

**NEWS ON TRADE AND INVESTMENT IN INDONESIA,
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ECONOMY

Economic program on track despite transition

The government last week announced the winner of the sale of 51% of Bank Permata, the last large bank left on its books. The bank's preferred bidder is a consortium of Standard Chartered Bank and PT Astra International. The consortium must undergo the central bank's fit and proper test before it can be declared the official winner of the tender. The sale will put some \$300 million into the government's coffers.

The Jakarta Stock Exchange composite index hit new highs for five days in a row, ending at 861.318 on Tuesday (5/10/04) before profit taking took hold.

The central bank was upbeat as the rupiah strengthened against the US dollar, predicting that it would strengthen to below 9,000 to the greenback by year end. Bank Indonesia Governor Burhanuddin Abdullah said earlier the rupiah could reach 8,800 by the end of the year.

Global rating agency Fitch Ratings raised the nation's rating outlook from stable to positive. It last upgraded Indonesia's long-term foreign-currency rating last year by one notch to B+ -- still four levels below investment grade.

"The completion of a six-month cycle of free and fair elections marks a major step forward for Indonesia, while Susilo Bambang Yudhoyono's landslide victory amounts to a very strong mandate for reform" said Paul Rawkins, senior director in the Fitch Sovereigns Group.

"The key to future ratings upgrades lies in the formulation and implementation of a strong reform agenda," said Rawkins.

The decision by Fitch would eventually reduce the perceived risk of the agency and investors of investing in the country, enhancing chances of the return of foreign investment, Bank Indonesia officials said.

Fitch also raised the rating outlooks on eight Indonesian banks to positive from stable, reflecting the change in sovereign status. The banks are Bank Mandiri, Bank Negara Indonesia, Bank Rakyat Indonesia, Bank Central Asia, Bank Danamon, Bank Internasional Indonesia, Bank NISP and Bank Buana.

POLITICS

SBY Presidency Confirmed

Susilo Bambang Yudhoyono's path to the presidency was confirmed last week, with the General Election Commission (KPU) officially declaring him the

winner Monday (4/10/04) and incumbent Megawati Sukarnoputri acknowledging her defeat publicly.

The KPU announced the results of the election on Monday afternoon, a day ahead of its schedule. Megawati conceded defeat Tuesday in an indirect speech to thousands of soldiers at the annual Armed Forces Day parade at Halim Perdanakusumah Airport in East Jakarta.

"Whoever has been chosen, we must graciously accept it, because the victory is a victory for all of us," she said to applause from those present, including Yudhoyono. Her voice broke up when she spoke.

"We have succeeded in concluding a national task ... for the first time in the history of the Indonesian republic we have chosen a president and vice president directly in an orderly and safe manner."

Markets reacted positively to the result, with the Jakarta Stock Exchange hitting new highs.

Yudhoyono said his "big theme" would be reconciliation "and working together within democracy," in his first comments to reporters Monday after being declared the winner.

Yudhoyono won 60.62% of the vote compared to Megawati's 39.38%, official results showed. A total of 115 million people voted. The Thursday (7/10/04) deadline for objections passed without any contest to the result at the Constitutional Court.

Anti-corruption Judges Sworn In

A team of judges who will preside over Indonesian anti-corruption cases was sworn in Thursday (7/10/04), Agence France-Presse reported.

The 12 were inaugurated in a ceremony at Merdeka Palace attended by outgoing President Megawati Sukarnoputri. They will be given additional training before taking up their positions.

Taufiqurrahman Ruki, head of the Corruption Eradication Commission (KPK), said two high-profile graft cases were already being prepared for the judges - including one against Abdullah Puteh, the governor of Aceh.

Ruki said his office was also probing other cases including controversial tanker purchases by the state Pertamina oil and gas company as well as alleged corruption within the national General Election Commission (KPU).

Vice President-elect Jusuf Kalla said in an interview published Thursday the new government was preparing to make high profile arrests to deliver "shock treatment" to the graft-blighted infrastructure.

