
PRESIDENTIAL ADDRESS ON STATE BUDGET 2012, Jakarta, 16 August 2011

Selasa, 16 Agustus 2011

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ADDRESS

OF

THE
PRESIDENT OF THE REPUBLIC
OF INDONESIA

ON THE
OCCASION OF THE PRESENTATION OF

THE
GOVERNMENT STATEMENT

ON

THE BILL ON STATE BUDGET

FOR THE 2012
FISCAL YEAR

AND ITS
FINANCIAL NOTE

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BEFORE THE
PLENARY SESSION OF

THE HOUSE OF REPRESENTATIVES
OF

THE REPUBLIC OF INDONESIA

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JAKARTA, 16 AUGUST 2011

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Bismillahirrahmanirrahim,

Assalamu'alaikum warahmatullahi
wabarakatuh,

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Greetings to all,

Honorable Speaker,
Vice Speakers and Members of the House of

Representatives of
the Republic of Indonesia,

Honorable Speaker,
Vice Speakers and Members of the Regional

Representatives
Council of the Republic of Indonesia,

Distinguished
Chairmen, Vice Chairmen and Members of State Institutions,

Fellow Countrymen,

Distinguished
Ladies and Gentlemen,

With our deepest
gratitude to Almighty God, Allah SWT, today we are
still blessed with the opportunity and
fortitude to attend the continuation of this solemn session.

After my state
address this morning, allow me to avail myself on this auspicious occasion to deliver the Government Statement on the
Bill on State
Revenue and Expenditure (State Budget Bill) for the 2012 Fiscal Year and its Financial Note.

In compliance with the mandate of the constitution, the Budget Bill for the 2012 Fiscal Year and its Financial Note have been drawn up as a manifestation of the management of state finances which has been carried out with transparency and accountability for the greatest possible benefit of the people's prosperity. As mandated also by Law Number 17 of 2003 on State Finances, the 2012 Budget Bill is drafted on the basis of the Macro Economic Framework, Basic Fiscal Policies and Government Working Plan (RKP) of 2012.

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The drafting of the 2012 Budget Bill has also taken into account the recommendations and opinion of the House of Representatives and the considerations of the Regional Representatives Council conveyed during the Preliminary Deliberations Forum some time ago. It has also taken into consideration the latest economic developments, both at home and abroad, and the intended medium-term goals such as stated in the Medium-Term National Development Plan (RPJMN) of 2010-2014.

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Ladies and
Gentlemen,

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Before I submit the basic tenets of the 2012 Budget Bill, allow me to briefly present about the latest developments of the economic condition, both at the global level and at home, that served as backgrounds in the formulation of the macro economic framework and the various calculations of the 2012 Budget Bill.

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As we are well aware, the global economy has lately been hit by various

shocks affecting the global economy in the months to come. This condition may also have an impact on our country's economy. This year, the economic growth of advanced countries will almost certainly slow down from its growth in last 2010. The United States, Japan, Germany and Great Britain are predicted to have a slow growth.

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The slowdown will also take place in the Asian region, although the Asian economies this year will have the best performance. China and India, will remain as Asia's economic generating engines. The financial crisis engulfing Europe, the rising inflation and the risk of an economic overheating in China and India, as well as the unfinished fiscal crisis in the United States recently, are additional risks for the global economy this year and the next. We have to be alert and anticipate all of this, lest our economic growth would be affected.

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Distinguished
Ladies and Gentlemen,

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In the midst of such great uncertainties of the global economic situation, our economic performance this year is predicted to grow by 6.5 percent. The economic growth --the highest since the 1998 crisis--has been sustained by investment, export and public consumption. In terms of production, the economic growth will be generated by the sectors of processing industries; agriculture and mining.

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In the meantime,
the rise of world commodity prices and the

extreme weather besetting several regions, have exerted some pressures on the inflation rate at home. In last 2010, the inflation rate reached 6.96 percent, whereas until July this year, our inflation --annually-- has reached 4.61 percent. For this reason, therefore, the Government has, and will always, put price control as the main priority to maintain economic stability and the people's well-being.

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On the other hand, the value of rupiah continues to appreciate. Until the end of July 2011, the average exchange rate of the rupiah reached Rp 8,716 per US \$ 1, or it has appreciated by 4.93 percent compared to the rate during the same period in 2010. With the constant trust on the Rupiah, the Bank Indonesia (BI) interest rate could be maintained at 6.5 percent during the entire 2010. In February 2011, the BI interest rate reference was raised from 25 basic points (bps) to 6.75 percent, and this is still maintained until now.

