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**NEWS ON TRADE AND INVESTMENT IN INDONESIA
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ECONOMY

BOND ISSUE SUCCESS WHILE EXPORTS AND INFLATION ARE BETTER THAN EXPECTED

The Ministry of Finance said in a statement the 10-year bonds were sold at a weighted average yield of 11.74%. The ministry said it had received Rp3.74 trillion worth of bids. There is enough confidence that investors pushed up the size of Tuesday's bond issue by 50% to Rp3 trillion (\$324 million).

The release was part of the government's plans to issue a total of Rp32.5 trillion in bonds this year, and took the total so far to Rp14 trillion in rupiah-based bonds.

The government also issued in March dollar bonds worth \$1 billion, the first sovereign issue since the 1997 regional financial crisis.

The average yield of the latest bond issue was up on earlier releases due to higher inflationary pressure. The government plans another round of bonds on September 28.

The International Finance Corporation (IFC), the investment arm of the World Bank, was also upbeat, saying it would boost investment in the country in line with growing optimism.

IFC country manager for Indonesia German A. Vegarra said the IFC would invest about \$210 million in Indonesia in its next fiscal year starting in June and \$250 million in 2006, up from \$150 million this year.

He said predictions of higher economic growth and a more stable political environment had contributed to the decision. Funds would go to small and medium enterprises, the agricultural and mining sectors and infrastructure projects.

Less pleasing, at least to the state-owned enterprises that were hoping to be privatized, was a decision by the government to postpone all privatization moves for all but Bank Negara Indonesia (BNI).

Mahmuddin Yasin, deputy for privatization at the Office of the State Minister for State Enterprises said that while the sale of a 30% stake in BNI would go ahead, other sales were being shelved because the short remaining life of the current administration was inadequate to pursue them.

He said the BNI sale, expected in October, would be likely to fulfill the 2004 budget demand for Rp5 trillion (\$555 million) this year in privatization funds.

So far, the government has raised about Rp3.6 trillion from the March sale of a 10% stake in Bank Mandiri and the sale of shares in small consulting firms and several mining companies.

SOEs to be affected by the delay include airliner PT Merpati Nusantara, miners PT Timah and PT Aneka Tambang, pharmaceutical companies PT Kimia Farma and PT Indo Farma, fertilizer producer PT Pupuk Kaltim and state plantation firms PT Perkebunan Nusantara III, IV and V.

Further sales of shares in Bank Mandiri and Bank Rakyat Indonesia through secondary public offerings have also been shelved.

Exports and Inflation Show Improvement

Meanwhile, Indonesia's exports grew 7.68 percent to US\$5.68 billion in July from \$5.27 billion in the same month the previous year, the Central Statistics Agency reported on Monday. "The growth in exports shows that national export performance remain robust," agency head Choiril Maksum said.

The Agency also reported a lower-than-expected inflation of 6.67 percent in the year through August, against 7.20 percent in July, as a fairly stable rupiah currency helped moderate consumer price gains. A Reuters poll of 10 research houses had produced a median estimate for August of 6.95 percent, softening from a 17-month high in the month earlier. The statistics bureau said Southeast Asia's largest economy posted month-on-month inflation of 0.09 percent in August, down from 0.39 percent in July.

CONSUMER CONFIDENCE SURVEY BY DANAREKSA RESEARCH INSTITUTE

Hitting Multi-Month Record Levels

Consumer confidence index rose from 100.7 to 101.3 in July

Confidence of Indonesians in July continued to strengthen. The Consumer Confidence Index (CCI) climbed from 100.7 in June to 101.3, a level unseen for two years since June 2002. The index's components diverged: The Present Situations Index (PSI) headed south, down by 2.6% to 79.7, while the Expectations Index (EI) headed north, up 2.3% to 117.5, a level not seen since November 2001. On the back of the slide in the PSI was the engrossment of a lot of people in the counting of votes. July marks a special month for Indonesians, the first time people directly vote for their president and vice president. As such, news updates on the presidential election results overwhelmed and overshadowed recovery news, as people were deeply excited to see if their chosen presidential pair wins. This weakened sentiment on the July economy however does not erase hopes for the nation's recovery outlook. In sharp contrast, consumers feel firmly upbeat that the country's economy is reviving.

This level of optimism has not existed for more than two and a half years. People are more convinced that vigorous growth is unfolding in six months. Consumers in the main cities in fact expect inflation rate and interest rates to decline, the IDR to strengthen, and the JCI to bounce back in months up to January 2005. Given the sound recovery story perspective, appetite to shop durables enhances, with the proportion of consumers who plan to buy durable goods over the next six months rising to 24.7% from 20.3% in June, thanks to the subsiding political fears.

