

STATE ADDRESS OF THE PRESIDENT OF THE REPUBLIC OF INDONESIA AND THE GOVERNMENT STATEMENT

Jakarta, 16 August 2005



Bismillahirrahmanirrahim,
Assalamu'alaikum Warahmatullahi Wabarakatuh,

May we all be blessed with well-being, Honourable Speaker, Deputy Speakers, and Members of the House of Representatives, Esteemed Chairpersons, Deputy Chairpersons, and Members of State Institutions, Excellencies, the Ambassadors and Representatives of International Agencies and Organizations, Ladies and Gentlemen, Fellow Countrymen,

Let us offer our praise and grace to Allah SWT for, on this auspicious day, we are able to attend the Plenary Session of the House of Representatives of the Republic of Indonesia, in order to begin the Opening of the First Meeting Period for the 2005/2006 Meeting Year.

I wish to thank the House, which has provided me with the opportunity to deliver this State Address, and present the Government Statement on the Bill on the State Budget for the 2006 Year, and its financial note. Tomorrow, on 17 August 2005, we shall together commemorate the historic moments of the sixtieth anniversary of the Proclamation of Independence of our country.

I wish to seize this opportunity to invite the entire Indonesian nation to offer our most profound praise and grace to God the Almighty. For it is only owing to His blessings and bounty, that for the last sixty years our state remained standing robustly, amidst alternating trials. Sixty years in the journey of this nation has shown that it is indeed still far from the aspirations of its founding fathers. However, the joys and sorrows experienced in developing this country during these sixty years may very well become sufficient provisions to address and overcome our common challenges.

We are grateful that we are, now, no longer burdened by ideological conflicts such as those that occurred in the past. The reform era has encouraged us to become a democratic nation. It was equally in that reform era that the 1945 Constitution experienced four amendments. We have attempted to build a new equilibrium between the state institutions, which we hope would bring about a more democratic and dynamic life.

From those four amendments to the 1945 Constitution, there exists an agreement from all political forces to continue maintaining the Preamble to the 1945 Constitution.

The Preamble to the Constitution contains the fundamental tenets of our nationhood and statehood, among others, the state ideology and our purpose in establishing the state. That agreement to preserve the Preamble to the Constitution simultaneously

demonstrates that we have put an end to the ideological debate. Pancasila (The Five Principles) has been accepted as the ideology and foundation of our state, and it has become a basis for the life of the society, nation, and state. I invite all components of the nation to jointly carry out that agreement wholeheartedly. Let us now dedicate our full attention to the arrangement of the system, the conduct of the state, and settle the concrete problems faced by our nation.

Part of our endeavour to organize the statehood has been successfully carried out in a safe and smooth manner. The General Elections for members of the representative agencies and the general elections for the President and Vice President have proceeded well. There are still several problems that we are facing in the process of electing the regional heads. However, I am of the conviction that they will all be overcome in gradual stages. Democracy cannot possibly be built in a day. We still require time to learn to be mature.

The reform era has provided us with a new mandate to eradicate various deviations. We eradicate the abuse of power and authority, violations of human rights, corruption, collusion, and nepotism. Reform does not mean that we overturn all the existing order. The essence of reform is continuity and change. Reform means reorganising the statehood order towards a better direction.

Honourable Speaker, Deputy Speakers, and Members of the House, Fellow countrymen, Our purpose in establishing our country is namely to protect the entire Indonesian nation and the whole Indonesian homeland, improve the public welfare, advance the intellectual life of the people, and to contribute to the establishment of a world order based on freedom, abiding peace, and social justice. In order to achieve that noble purpose, other than hard work, we will need the foundation, direction, and policies. We no longer realize the existence of the State Policy Guidelines (GBHN). However, we still necessitate a state document that contains the foundation, direction, and policies, and the stages of the national development.

We all want an Indonesia of the future to be an Indonesia that develops based on the soul, spirit, value, and basic consensus on the founding of the Unitary State of the Republic of Indonesia. An Indonesia of the future should be an Indonesia that is able to withstand any recession, crisis, and various turbulent changes. An Indonesia of the future should be an Indonesia that is prepared to face changes, and is convinced of the necessity for international relations. The ideal Indonesia is an Indonesia that is safer and more peaceful, just and democratic and more prosperous.

Every step that we take does not always produce instant results. However, every step that we take will create a new order that will shape the future of this nation. Even though a period of sixty years may appear long enough for a journey, it is, however, still too short to realize the noble aspirations of this nation. I invite all parties to collectively preserve and give substance to the journey of this nation, with a sense of responsibility and a sense of belonging.

Honourable Speaker, Deputy Speakers, and Members of the House of Representatives, In order to carry out the national development, I have enacted the Presidential Regulation Number 7 of 2005 on the National Medium-Term Development Plan (RPJM) for 2004-2009. Subsequently, that RPJM Nasional will be elaborated into the annual Government Work Plan (RKP) that serves as a guideline for the formulation of the State Budget (RAPBN). In this address, I will also deliver the Government Statement on the

RAPBN for the Year 2006, for deliberations with a view to receiving a collective approval.

Within that RPJM Nasional, I have elaborated upon the vision and mission, which comprises an exposition of the problems and agenda of the national development, namely (1) the agendum to create an Indonesia that is safe and peaceful; (2) the agendum to create an Indonesia that is just and democratic; (3) the agendum to increase the welfare of the people; and the macroeconomic framework and the financing of the national development. Subsequently, the whole agenda contained in the RPJM is further brokendown by each Ministry as well as Non-Departmental Government Institutions and the Regional Administrations in the strategic plan of their respective institution.

I look forward to obtaining support for the implementation of the RPJM Nasional from the state institutions. The pre-eminent position as the working partner of the Government belongs to the House of Representatives (DPR) and also to the Regional Representatives Council (DPD). In the time frame of the last ten months, I feel that the relations of partnership between the Government and the DPR as well as the DPD have been nurtured well. For this commendable cooperation, I wish to convey my highest gratitude and appreciation.

