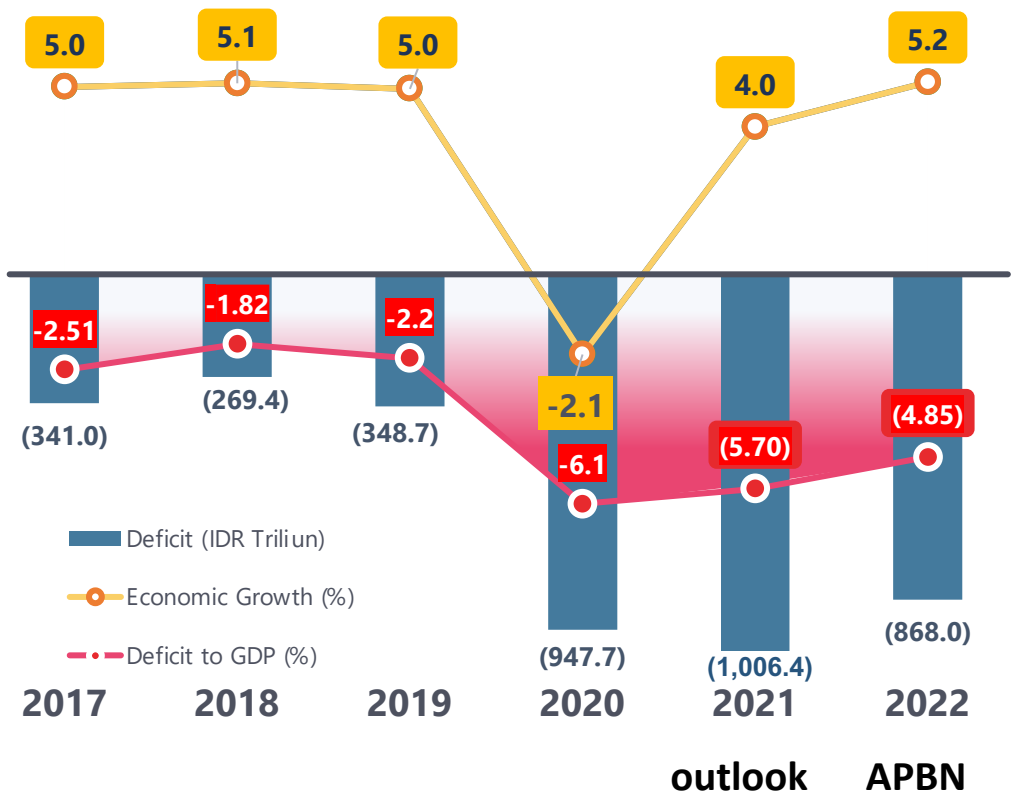
1. Conditional Cash Transfer (PKH), Staple Food Assistance, Pre-employment card, Cash Transfer through Village Fund
2. Interest subsidy & incentives for businesses.

COMPREHENSIVE FISCAL REFORM:

1. Tax reform
2. Spending better (Zero based budgeting), allowance for risk dan automatic stabilizer
3. Financing Innovation (eg. PPP, SWF, SMV) and debt management.

Optimum implementation of **State Budget 2022** as **FOUNDATION** for **FISCAL CONSOLIDATION** in 2022.

2022 STATE BUDGET: FISCAL POLICY TO SUPPORT THE ECONOMIC RECOVERY AND STRUCTURAL REFORM



Account (IDR T)	2020		2021		2022	
	Audited	Growth (%)	State Budget	Growth* (%)	Budget	Growth** (%)
State Revenue*	**1,647.8**	**(16.0)**	**1,743.6**	**5.8**	**1,846.1**	**5.6**
Tax Revenue	1,285.1	(16.9)	1,444.5	12.4	1,510.0	4.3
Non Tax Revenue	343.8	(15.9)	298.2	-13.3	335.6	11.1
State Expenditure	**2,595.5**	**12.4**	**2,750.0**	**5.6**	**2,714.2**	**(1.3)**
Central Government Expenditure	1,833.0	22.5	1,954.5	6.63	1,944.5	(0.5)
Regional Transfer & Village Funds	762.5	(6.2)	795.5	4.33	769.6	(3.4)
Primary Balance	**(633.6)**	**766.8**	**(633.1)**	**(0.1)**	**(462.2)**	**(37.0)**
Surplus (Deficit)	**(947.7)**	**171.8**	**(1,006.4)**	**6.2**	**(868.0)**	**(15.9)**
% to GDP	*(6.14)*		*(5.70)*		*(4.85)*	
Financing	**1,193.3**	**196.8**	**1,006.4**	**(15.7)**	**868.0**	**(15.9)**