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On the other hand, the banking credit line until June 2011 has increased to reach Rp 1,973 trillion, or it has grown by more than 23 percent. Similarly, the banking sector has also grown increasingly strong. The public bank capital adequacy ratio until May 2011, has been relatively well maintained at 17.4 percent, whereas the ratio of non-performing loan of public bank has been successfully lowered to around 2.6 percent by the end of 2010. This has been the lowest level during these last five years. Meanwhile, the performance of the domestic capital market cannot be separated from the developments of the global and regional markets. After enjoying quite a spectacular upsurge, passing through the 4,000 mark, the Composite Index of the Indonesian Stock Exchange has been corrected during these last few weeks to around 3,900 in the second week of August 2011.

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Distinguished Ladies and Gentlemen,

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As far as the international trade is concerned, the current account balance has registered a surplus of approximately US \$ 5.6 billion in 2010, and around US \$ 2.3 billion until June 2011. This has also been followed by a surplus of capital balance, in tandem with the increased inflow of capital to our country, which during the first semester of this year has gone up by about US \$ 6.8 billion compared to its last figure by the end of 2010. Under such circumstances, our foreign exchange reserves have reached US \$ 123.2 billion at the beginning of August 2011, an increase by more than 250 percent compared to the foreign exchange reserves in 2004, which stood at US \$ 36.3 billion.

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To anticipate the possible reversal of capital inflow and the negative impact of global economic downturn, the Government has put in place a number of precautionary measures: we have established cooperation with Bank Indonesia to buy Government Bonds (SBN), SBN buy-back using State Budget funds, creation of bond stabilization fund and preparations of Accumulated Budget Surplus (SAL) to sustain domestic SBN market. We are adopting these anticipatory measures to give positive signals that Indonesia's economy is currently safe and sound. Hopefully, God Willing, these measures would enhance the trust and conviction of investors.

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By taking into account the various global and domestic economic developments, the macro economic framework as the basis of the Government Working Plan (RKP) in 2012 which, at the same time, serves as the basic calculation of the 2012 Budget Bill is as follows: economic growth 6.7 percent, inflation rate 5.3 percent; 3-month interest rate of State Treasury Bill (SPN) at 6.5 percent; Rupiah exchange rate Rp 8800 per US \$ 1; oil price US \$ 90.0 per barrel; ^ ^ ^ and

oil lifting 950,000 barrels per day.

Honorable Speaker,
Vice Speakers and Members of the House,

Fellow Countrymen;

Distinguished
Ladies and Gentlemen;

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We should be grateful our current economic growth until today continues to be on the right track.Â The well-guarded growth of the economy has createdÂ quite considerable employment opportunities. With the creation of such employment opportunity, we have been able to lower theÂ open unemployment rate. At the beginning of 2011, the number of open unemployment has dropped to 8.1 million people or 6.8 percent. The number of poor inhabitants has also gone down, to become 30 million people or 12.5 percent. We ought to continue to intensify this effort, so by next year we shall be able to reduce the number even lower to 6.4 - 6.6 percent, and the number of poor population will continue to decline to around 10.5 - 11.5 percent.

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In this connection, we have to make some breakthroughs. Since last December, I have asked all stakeholders, from the central government, regional government, business community, as well as State-Owned Enterprises (BUMN) to be actively involved in jointly accelerating and expanding our national economy. Our efforts to accelerate and expand suchÂ economic development, are eventually incorporated into a Master Plan of the Acceleration and Expansion of Indonesia's Economic Development (MP3EI).

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To complementÂ the sectoral and regional development strategy we have been implementing thus far, in the design of MP3EI we are adopting three basic grand strategies as follow:

First, to develop 6 Indonesia's economic corridors, covering: Sumatera, Java, Kalimantan, Sulawesi, Bali-Nusa Tenggara and Papua-Maluku corridors;

Second, to reinforce national connectivity which is locally integrated and internationally connected; and

Third, to accelerate the potentials of Human Resources Development (HDR) and Science and Technology (IPTEK) in sustaining the development of primary programs by the enhancement of value-added in each economic corridor.

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We hope the development of these six economic corridorsÂ couldÂ serve as engines of economic growth and creation of employment opportunities and, simultaneously,Â stimulate regional development.

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To intensively monitor the implementation Â of MP3EI, the Government has created a Committee for the Acceleration and Expansion of Indonesia's Economic Development (KP3EI). Meanwhile, we are funding the MP3EI through the collaboration between the funds of State Budget, Regional Budget, State-Owned Enterprises, the private sector and the general public. The maximum implementation of MP3EI is the reason why I have been hopingÂ the budget distributed to the various state ministries/institutions could really be directed to sustain the successful execution of MP3EI. Similarly, we hope State-owned Enterprises could become the primary pillar and contributor in the implementation Â Â of MP3EI;Â not merely a commitment, but it must become a concrete investment.