As Head of State, I welcome the improving effectiveness of other state institutions, namely the People's Consultative Assembly, the Supreme Court, the Constitutional Court, the Supreme Audit Agency, the Bank of Indonesia, and various other institutions. I am of the belief that should all state institutions perform their respective functions, tasks, and authorities, the conduct of our nationhood and statehood would then improve further.

My fellow countrymen,

Allow me, Mister Chairman, to elaborate one by one on the agenda of our national development. In the first agendum, we are determined to create an Indonesia that is safe and peaceful within our heterogenous society. We wish to overcome separatism in order to preserve the integrity of the NKRI. We also wish to increase the role of Indonesia in creating world peace. We are determined to build a free, unified, and sovereign nation. Our former leaders have wholeheartedly striven to preserve the unity and integrity of our nation. Since 1945, our Founding Fathers had agreed to transform the former administrative territory of the Dutch-Hindies into the territory of the Unitary State of the Republic of Indonesia. We have repeatedly faced the threat of disintegration; however, we eventually succeeded in overcoming them, one by one.

We indeed inherited burdens from the past, be it in Aceh as well as in Papua. From the early stage of independence, Aceh has been an integral part of the Unitary State of the Republic of Indonesia. The contribution of our figures and people in Aceh in upholding the sovereignty of the state during the revolution period shall never be forgotten. At a time when the majority of the territory of our state was occupied by Allied and Dutch forces, we designated Aceh as the "Capital Region".

Various occurrences happened in the past, resulting in the upheavals and revolts that could only be overcome at the end of the 1950s decade. However, the calm situation in Aceh could not endure for long. Various existing inequalities have contributed in the emergence of separatist movements since 1976. From then on, nearly a three-decade

long armed conflict occurred in Aceh. Various policies to deal with this situation have been put in place; yet, their outcomes are still far from satisfying. It is so saddening and hurtful that, in the sixty years of the independence of our nation, only for several years were our people in Aceh able to enjoy a peaceful life. This sorrow became even more dreadful when a devastating earthquake and tsunami waves struck Aceh. Nearly two hundred thousand lives fell victim to this disaster in a matter of minutes. In such a state of grief, the Government is determined to immediately solve the situation in Aceh in a peaceful, just and dignified manner, as mandated by the People's Consultative Assembly (MPR) Decree No VI/MPR/2002.

Since last January, I have started to continue the steps taken by the administrations of former President Abdurrahman Wahid and President Megawati to conduct informal talks with figures of the Free Aceh Movement (GAM) in Helsinki, Finland. Those informal talks have borne fruit, with the signing of a Memorandum of Understanding, yesterday, on 15 August. With this MOU, GAM ceases their activities to separate from the Unitary State of the Republic of Indonesia. The Government requested the consideration of the DPR to grant amnesty and abolition to the former GAM activists. All items that appear on the Memorandum of Understanding shall be consistently implemented. Therefore, I would like to call on the former GAM activists to also abide by that MOU.

In the conduct of the informal talks with the GAM, the Government had steadfastly followed a principled position, namely upholding the Unitary State of the Republic of Indonesia, the Red and White Flag remain fluttering, and the special autonomy in the Province of Nanggroe Aceh Darussalam shall be implemented. There is not a single article in the 1945 Constitution and other laws that we did not seek guidance from. The conflict in Aceh is a domestic issue.

We never intended to internationalise it. The presence of foreign monitors from the European Union and ASEAN to monitor the implementation of the Memorandum of Understanding is not a foreign interference into our domestic affair. We have also carried out the same task, monitor the process of unification of two Vietnams as well as monitor the cease-fire in the peace process between the Government of the Philippines and the Moro National Liberation Front (MNLF). The Government places the hope that the signing of the Memorandum of Understanding with GAM will become the starting point for a permanent conflict settlement in Aceh.

Furthermore, I would also like to request the support of the whole people, so that the Government is able to conclusively settle all the dissatisfactions in Papua. The Government wishes to solve the issue in Papua in a peaceful, just, and dignified manner by emphasizing dialogue and persuasive approach. The policy for the settlement of the issue in Papua is placed on the consistent implementation of the special autonomy, as a just, comprehensive, and dignified solution. This settlement must be viewed in an integral, lucid, and wise manner by paying due attention to the reality and legality of the existence of the Province of West Irian Jaya. These are all oriented towards the progress and welfare of the people in Papua as a whole.

The issue in Papua is our own domestic issue. We decline foreign interference in settling that issue. The history of Papua as an integral part of the territory of our state is clear. Every negotiation we conducted with the Netherlands, from the Linggarjati Negotiations to the Roundtable Conference and afterwards, never omitted including the agenda of returning West Irian as a sovereign territory of the Unitary State of the Republic of Indonesia, which, at that time, was still occupied by the Netherlands. No single program

of the cabinet, in the revolution period as well as in the Parliamentary Democracy period that did not include the agenda of returning West Irian to the lap of the fatherland. There exist no manipulations of history that must be revised.

The world bore witness to every negotiation on returning West Irian, until the conduct of the act of free choice (Pepera) under the monitoring of the United Nations in 1969. The United Nations has also recognized the outcome of Pepera and, up to the present, never questioned it. Therefore, viewed from the perspective of international law, there is no more reason to doubt the legitimacy of Papua as an integral part of the territorial sovereignty of the Unitary State of the Republic of Indonesia.

Honourable Speaker, Deputy Speakers, and Members of the House of Representatives,
A secure, orderly, and peaceful condition, as prerequisites for carrying the development, is now improving. The measures that we have taken have significantly attenuated horizontal conflicts in various places. The people in the conflict areas have taken efforts towards solidifying peace and practicing reconciliation.