- **In 2023 fiscal deficit at <3% of GDP according to the mandate of Law 2/2020.**
- **In 2022, the deficit is maintained at around 4.85% of GDP to give smooth trajectory for fiscal consolidation process.**

MACROECONOMIC ASSUMPTIONS

Economic Growth	Inflation	Exchange Rate	10-year T-Bonds Rate	ICP (USD/barrel)	Oil Lifting ('000 barrels per day)	Gas Lifting ('000 barrels oil equivalent per day)
5.2%	3%	14,350	6.80%	63	703	1,036

**growth 2021 State Budget to 2020 Audited*
***growth 2022 State Budget to 2021 State Budget*

2022 STATE BUDGET SUPPORTS DEVELOPMENT SECTORS*)

- Improve the quality of human capital
- Support the economic recovery and structural reforms

*) pre-eliminary figures

EDUCATION (IDR542,8T)

- Increase the skills and professionalism of the teachers
- Accelerate the rehabilitation of education facilities
- Strengthening vocational education through quality standardization and developing research and innovation
- Increase the synergy of Central Government, Local Government, and Line Ministries

HEALTH (IDR256,0T)

- Continue the CVID-19 Handling (Gov't vaccination, patient treatment)
- Increase the effectiveness of insurance for maternal health (*Jampersal*) and make it integrated into JKN program
- Strengthen the reforms of national health system
- Continue the efforts to lower the stunting incidence

SOCIAL PROTECTION (IDR429,9T)

- Continue to develop the Unified Database (DTKS) and synergizing with other relevant data
- Supoport the social protection reforms
- Support the program of insurance scheme from losing job
- Develop the scheme of Adaptive Social Protection

INFRASTRUCTURE (IDR367,8T)

- Support the basic service infrastructure
- Enhance the productivity (connectivity and mobility)
- Providing the energy and food infrastructure
- Equal provision and access to infrastructure and ICT

FOOD SECURITY (IDR78,7T)

- Improve the food access and coverage
- Increase the productivity and revenue of the farmers and fisherman
- Pengembangan Kawasan Sentra Produksi Pangan (Food Estate)

TOURISM (IDR9,2T)

- Accelerate the development of 5 Super Priority Tourism Destinations (Danau Toba, Borobudur, Mandalika, Labuan Bajo and Likupang)
- The development of tourism and creative economy
- Tourism recovery and Rebranding

ICT (IDR27,1T)

- The ICT infrastructure development
- Encourage the adoption of digital transformation in various economic sectors and government
- Establising the National Center of Data and the SPBE Implementation

COMPREHENSIVE STRUCTURAL REFORMS ARE NEEDED TO CAPITALIZE DEMOGRAPHIC DIVIDEND

Fiscal reform will facilitate further structural reforms

Human Capital

Improve the quality of education, health, and effectiveness of social protection to improve the quality of human resources.

FISCAL REFORM
Tax reform, improvement of spending quality (spending better) & innovative financing

Continue the acceleration of infrastructure development through digital infrastructure and logistics efficiency, as well as connectivity.

Infrastructure development (*Physical capital*)

Real Sector Reform through Omnibus Law on Job Creation

- **Job Creation**
- **Ease of Starting Business**
- **Support the Eradication of Corruption**

Deregulation

- Investment ecosystem improvement
- Business licensing
- Employments
- MSME Supports
- Ease of Doing Business
- Research & innovation

Simplification of Bureucracy

- Land procurement
- Economic zones
- Central government investment & national strategic projects acceleration
- Government administration
- Imposition of Sanctions

