

STATE ADDRESS OF
THE PRESIDENT OF THE REPUBLIC OF INDONESIA
AND
THE GOVERNMENT STATEMENT
ON
THE BILL ON THE STATE BUDGET
FOR THE 2008 FISCAL YEAR
AND
ITS FINANCIAL NOTE
BEFORE THE PLENARY SESSION OF
THE HOUSE OF REPRESENTATIVES OF
THE REPUBLIC OF INDONESIA

Jakarta, August 16, 2007

*Bismillahirrahmaanirrahiim,
Assalaamu'alaikum Warahmatullaahi Wabarakaatuh,*
May we all be bestowed with prosperity,

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,

My Fellow Countrymen,
Ladies and Gentlemen,

Let us offer our praise and gratitude to Allah SWT for it is with His mercy and grace that today, we are able to attend the Plenary Session of the House of Representatives of the Republic of Indonesia, to commence The Opening of First Session Period of Session Year 2007/2008. Let me take this auspicious occasion to thank the House, which has provided me with the opportunity to deliver this State Address and the Government Statement on the Bill on the State Budget for 2008, and its Financial Note.

Ladies and Gentlemen,
My Fellow Countrymen,

It is indeed my pleasure that today once again I am able to convey my State Address, and to deliver my messages to all the people in all corners of the country. Insha Allah, tomorrow we will commemorate the sixty-second anniversary of the Proclamation of Independence of our country. In this historic moments, we deem to reflect, and to express our gratitude and highest appreciation to our patriots and heroes who had dedicated their lives to up hold our country. Endeavours that were given with every drops of their tears and blood, and endless diplomacy.

In this historic day, once more, I wish to extend my profound expression of gratitude and respect to our heroes and founding-fathers to our Independence Proclamation, Bung Karno and Bung Hatta, who delivered our nation to be a free country. I also wish to express my highest appreciation and respect to the Presidents who have preceded me, Dr. Ir. Soekarno, Grand General Soeharto, Prof. Dr. B. J. Habibie, KH. Abdulrahman Wahid and Ibu Megawati Soekarnoputri for their dedication and contribution in leading the nation and state, so that we have reached the current state of progress. I firmly believe, that our predecessors have dedicated their best albeit all the challenges and hardships encountered. Let us all salute their services and dedications to this country.

At this auspicious occasion, I invite all Indonesian people wherever they might be, to interpret the Independence to build our nation and country together to a better future. Let us nurture back our nation

bond among every child of the nation from different ethnic group, religion, race and culture. Let us strengthen our togetherness in the frame of Unity in Diversity (Bhinneka Tunggal Ika).

My Fellow Countrymen,
Ladies and Gentlemen,

We cannot deny that along our nation's history, we have encountered various trials and tribulations. After The Proclamation of Independence on August 17, 1945, we had to carry out an armed resistance to ward off the colonials who determined to once again occupy our country. We also faced with our own brothers and sisters who wished to separate themselves from The Unitary State of The Republic of Indonesia. Fifty year ago, when our country celebrated its twelfth anniversary on August 17, 1957, President Soekarno once said; '...Our hearts sometimes pounding. Are we going to drawn as a result of this 1957 ordeal? Or can we survive as a country?' The statement was said regarding to the unsteady political and security situations. Even in other time, Bung Karno also stated that some people foreseen that 'Indonesia is breaking up', and was also said to be 'a nation in collapse'. At that given time, our Country was at the verge of breaking apart.

Ten years ago, in the beginning of our devastating crisis, questions in disbelieve and in distrust were commonly asked. When our nation was battered by economic crisis which then turn into multidimensional crisis, we came across grave challenges. Our people seemed to be misplaced. They lost their self identity as a dignified nation. Anarchy, violence, and animosity are our daily lives' routine. Moreover, world situation was also uncertain and volatile. Turbulence to our economy was sturdy. That time, there were anxiety, disorientation and skepticism from our people. Even from international community, some harsh judgments were made that we were disintegrating as a nation and would collapse soon.

Alhamdulillah, with the blessing of Allah SWT, and our patience, ventures, and determination as a nation, we can successfully overcome every turbulence and crisis that came in our way. Today, we witness together that our beloved country, Indonesia, is still standing tall; from Sabang to Merauke; from Miangas to Rote Island. We have proved that the skepticism of 1957 unfounded. Fifty years afterwards, Indonesia is still survived. The devastating crisis that has happened since ten years ago can be surmounted as well. Let us prove, that in ten years, or fifty years from now and beyond, Insha Allah, our Country will not merely standing tall, but also more developed and prospered.