In order to maintain the sovereignty of the state of the Republic of Indonesia, the Government will continue the measures to strengthen the defense of the state, in terms of its personnel as well as weaponry. A majority of the defense equipment is antiquated, and, in terms of its technology, has been left far behind. Part of that equipment cannot even be operated due to several reasons, including due to the scarcity of its spare parts. To overcome this condition, the Government is carrying out improvements, reconditioning, and repowering of the existing equipment, aside from working to strengthen the domestic defense industries and develop partnership cooperation with other countries. The Government continues to strive so that the embargo on the spare parts of various types of military equipment could be lifted. With a limited budget, we will increase our level of preparedness and operationality of the weapon system of TNI, so that it is able to shoulder the tasks of defending the state.

The development in the defense sector is not intended to expand its strength, but it is meant to preserve and maintain the existing capability, especially the readiness of the integrated defence forces by prioritizing on the defence of border areas, the outermost islands, and the maritime territory, especially around Indonesian Islands Water Ways (ALKI). The government will also increase the securizing of the Malacca Strait from various threats, in line with our responsibility as a costal state. For that purpose, we have increased trilateral cooperation with Malaysia and Singapore, in addition to with other countries utilizing the sea-lanes in that Strait. The Government also continues to increase its capability to prevent and combat acts of terrorism. Regional and international cooperation to overcome this threat have proceeded well and will be increased further.

Honourable Speaker, Deputy Speakers, and Members of the House of Representatives,
Fellow contrymen,

Furthermore, to achieve the second agendum, that is to create an Indonesia that is just and democratic, we are determined to enhance justice and law enforcement, eradicate corruption and carry out the reform of the bureaucracy and continue to solidify the consolidation of democracy. Since the beginning, the Government has been determined to combat corruption. We consider corruption as a serious crime that has brought suffering to the people and damaged the morality of the nation.

Having learned from past experiences, we must truly be firm and consistent in eradicating corruption. Consequently, on the past 9 December 2004, I have launched the National Movement to Eradicate Corruption. Subsequently, as implementation of the Presidential Instruction Number 5 of 2004 on the Acceleration of the Eradication of the Crime of Corruption, the National Plan of Action on the Eradication of Corruption (RAN-PK) for 2004 – 2009 has been designed.

In order to accelerate the prosecution of corruption cases, I have established a Coordinating Team to Eradicate the Crime of Corruption on 2 May 2005. The Government had coordinated with the Corruption Eradication Commission (KPK) to increase the effectiveness of the measures in eradicating corruption. The result that we have achieved in this short span of time is, in the period of October 2004 until April 2005, that the attorney's office has submitted 233 of corruption crimes to the district courts.

The Timtas Tipikor is currently investigating 7 cases of alleged corruption. Meanwhile, up to the second week of this August, the KPK has handled 25 cases/lawsuits of corruption crimes, with the following breakdown: 14 cases in the investigation stage, 5 cases in the investigation stage, 4 cases in the prosecution stage, 2 cases is undergoing cassation interrogation. In such a brief time frame, there has indeed not been much result. However, the momentum of eradicating corruption has clearly been set in motion and we shall maintain this momentum, to bring down corruption to a minimum level.

In combatting corruption, the Government will not be able to work on its own. The action to eradicate corruption requires the support from all layers of the society. I have instructed the Chief of the National Police and the Attorney General to take firm actions against their subordinates who tamper with the law in order to enrich themselves or enrich others. Without intending to interfere in the authority of the judicative institutions, I expect the judges to cleanse their internal institution, and are serious in handling corruption cases.

To the advocacy organisations, I also expect them to display seriousness in upholding the code of ethics to supervise the conduct of their members. Together with other law enforcement officials, I expect all the legal advisors to be serious in combating corruption, bribery, and other disgraceful practices that can damage the authority of the law and the legal institutions.

The institutional reform, intended to strengthen the bureaucratic institutions in the course of building a clean, efficient, and effective government, shall be continued. This institutional reform covers the improvement of the salary structure, improvement of the capacity and productivity, and the increase of discipline and work ethos. The Government continues to strive to put in place various important steps in this revamping, including the efforts to increase the salary of the civil servants, members of Polri and TNI, including paying the 13th month salary, and hiring non-permanent employees.

In the effort to revamp the rule of law, the Government expects a close cooperation with the House to run the program of national legislation. The government will continue revamping the apparatus of the law enforcers, and revamp the legal instruments and infrastructure in the context of upholding the authority of the law. We are both determined to respect, protect, uphold, and comply with human rights. The amendments to the 1945 Constitution have also incorporated articles on human rights that are quite complete. I have signed the Bills to ratify the International Covenant on Civil and Political

Rights and the International Covenant on Economic, Social and Cultural Rights, for us to enact soon.

The Government indeed carries the weight of the various unresolved cases of gross human rights violations that occurred in the past. Part of those cases has been tried and sentenced by the judicative institutions. Part of those cases is still in the investigative stage. As long as those cases can be brought to court, the Government will then transmit the said cases. Those cases, which evidence are difficult to obtain, will be submitted to the Commission on Truth and Reconciliation, which establishment will soon be completed.

The government realizes that there are various dissapointments in relation to the sentences of the Ad Hoc Human Rights Court regarding cases of gross violation of human rights, prior to and immediately after the act of free choice, in East Timor in 1999. The Government is also following closely the initiative of the Secretary-General of the United Nations, Kofi Annan, to establish a commision of experts to assess the court proceedings of the Ad Hoc Human Rights Court. However, the Government firmly believes that the settlement of those cases of human rights violations in East Timor in 1999 could take an alternative settlement through the Commission on Truth and Friendship, which has been established jointly by the Government of Indonesia and the Government of Timor Leste, and was formally officiated on 11 August. Through this commission, both governments wish the truth to be found and reconciliation promoted. Both governments wish relations between the two countries could be more directed to the future, not the past.

Honourable Speaker, Deputy Speakers, and Members of the House, Fellow countrymen,

We should be grateful that, in the past few years, we have been able to create a dynamic domestic political stability. The society has grown accustomed to differing opinions. Our press has a complete freedom, without any more censorship or limitations imposed by any party whatsoever. The press freedom has increased the critical ability of the people, whether to the Government and other state apparatus, or even to the press itself. The freedom of the people to establish political parties and channel their political aspirations has been totally guaranteed.