Transformation of Economy

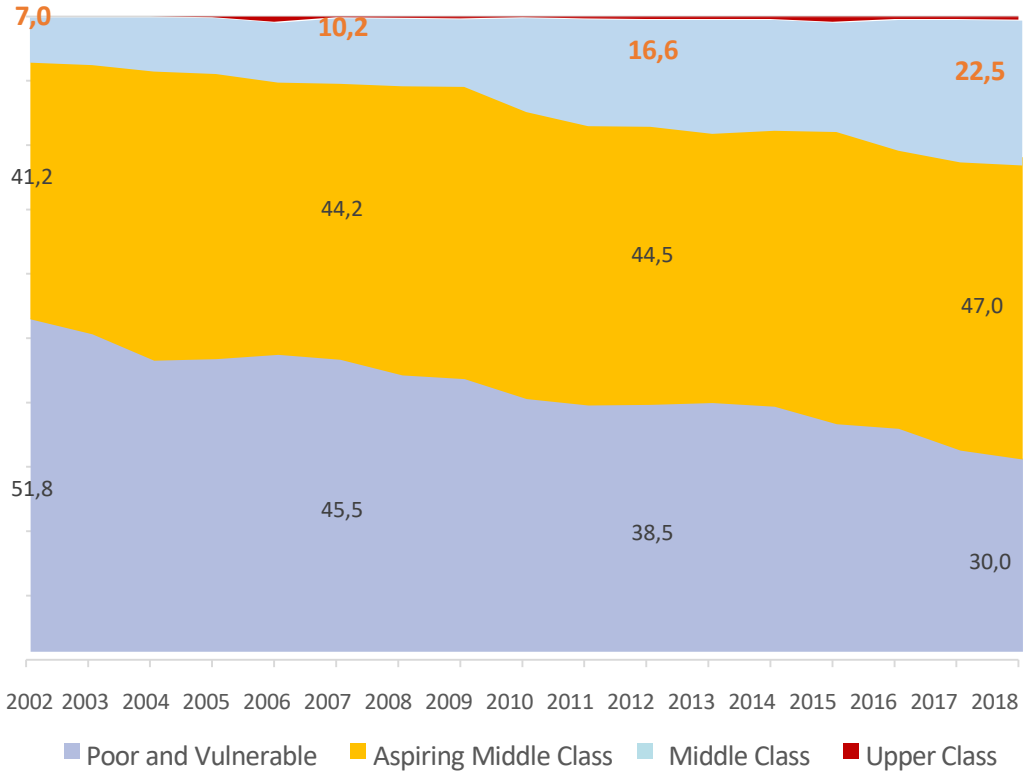
Financial Sector Reform

Deep financial markets – ***Depth*** •
Broadly accessible financial sector – ***Access*** •
Efficient, strong and stable financial system – ***Efficiency*** •

FAVORABLE DEMOGRAPHIC CHANGES AS AN OPPORTUNITY FOR TAX REFORM

Increasing middle-class group could be capitalized to strengthen government revenues in the future

The share of the aspiring and middle-class group continues to increase (%)