My Fellow Countrymen,
Ladies and Gentlemen,

I want to refresh our memory on the basic framework of our nationhood. There are four pillars of basic consensus and value that sustain our beloved Country, Pancasila, The 1945 Constitution, The Unitary State of The Republic of Indonesia (NKRI), and Bhinneka Tunggal Ika. Throughout the long history of our nation, there was always turbulence to those pillars. In this recent globalisation and transformation era, we are still encountered those turbulence to our stated pillars. We should firmly stated

Pancasila is the Five Principle Ideology of our nation, foundation of the Republic of Indonesia. Pancasila is our nation philosophy; welthanchaung, way of life, and identity of our nation, that bound and unify our nation. We still bear in mind that in 1998 of earlier reform era, The People's Consultative Assembly (MPR) issued The People's Consultative Assembly's Decree No. XVIII/MPR/1998 which not only revoked The People's Assembly's Decree No. II/MPR/1978 concerning The Pancasila Implementation Guidelines, but also clearly stipulated Pancasila as the nation ideology. Therefore, on this moment of celebration, I urge all of us to firmly hold and embrace Pancasila as the identity of our nation.

The Preamble of the 1945 Constitution that stated our ideals, national goals, and ideology should be well guarded. The shape of The Unitary State of The Republic of Indonesia (NKRI) is also final. We will never tolerate anyone and in any form initiated to agitate the territorial unity and sovereignty of our country. Amidst the diversity of our nation, the Bhinneka Tunggal Ika motto should be emphasized as inevitability

of our nationhood with diversified ethnic groups, religions, languages, and cultures. We should remain unified, determine, and strengthen our unity and cohesion as a nation.

Indeed, we should not treat the Pancasila and the 1945 Constitution as sacred pillars, since they are not. On the other hand, the idea of replacing Pancasila with other ideology, or reinstating the Preamble of the 1945 Constitution which is the spirit and soul of our constitution, will never be tolerated in our nationhood.

My Fellow Countrymen,
Ladies and Gentlemen,

For sixty two years, we have encountered trials and tribulations to our political and democracy. We have experienced and implementing liberal democracy, parliamentary democracy, guided democracy, and authoritarian-based democracy. They were all actually had their consequences. In this reform era, democracy blooms. Freedom is nurtured, and the human rights are up held. New challenge for us is how to enjoy the freedom in good manner and virtue, beneficial, as well as with responsibility. We certainly reject the idea of unlimited freedom since it could interfere with our harmonious and secured livelihood. Let us dedicate this democracy and freedom to the people's interests, and to overcome people's problems, as well as to develop people's welfare.

In the future, we have to keep developing our nationhood and statehood in harmonious and balance ways, in which democracy and freedom can live with obedience to the agreed rule of law, tolerance, ethic and rules of the game. Therefore, we can all reach the stabilised democratic life where all elements of democracy can amicably meet. We give room to freedom with responsibilities to exercise the freedom constructively. We provide room for free speech with responsibilities to apply etiquette in communication; freedom of press with responsibilities to broadcast news accurately and objectively; as well as freedom to ensemble and to express their opinion with responsibilities to exercise them in order.

Unity and sovereignty of the country is our uncompromised national interest. Effort to uphold unity and sovereignty should be done in many ways. We can use stick and carrot approaches. History showed us that problems concerning internal threat to our sovereignty were overcome in many ways and approaches. In the era of reform and democracy, we undertake peaceful and persuasive means that sustain welfare and fairness approaches. Regional aspiration for fair development distribution and wider authority to manage their region, are positively responded by implementing regional autonomy and decentralisation system, including wider autonomy for Aceh, West Papua and Papua Provinces. However, once again, the state is remain firm that there will be no tolerance to separatist that threaten the country's unity and sovereignty.

We have to be tough and flexible to face the tremendous new history, such as globalisation, with its positive and negative impacts. We cannot let ourselves to be crushed by this new history. In contrary, our nation should benefit and seize the opportunities raised by globalisation. In that matter, we have to be a leading nation, highly competitive nation, as well as creative and innovative nation. Our nation should be in the frontline in term of building the global partnership. This partnership is vital to emerge human kind from successive challenges; disparity, poverty, injustice, oppression, conflict, natural disaster, communicable disease, terrorism, climate change, and so on.

My Fellow Countrymen,
Ladies and Gentlemen,

The Government elected from the 2004 General Election has been functioning for three years. Since the very beginning, I have stipulated The President's Regulation No. 7/ 2005 on The National Medium-Term Development Planning (RPJM) 2004-2009. The Planning stated three national development agendas; agenda to create peaceful and secured Indonesia; agenda to create just and democratic Indonesia; and agenda to improve the people's welfare.

For the past three years, the condition we deal with is full of impediments. Various national disasters such as the Tsunami wave, earthquake, landslides, and floods have caused many casualties and material damages. The rocketing of the world oil price also heavily affected the economy. To deal with this situation, the government continues its efforts both through emergency aid, and rehabilitation on damaged facilities and infrastructures. Of course, in the implementation of the efforts there are satisfying results as well as alarming matters that need to be improved.