In the conduct of the Pilkada, part of them has proceeded well and smoothly. Meanwhile, some others have been marred by protests, demonstrations, and even acts of violence. We need to perfect the conduct of the Pilkada, in future times. To all the candidates for regional heads and their supporters, I urge all of us to grow mature. In a democratic system, every candidate must be prepared to honor victory and accept defeat. We must abide by the political ethics. Those who are dissatisfied are requested to take the legal avenues. Do not utilize force and violence. We do not want the Pilkada process to onset political instability.

With regard to foreign policy, the Government continues to conduct the free and active foreign policy. In diplomacy, we always strive and prioritize the national interests, while promoting peace and cooperation. Indonesian diplomacy is also dedicated to secure the unity of the nation from threats of disintegration, and strengthen the architecture of the concentric circle of regional cooperation, which hinges on ASEAN as the main pillar.

The signs of our country's strengthening role in the international political arena have started to leave its marks. The election of Indonesia as Chair of the United Nations Human Rights Commission indicates the betterment of our international posture and the gaining of trust and recognition over the improving human rights condition in our country. In a very short period of time, we have succeeded in organizing the ASEAN Leader's Special Summit on Earthquake and Tsunami Disaster, which has garnered a growing attention toward humanitarian issues occurring in our country and in the region. Even with the limited preparation time, we have successfully convened the Asian-African Summit last April. The successful convening of the conference has solidified our leadership position in promoting the new strategic cooperative partnership between the two continents. Indonesia will continue to intensify its role in the Organization of the Islamic Conference, continue its support for the liberation of Palestine, and play a bigger role in the Islamic world.

Honourable Speaker, Deputy Speakers, and Members of the House,
Fellow countrymen,

Ladies and Gentlemen,

Allow me, Mister Chair, to shift and briefly explain the policies to realize the third agendum, namely to improve the people's welfare. During the 5 years of this government, we are determined to achieve our commitment to halve open unemployment and poverty. We have targeted to reduce the figure of open employment from 9.9 percent to 5.1 percent, while we also try to reduce poverty from 16.6 percent to 8.2 percent.

In order to alleviate poverty and reduce unemployment, we need to achieve quite a high and qualified economic growth. This means that the economic growth that we expect is one that is able to absorb the labour force, reduce poverty, and lessen the socio-economic gap, while safeguarding the environment.

The revitalization of the agriculture, fisheries, and forestry constitute an important part of our economic strategy. The effort to enhance the people's welfare, aside from carried out by increasing their income, especially those of the poor people, is also achieved by improving the people's quality of life. This can be reflected through the betterment of their education and health services. Permit me, now, to deliver the main developments of the strategy to improve people's welfare.

In the first 10 months of this government, we have recorded a significant economic growth. In the year 2004, growth was recorded at 5.1 percent; it then displayed a rising trend in the first and second quarters of the year 2005, which subsequently were noted at 6.2 percent and 5.9 percent.

The source of our economic growth has now grown more robust supported by investment and export factors, replacing the consumption factor. On the first semester of 2005, investment growth was recorded at 13.6 percent, while export grew at 10.2 percent. The production side also improved with the growth of the non-petroleum and gas manufacturing industry that grew to 8.0 percent. The growth of banking credit also showed an acceleration of higher than 29 percent. Credits for SMEs even grew close to 40 percent. The Composite Stock Price Index (IHSG) continues to demonstrate strengthening trends in 2005 with an exceptionally high acceleration since May and came close to the level of 1185 at the start of the month of August.

With a view to attracting investment interest and in order to increase international trade activities, the economic diplomacy was conducted intensively through various visits, such as my state visits, visits of the Vice President and of the ministers to investment and trade partner countries, such as Japan, the United States of America, Australia, New Zealand, the People's Republic of China, Malaysia, Singapore, and others.

The visits that I have paid produced satisfactory investment and trade commitments. The visit to China produced agreements to increase investment amounting to US\$20 billion for the next 3 years, and a threefold increase of trade volume in 2010 amounting to US\$ 30 billion. The cooperation between SOEs and the private sector also produced investment signings amounting to US\$ 8.5 billion. With Japan, we have agreed to start talks on the Economic Partnership Agreement and the Strategic Investment Action Plan to multiply investment until the next 5 years, covering the infrastructure, energy generation, mining, textile, energy, and automotive fields.

The cooperation of 200 SMEs will also be increased in the automotive field with the assistance of JETRO. Australia has also declared an investment commitment in the oil field at the Jeruk Field in the Malacca Strait, amounting to US\$1 billion. A contract extension negotiations with Exxon Mobil have been concluded with an investment value of US\$2,5 billion, that is expected to produce a total production with a current value of US\$25 billion. American investors are also prepared to invest in the oil and natural gas fields.

This momentum of growth is quite heart warming. However, we have to stay on guard and be prudent, since the global economic environment is currently experiencing drastic changes and tend to be unfriendly. The global economic disparity has resulted in disturbances in the inter-state currency exchange rate with its attendant impact on Indonesia. The international interest rate levels tend to continue on the rise, as is the case with the price of crude oil that has soared high.

Our macroeconomic stability was put under considerable pressure, necessitating a more prudent management to protect the bases of our economic growth. The value of rupiah that tends to depreciate, the soaring price of world crude oil, and the vigorous domestic demand have caused inflation pressure. The Bank of Indonesia has increased its benchmark interest rate to 8.75 percent to maintain economic stability, while creating a dilemmatic impact on the increase of the government debt, and the possibility of slowing down the momentum of our economic growth.

The budget of the Government continues to experience heavy pressure. The burden for fuel subsidy that we must bear will swell along with the price hike of international crude oil. These days, the world oil price has reached higher than US\$66 per barrel, far higher than the adjusted price of last March, which used a benchmark of US\$35 per barrel. Should the world oil price remain high as it is today, the fuel subsidy for 2005 is estimated to reach more than Rp 140 trillion. The debt burden of the Government will also increase along with an increase of the domestic and global interest rates. The budget deficit for this year is estimated to swell by 1 percent from the Gross Domestic Product. Financing the deficit would require the Government to increase its debt, which means the budget burden for the Government will be heavier. This will reduce the ability of the Government to carry out development-related activities.