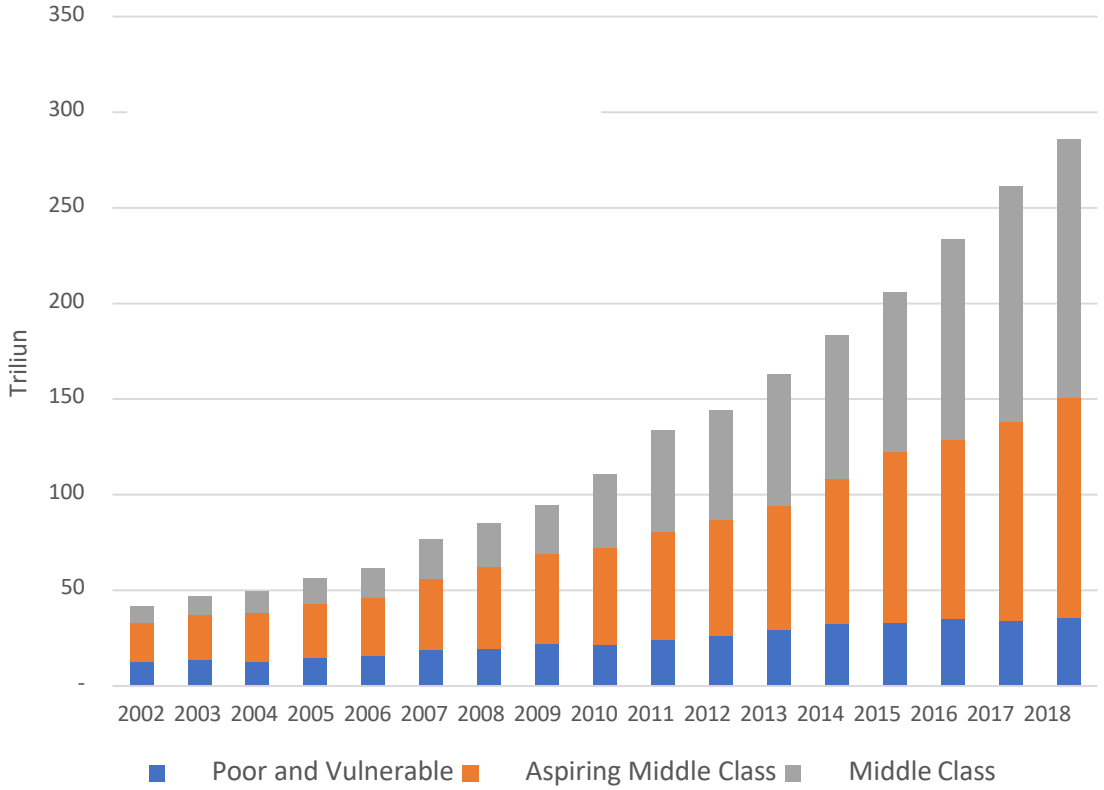
22,5%

Share of Middle Income Population in 2018

increased 15.5 ppt from total population in 2002

Source: Workl Bank (2020)

Consumption of the aspiring and middle-class group increases significantly (IDR Trillion)



Through **tax reforms**, state revenue could be strengthened along with favorable demographic changes.

Stronger consumption on the back of rising middle-class group could boost tax revenue, particularly VAT and personal income tax.

THE URGENCY OF TAX REFORM

Stronger and Broader Tax Base
- Growing consumption
- Higher Income Per Capita

Healthier and Sustainable Budget
- Stronger State Revenue
- Low Budget Risk and manageable financing risk

High Economic Growth
- Boost investment and job creation
- Improve ease of doing business