For instance, since the beginning, we have conducted efforts on the handling of the Sidoarjo mud flow. The Government does not sit still. The government has formed the Sidoarjo Mud Flow Prevention Task Force (BP2LS). We cannot leave the people in pain and must abruptly ease the people's mourn wholeheartedly. The government puts serious attention to this particular issue. Based on the current report which I received, the settlement of the buying and selling of land and buildings at the amount of 20% at the beginning phase has gone well and shall assure that the outstanding of the payments shall be carried out in accordance with the Presidential Regulation No. 14 of 2007. However, the Government shall continuously cooperate with every party, domestic or international, to avoid the mud flow expansion.

The internal security condition, including the public security and order has been gradually increased. The situation in Poso and Maluku has been restored with a strong social cohesion. The post-conflict reintegration in Aceh is also peaceful and sustainable. It is natural to learn that there still some constraints and misunderstandings between parties which used to be in conflict for more than 30 years, due to the on going of the trust building effort. All parties especially government in Aceh needs to keep guarding, securing, and succeeding the reintegration process together with reconstruction of Aceh after the Tsunami Wave to reach a better economic condition and people's welfare.

Also in the land of Papua, we have constantly carried out development acceleration to improve the West Papuan and Papuan People's welfare. To mark the determination of the government and to excel the prosperity of the people from both provinces, I have issued the Presidential Instruction No. 5/ 2007 (Inpres No. 5/2007) on the acceleration of West Papuan and Papuan Provinces' developments. The development is given priority to: solidifying food resilience and enhancing community-based economy, qualified health and education services, expanding basic infrastructures for potentially developed region, and special regulation for sons of Papua.

I urge regional government apparatus with their authority and natural resources based on the regulation on special autonomy, to stand in front and support the development acceleration. The Central Government remains highly committed to maintain and assist the effort of increasing the Papuan People's welfare. This is our steps and commitments to improve Papua and West Papua. I reiterate that the Government will not tolerate anyone, either domestic or from international community, who intend to hinder the development acceleration in the land of Papua, as well as threaten the unity and sovereignty of our country.

Act of terrorism which alarmed the community few years back has been overcome. We have succeeded in preventing and deterring acts of terror in our country. People's trust to the law enforcement and security apparatus is increasing. We need to show our appreciation to the National Police and other supporting parties in overcoming this terrorism threat. As I frequently mentioned, in the future, combating terrorism will not be superficial but will also touch and address the root cause of terrorism, such as backwardness, poverty, injustice, extremism, radicalism, and violence culture. We are deeply serious to prevent and to combat this terrorism, in order to save our nation and community, to present security and peace in our country as well as our responsibility and togetherness to global community to create peaceful and secured world.

My Fellow Countrymen,
Ladies and Gentlemen,

Success of a development also depends on the quality of the administration order as well as effectiveness and the performance of the bureaucracy. Therefore, to improve the performance of the bureaucracy and to

create good and clean governance, gradual and planned bureaucracy reform is carried out by the government. Such reform embraces the balanced improvement of the work system, performance measurement, and discipline implementation as well as remuneration. On this level, the reform process has started being carried out by the Finance Ministry, the State Ministry for Administrative Reform, the Supreme Court, as well as the Supreme Audit Agency.

In the implementation of foreign policy, we have continually developed partnership through total diplomacy. This past few years, we have developed and enhanced partnership with many countries, with the intention to support our national interest. In the framework of strategic partnership or comprehensive partnership, we have improving our cooperation and partnership with many countries, among others South Korea, People's Republic of Tiongkok, Australia, Rusia, Japan and India. Tangible result coming out of such partnership development are the advancement of quality and quantity of cooperation in trade, investment, energy, tourism, legal, natural disaster management and mitigation, bird flu cases, information technology, defense industry, forestry, etc.

Toward the implementation of free and active foreign policy, we are always aiming in building partnership through total diplomacy. We have signed comprehensive collaboration with Australia which can be served as cooperation umbrella in politics, security, economy, and social culture. We also have joint statement with India on enhancing 'The New Strategic Partnership'. With Singapore, we have signed extradition agreement. In the effort to alleviate constraint related to nuclear proliferation threat in Iran, we support The UN Security Council's Resolution No. 1747/2007 as continuation of previous resolution. Reasons in supporting the Resolution are based on 'The Preamble of The 1945 Constitution' which stated our involvement in world peace, and related to the recommendation of 'The International Atomic and Energy Agency' on uranium enrichment by Iran. The Resolution is considered balance in its effort to eradicate nuclear weapon by nuclear power states, as a recommendation to create free zone for weapons of mass-destruction in Middle East and to ensure that all nations' rights including Iran are merely to develop nuclear energy for peace. It is our proposal to push forward any discussion on the matter in good faith through diplomacy and in order to prevent open conflicts.

To support the efforts of the peace process and conflict resolution in the Middle East Conflict, we have been actively involved in various diplomacy means to overcome the problems in the middle east especially in the Palestine, Lebanon, and Iraq, in a peaceful, just, and permanent manners. Beside sending our troops 'Kontingen Garuda 23A', to join the UN Peace keeping Mission in Lebanon, we also extend our humanitarian aid to our brothers and sisters in Palestine and Lebanon. As one of the UN Non-permanent Member at the Security Council, Indonesia will play a constructive role based on active and free foreign policy, in order to uphold world peace and security. In principle, Indonesia suggests and calls upon the use of non military and peaceful means in ending various global conflict and issues including Iran Nuclear issue, North Korea Nuclear issue and other critical issues.