Such a huge fuel subsidy is deemed as missing the target and unjust since it is enjoyed more by those with a more substantial income. The price of fuel, which is cheaper than

the market price, has also resulted in the squandering of fuel, and encourages fuel smuggling. The various negative excesses of the global environment that is so fluid have made the Government continuously design anticipatory and prudent policies. With a heavy heart, the Government has taken an unpopular policy of raising the price of fuel as of the past 1 March. The fuel price hike was clearly not an easy choice to make and unpleasing to the people, and it was forced to carry it out as a last resort.

The fuel price hike policy will indeed increase the burden of the people, and may even cause an increase of poverty that runs counter to the objective of the government. The Government is striving to adopt a programme of partiality and compensation aimed at primarily to the poor, to ease their burden and suppress the negative impact. The compensation programme will continually be directed at reducing poverty, creating work opportunities that hinges on the programme to increase the quality of life of the people. That programme is not only designed and implemented for only one year, but it is a continuous effort. In the field of education, the Government provides operational budget to 28.9 million students at the elementary school level (SD)/Madrasah Ibtidaiyah/Pesantren Salafiyah and other religious schools, and to 10.8 million students at the junior high school level (SMP)/Madrasah Tsanawiyah/Pesantren Salafiyah and other religious schools, in the context of completing the 9-year Compulsory Education Programme.

Meanwhile, for the senior high school level (SMA)/SMK/Madrasah Aliyah and other religious schools, scholarships are provided to 698.5 thousand students. In the field of health, services in community health center (puskesmas) and 3rd class hospitals are provided free to the poor. An infrastructure development is also carried out in more than 11 thousand villages to increase the income of the most disadvantaged group of the society.

The Government is also devising a more accurate, just subsidy policy. One of the prerequisites of the direct subsidy policy is the availability of accurate and latest data on the poor inhabitants. For this purpose, we will in this year carry out a census of the poor inhabitants. The Government will also strive so that the consumption of fuel could be brought down. For that reason, I have instructed energy conservation measures to the ranks of the Central Government, Regional Administrations, and the SOEs and ROEs. This measure is expected to be emulated by the general public on an independent basis.

The Government is also endeavouring to reduce the burden and distortion by adjusting the price of fuel to the commercial/company customers. The Government is aware that these measures have not solved all the fuel problems, and only constitute short-term solutions. Therefore, more substantial and systematic and programmed measures, in the context of controlling consumption, encourage diversification, the utilization of production technology and transportation means that are energy-saving, and increase the supply of energy has and will continue to be carried out.

The fiscal and monetary pressures diminish the capability of the macroeconomic policy to become the engine for the economy. Therefore, the Government continues to strive to eliminate the barriers in the real sector so as to encourage investment and export activities as the locomotive of economic growth. The improvement of the investment climate is indeed the needed answer and at the same is a challenge that will not be easy to meet. The consolidation of policies continues to be carried out and the certainty of authority is clarified at the centre and in the regions. Simplifying the regulations in the

investment field, reducing investment licensing procedures, and certainty in obtaining land for the interest of the general public are the measures that have been and are being carried out by the Government.

The finalization of the amendments to the Law on Tax will soon be deliberated with the DPR and is expected to enter into force in 2006. The Government is proposing a policy of reducing the burden of tax payers by an increase of the Incomes Receiving Tax Waivers amounting to 300 percent, a decrease in the tariff of income tax in five years, tariff simplifications, improvement of the checking procedures, objections, and appeals. A reduction of special tariff for SMEs and companies listed in the stock market is also proposed. Simplification of the procedures and facilities for export and import, and harmonization of import duties and revamping of the trade system and procedures have been undertaken.

Meanwhile, in order to support domestic industries and expand work opportunities, the Government has issued various policies to provide facilities for import tariff waivers on imports of raw materials and certain components. Through the Presidential Decree Number 80 of 2003, the Government also encourages the use of domestic products in the procurement of goods and services for Government needs.

We do not only seek high economic growth, but also a more equitable one. For such purposes, we need the availability of supporting infrastructures. Last January, the Government, in collaboration with KADIN, has organized the Indonesia Infrastructure Summit 2005. The organizing of this activity was intended to encourage the acceleration of the infrastructure development by involving domestic and foreign investors.

Recently, the Government has completed the first stage of an investment tender for the development of a six-lane highway, and we will soon begin the project of constructing this highway. In 2005, several roads were completed and operated, such as the Kiara Condong fly-over, the Pasupati Bandung bridge, the Bogor Raya fly-over, the Tanjung Barat bridge in the Jabotabek region, and the Cikampek-Padalarang highway that stretches for 40 kilometres.

In addition, the Government is also continuing its efforts to maintain the level of roads services, maintenance, replacement, and construction of bridges. In the field of housing, up to the present, housing construction with KPR financing has reached 39,257 units, while simple flats totals 1,824 units in 14 locations. The Government has also established the Institution for Secondary Housing Financing to support the housing construction programs.

The core solution to solving unemployment and poverty lies within three main sectors, namely agriculture, fishery, and forestry. The revitalization of these three sectors becomes essential in order for us to build a prosperous and sustainable Indonesia. The Proclamation of Agriculture, Fishery, and Forestry Revitalization marks the beginning of a collective effort to implement policies and strategies to accelerate growth in earnings and welfare of the people, particularly the farmers, fishermen, cattle breeders, plantation workers, and forest farmers in particular, and people in rural areas in general.

In the field of agriculture, a revitalization of the national information system is being conducted. In addition, the Government and international institutions are also improving the system of cattle sanitation and soundness of animal products to control diseases that may be harmful to the soundness of cattle products and to human health. With particular

regard to the effort to surmount the avian flu disease, measures have been taken to control and contain the spread of the avian flu, which proved harmful to cattle breeders as well as being detrimental to human health (zoonosis).