On the back of robust optimism on Indonesia's current and future economy is the presence of a confidence-building environment. The country managed to elect two out of the five presidential pairs for a final race in September without any social volatility and with minor disruptions. People feel good about the way the nation is organized. The Confidence in the Government Index (CCGI) surged 6.2% to 126.5, a level unseen for two and a half years since December 2001. All of the government index's components jumped to levels before 2002 except the one gauging the government's ability to provide public utilities that rose from 139.5 to 142.7.

The other four components of the CCGI broke 30-month record levels. People feel fairly confident that the current administration is able to refurbish public utilities, contain inflationary pressure, stoke economic growth, keep the nation secure and orderly, and uphold justice, with the respective indices each up by 2.3%, 4.1%, 5.2%, 8.5%, and 12.0%. All of this sanguinity, nevertheless, may still be subject to a major change in either direction as the nation has yet to finish selecting its president and vice president for the next five-year tenure. Social tensions, as a rule, are bound to heighten again in the final presidential contest in September, but if we all can behave as well as in the previous elections, hotter tensions during the election need not derail, but conversely strengthen, Indonesia's recovery in the making.

Bank Indonesia Press Release on Base Money and Forex Reserves

The base money on August 23, 2004 was noted at Rp 168.16 trillions, or Rp 2.4 trillions lower than the position on August 13, 2004. The decline was mainly caused by decreasing of money in circulation.

Meanwhile, foreign exchange reserves in the third week of August 2004 was relatively constant at USD 34.98 billions.

Net Government Account increased by Rp 6.51 trillions to reach Rp 201.71 trillions. This increase mainly generated by seasonal factor such as dropping of General Allocation Fund, foreign debt repayment and tax and oil revenue and wage payment. Bank Indonesia Liquidity Credit (KLBI) was relatively constant.

Meanwhile, Open Market Operation (OPT) within this week give a contraction effect of Rp 8.12 trillions. With this aforementioned developments, Net Domestic Asset (NDA) was contracted by Rp 1.79 trillions, to reach Rp 2.47 trillions.

REGIONS

French Railway for Aceh

State-owned French company SNCF International said Friday (27/8/04) it was ready to construct a 483-kilometer railway connecting the provincial capital of Banda Aceh to the neighboring North Sumatra town of Besitang.

"We are ready to construct the railway and are awaiting support from the provincial administration as well as the central government," Michel Antraigue, representing SNCF International, said after meeting Aceh provincial officials.

Antraigue said the company was serious about developing railway infrastructure and networks in Indonesia. "Rail-based transportation is very important for developing the regions to anticipate road traffic congestion," he added.

SNCF International is working on the 1,300-kilometer Beijing-Shanghai railway in China and the 1,600-kilometer connecting Jeddah, Mecca and Madina in Saudi Arabia.

Separately, the head of Aceh Transportation Agency Usman Budiman said the railway would cost some Rp7.4 trillion and would be funded by the State Budget and the Aceh Provincial Budget.

"So far we have completed the preparation phase of the project," he said, adding that the first phase from Besitang to Langsa is expected to be operational in 2006.

GAM Inmates Moved

Seventy-four convicted Free Aceh Movement (GAM) separatists were sent to West Java on Thursday (26/8/04) amid tight security.

The 74 inmates, including four former GAM negotiators, were flown from Banda Aceh in the morning aboard a C-130 (Hercules) aircraft.

When the plane landed at Husein Sastranegara Air Force Base in Bandung, hundreds of heavily armed police officers surrounded the aircraft. Five buses were waiting to transport the inmates to prisons in five regencies in West Java province.

The military and officials from the five prisons in West Java signed a memorandum of understanding at the air base, paving the way for the prisons to receive and house the inmates.

Escorted by police officers, 17 of the inmates were loaded onto a bus and transferred to Sukamiskin Prison in Bandung regency. Seventeen others were sent to Cirebon Prison, 13 to Indramayu Prison, 14 to Majalengka Prison and the remaining 13 inmates were transferred to Kuningan Prison.

The 74 inmates are among 415 GAM inmates who have been transferred from Aceh prisons to prisons in Java. The first transfer took place in January this year.

The TNI says the transfers are aimed at solving the problem of overcrowding in Aceh prisons. They are also aimed at cutting ties between the GAM inmates and other Acehnese inmates and the Acehnese community as a whole. The 74 inmates are all serving prison sentences of between three and 20 years for treason.