In connection with global issues, the Government places great attention to environmental issues, particularly the climate change that causes global warming. Global warming is indeed our shared problem. On Dec. 3 – 14, 2007, God willing, we are entrusted to be the host of a conference on United Nations Framework Convention on Climate Change, which will be attended by 180 countries. As the host, we are eager to show the international world, that the Government of Indonesia shows concern and ideas to save humankind from the impacts of global climate change. We also desire for the birth of new ideas, after Kyoto Protocol, which is more just and acceptable for all.

The efforts to improve the nation's welfare and to manage our economy are embodied in the development strategy of increased economic growth with equity. This strategy is the best possible choice, because higher economic growth does not guarantee equity. The growth that we will achieve should be of good quality. To that end, the Government constantly strive to balance all policies and measures between the requirement to promote growth and to improve welfare distribution.

We have achieved many things during the past decade, mostly to strengthen the economic fundamentals after the economic crisis. Economic stability has been safeguarded. At the end of June 2007, our foreign

exchange reserves amounted to US\$50.9 billion, an increase of US\$8.3 billion compared to the end of 2006. The exchange rate has been maintained within the range that is considered favourable for economic practitioners. The banking sector has been able to attain a healthy balance sheet and continue to resume the mediating role to support the revival of our economy. Tangible sector has shown rebound momentum. The transportation and telecommunication sectors grew by 11.6 percent during the first semester of 2007, during the same period the construction sector grew by 8.6 percent, even the processing industry sector was stronger with 5.4 percent growth. Government budget has become more robust with decreasing debt ratio from 47 percent in 2005 to around 35.4 percent of the Gross Domestic Product in 2007.

Admittedly, not all our problems have been overcome and challenges will continue to thwart us. Unemployment and poverty have not been fully addressed. Many more health and education facilities are needed. Roads, airports, seaports, power, and irrigation infrastructures have been deteriorating and neglected since the crisis. These things entail high cost for the people and our economy.

In order to address the various issues and to meet the difficult challenges, the Government always tries to balance the realisation of the three agendas of development as specified in the Medium Term Development Plan (RPJM). The efforts are embodied in the annual Government Work Plan (RKP). The development theme for the 2008 RKP is “acceleration of economic growth to reduce poverty and unemployment”. Consequently, the 2008 RKP delineates eight national development priorities. The eight national development priorities are: (1) increased investment, export and employment opportunities; (2) revitalised agriculture, fishery, forestry, and rural development; (3) accelerated infrastructure development and energy management; (4) improved access and quality of education and healthcare; (5) improved effectiveness in poverty alleviation; (6) corruption eradication and acceleration of bureaucratic reforms; (7) strengthened defence capability and stabilization of domestic security; and (8) disaster management and mitigation, and improved treatment of avian flu.

Ladies and Gentlemen,
My Fellow Countrymen,

We agree that the people’s welfare is the estuary of all conducted development agenda. The government continues to carry out programmes for the people. We gradually shall increase the income for the civil servants and the members of the Indonesian Military/Indonesian Police. As to the community, we shall strive to alleviate their expenditures. For example, in the area of education, the government continues to increase the education budget annually. We want our children to benefit a quality education. The government have determined education sector as an essential agenda in the national development, and furthermore to be provided the highest budget.

Meanwhile, operated programmes such as the School Operational Assistance (BOS) and scholarships for poor student at all levels of education, shall continue. We shall also continue to construct the development and rehabilitation of educational equipments and infrastructures at all levels. As for the development and rehabilitation of Elementary Schools, the authority has been fully assigned to the regional government with the assistance of the State Budget through the Special Allocation Fund. The same allocation on the general education has also been conducted on religious education, administered by the Religious Affairs Ministry.

We are grateful that our young generation these days has incised an outstanding achievement at various international science olympiads. Such proud achievement shows that the intellectuality of the Indonesian children is at the same level as other children from other countries. Therefore, we should provide our solemn attention towards the improvement of the education quality in our homeland, to enhance more of our young generation of the improvement of the intellectual capability, the healthy physical condition, the smart, the intelligent, and the noble character. It is the kind of generation we expect able to cope with the nation’s future impediment.

In the area of health, access and health quality service for the poor community are continuously increased, among others through the Programme of Health Insurance for the poor (ASKESKIN) and by declining the

price of medicines, especially generic medicine. To fulfill the needs and equitable distribution of medical staffs, the Government has gradually conducted the placements of medical staffs, especially in the border and isolated areas.