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Fellow Countrymen,

Distinguished Ladies and Gentlemen,

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Next, allow me to present the Government's Working Plan and the national priorities in the coming year as a guidance of composing the 2012 Budget Bill. In line with the development vision of the 2010-2014 Medium-Term National Development Plan (RPJMN), the Government will continue to work hard to create a prosperous, democratic and equitably just Indonesia.Â Â Â Â

We shall create a prosperous IndonesiaÂ by strengthening a four-track strategy and an inclusive and just development. In this framework, the Government together with the honorable House has agreed to adopt the national development theme of the Government Work Plan (RKP) of 2012, namely: "Acceleration and Expansion of Economic Growth which has Quality, Inclusive and Just for the People's Welfare Improvement"Â

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Based on the RKP 2012 theme, we have set 11 national priorities, namely: (1) bureaucratic and administrative reform; (2) education; (3) health; (4) poverty eradication; (5) food resilience ; (6) infrastructure; (7) investment and business climate; (8) energy; (9) environment and disaster mitigation; (10) less-developed, up-front, outer-most, and post-conflict regions; and (11) culture, creativity and technological innovation.

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In order to reach the short- and medium-term development goals, in the years to come our country's expenditures will certainly be bigger. On the other hand, past experience has shown the national state budget until this moment remains dominated by compulsory expenditure such as personnel expenditure, a part of materiel expenditure, debt interest payment, and miscellaneous kinds of subsidies and transfers to the region. This condition has led budget allocation for the implementation of various programs and other more productive development undertakings become limited. Â

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It is precisely for this reason, therefore, on this auspicious occasion, I appeal to all levels of the government apparatus, both at the center and regions, to manage the National State Budget (APBN) and Regional State Budget (APBD) through transparent and accountable manner. As far as revenues are concerned, we should have the ability to increase, discover and develop the source of state and genuine regional revenue resources, with a view to bolstering our fiscal capacity. In terms of expenditures, we have to improve our expenditure quality and productivity, both the State Budget (APBN) and the Regional Budget (APBD) expenditures. We should be able to use the expenditure in a more qualified, effective, and efficient fashion, budgetary leakages cannot be tolerated. We must spend every Rupiah for truly productive activities and programs and capable of generating the highest possible value-added for the people's welfare.

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Precisely with these markers and framework of fiscal policy management, in the 2012 Budget Bill, state revenues and grants are projected to reach Rp 1,292.9 trillion. This is an Â increase of Â Rp 123.0 trillion or 10.5 percent from the target of state revenues and grants in the 2011 Revised State Budget (APBN-P) amounting to Rp 1,169.9 trillion. Meanwhile, state expenditures are projected to reach Rp 1,418.5 trillion, an increase of Rp 97.7 trillion or 7.4 percent from state expenditures ceiling in the 2011 Revised State Budget (APBN-P)Â totaling Rp 1,320.8 trillion. With this configuration, in the 2012 Budget Bill we are able to suppress budget deficit 1.5 percent vis-Â -vis the GDP.

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Ladies and Gentlemen,

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Now, allow me to elaborate in greater details the principal policies and plans of state revenues and grants I have mentioned earlier.

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State revenues have a very strategic role in strengthening our fiscal capacity in order to expand our elbow room in financing development. For this reason, therefore, the government is committed to constantly intensify the exploration and expansion of state revenue sources, both from tax state revenue and from non-tax state revenue (PNBP). The increase of state revenue is the key to our self-reliance in financing development.

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With those commitments, in the 2012 Budget Bill, the tax revenue is projected to reach Rp 1,019.3 trillion, or contributing almost 79 percent of the total state revenue and grants. That amount represents an increase of Rp 140.6 trillion, or approximately 16 percent of the Revised 2011 State Budget target (APBN-P). With such total amount of tax revenue, the ratio of tax revenue to GDP (tax ratio) undergoes an increase from 12.2 percent in 2011 to 12.6 percent in 2012. The increasingly substantial state revenue from tax brought about the consequence for the government to provide a more transparent and accountable public service.

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In order to secure the tax revenue, the government will continue its tax reform measures, including continuation of tax law and tax regulation reforms. In order to optimize exploration of tax potentials, in September 2011, the Government plans to conduct a national tax census. Through such national tax census, we want the scope of tax potentials continue to increase, both in terms of tax extensification and intensification. In line with that, we are also improving the mechanism of objection and appeal to improve control and to avoid abuse of power. We are complementing these measures by meting heavier sanctions to those who commit unsavory deeds.

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In the customs and excise area, we are optimizing revenue by, among other things, the adjustment of customs tariff, the assessment of extensifying excisable goods, and the full operation of Indonesia's National Single Window. In addition to that, we continue the measures to reduce leakages, to encourage the intensification of collection, as well as to arrange and handle export and import goods in a more thorough and detailed manner.

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In the meantime, Non-Tax Revenue (PNBP) in 2012 are envisaged to reach Rp 272.7 trillion, or contribute around 21 percent of the total amount of state revenue and grants. In order to optimize the attainment target of PNBP, the Government continues to take measures to raise oil lifting and cost recovery efficiency. In line with that, we are optimizing the revenue from the dividend of State-Owned Enterprises (BUMN), by a better-directed and effective restructuring of BUMN, the application of good corporate governance, and improving the synergy among BUMNs.