REGIONS

KPK Completes Aceh Probe

The Corruption Eradication Commission (KPK) will submit its findings on an investigation into Aceh Governor Abdullah Puteh "as soon as possible", said KPK head Taufiequrrahman Ruki, according to Deutsche Presse-Agentur.

Ruki said a dossier of the findings could be filed to the ad-hoc anti-corruption court sometime this month, which will then decide whether to charge Puteh in the alleged price mark-up of an Mi-2 Russian-made helicopter.

Ruki made the statement following the induction of the court's anti-corruption judges on Thursday (7/10/04) by President Megawati Sukarnoputri.

The helicopter was purchased by Aceh province in 2002 for Rp12.5 billion (\$1.3 million), while the Indonesian navy bought a similar helicopter for only Rp6.1 billion.

Police Arrest Makassar Bomber

Indonesian police have arrested the alleged mastermind of a blast that killed three people at a McDonald's restaurant in the South Sulawesi provincial capital of Makassar on December 5 2002, an officer told media.

Islamic militant Agung Hamid -- who may also have a tie to last month's bombing at the Australian embassy in Jakarta -- managed to evade a police hunt for almost two years before he was nabbed in the central Java city of Yogyakarta on Sunday, Antara national news agency reported Monday (4/10/04).

Hamid cursed the United States and clenched his fist in the air on Monday when he was about to be transported to Sulawesi, Jakarta-based news radio station El Shinta said.

Police said later that Hamid had confessed to his involvement in the McDonalds attack.

South Sulawesi police chief Saleh Saaf told reporters Hamid might also have played a role in the September 9, 2004 bombing in front of the Australian Embassy that killed nine people.

"Agung Hamid is also being investigated over suspicions of involvement in the bomb because, from our information, he has communicated with Dr Azahari Husin, the Malaysian accused of being the brains behind several terror bombings in Indonesia," Antara quoted Saaf as saying.

BUSINESS BRIEFS

MACROECONOMY

SBI rises slightly

The benchmark interest rate on one-month Bank Indonesia promissory notes (SBI) rose one basis point to 7.40% at the auction Wednesday (6/10/04).

Bank Indonesia spokesman Rizal A Djafaara said the auction attracted Rp60.5 trillion (\$6.66 billion) in funds.

The interest rate on the three-month SBI fell to 7.3%, down from 7.31% in the previous auction, Rizal said in a statement. The auction of the three-month SBI turned out Rp5.17 trillion.

Central bank officials are insisting that there is no need to raise interest rates despite rising rates in the US, arguing that domestic interest rates are still attractive.

The central bank also argued on Wednesday that the current rate is conducive to increase business activities and help push economic growth.

Forex reserves

Foreign exchange reserves as of September 30 fell by \$31.50 million to \$34.80 billion, compared to \$34.83 billion a week earlier, mainly because of foreign debt payments, Bank Indonesia said.

Base money as of September 30 rose by Rp5.42 trillion to Rp175.35 trillion during the week, Bank Indonesia said in a statement.

SOEs

Stanchart Takes Permata

In its third attempt to control a major Indonesian bank, British-based Standard Chartered has won control of Bank Permata, a merger of five banks including Bank Bali, which it failed spectacularly to take over earlier.

StanChart headed a consortium to bid for the bank that included PT Astra International, which earlier lost control of another bank that merged to form Permata, Bank Universal.

Finance Minister Boediono announced Friday (8/10/04) that the StanChart consortium had beaten three other final bidders to take the last remaining major bank to be sold by the government.

The three other bidders consisted of a consortium led by Australia & New Zealand Banking Corp. with its local partner PT Bank Pan Indonesia, Malayan Banking Bhd. and Malaysia's Commerce Asset Holding Bhd.

Standard Chartered and Astra will each have a 25.5% stake in Permata, the bank said in an e-mailed statement. Indonesia's banking sector has "scope for significant development," Bryan Sanderson, Standard Chartered's chairman, said.