My Fellow Countrymen,
Ladies and gentlemen,

The time has now come for me to convey Government Statement on the Bill on the State Budget and Its Financial Note of 2008. The Bill on the State Budget and Its Financial Note of 2008 was prepared based on the eight development priorities of 2008 Government Work Plan. The Government is committed to become more focused in implementing the fiscal policies to develop and improve strategic economic infrastructures, improve education and healthcare programs, and increase the welfare of the poor. Efficiency measures and reduction on goods expenditures, including unproductive service trips, and low priority programmes are being implemented with firmly and earnestly. The guidance and budget allocation of asset expenditures will be more focused on higher economic growth, creation of employment opportunities and poverty reduction. Less productive asset expenditures such as the building and renovation of central government offices and procurement of service vehicles will be cut down to minimum level. The saved fund will be utilised for asset expenditures such as the construction of roads, bridges, irrigation tracks, and transportation infrastructures and facilities. The allocated budget for education and healthcare will seriously be increased as well. These priorities are indeed consistent with our established policy strategy of increased economic growth with equity.

The 2008 Draft State Budget was prepared based on forecasts of national and global economic development national and global economic developments, and predicted next year conditions. Currently, the economic stability is still maintained, with estimated inflation rate at 6.5 percent until the end of 2007. The Government concerns with the significant increase of prices for some commodities. Rupiah's exchange rate – with the adoption of the free float system – fluctuates according to fundamentals and market sentiments. Tangible sector has begun to show revitalisation, with improved growth in primary sectors such as agriculture and mining, and construction, processing industries, transportation and telecommunication sectors.

The economic growth for the first quarter of 2007 reached 6 percent, and it increased to 6.3 percent during the second quarter of the year. Thus, for the past three consecutive semesters, the economic growth has been maintained at above 6 percent and has shown an upward trend. The economic growth was spurred by increased purchasing power, investment and steady level of export. The improved purchasing power for public servants, the Indonesian Military (TNI) and the National Police (POLRI) including retirees and veterans, was the result of the 15 percent increase in the base salary for 2006 and 2007, meanwhile for 2008 the increase will be 20 percent. The Government has also increased the meal allowances for, TNI and POLRI since 2005 and for public servants since 2007. The improvement of people's welfare and purchasing power, particularly the poor have been accomplished through education assistance, health insurance system for poor households, rice subsidy, and other forms of subsidy and assistance for farmers, fishermen, small enterprises and cooperatives. Consumption growth during the first semester of 2007 reached 4.7 percent, compared to the same semester last year.

Investment during the first semester of 2007, has shown considerable growth at 7.3 percent, while export growth stabilised at 9.4 percent. With this rate of expansion, the projected 2007 economic growth of 6.3 percent will be achieved. In the period from February 2006 until February 2007, employment opportunities increased by 2.4 million. This increase has pushed the figure of unemployment down to 9.8 percent (10.55 million people) in February 2007, lower than 10.4 percent (11.10 million people) in February 2006. Meanwhile, the number of poor people has decreased from 39.30 million or 17.7 percent in 2006, to 37.17 million or 16.6 percent in 2007.

The momentum for economic growth will be sustained and expected to continue in 2008. The formulation of the 2008 Draft State Budget (RAPBN) is based on the assumptions and projections that the economic growth will reach 6.8 percent. Economic stability will be apparent with 6.0 percent inflation rate, interest

rate for the 3-month SBI at 7.5 percent, and an exchange rate of Rp 9.100 to the US Dollar. In 2008, the projected average price of our oil is US\$ 60 per barrel and oil lifting will grow to 1.034 million barrel per day. Based on those economic projections, Government's revenues and grants in 2008 is expected to reach the amount of Rp 761.4 trillion, meanwhile total state expenditures amount to Rp 836.4 trillion, thereby there will be a budget deficit of Rp 75.0 trillion or 1.7 percent of the Gross Domestic Product.

My Fellow Countrymen,
Ladies and gentlemen,

State expenditures are gradually adopting an integrated budgetary system, which is performance-based and has medium term dimension. Central government total expenditures are allocated in the amount of Rp 564.6 trillion, or an increase of 14.3 percent from the Revised 2007 State Budget (APBN-P). The Government will continue to increase the quality of expenditures to be more effectively beneficial to the people and consistent with the development priorities. Personnel expenditures will be increased to enhance the welfare of public servants, security apparatus, and retirees, and to improve the quality of bureaucracy. In the 2008 Draft State Budget, asset expenditures will rise steeply by 48.6 percent amounting to Rp 68.3 trillion to a total of Rp 101.5 trillion, compared to the Draft Revised 2007 State Budget (RAPBN-P). Social assistance will also be increased significantly by 41.8 percent, from Rp 47.5 trillion to Rp 67.4 trillion. The Government will also take measures to perfect the goods and service procurement rules and system, so the disbursement of the allocated budget could be expedited and increased, without sacrificing the principles of good and clean governance.