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Similarly, we intensify the exploration of revenue potential derived from activities of services and works rendered by state ministries/institutions, by adopting measures of administrative order and improvement of the Non-Tax State Revenue (PNBP), improving the legislations related to Â Â PNBP, as well as tariff adjustment and Â review of Â its scopes and application flexibility. We aim to reinforce theÂ budgetary and national economic resilience from the increased state revenue from our tax,Â customs and Â Non-Tax State Revenue (PNBP).Â Â Precisely in this manner we will gradually reduce our dependence on foreign aid.

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Ladies and Gentlemen,

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Allow me to move on to the presentation of the basic explanation regarding the policy and plan of the state budget. In line with our increasingly large fiscal capacity, the volume of state expenditure during the last couple of years, has also continued to increase. In relation to that, as I have mentioned earlier, we must Â continuouslyÂ improve the state expenditure's quality, Â so as to really let it functionÂ effectively Â to improve the people's prosperity.

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To support the realization of strategic objective in accordance with the policy direction and priority of development stated in the 2012 RKP, the state expenditure in the 2012 Budget Bill are projected to reach Rp 1,418.5 trillion. We allocate such amount of expenditures for state ministries/institutions, Rp 476.6 trillion; expenditures for non-state ministries/institutions, Rp 477.5 trillion; and transfer to the regions, Rp 464.4 trillion.

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Pursuant to the 2012 RKP priorities, we are directing the expenditures budget of ministries and institutions and non-ministries and non-institutions towards reaching the nine principal objectives, namely:

First, increasing infrastructure expenditures to overcome bottleneck, domestic interrelatedness and interconnection, food resilience, energy resilience, and people's welfare.

Second, completing bureaucratic reforms program.

Third, intensifying social security program, civil empowerment, and disaster management.

Fourth, strengthening pro-people programs by way of partiality measures to poverty alleviation and expanding employment opportunities.

Fifth, improving the quality of state expenditures by the implementation of performance-based budget and medium-term expenditures framework.

Sixth, maintaining state apparatus welfare standard.

Seventh, increasing the capacity of climate change mitigation and adaptation.

Eighth, fulfilling education budget in accordance with the mandate of the constitution, and increasing the budget allocation for research and development of Human Resources capacity.

Ninth, providing support to the implementation of Public Private Partnership project.

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Distinguished Ladies and Gentlemen,

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As a whole, in the 2012 Budget Bill there are 7 ministries and institutions receiving budget allocation above Rp 20 trillion. Those seven ministries and institutions are: Ministry of Defense, with a budget allocation amounting to Rp 64.4 trillion; Ministry of Public Works Rp 61.2 trillion; Ministry of National Education Rp 57.8 trillion; Ministry of Religious Affairs Rp 37.3 trillion; Indonesian National Police Rp 34.4 trillion; Ministry of Health Rp 28.3 trillion; and Ministry of TransportationÂ Rp 26.8 trillion.

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Â We prioritize the budget allocation to the Ministry of National Education and Ministry of Religious Affairs, to improve the access and equitable distribution of qualified and affordable education services, through both formal and non-formal procedures at all levels of education. Along with expenditure budget for the function of a well-spread education, whether in various ministries and other institutions, as well as through the transfer to the regions, thank be to God, Alhamdulillah, in the coming 2012 Budget Bill, we will be able to fulfill the constitutional mandate to allocate education budget representing 20 percent of the State Budget.Â

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We are grateful to be able to raise Â continuously the education

budget allocation over the years, in fact, even surpasses the constitutional mandate. Last 2010, the education budget reached Rp 225.2 trillion (20 percent of State Budget). This year, the amount reaches Rp 266.9 trillion (20.2 percent of State Budget); and in 2012 we plan to allocate Rp 286.6 trillion (20.2 percent). On

this occasion, I sincerely hope we could really spend this large education budget as well as possible, to improve the quality of education, and to expand the range of an equitable distribution of education. Indeed, we have to admit, in various remote villages, there are still plenty of dilapidated school buildings. For this reason, therefore, it becomes our priority for us in the coming 2012 to repair them, by the disbursement of the available education budget.

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We remain committed to prioritize the education budget allocation for the School Operational Assistance (BOS), earmarked for 31.3 million students at elementary level, and 13.4 million students at junior high level; as well as providing scholarships for more than 8 million poor students from families at all levels of education. At the higher education level, the Government grants Enhanced Academic Achievement scholarship, Student Study Assistance and Mission Oriented Scholarship, namely an education and living expenses assistance to students with commensurable academic potentials, yet economically disadvantaged. In tandem with this, we also improve the quality and welfare of both educators and staff of educators at the Madrasah (Islamic secondary education institution) through teacher's certification for 90,000 persons. As to what I have mentioned earlier, God Willing, we are able to provide a more equitable and better quality education for citizens all over the country.