TOWARDS FAIR, HEALTHY, EFFECTIVE, AND ACCOUNTABLE TAX SYSTEM

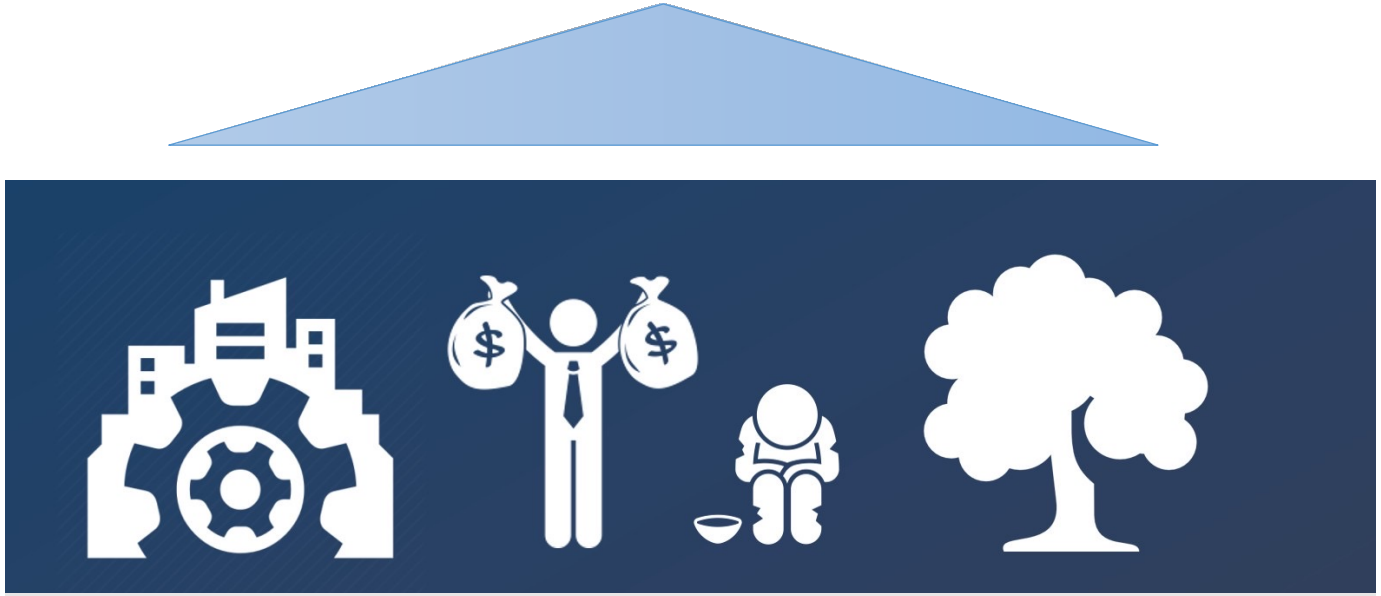
TAX REFORM

Policy Reforms
- Broadening tax base
- Enhance competitiveness
- More efficient and effective tax incentives which are in line with global tax dynamics
- Tax incentives are more prioritized for high value-added sectors with larger job creation
- Reducing excessive tax exemptions and distortionary effect
- Improving tax progressivity.

Administration Reforms
- Simpler and more efficient tax administration
- Ensuring legal certainty
- Utilizing financial data and information
- Flexible to changes of the economic structure, business activities including digital economy
- In line with global tax changes and best practices
- High tax compliance.

TAX REFORM STRENGTHENS THE STATE BUDGET FUNCTION TO ENHANCE SOCIAL WELFARE

The State Budget
as an instrument to realize fair and prosperous society



ALLOCATION	DISTRIBUTION	STABILIZATION
Public Goods	Income Redistribution	Economic Stability & Growth

- Over the last 10 years, state revenue has been in downward trend to around 10% of GDP limiting fiscal space.
- In response to Covid-19 crisis, the state budget is used as countercyclical measures to tackle the health crisis, provide lifeline support to poor and vulnerable family and businesses, and facilitate economic recovery.
- Fiscal reform is aimed to strengthen long-term fiscal sustainability to facilitate comprehensive structural reforms in order to enhance long-term potential growth.

THE LAW ON HARMONIZATION OF TAX REGULATIONS (HPP LAW)

As part of tax reform to increase revenue and achieve the long term sustainable growth

POLICY CHANGES IN THE HPP LAW

GENERAL PROVISIONS AND PROCEDURES

- Integration of the ID Number with the Taxpayer Number,
- Appointment of third parties as withholding, collecting, depositing and/or reporting tax (including e-commerce)

INCOME TAX

- Introducing of the new bracket for individual with income exceeding IDR 5 billion at 35% tax rate,
- Corporate Income Tax in 2022 remains at 22%
- Income Tax rate at 0.5% for individual MSME (threshold IDR 500 million)
- Natura (Employee non-cash benefits) becomes tax object

VOLUNTARY DISCLOSURE PROGRAM

Offering opportunity to pay the unpaid taxes for assets during 2015 - 2020 with imposing tax fine rate. Will be implemented from 1 January 2022 to 30 June 2022

VAT

- Tax rate hike on VAT from 10% to 11% from 1 April 2022 and to 12% by 2025,
- reducing the VAT exemptions and facilities,

CARBON TAX

- Introduction of the carbon tax in 2022 through gradual basis according to a roadmap that will consider the development of a carbon market, achievement of NDC targets, sector readiness, and economic conditions.

EXCISE

Strengthening the mechanism for determining excisable goods; and Applying criminal sanctions as a last resort (*ultimum remedium*) in excise crime for violations of permits, releasing excisable goods, unpackaged excisable goods, excisable goods originating from criminal acts, and the sale and purchase of excise stamps.