The departments, which have indispensable roles and responsibilities in building infrastructures, developing the energy sector, food production are the Public Works Ministry, the Transportation Ministry, the Agriculture Ministry, and the Energy and Mineral Resources Ministry. The Public Works Ministry will be allocated Rp 35.6 trillion or an increase of 41.1 percent compared to the expected realisation in 2007 RAPBN-P. The significant amount of budget increase, in the amount of Rp 15.5 trillion, will be utilised mainly to develop and construct Trans-Sumatra, Trans-Java, Trans-Kalimantan, Trans-Sulawesi, Trans-Bali, Trans-Nusa Tenggara, Trans-Moluccas, and Trans-Papua highways. Rehabilitation/maintenance programmes will be allocated budget in the amount of Rp 3.1 trillion for 30 thousand kilometres of national roads and 50.5 thousand kilometres of bridges spread across many provinces.

My Fellow Countrymen,
Ladies and gentlemen,

The allocated budget for the Transportation Ministry is Rp 16.2 trillion, or an increase of 64.1 percent compared to the expected realisation in 2007 RAPBN-P. The budget will be used among others for improvement and construction of railway infrastructures and facilities in Java and Sumatra, providing service for pioneer sea transportations and economy class passengers in 18 provinces, construction of the Kualanamu Airport in Medan, completion of the construction of Hasanuddin Airport in Makassar, as well as 27 airports in border, isolated and disaster-prone areas. Concurrently, to improve safety factor, the Government will install 135 packages of supporting facilities for on-flight safety and services, and 259 packages of supporting facilities for flight safety at airports.

The allocated budget for the Agriculture Ministry, in the amount of Rp 8.9 trillion, will be used to support agriculture production such as construction and improvement of agriculture infrastructures, research and acceleration of agriculture disseminations and innovations, pests control, animal diseases, and quarantine. Farmers will continue to receive fertiliser subsidy, credit interest subsidy, and seeds subsidy totalling Rp 10.1 trillion, or an increase of 21.9 percent from the expected realisation of 2007 RAPBN-P. Rice subsidy for poor people (Raskin) will be allocated at Rp 5.5 trillion. To encourage agriculture revitalization, the budget allocated for the Public Works Ministry amounting to Rp 5.3 trillion will be dedicated to develop and improve irrigation networks, dams, and wetland rehabilitation.

The Energy and Mineral Resources Ministry received an allocation of Rp. 5.6 trillion which is mainly purposed for the energy power equipment and infrastructure service quality improvement programme. An amount of each Rp. 46,7 trillion and Rp. 27,8 trillion will be allocated for fuel and electricity subsidy. In order to support the 10 thousand mega watt development of power plants, the government provides guarantee for loan by PLN.

My Fellow Countrymen,
Ladies and Gentlemen,

Improvement on fundamental services and equitable distribution, with priority on the improvement on accessibility, quality of education and health, receives high attention. Although the 20% education budget of the central government yet to be fulfilled by Government and the House of Representatives due to imperative needs at other sectors, nevertheless the budget of the National Education Ministry budget increased more than double from an amount Rp. 23,1 trillion in the year 2005 to Rp. 48,3 trillion in the year of 2008. At the same time, the budget of the Religious Affairs Ministry also increased by two and a half from an amount Rp. 6,5 trillion to Rp. 16,1 trillion. Efforts on improvement on welfare and competence of the teachers' as well as lecturers' shall be gradually fulfilled by accelerating the improvement of qualification and competence of educator as well as academic certification, and to provide various kinds of allowances. In the year of 2007, distribution of School Operational Assistance (BOS) has covered 41.9 million students. The improvement of access and the expansion of education equitable distribution are conducted by supplying utilities and especially for rural and isolated areas. Scholarships for poor student at all educational levels shall be continuously improved.

Meanwhile, also at the same time the budget of the Health Ministry increased almost by triple from an amount of Rp. 6.5 trillion to Rp. 18.8 trillion, especially for the health services of the poor community, communicable disease prevention, lack of nutrition treatment, essential generic medicine supply, mother and child health service, as well as providing medical staffs. Utilization of the Health Insurance Programme for the poor community continuously increase and the implementation of the system as well as accountability shall continuously evaluated and improved.

The government endorsed the Family Hope Programme (PKH) that shall be addressed to families whose child yet to enjoy the 9-year Compulsory Education Programme, or pregnant mothers whom yet to receive access to health service by providing conditional cash direct assistance. Utilization of family economy is conducted through the Family Welfare Income Improvement Efforts (UPPKS), which embraces approximately 361 thousand groups with approximately 4.9 million families as members.

My Fellow Countrymen,
Ladies and Gentlemen,

The government continues to improve the effectiveness of the poverty prevention programme as well as to accelerate the achievement of the MDGs including to cut-off the poverty chain by opening access to work opportunities, education, and health. For that reason, consolidation on every programme of poverty prevention is conducted based on community utilization organized by 19 Ministries/Institutions in the National Community Utilization Programme (PNPM). The poverty programme consolidation is put into effect for the Home Affairs Ministry, the Public Works Ministry, and the State Ministry of Left Behind Regions Reconstruction. Allocated funding is increased from Rp. 3.9 trillion in 2007 to Rp. 7.0 trillion in 2008 with an addition of the bracing budget of PNPM. With such increase of budget, target of embrace has also increased from approximately 1,993 sub districts in villages and 838 sub districts in cities, to 15,565 villages and 8,813 political districts in 3,800 sub districts.