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Ladies and Gentlemen,

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Meanwhile, we plan the budget allocation for the Ministry of Health, among others, for the improvement of the service quality for the health of mothers and reproduction; increasing the number of Public Health Centers (Puskesmas) in the border areas and the outer-most small islands, up to 86 percent; increasing the treatment percentage of malnourished five-year olds up to 100 percent; and increasing the percentage of hospitals caring for patients from the poor population who are participants of the Public Health Insurance program up to 85 percent coverage. We want to see to it that the degree of health of the people will improve all over the country.

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Furthermore, we prioritize the budget allocation for the Ministry of Defense to support the modernization and improvement of the main defense weaponry system (alutsista). We also allocate the budget to complete the facilities/means-infrastructures in reaching the goals of building minimum power, with adequate deterrence potentials. We giveÂ priority to the procurement of home industry product to meet the provision of the main defense weaponry system (alutsista) while, at the same time, we encourage industrial development, expand employment opportunity and enhance technological mastery. We should be proud to use domestic products as the works of our own nation's men and women.

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The priority for the budget allocation of the National Police of the Republic of Indonesia is aimed at reducing the instances of public disorder by the expansion of strategic measures and prevention of possible security disturbances, both in terms of quality and quantity. The budget is also allocated to deal with the sources of crimes, law & order disturbances and communal conflicts.Â

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Similarly, we focus on the budget allocation priority to the Ministry of Public Works and Ministry of Transportation, for theÂ Â development of quality infrastructure, mainly to reduce any obstacles in the infrastructure sector. The handling of transportation in Jakarta also gets a priority, intended to facilitate the distribution flow of goods and services. All of this is very crucial to speed up Â the acceleration and expansion of economic growth.

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Ladies and Gentlemen,

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Apart from the seven Â ministries and institutions receiving a budget allocation above Rp 20 trillion, there are also several Â ministries and Â institutions receiving a budget allocation well over Rp 10 trillion. Several of these Â ministries and institutions are, as follow: Ministry of Agriculture, with a budget allocation of Rp 17.8 trillion, mainly for raising agricultural production and productivity as well as the quality of agricultural products in the widest sense of the word; Ministry of Finance Rp 17.8 trillion, particularly to consolidate the financial system stability; Ministry of Home Affairs Rp 17.1 trillion, primarily for the enhancement of the rural society's self-reliance program; and the Ministry of Energy and Mineral Resources Rp 15.6 trillion to support the optimum exploitation of mineral resources and energy potentials.

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In the efforts to improve the spending quality of Â Â ministries and institutions as well as to enhance the state finance management, in the coming 2012, we will also fully implement the performance-based budgeting and the mid-term spending scheme. To raise the effectiveness and efficiency of budget disbursement, starting from this year, we put in place the reward and punishment policies of the ministries and institutions' budget disbursement in the 2010 fiscal year. In addition to that, we will also put in place the budgeting performance evaluation system.

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Distinguished Ladies and Gentlemen,

Fellow Countrymen,

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In line Â with the policy direction and priority determination of Â ministries and institutions' budget in the Â Budget Bill of Fiscal Year 2012, we plan to have a budget allocationÂ for capital expenditure Â Â to reach Rp 168.1 trillion, an increase by Rp 27.2 trillion or 19.3 percent of the Revised State BudgetÂ 2011. We are directing the increasingly substantial capital expenditure to support infrastructure, ---including energy infrastructure, food security and communication--- as part of our effort to sustain the development and intensification of inter-region connectivity.

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In the transportation sector, to stimulate inter-region connectivity, we plan to spend the capital expenditure, among others, to build new railways networks extending 150 kilometers, as well as developing and rehabilitating 116 airports and constructing 14 new airports in various places all over the country. We want to strike a better balance of infrastructure development in a more equitable fashion all overÂ Indonesia.

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To overcome the infrastructure bottleneck and to intensify the inter-region connectivity, we will disburse Â the capital expenditure budget to build new roads and upgradingÂ road capacity extending 4.005 kilometers. In addition to this, we also carry out preservation covering the maintenance and repair of 36,319-kilometer road; to build new bridges extending Â 7,682 meters and maintenance ofÂ bridges covering 217,076 meters; all over the country.

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In the housing sector, we plan to use the capital expenditure allocation to support the construction of 175 simple rental flats and flat units together with the supporting infrastructure totaling 48 twin blocks. We shall also use the allocated budget to finance the construction of 62,500 units of low-cost houses. In order to sustain food security, we will build 9 dams and rehabilitate 24 dams, completing the construction of 87 water catchments or reservoirs and rehabilitating 62 water catchments or reservoirs.

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Ladies and Gentlemen,

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We will also spend the continuously high capital expenditure to raise the defense capability towards the minimum essential power; to support the funding of multi-year activities, to boost the mitigation capacity as well as adaptation to the negative impacts caused by climate change; and to raise preparedness in disaster mitigation.