Sofyan Ibrahim, the former top GAM negotiator, was originally to have been included among the GAM inmates transferred to West Java, but was excluded because of illness.

Three other former GAM negotiators, Tengku Kamaruzzaman and Muhammad Usman, who are serving 13-year sentences, and Amni Achmad Marzuki, who was sentenced to 12 years in jail, will have special cells at Sukamiskin Prison in Bandung. The fourth former negotiator, Nashirudin bin Achmed, who is serving a 13-year jail term, was transferred to Cirebon Prison.

BUSINESS BRIEFS

SOEs

Ten Bid for Permata

Ten groups of foreign and local investors remain in the race for a 51% share of seventh-ranked PT Bank Permata, Reuters reported. The government has said it wants at least 1.8 times the bank's 2003 book value, which translates to around \$170 million.

State asset disposal company PT Perusahaan Pengelola Aset (PPA) said in a statement Friday (27/8/04) that investors must submit preliminary bids by Monday, out of which the government will shortlist a maximum of five to conduct due diligence.

The government, which has a 97.17% stake in publicly listed Permata, plans to sell another 20% on the market next year.

The groups PPA listed were Barclays Bank Consortium, Bumiputera Commerce Bank Consortium, Bank Mandiri Consortium, Bank Panin Consortium, Standard Chartered Bank-Astra Consortium, Swissfirst Consortium, Wachovia Consortium, Malaysia's Malayan Banking Bhd. (Maybank), Indonesia's fourth-largest bank PT Bank Rakyat Indonesia and Singapore's third-largest lender United Overseas Bank Ltd. (UOB).

PT Bank Mandiri confirmed Thursday (26/8/04) that it will bid for the 51% stake in Bank Permata, Dow Jones Newswires reported. It leads a consortium with PT Mandiri Sekuritas, PT Bank Buana Indonesia and PT Sari Darsa Karsa, a major shareholder of Bank Buana.

The sale has sparked interest from several other investors, including state-owned pension fund Jamsostek, which will form a consortium with Malayan Banking Bhd. Other potential bidders are UK-based Standard Chartered PLC in a team-up with Indonesian automotive company Astra International, and PT Pan Indonesia with Australia & New Zealand Banking Group (ANZ). Britain's Barclays Bank will join a consortium with Rabobank and Bank Danamon.

Reuters cited a US investment banker unconnected with the sale as saying that Standard Chartered would be very keen to take the stake. "StanChart has been trying to get into Indonesia for a while. The talk is that they need to get this one at all costs," he said.

"They are going to be fairly aggressive on this one. It is the last big bank that will be available for sale from Indonesia and the money is not that much."

Telkom Looks at Bond Issue

PT Telekomunikasi Indonesia (Telkom) is considering a rupiah bond issue later this year to refinance its foreign debt in an effort to reduce foreign exchange losses.

"We are looking at the possibility of issuing a local bond to help refinance \$800 million debt," president commissioner Tanri Abeng told Dow Jones Newswires Monday (23/8/04). He didn't provide any other details about the issue.

In the first half of the year, Telkom's net profit fell 19% on year due mostly to Rp869.81 billion in foreign exchange losses due to the weaker rupiah.

Bank Jabar Bond Issue

West Java regional development bank Bank Jabar has commenced the book-building process for its Rp1 trillion (\$107.75 million) bond issue, *The Jakarta Post* reported. Bank president director Umar Sjarifuddin indicated the coupon for the A series bond would be between 11.75-12.25%, while the B series would be between 12.25-12.75%.

The A series bond will have a maturity period of three years, while the B series will have a five-year maturity. Proceeds from the bond issue are to be used to expand new loans.

PT Bahana Securities, PT Mandiri Sekuritas and PT Andalan Artha Advisindo Securities are acting as underwriters for the bond issue.

The bank, which was established in 1961, booked a net profit of Rp149 billion during the first half of the year after recording a Rp176 billion net profit for the whole of 2003.

STATE CONCERNS

More Fishing Ports Needed: Minister

Minister of Marine Resources and Fisheries Rokhmin Dahuri says more fishing ports should be built to provide conditions at a level of neighboring countries. He was speaking at the commemoration of a new fishing port at Tasikmadu, Trenggalek district, East Java on Sunday (22/8/04), Antara reported.

He said development of facilities on the southern coast of East Java had already allowed catches to increase from 10,000 tons to 60,000 tons per year.

House Endorses Deposit Insurance Bill

The House of Representatives endorsed Tuesday (24/8/04) the bill on a deposit insurance agency (LPS), paving the way for the gradual termination of the costly government guarantee on bank liabilities, *The Jakarta Post* reported.