In addition, efforts have also been carried out to improve the food resiliency at the regional and provincial levels, as well as at the household levels. The effort to improve the provincial food production capacity and the system of food shortage and nutrition, and the improvement of earnings continue to be performed, especially in areas with food scarcity to prevent and anticipate cases of malnutrition and extreme malnutrition.

In the field of marine and fisheries, the Government has improved services in licensing in its effort to combat illegal fishing, improved marine safety, empowerment of coastal communities, and simplified access to capitals for fishermen. In the field of forestry, we are eradicating timber thefts from state forests and the trade of illegal timber. That effort of ours has received international support, among others, from the British Environmental Investigation Agency (EIA), cooperation with American Non-Governmental Organization (NGO) to preserve the environment, and cooperation with timber consuming countries as well as with an international NGO within the forum of the Asian Forest Partnership (AFP) and the Forest Law Enforcement Governance and Trade (FLEGT). We have also signed bilateral Memoranda of Understanding with several countries, such as: China, Japan, Great Britain, South Korea, and Norvegia.

Honourable Speaker, Deputy Speakers and Members of the House of Representatives, Ladies and Gentlemen,

The effort to reduce poverty and improve the welfare of the people is reached through improving the quality of life of the people in the fields of education and health, and encouraging gender equity and women empowerment. At the global level, we, together with member countries of the United Nations, intend to create a peaceful, just, and prosperous world through a realistic plan and blueprint, and concrete objectives in the shape of The Millennium Development Goals (MDGs). Within the context of strengthening the implementation of MDGs, Indonesia has hosted an Asia Pacific meeting that produced the Jakarta Declaration.

That Declaration strengthens the solidarity among countries in the Asia Pacific in achieving the MDG goals. Those millennium development goals have become priority programmes within the National Medium-Term Development Plan.

A health problem that has lately attracted growing attention is the case of extreme malnutrition. The number of infants under the age of five who suffer from the lack of nutrition totals 5 million where 1,5 million suffer bad nutrition in 2003. This figure decreased in 2004 to 3,15 million and 664 thousand children. The resolution to this problem needs a comprehensive approach by all parties, be that the family, society, government, as well as economic practitioners. In the short-term, the Government intervenes in cases of malnutrition to prevent deaths and disabilities through early detection of malnutrition cases, guarantees the care for malnutrition patients at healthcare centers and hospitals, and assists in providing complementary food to breast-feeding. The medium, and long-term measures involve increased empowerment of the family, increased empowerment, information awareness, information on nutrition, as well as transsectoral integration.

Another problem in the field of health is the outbreak of various contagious diseases, particularly polio. In order to resolve this problem, a number of efforts have been conducted, namely increasing the coverage of vaccination down to the village level and provided free of charge; supplementary vaccination through the National Immunization Week (PIN); and vaccination of school children; as well as surveillance of Acute Flaccid Paralysis (AFP), or sudden paralysis, on a regular basis.

Honourable Chair of the Assembly,

Allow me now to shift to present the plan for the future that is contained in the 2006 Work Plan of the Government. We have always striven to consult and convey the policies to be taken with other parties, whether in the government circles, among others, through regular consultations with the governors, as well as with the representatives of the people in the DPR, and directly holding dialogues with the people. From this process of consultation, 7 development priorities for the year 2006 have been identified.

In a broad outline, the seven development priorities may be explained as follow. First, it is the priority to eradicate poverty and disparity. Second, it is the priority to increase work opportunities, investment, and exports. Third, it is the priority to revitalize agriculture and rural sectors. Fourth, it is the priority to improve the accessibility and quality of education and health. Fifth, it is the priority to law enforcement, eradication of corruption, and bureaucracy reform. Sixth, it is the priority to strengthening of the defence capability, fortifying security and order, and the resolution of conflicts. Seven, it is the priority to carrying out the rehabilitation and reconstruction of Nanggroe Aceh Darussalam and of Nias (North Sumatra).

The implementation of the rehabilitation and reconstruction of Aceh and Nias in 2006 constitute the continuation of a series of activities conducted in 2005. For 2006, the target for the rehabilitation is achieving the improvement of public services at an adequate level, and the target for the reconstruction is achieving the rebuilding of the people and the region.

These seven development priorities are intended to answer the various pressing problems and challenges of the development and constitute concrete measures to achieve the goal of the national development. The Work Plan of the Government (RKP) for 2006 will also be submitted today to the House. The RKP 2006, as stipulated by Law Number 17 of 2003 on State finance, is a guideline for the formulation of the 2006 State Budget that would be shortly delivered in the following exposition.

Honourable Speakers, Members of the DPR, and Ladies and Gentlemen, The outline of the 2006 RAPBN shall be preceded by an explanation of the macroeconomic prospects. The world economic development in 2006 is expected to slightly improve compared to 2005. This development is expected to boost our exports. Moreover, our consumption demand as well as investment momentum are also anticipated to remain strong. The target of an economic growth of 6.2 percent is still below the potential of the Indonesian economy and is indeed still insufficient to significantly reduce the level of unemployment and poverty.

Nevertheless, our economic growth is expected to continue to increase in the years to come, along with our success in overcoming the existing impediments. Investments will be more dominated by new investments rather than the expansion of investments. The

increase in foreign investment is expected to increase, with the improvement of the international trust.

Furthermore, through well-coordinated fiscal, monetary and real sector policies, and by taking into consideration the prospect of the international financial development, the exchange rate of the rupiah currency in 2006 is estimated to hover around Rp 9,400 per US dollar. The Government has set the target for the inflation rate in 2006 at 7 percent.

In conformity with the previous inflation estimation, and taking into consideration the remaining uncertainty risk, the interest rate of the three-month SBI is therefore estimated to reach 8 percent in 2006. The price assumption for the Indonesian crude oil is determined based on the estimation of the development of the supply and demand in 2006, and on the emphasis on the principle of prudent budgetting. This price may indeed be deemed to be incompatible with the current price that tends to be very high.