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Meanwhile, in order to continue the various pro-poor social security programs, the allocation for social assistance budget in the Budget Bill for Fiscal Year 2012 is set to reach Rp 63.6 trillion. Such a substantial budget allocation is mainly intended for continuing the social security program, where we put the emphasis on the sectors of education, health and empowerment-based programs, that are covered in the three cluster programs of poverty alleviation and disaster mitigation.

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Distinguished Ladies and Gentlemen,

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In addition to the poverty alleviation program, the other important program of the state is to reduce the people's burden of life, primarily of the low-income people. For this purpose the Government continues to provide subsidies to them in various forms. In the coming 2012, the Government still allocates budget for subsidy and, at the same time, make improvement of its distribution mechanism, to make it more efficient, effective and well-targeted.

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In the Budget Bill of 2012, the budget for subsidy is planned to reach Rp 208.9 trillion. This is a decline by Rp 28.3 trillion from the budget for subsidy in the Revised State Budget for Fiscal Year 2011 totaling Rp 237.2 trillion. We shall allocate this budget for fuel oil subsidy Rp 123.6 trillion; electricity subsidy Rp 45 trillion; and non-energy subsidy Rp 40.3 trillion. The non-energy subsidy consists of food subsidy, fertilizer subsidy, seeds subsidy, subsidy/assistance for the obligated public services, subsidy for credit-interest program and tax subsidy.

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The Government realizesÂ the subsidy is the right of the economically-weak people and down, many of its distributions are mis-targeted, consequently the subsidy is also enjoyedÂ by the economically viable segment of the public. Therefore, the policy to put a better order of the subsidy distribution system has been adopted in 2011 and it will be continued in 2012. We shall control the volume of subsidized fuel oil through, among other things, Â optimising the conversion program of kerosene into 3 kg canister LPG; increasing the use of alternative energy, such as the biofuel (BBN) and gas (BBG); as well as gradually limiting the usage volume.

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Ladies and Gentlemen,

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Besides various subsidies, the people's welfare improvement program also remains the main focus in Budget Bill for the coming year. Therefore, in the current 2012 Budget Bill, we prioritize budget allocations, among others, for food security program Rp 41.9 trillion. We will, among other things, launch the 10-million tons rice surplus in the next 5 to 10 years. It is precisely through these various strategic programs, that we pay attention to every element of the community to raise their ability, productivity, income and welfare. We show our attention to farmers by way of, among other things, providing direct assistance of fertilizer worth Rp 675 billion or equivalent to 192.800 tons. In addition, we provide direct assistance of high-yielding seeds worth Rp 1.8 trillion or equivalent to 185.000 tons crops seeds.

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We give Â attention to fishermen through the Â development of fish farming business system, by providingÂ capital to 3,340 fisherman groups; developing the fish-catching industry and empoweringÂ small-scale fishermen in order to develop a minapolitan (fishery farm) area for 3,700 fisherman groups; as well as the construction and promotion of Â fishing ports in 816 places.

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As far as laborers are concerned, we started our efforts Â to constantly raise their productivity and, simultaneously, encourage regions to payÂ wages in compliance Â with the Regional Minimum Wage (UMR). Meanwhile, for small, micro and medium enterprises, we expand the guarantee program of Small-Holder Business Credit we have pioneered in previous years.

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Furthermore, in order to develop the community's self-reliance, we shall continue the National Self-Reliant People's Empowerment Program (PNPM), by allocating a budget to the tune of Rp 13.1 trillion. We plan to spend the budget for, among other things, rural PNPM program totaling Rp 9.6 trillion, with a target of 5,020 districts; urban PNPM program amounting to Rp 2 trillion, targeting 10,948 sub-districts; and less-developed and special regions PNPM program amounting to Rp 42.3 billion, targeting 85 regencies/municipalities.

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In addition to that, we continue the conditional cash assistance program through the Aspiring Family Program Â (PKH) with a budget Â allocation Â of Rp 2.1 trillion to reach the target of approximately 1.5 million extremely poor households. In order to help the poor in fulfilling their food demands, we continue the distribution of rice for the poor and half-poor, with a Â budget allocation Â of Rp 15.6 trillion for about 17.5 million intended households. We are targeting all of this to raise the people's income and well-being, particularly of our low-income brothers and sisters.Â

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In line with the efforts to improve the people's well-being, the Government has also paid attention to the improvement of the well-being of Civil Servants/Indonesian Defence Forces/National Police and retirees. In this connection, the Government in the coming 2012, is planning to raise the basic salary of Civil Servants/Indonesian National Forces/National Police and retirees by an averageÂ 10 percent. The government also continues to pay the salary and pension of the 13th month

for Civil Servants/Indonesian Defence Forces/National Police. and retirees.