A banking source quoted by Dow Jones Newswires said Stanchart and Astra are paying 2.73 times book value, or Rp705 a share for the stake, which would raise Rp2.78 trillion (\$306 million) for the government. The deal was above the government's target price of \$250 million.

The sale is the last in a series of bank auctions conducted by the government over the past few years. The auctions were aimed at recouping some of the billions of dollars the government poured into the banking system after the 1997-98 Asian financial crises.

Bank Permata represents a good deal for the government compared to other sales. The government sold Bank Central Asia to a US fund in 2002 for only 1.2 times book value.

Bank Permata said Friday its nine-month net profit more than doubled on year, due mostly to higher net interest income.

Indonesia's seventh-largest bank in terms of assets posted a net profit of Rp494.56 billion in the first nine months of the year, up from Rp218.82 billion a year earlier.

Net interest income rose 46% on year to Rp1.16 trillion from Rp795.27 billion in 2003, mostly due to an increase in lending. New lending amounted to Rp4.08 trillion, which increased its outstanding loans to Rp13.27 trillion.

Its capital adequacy ratio rose to 12% from 10.1% on year, still well above the mandatory 8% minimum level set by the central bank. Assets were at Rp31.54 trillion, compared with Rp27.54 trillion a year ago.

PRIVATE SECTOR

Multipolar Boosts Matahari Stake

PT Multipolar Corp has increased its stake in PT Matahari Putra Prima to 50.1% from 47.4%, according to Multipolar president Jeffry Wonsono, *Bisnis Indonesia* reported.

"The status of Matahari has changed from an associate firm to a subsidiary of Multipolar and an indirect unit of AcrossAsia Ltd," Wonsono said.

Optimism on Exports

A survey by CastleAsia and logistics firm DHL says exports are expected to continue to grow this year, *The Jakarta Post* reported.

Of approximately 100 firms surveyed from May through August, more than half of which were small and medium-sized enterprises (SMEs), 52% said they expected orders to increase at least up until the end of the year.

The optimism was largely expressed by SMEs. "SMEs, as we know, are more resilient amid the fluctuation in prices and pose much less risks compared to large businesses, so I assume they have more optimism," said CastleAsia's Peter Duncan.

The survey found that the cost of raw materials and supplies and currency rates were the two biggest factors that influence business moves.

The government has targeted non-oil and gas exports to reach about \$46.37 billion for 2004, up 7% from last year.

Avanza for Malaysia

PT Toyota Manufacturing Indonesia said Thursday (7/10/04) it has begun monthly exports of 2,000 units of its new multi-purpose vehicle Toyota Avanza to Malaysia, Dow Jones Newswires reported.

In Malaysia, the Avanza will be assembled by Perodua Auto Corporation Sdn. Bhd., an affiliate company of Daihatsu Motor.

Toyota Manufacturing Indonesia is 5%-owned by PT Astra International and the rest by Japan's Toyota Motor Corp. The Avanza went on sale in Indonesia in January and has racked up 28,000 unit sales since then.

Fertilizer Stocks Strong

State-owned fertilizer companies have doubled stocks to meet expected high demand during the planting season in November and December, PT Pupuk Kaltim (PKT) said, according to Antara.

PKT President Omay Wiraatmadja said fertilizer producers have also agreed to work together to cope with possible scarcity in supply in any area.

Stocks of urea fertilizer at present total 460,572 tons, more than double the total of 212,196 tons regulated by the government.

Meanwhile the Ministry of Industry and Trade says it opposes a government plan to shut the Asean Aceh Fertilizer (AAF) plant in Aceh.

The government said it would close the joint venture of ASEAN founding members as it could not secure supply of gas feedstock for the urea fertilizer producer.

Director General of Chemical and Agro Industries Benny Wahyudi said the decision would trigger greater problem such as mass retrenchments, damaging the investment climate and the loss of export markets.