The price of oil in the calculation of the RAPBN is US\$40 per barrel, with an oil production of 1,075 million barrels per day. Mindful of the uncertainty on the world oil price that tend to be very high lately, that assumption in the 2006 RAPBN may very well be revised in deliberations with the House of Representatives.

Honourable Speakers, Members of the House, and Ladies and gentlemen, The macroeconomic stability is a prerequisite for the achievement of an economic growth. For that matter, the Government and the Bank of Indonesia have provided commitments to the continuity of the free foreign exchange system by monitoring the fluctuation of exchange rates. The Government comprehends the effort made by the Bank of Indonesia to apply a monetary policy that tend to be tight in anticipation to the dynamics of the world economy and to maintain the level of inflation rate and the volatility of domestic exchange rates.

In the financial sector, the efforts to refine regulations, improve the effectiveness of the supervision system, apply the Governmental Procedures, and consolidate the financial sector will be further improved upon and increased in 2006. Incorporated into the policy of this financial sector is the transition from a full collateral system to the Savings Guarantor Institution (LPS). The amount of collateral will be gradually reduced, so that eventually only small customers and depositors will be protected.

In 2006, I hope that the banking sector could continue to optimize its credit distribution, including increasing capital access for micro, small and medium scale businesses. Sustainable national economic growth is only attainable if the financial sector is stable and well maintained. Therefore, the improvement of the financial sector supervision system, revamping the inter-authorities coordination system and the ability to prevent the risk that may arise in the financial sector must therefore be addressed seriously. In order to support the consolidation of the supervision system, the government is designing a concept of Financial Sector Safety Net. The draft of the safety net is intended to establish an integrated, efficient and effective work mechanism, notwithstanding the independence of various regulatory institutions in the national financial system, either in a normal as well as when difficulty arises. Through revamping measures in the real sector and the financial sector, we hope that people participation in development could continue to be improved.

Speakers, Members of the House, and Ladies and Gentlemen, Permit me now to deliver a detailed explanation of the 2006 RAPBN, starting from an

explanation of State Revenue and Grant. The role of tax revenue is increasingly more significant in the state revenue. For that purpose, the efforts that have been put in place in the tax sector must be improved upon. By utilizing the basis of the 2000 Gross Domestic Product and the proposed basic assumptions, the tax income ratio to the GDP will rise from 13.2 percent on the estimated realization of the 2005 APBN to 13.4 percent in the 2006 RAPBN.

In the customs sector, in the context of increasing the quality of the service and decrease the time and cost at the port for “compliant importers”, the Government will strive to increase the amount of priority tracks. In the sector of cigarette excise, the Government will continue to implement the current policy and continue the eradication of cigarettes without ribbon and cigarettes with forged excise ribbon. In the same vein, the Government will employ systematic measures to combat illegal logging, illegal mining, and illegal fishing.

The attempt to increase the non-tax state revenue (PNBP) is predicted to encounter small obstacles. This is due to the crude oil and general mining sectors that are at the stage of developing new investments, while hinderances in the forestry sector are due to the tree cutting reduction program. In the meantime, the revenue from dividends of State-Owned Enterprises is still limited. Other potential PNBPs for improvement are, among others, the natural gas and telecommunications services. Based on the agreed macroeconomic assumptions and other policies for implementation, the state revenues and grants are expected to reach Rp 539.4 trillion. The source of state revenue for 2006 is scheduled to consist of tax revenues of Rp 402.1 trillion, non-tax revenues of Rp 132.6 trillion, and grants of Rp 4.7 trillion. This implies that about three quarters of the state revenue is shored up by tax revenue, and the rest originate from non-tax revenue. The increasing revenue contribution from the tax sector demonstrates that the Government remain consistent in exploring sources of domestic financing, in order to realize a degree of APBN independence.

Speakers, Members of the DPR, and Ladies and Gentlemen, Since the 2005 APBN, we have applied an integrated budgeting system, which merges the regular budget and the development budget in one single format of budgeting, which is expected to reduce the overlapping allocation, in order to save the finances of the state.

Regarding the expenditure for civil servants, we are grateful that the Government and the Budgeting Committee have agreed on a scheme to improve the income of the state apparatus, namely the increase of the base pay with a level of increase between 5 to 20 percent, with a priority given to those of the lower group of staff, and the payment of the 13th salary for civil servants (PNS), Indonesian Military (TNI), policemen (Polri), and retirees.

In regard to this policy, regional expenditure budgeting will be fully implemented by the Provincial Government and Regency/City administration through the allocation of the 2006 Balanced-Subsidy, which has experienced a significant increase compared to that in 2005. Furthermore, in the context of filling vacancies for civil servant personnel, the Government has planned to allocate a wage’s budgeting scheme for the 2006 new personnel recruitment, particularly in educational, health, and religious sectors.

Next is the allocation for the inventory’s expenditure, aimed at enhancing the function of public service for each government institution by adopting efficiency and effectiveness in

the procurement of goods and services, official travel expenditure, and maintenance of state assets. The Government has also allocated the budget for the payment of debt interests amounting to Rp 73.5 trillion, consisting of domestic debt's interest amounting to Rp 46.1 trillion and foreign debt's interest amounting to Rp 27.3 trillion.

In the context of assisting the building of physical facilities and infrastructures, there is an endeavor to increase capital buying for the investment of infrastructure and developing facilities in the form of land, equipment and machine, building and office, network and other physical forms.

The next step is allocating the subsidy of about Rp 80.9 trillion. This subsidy is aimed to help the less fortunate, SMEs and SOEs that provide public services, and to maintain the stability of a certain commodity's price.

Most of the subsidy is allocated through the state companies, where the community could enjoy the benefit of it in the form of a less expensive price. In regards to the amount and the policy of subsidy, in particular the fuel subsidy, I welcome the suggestion from the Member of House of Representatives to examine the effectiveness and the plausible economization of budgeting. The Government agrees to the idea that the system of price subsidy is gradually diverted to a more accurate and target-oriented subsidy. The Government will take strict controlling measures to anticipate the possibilities of the occurrence of abusive deviations in the use of fuel energy. Besides, we will take energy diversification measures as substitution to fuel energy.