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Ladies and Gentlemen,

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Now, allow me to explain about the policy and plan of allocating development fund to the region. The funding of national development, apart from being allocated through the expenditures of ministries and institutions and expenditure of non-ministries and non-institutions, is also carried out through transfer to the region, which continues to increase in our Budget. The funding through transfer to the region is intended to sustain the consistency and continuity of the implementation of fiscal decentralization, in the support of the operation of extensive, concrete and accountable regional autonomy.

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To support the implementation of fiscal decentralization and regional autonomy, we simultaneously employ two main instruments, namely: the delegation of authority to regional governments to collect taxes (taxing power) and the granting of transfer to the region. We put into practice the measures and efforts to reinforce the regional taxing power by improving on the legislation on regional taxes and fees, by virtue of Law Number 28 of 2009, which has come effectively into force since 1st January 2010. It is precisely with the new law, that we can expand the base of regional taxes and fees which are already in force; add the types of regional taxes and fees; raise the maximum tariff of several types of regional tax; as well as grant the discretion to the regions in stipulating tax tariff.

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In the meantime, we allocate the budget of transfer to the region in 2012 for the Balancing Fund amounting to Rp 394.1 trillion and the Special Autonomy and Adjustment Fund totaling Rp 70.2 trillion respectively. The allocation of Balancing Fund consists of Revenue Sharing Fund or (DBH) of Rp 98.5 trillion, General Allocation Fund or (DAU) Rp 269,5 trillion; and Special Allocation Fund or (DAK) Rp 26.1 trillion.

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As far as the Shared Fund is concerned, we improve on its calculation and stipulation, so that becomes more target-oriented, transparent and accountable. Similarly, the General Allocation Fund (DAU) we allocate as an instrument to equitably distribute the inter-regional financial capacity, must be really capitalized on as optimal as possible for the people's well-being. We also have to improve the quality of public services in compliance with the minimum service standard. Likewise, the Special Allocation Fund (DAK) that we plan for helping the low-fiscal-power regions, must be really spent as effectively as possible to finance the provision of physical infrastructures and means of the people's basic services.

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In the mean time, we are planning the Special Autonomy Fund in the Budget Bill of Fiscal Year 2012 amounting to Rp 11.8 trillion, for Papua Province Rp 3.8 trillion; West Papua Rp 1.6 trillion; and Aceh Rp 5.4 trillion respectively. Besides dispensing the Special Autonomy Fund to Papua Province and West Papua, we also allocate additional infrastructure fund of Rp 1.0 trillion. On this auspicious occasion, I make an appeal that this Special Autonomy Fund be optimally spent to catch up with the protracted fulfillment of services of health, education, infrastructure and people's economy. I also ask for a more effective supervision to be carried out in the disbursement of the Special Autonomy Fund.

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Furthermore, in the upcoming 2012 Budget Bill, we plan the Adjustment Fund to reach Rp 58.4 trillion, or an increase of Rp3.9 trillion of the 2011 Revised State Budget (APBN-P) ceiling of Rp 54.5 trillion. From this Adjustment Fund, we plan the allocation of BOS Fund to reach Rp23.6 trillion, or an increase by Rp 6.8 trillion or 40.5 percent of the 2011 Revised State Budget ceiling. We intend to make BOS Fund as a stimulus to the regions, and not as replacement of the region's obligations to provide Regional BOS educational budget.

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I heard there has been a problem with the transfer of BOS Fund to the regions this year.

I do not want the children, as the rightful recipients of the BOS Fund, receive it belatedly as a consequence thereof. For this reason, therefore, I sincerely hope in the coming years, the process that hinders the distribution of BOS must be eliminated.

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Aside from the BOS Fund, the government also plans to allocate Teacher's Profession Allowance Fund for Regional Civil Servants amounting to Rp 30.6 trillion. This figure means an increase by Rp 12.1 trillion, or more than 65 percent of the 2011 Revised State Budget ceiling. To comply with the policy of improving the salary of Regional Civil Servant teachers to reach the minimum amount of Rp 2.0 million per month, the Government also continues to allocate budget for Additional Allowance of Regional Civil Servant Teachers, who have not yet received the Teacher's Profession Allowance, totaling Rp 2.9 trillion. By such improvement of the teacher's well-being, it is expected teachers could contribute to the improvement of better education, commensurable with their responsibility.

Fellow Countrymen,

Distinguished Ladies and Gentlemen,

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On this auspicious occasion, I would like to ask all distinguished House Members to pay close attention to the growth of new regions. Since the implementation of regional autonomy in 1999 until today, the additional autonomous regions have undergone a tremendous upsurge, reaching 205 regions, consisting of 7 Provinces, 164 regencies and 34 municipalities. Thus, the number of regions up until now has become 524, consisting of 33 provinces, 398 regencies, and 93 municipalities. As a consequence, the budget allocation previously earmarked for the improvement of the people's well-being, was diverted to the development of governmental infrastructures, personnel expenditure, and other needs for the new regions.