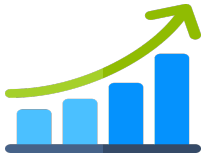
ACCELERATING STRUCTURAL REFORMS IS A KEY TO ENHANCE MEDIUM TO LONG-TERM GROWTH

The Covid-19 pandemic has underscored the urgency to accelerate the structural reforms

Key for Further Strong and Sustainable Economy in Medium Term

Maintaining growth momentum through promoting growth engine: consumption, investment, export & production sectors

Structural reforms for improving productivity: Implementation of Job Creation Law, SWF / INA, Risk-Based OSS System



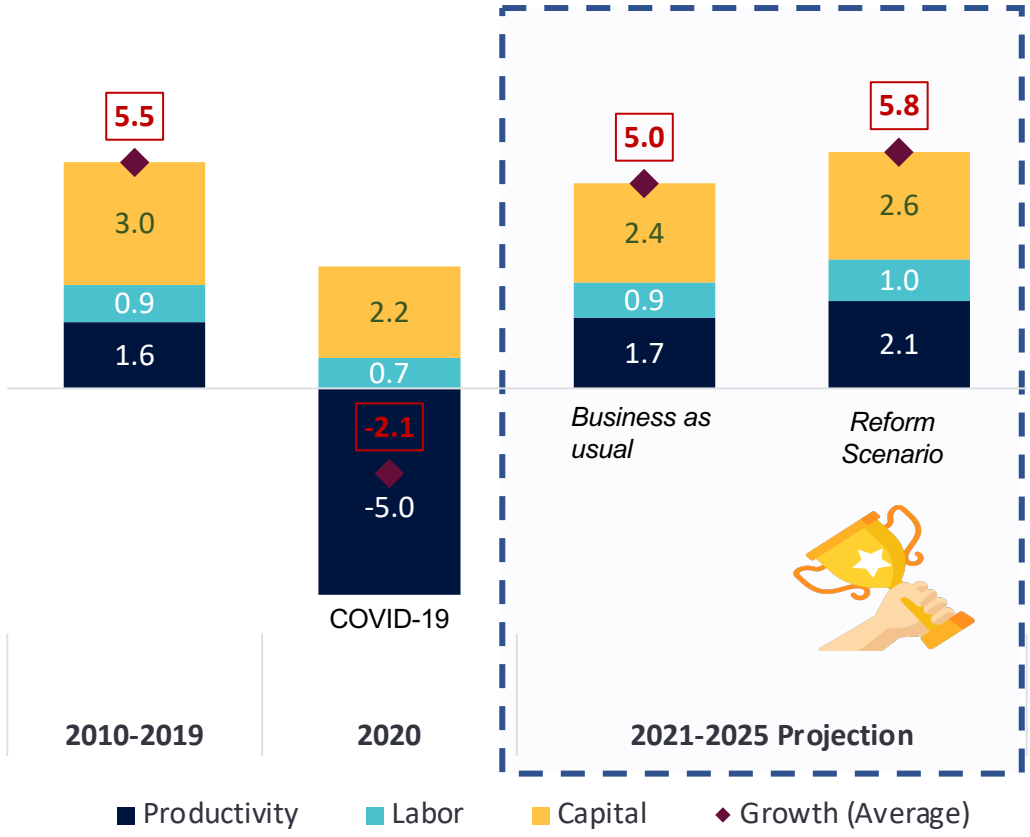
Increasing investment & export competitiveness: creating quality jobs and sustainable economic recovery

Structural reforms along with fiscal reforms (APBN)

focus on priority areas: Health, Education, Social Protection, Infrastructure, Tax Reform and Regional Government Revenue Sharing Law (HKPD)

Source: Statistics Indonesia, MoF Calculation

Economic Growth Decomposition (%)