New Hotel for Batam

State-owned construction firm PT Adhi Karya has won a contract worth \$60 million to build a Sheraton Hotel on Batam island, *Bisnis Indonesia* reported, citing Finance Director M Choliq. Adhi Karya will build the hotel without any working partners and expects completion in two years.

Choliq said Adhi Karya has generated revenue of around Rp1.5 trillion with net profit of around Rp30 billion.

Garudafood Boss Best Entrepreneur

Sudhamek AWS, president of food product giant Garudafood Group, was named Indonesian Entrepreneur of 2004 Thursday (7/10/04) by Ernst & Young, *The Jakarta Post* reported.

Sudhamek was selected from among 15 successful businessmen by a panel of independent judges. His company's Kacang Garuda brand controls 65% of the nation's peanut snacks market.

Sudhamek will represent Indonesia against 40 Entrepreneurs of the Year from various countries for the Ernst & Young World Entrepreneur of the Year competition, to be held in May 2005 in Monte Carlo.

STATE CONCERNS

New Money Laundering Pact

Indonesia's new Financial Transaction Reports and Analysis Center (PPATK) said it has signed an agreement with the Philippines' Anti-Money Laundering Council (AMLC) to exchange information in the fight against money laundering, AFX-Asia reported.

In a statement, PPATK said a memorandum of understanding was signed on the sidelines of an Asia Pacific money-laundering workshop in Brunei.

The deal covers the exchange of financial information to prevent and eradicate money-laundering practices and the funding of terrorism, it added.

The signing marks the agency's fifth bilateral agreement after deals with the Australian Transaction Reports and Analysis Center, the Anti Money Laundering Office of Thailand, Bank Negara Malaysia and Korea Financial Intelligence Unit.

ENERGY

Korea Electric Geothermal Hopes

State-owned Korea Electric Power Corp (KEPCO) is planning a \$500 million thermal power plant project in Indonesia as part of moves to expand

cooperation in energy fields between the two countries, the Ministry of Commerce, Industry and Energy said, AFX-Asia reported from Seoul.

Under the deal, KEPCO plans to hold a controlling 51% stake in the power plant, with construction to be completed by 2007. Under the deal KEPCO will also import about 3 million tons of gas annually from Indonesia.

Meanwhile PLN company secretary Muldjo Adji said Indonesia needs to invest \$3 billion a year to keep pace with growing demand for power, Antara reported.

Demand is growing by around 6% annually, he said, adding that foreign investors were still taking a wait and see attitude on new investment in the country.

OIL & GAS

Gas Investment 'to Jump'

Investment in gas production in the country during 2004 is predicted to reach \$3.9 billion according to a report by the Ministry of Energy and Mineral Resources, Antara reported. The figure is more than half of total investments in the entire oil and gas sector.

The report said \$2.1 billion of the investment will be used for gas field development, \$799 million for exploration and the rest for administrative costs.

The report said the total investment of \$7.5 billion in the oil and gas sector was well above the \$3.9 billion in 2000 and \$5.3 billion in 2003.

In 2005 the country is predicted to produce 10 billion cubic feet per day (BCFD) of gas, up from an estimated 8.8 BCFD this year and 7.3 BCFD in 2003.

The report said Indonesia known reserves of gas reached 178.13 trillion cubic feet (TCF) in 2004, up from 123.6 TCF in 2003.

Subsidy Cut 'Likely'

President-elect Susilo Bambang Yudhoyono said Friday (8/10/04) the new government would not hesitate to take politically unpopular economic measures as long as these were in the best interests of the country, a comment that many interpreted as a move to cutting fuel subsidies.

Yudhoyono told a group of businessmen that the government might "take steps that are unpopular if they are necessary to secure our future."

He said detailed information on the strategies, targets and policies of his government would be announced on October 21, a day after his inauguration.

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Source: The Coordinating Ministry for Economic Affairs Republic of Indonesia