One of the important steps to develop a strong and productive Micro Credit Medium Enterprises (UMKM) is to increase its capital access. The Budget of the State Ministry of Cooperatives & Small and Medium Enterprises reached Rp. 1.1 trillion among are to provide SMEs and Cooperatives roll funding, and UMKM land certification assistance for credit guarantee. In the Revised 2007 State Budget, the government shall

increase the capital for Perum Sarana Pengembangan Usaha and PT Askrindo an amount of Rp. 1.45 trillion to expand the UMKM credit guarantee function.

In the area of housing and residential, the government put efforts to increase community accessibility on housing as well as its supporting equipments and infrastructures. An amount of Rp. 800 billion shall be provided as a subsidy on the financing of simple housing ownership/renovation. The budget of the State Ministry of the People's Housing increased by 55.2% to Rp. 749.1 billion.

My Fellow Country Men,
Ladies and Gentlemen,

In order to improve safety and to optimize the tasks and functions of defence and security, in 2008 the Defence Ministry is scheduled to receive Rp. 33.7 trillion budget allocation, as the Indonesian Police is scheduled to receive Rp. 20.9 trillion. Meanwhile, other Ministries and Institutions receive budget allocation based on their development priority and work programme.

Thus, the main policy of Central Government will continuously be synchronized with regional expenditures. Regional budget allocation policy is directed to support national priority programs/activities. Ever since the implementation of fiscal decentralization policy and regional autonomy, budget expenditure allocation to the region continue to rise annually. In the 2008 Draft of State Budget, planned expenditure allocation to the regions is expected to reach Rp. 271.8 trillion, or 7.6 percent increase compared to previous year expenditure prediction of realisation amounting Rp. 252.5 trillion. This comprises of Balancing Fund of Rp. 262.3 trillion, special regional autonomy allocation fund and revised fund of Rp. 9.5 trillion. Meanwhile, the Balancing Fund allocation comprises of shared fund (DBH) of Rp. 64.5 trillion, general allocation fund (DAU) of Rp. 176.6 trillion and special allocation fund (DAK) of Rp. 21.2 trillion.

As stipulated in the Regulation No. 33/2004, starting from 2008 general allocation fund (DAU) will be allocated to the regions by implementing a formula as mandated by the Regulation. However, general allocation fund (DAU) should also be functioned as the symbol of financial relations between Central Government and Regional Government, therefore the Government will still allocate revised general allocation fund (DAU) to make sure that the Regions receive their share. Furthermore, the Government has also reserved special allocation fund for the year of 2008, amounted to Rp. 21.2 trillion, which is an increase of around 24 percent.

In accordance with the Regulation, Aceh and Papua Provinces will receive special autonomy fund at 2 percent of national general allocation fund, in order to finance the development and maintenance of infrastructure, community-based economy, poverty alleviation, education, health and social issues.

Ladies and Gentlemen,

State budget and grant in the year 2008 is expected to reach Rp. 761.4 trillion or increases 11.2 percent from state budget and grant in the 2007 revised state budget. In the 2008 Bill on the State Budget (RAPBN), tax return is expected at Rp. 583.7 trillion or 13.6 percent toward income budget (PDB). The expectation increases around Rp. 93.8 trillion or 19.1 percent compare to last year Planned State Revenue, which amounted to Rp. 489.9 trillion. The expected 2008 tax return is based from domestic tax which is Rp. 568.3 trillion and foreign trade tax revenue of Rp. 15.4 trillion.

In order to optimize state income in the State Budget (APBN), government regulation on tax, in 2008, will be put forward in reforming administration and optimizing tax and custom regulations. The Government and the House of Representative (DPR) have ammended The Tax Regulations and The Custom Revision Regulation, and on behalf of the Government I sincerely extend my gratitude. As for the ammendment of daily income tax regulation (UU PPh), state income tax regulation (UU PPN), oil and gas income tax regulation (PPnBM), as well as Tax Regulation (RUU Pajak) and regional redistribution (Restribusi Daerah)

are still being discussed. I do hope that the discussion is being put forward to create a better business environment.

In the 2008 Bill on the State Budget (RAPBN), non-tax state budget is targeted at Rp. 175.6 trillion, around Rp. 16.2 trillion difference or 8.5 percent lower than last year, due to lower government revenue from state-enterprises and other non-tax state budget. The Government constantly perfecting rules and regulations with regard to non-tax state budget (PNBP), as well as optimizing and intensifying income.