Speakers, Members of the House of Representatives, Now, I would like to explain briefly on the allocation of government's expenditure for departments and other state institutions. From the Central Government budgeting plan of about Rp 375.1 trillion, several departments will obtain a relatively bigger loft margin. This budget is aimed at financing the operational and non-operational activities. The Departments and institutions that will acquire large allocation are as follows: First, the Department of National Education will gain about Rp 31.5 trillion, aimed for continuing the nine year-compulsory elementary school program, middle-education program, higher education program and program of improving the quality of education and educators. Second, the Department of Defense will gain about Rp 23.6 trillion allocation. This will be deployed to safeguard the territorial integrity and the sovereignty of the Unitary State of the Republic of Indonesia through an integrative defense development program, defense industry development program, and program of development for land, sea, and air dimensions. Third, the Department of Public Works will gain about Rp 13.2 trillion, which will be implemented for running the program of improving the road and bridge buildings, program of developing and managing the irrigation and swamp networks or any other form of irrigation network, and program of flood control and coast guard. Fourth, the Indonesian National Police will gain about Rp 13.2 trillion, which will be deployed to run the program for maintaining the community's security and order, program of developing the police facility and infrastructure, and program of developing police human resource. Fifth, Department of Health will gain about Rp 11.5 trillion, which will be used to continue the free health services for the poors, enhance the service quality, protect and eradicate diseases, add societal nutrition, and manage the disaster area health.

Other than the above-mentioned departments and state institutions, the detail of the loft margin for expenditure allocation of the other departments and state institutions will be

stated in the book of the Note of Finance and Plan of the 2006 State Expenditure Budgeting, which will be presented by the Government to the House of Representatives today.

Speakers, Members of the DPR and Ladies and Gentlemen, In the sector of regional expenditure, the policies taken for the 2006 are as follows: Common Allocation Subsidy (DAU) and Shared-Profit Subsidy; which are directed to minimize the financial gap between central and periphery and inter-periphery is taken by maintaining the fiscal neutrality of total amount of both state budget and target of deficit. In the 2006 Plan of State Expenditure Budgeting, the expenditure for regions is plotted about Rp 184.2 trillion, consisting of Balanced-Subsidy of Rp 181.1 trillion and Special Autonomy Subsidy and its adjustment of Rp 3.1 trillion. The allocation of DAU is agreed at 26 percent from the net domestic revenue or about Rp 126.2 trillion. The increase of regional expenditure is quite significant compared to 2005.

In the 2006 Plan of State Expenditure Budgeting, it is also increased the role and allocation of Special Allocation Subsidy (DAK) selectively and gradually, by keeping the national priorities. The Government and the Budgeting Committee have also agreed to divert the deconcentration subsidy to the Special Allocation Subsidy gradually; that is directing it to the programs and activities to the regional authorities.

The Policy on Regional Autonomy is the response of the Government for the regional aspirations who expect the increasing role and independence in providing public service and regional development. I plead that both Special Allocation Subsidy and Common Allocation Subsidy could be implemented in the most beneficial manner.

And now, let me convey to you on the issue of Budget Financing. The 2006 Plan of State Expenditure Budgeting is forecasted to experience a deficit of about Rp 19.8 trillion or about 0.7 percent from the PDB; lower than the realization forecast of year 2005 that was predicted to reach 1 percent from PDB. The decline of the deficit ratio against the PDB in 2006 reflects the commitment of the Government in continuing the fiscal consolidating program and measures in order to secure the measure for sustainable fiscal security.

Although the scale of budgeting deficit in 2006 will be lower than in 2005, yet the challenge faced in financing is not less menacing. The needed financing is provided not only for covering the deficit of the state expenditure budgeting per se, but also to fulfill the obligation of paying the essential credit of both domestic and foreign debt that will be on due. In the 2006 Plan of State Expenditure Budgeting, the essential payment of foreign debt is plotted of about Rp 60.4 trillion and domestic debt of about Rp 30.4 trillion.

The need to finance the budget deficit and essential payment will be more exploited from the domestic and foreign sources of financing. The financing from the domestic banking will be plotted to reach Rp 19.6 trillion. The utilization of this fund has considered the impact to its monetary program implementation. The source of financing the deficit from domestic sector also derives from the privatization of the SOEs and the selling of assets of banking restructure program, run by the Assets Management, and the net of Letter of State Monetary Obligation (Surat Utang Negara/SUN). The amount has reached Rp 30.7 trillion. We still need foreign aid also, that is plotted of about Rp 29.9 trillion, consisting of program and project loans. Although we will still keep borrowing, both from domestic and foreign sectors, we predict that they are still parallel with the efforts to stabilizing fiscal

sustainability. The ratio of the Government's foreign debt against the PDB in 2006 will decline than in 2005 from 49.1 percent to become 42.8 percent.

Speakers, Members of the DPR, and Ladies and Gentlemen,
Fellow countrymen,

Those are the main points of the State Address and the Government Statement on the Bill on the State Budget for 2006 and its Financial Note. Before concluding this speech, I would like to call upon all of the state components, in the anniversary of our sixtieth Independence Day, and the days ahead, let us continue the historical task to realize our independence. In implementing the next national development of the year 2006, let us manage all available sources and capability, including our fiscal policy, efficiently and effectively in order to ascertain that the national development is truly felt by all people.

For all the understanding and support of all Members of the House and the entire people, I thank you.

May the Almighty God bestow His blessing upon all of us.
Long live to the Nation and the Unitary State of the Republic of Indonesia!
Thank you.

Wassalamu'alaikum warahmatullahi wabarakatuh.

Jakarta, 16 August 2005

PRESIDENT OF THE REPUBLIC OF INDONESIA,
DR. H. SUSILO BAMBANG YUDHOYONO