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As far as the State Budget is concerned, the creation of the new autonomous regions has undoubtedly impacted the state finances. The most obvious implication felt by the regions is the decrease of the real allocation of general fund. With the growing number of regions, it has undoubtedly affected the distribution of general allocation fund proportionally to all regions. Meanwhile, the implication felt by the central government is the greater demands for the provision of special allocation fund, and the increase of governmental allocation expenditure to finance vertical offices in the regions. Precisely for this reason, we must be more critical and prudent to see the expansion of new regions, lest it imposes an extremely excessive budgetary burden.

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Moreover, I have also received many reports about the quality of regional expenditure in the management of Regional Budget in various regions, which has not been effective yet. This is demonstrated by, among others, the continuing allocation increases of personnel expenditure, while, on the contrary, the portion of capital expenditure has declined. The increase of personnel expenditure in the Regional Budget is closely linked to the addition and appointment of new regional civil servants every year who, in most cases, are not up to their competence. What is most alarming, however, some of the capital expenditure is also used for the construction of official houses, the procurement of office cars, and so on. In fact, the capital expenditure used to build infrastructures, such as roads and bridges, should have actually been intensified.

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In this respect, through this august forum, I am instructing all Governors, Regents, and Mayors to redress the quality of their Regional Budget performance, by faithfully placing the people's well-being as the main priority, both in planning and disbursement of regional finances as well as in the management of regional finances. The operational expenditure, such as personnel expenditure, materiel expenditure, and official trip expenses, wherever possible, must be curtailed and its efficiency maintained. The policy of imposing a moratorium on the appointment of Regional civil servants we are carrying out at present, is aimed at making the optimum use of the budget in the region. Conversely, more productive expenditure, such as capital expenditure or infrastructure expenditure must be granted a bigger share and prioritized in the regional planning development. In line with this, transparency and accountability in managing regional finances must also be constantly intensified.

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Ladies and Gentlemen,

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In the effort to maintain fiscal continuity, I should give an explanation about budget deficit in the Budget Bill of 2012. Basically we will maintain and control the budgetary deficit at the level of Rp 125.6 trillion or 1.5 percent of the Gross Domestic Product. This figure is a decline by Rp 25.2 trillion from the target of budgetary deficit in the Revised State Budget 2011 of Rp. 150.8 trillion or 2.1 percent vis-à-vis GDP. We should be grateful that while several European countries are undergoing a fiscal crisis and incurred government debt due to their deficit increase that has exceeded more than 10 percent of the GDP.

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To finance the budgetary deficit, the Government plans to use financial sources, both from home and abroad. We are adopting these measures by continuing to orient ourselves to stable and sustainable financing, as well as to keep the burden and risk at a minimum. The main source of domestic financing still comes from the issuance of State Obligation or SBN, while sources of foreign finances are from foreign loans, in the form of program and project loan.

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It is precisely with these measures that we try to lower the ratio of the Government's debt vis-à-vis the GDP from around 25 percent by the end of 2011 to approximately 24 percent by the end of 2012. This has been a very significant drop compared to the debt ratio in 2004 when it reached 57 percent. The lower government's debt ratio vis-à-vis the GDP, God Willing, Insha Allah, could reinforce the structure of our fiscal security, in line with the Government's objective of reaching a sustainable fiscal self-reliance. This is part of our endeavor to maintain national economic resilience.

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Fellow Countrymen,

Distinguished Ladies and Gentlemen,

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Thus, were my explanations about the overview of policies to be adopted by the Government in the coming 2012 together with its budgetary plan. I hope the deliberations on the Bill on State Budget Fiscal 2012 with its Financial Note would proceed smoothly and are based on the spirit to collectively materialize the people's well-being.

The unhindered deliberations on the Bill on State Budget Fiscal Year 2012 and its Financial Note, will have an impact on the unhampered process of the formulation and adoption of the Regional Revenue and Expenditure.

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Before concluding this Government Statement, I appeal to all the honorable house members to jointly enhance the optimization of budget disbursement as well as possible. I also hope the State Audit Board (BPK), together with State Development and Finance Supervision Agency (BPKP), could continuously supervise thoroughly the budget disbursement, both in the central and regions. Let us spend the state budget in a disciplined and correct manner.

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I would also like to extend my gratitude and sincere appreciation to all the speakers and members of the House of Representatives (DPR RI) and the Regional Representatives Council (DPD RI) for the well-established cooperation to date. The excellent cooperation we have established thus far, God Willing, Insyah Allah, could be enhanced in the years to come.

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May Almighty God, Allah SWT, continuously bestow His blessings, grace and smooth passage in our endeavors to move the wheel of development towards a more safe, tranquil, advanced, just and prosperous nation and country.

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Thank you.

Wassalamu'alaikum Warahmatullahi
Wabarakatuh.

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Asisten Deputi
Naskah dan Penerjemahan

Deputi Bidang
Dukungan Kebijakan

Kementerian
Sekretariat Negara