My fellow countrymen,
Ladies and Gentlemen,

The state expenditure is targeted at Rp. 836.4 trillion, while state income and grant at Rp. 761.4 trillion, therefore the 2008 Planned State Budget will experience a deficit at around Rp. 75.0 trillion or 1.7 percent toward PDB, increases 21 percent compare to last year expected budget deficit in the Revised State Budget (RAPBN-P). The reason behind the deficit linked strongly toward government's fiscal policy in its attempt to stimulate the country's economy.

In 2008 Planned State Budget, domestic budget financing will be targeted at a net amount of Rp. 91.7 trillion. The sources will originate among other from the issuance government bond at a net amount Rp. 91.6 trillion. Other sources include assets sale from banking restructuring and RDI or government account usage around Rp. 0.6 trillion, as well as privatization at a net of Rp. 1.5 trillion.

In the meantime, budget financing that originate from overseas loans are expected at a net amount of negative Rp. 16.7 trillion, as a result from withdrawal of credit programs and credit projects amounting to Rp. 43.0 trillion, which is less than the main instalments of foreign debts at Rp. 59.7 trillion. This is consistent with the Government's aim to reduce foreign debt instalment share in the budget income.

Increase in budget deficit should be matched with fiscal resilience. Policy steps to increase the fiscal resilience should be undertaken through prudent, transparent, accountable, with minimum cost, and credit risk in the arrangement of Government Bond, as well as perfecting loan portfolio structure. In late 2008, the Government credit ratio is expected to decrease at around 33.0 percent. This will strengthen fiscal resilience, which is in line with the primary aim to embrace sustainable fiscal independency. Such is vital, especially in such volatile global economy.

For the first time, this year Financial Notes, has also include risk and influential factor which will immensely influence the State Budget. Risk factors are derived from revised economic assumptions and macro economic indicators, infrastructure development program, public service obligation and the welfare of state-enterprises, as well as other factors, such as natural disasters and pension regulation and social security programs which are about to be implemented. The Government has done its utmost to minimize the affect and risk level which influence the implementation of the State Budget (APBN).

The State Budget instruments are deemed to be effective in reaching its development target, only if it is being supported by sound budget planning and the ability to consistently implement based on good governance. Inefficiency, corruption and misappropriation should be evaded. The Government posses strong commitment to administer budget, in a clear, efficient and accountable manner. A stable economic condition will provide more rooms toward consistent implementation of the State Budget.

Ladies and Gentlemen,

This last few day we have witnessed the world stock exchange turmoil, which triggered by the collapse of supreme mortgage market in the United States of America. The effect can be seen through the sharp stock and monetary exchange correction throughout the world, including in Indonesia. Such condition remind us that globalization, apart from opening new opportunities for our development, is also contain with risks which we have to be cautious with. What we experience today, are also being experienced by other

countries in the world. We only hope that all efforts by financial institution in developed countries will be able to curb such turmoil. We also undertaking anticipation efforts in order to co-ordinate policy between financial institution and monetary, to keep us alert. I am sure that our strong economy fundamental, financial condition, and foreign reserve, which we have so far nurtured, as well as enforcement measures , will Insha Allah, bring us out with as minimum affect as possible.

Although the path of our nation have not been as smooth and as easy, with many trial and tribulation, but we have to be sure that what we have accomplished are the right one for us. We will always improve our nation's development for the benefit of people's welfare, and safeguard it from any disturbances from home or abroad. We have to believe in what we have achieved as a Nation and that we are just a step away from our initial ideals.

Honourable Chairman, Deputy Chairperson, and Member of the House of representatives,

My fellow countrymen,
Ladies and Gentlemen,

Hence my State Address and the Government Statemet on the Bill on the State Budget for the 2007 Fiscal Year and its Financial Note. In conclusion of my State Address, I would like to invite all components of the nation, during this auspicious moment of the 62nd Celebration of our Independence Day, to look forward together to a brighter future in realizing our ideals. Lets have a better nationhood. Lets develop better inter-institution relations. As the head of the Nation, I would like to invite member of the House of Representative, House of Regional Reresentative, Supreme Court, Constitutional Court and other institution to have a synergy in a more solid manner as stipulated by the Constitution and Regulations toward us all. The Government is welcome for more cooperation, including new ideas for good governance.

In order to implement the 2008 national development, let us administer all our effort, including our fiscal policy, efficiently and effectively in order to ascertain that the national development is truly felt by all people. Let us increase our figthing spirit to implement sustainable development for the security, peace and just, as well as welfare of all Indonesians.

To all role-models coming from all corners of Indonesia, please except my gratitude. I do hope that you will be the role models of all Indonesians.

For Members of the House's understanding and support, I thank you very much.

May God the Almighty shower us with Its Grace. Let us corroborate in unity, togetherness, and hard work.

Long live the Unitary State of the Republic of Indonesia.
Thank you.

Wassalamu'alaikum warahmatullahi wabarakatuh.

Jakarta, August 16, 2007
PRESIDENT OF THE REPUBLIC OF INDONESIA

Sgd

DR. H. SUSILO BAMBANG YUDHOYONO