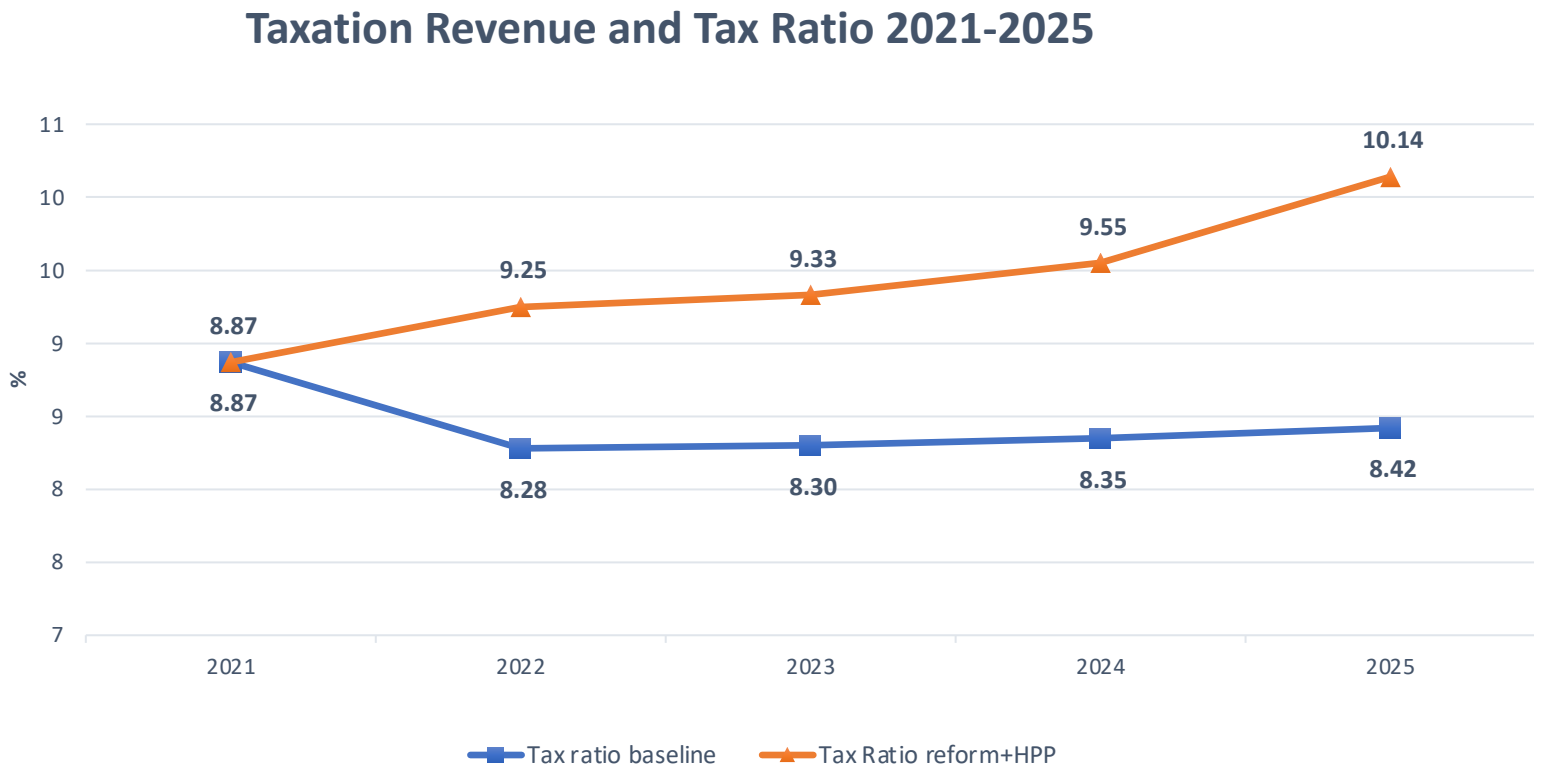


TAX REVENUE STARTED TO INCREASE BY STRENGTHENED TAX REFORM

Tax regulation harmonization law strengthens tax reform

Macroeconomic Analysis

- ✓ Economic growth is relatively unaffected
- ✓ Impact on Inflation is limited, < 0.5%
- ✓ **Provide positive contribution to MSMEs**



- Outlook for tax revenues reach IDR1,492.8T in 2021 (based on the current realization).
- Taxation in the 2022 State Budget is IDR1,510.0 Trillion → exclude the impact of the HPP Law.
- Without reform and the HPP Law, tax ratio 2021-2025 will stagnate in 8.3%- 8.9% of GDP.
- With the reform and implementation of the HPP Law, the tax ratio is estimated to reach 9.25% of GDP (in 2022) and 10.14% of GDP (in 2025).
- With yearly average growth of tax revenue by 13.07, tax ratio is expected to 10.14% of GDP in 2025.

THANK YOU