The existing blanket guarantee program, which covers virtually all deposits and other claims on banks, was introduced in the wake of the late 1990s financial crisis in a bid to instill confidence in the banking industry.

Minister of Finance Boediono said at a plenary session of the House of Representatives that, while the program had successfully revived public confidence in the banking sector, it had also had an undesirable impact by burdening the state budget and by creating a 'moral hazard' for bankers.

Under the new law, the existing guarantee program will be withdrawn progressively over two and a half years. The transition period will be used to establish the LPS system to conduct the insurance program. LPS will charge a premium fee of 0.1% of a bank's third party funds each six months. It will also have the authority to supervise, take over the management, and even close down a bank declared to be suffering deep financial problems.

PRIVATE SECTOR

More IFC Funds for Bank NISP

The International Finance Corporation (IFC) announced Wednesday (25/8/04) a deal to provide \$35 million in five-year senior loans and a partial guarantee of up to Rp210 billion (\$23 million) to fast-growing Bank NISP.

The country's 12th largest bank in terms of assets said it would use the funds to enhance its risk management and to develop export-oriented industries, *The Jakarta Post* reported.

"The funds will improve the bank's liquidity management and the balance of long-term funding sources for the disbursement of long-term loans," NISP president Pramukti Sarjoudaja told a press conference.

The IFC is the third largest institutional shareholder in NISP with 15.05% of shares. Singapore's Overseas Chinese Banking Corp. Ltd. has a 22.5% share in the bank.

INVESTMENT

Sumitomo to Invest More

Sumitomo Rubber Industries Ltd. will spend a total of Y5 billion on expansion projects in Japan and elsewhere in Asia, including Indonesia, to meet growing demand, Dow Jones Newswires reported.

The Japanese company, known for its Dunlop brand, will invest about Y3 billion at plants in Japan and around Y2 billion at factories in China and Indonesia to increase annual production capacity at six factories in those countries by 12% from 2003 levels, a spokesman said.

The company, based in Kobe, western Japan, already planned to invest Y33 billion over two years from 2004. The additional spending will raise its planned capital outlay to around Y38 billion, the spokesman said.

Interest in Sulawesi Palm Oil

Malaysian investors are looking at the potential for cooperation with state-owned plantation company PTPN XIV to build oil palm plantations in Sulawesi, Antara reported. A Malaysian team has visited existing plantation areas owned by the company and indicated strong interest, company president Hasan Sayuti said in Makassar on Monday (23/8/04).

He said a cooperation agreement with the Malaysian group was expected to cover a total area of 100,000 hectares in three provinces - North Sulawesi, Central Sulawesi and South Sulawesi, including 30,000 hectares for plasma estates to be grown by local farmers under a marketing agreement.

Korean Water Project

A Korean investor will develop a potable water project in Muara Teweh, North Barito district, Central Kalimantan, next year, district head Achmad Yuliansyah said.

The Korean investor, in cooperation with PT Sumber Abadi Sejahtera in Surabaya, East Java, will soon conduct a feasibility study on how to develop the project, Yuliansyah said.

OIL & GAS

Subsidy Hike

The fuel subsidy may jump by 334% of its initial figure due to soaring oil prices, the government said Tuesday (24/8/04) as it proposed revisions to the 2004 state budget.

Minister of Finance Boediono said the government might have to spend a whopping Rp63 trillion for the fuel subsidy -- compared to Rp14.5 trillion as budgeted initially -- as the oil price assumption had been revised upward to \$36 per barrel from \$22 per barrel.

The government has said it would not raise fuel prices at home despite soaring world prices to ensure political stability during election year. Fuel prices were last raised in January 2003.

However, high oil prices have renewed concerns about the costly fuel subsidy, as the revised figure almost equals the Rp69.6 trillion in development spending for this year, and because the subsidy has been enjoyed largely by car owners of the upper income bracket -- not to mention the rampant smuggling of subsidized fuel products to neighboring countries.

The current scarcity of fuel oil in several parts of Indonesia is due to increasing demand for the commodity, Energy and Mineral Resources Minister Purnomo Yugiantoro said.

Speaking to the press after a meeting with Vice President Hamzah Haz here Thursday (26/8/04), Purnomo said the government did not have enough alternatives to deal with the fuel oil scarcity.

According to the minister, if the government met the rising demand for fuel oil, supply of the commodity would go up, the oil quota in the state budget would increase and the amount of funds the government would have to spend on fuel oil subsidy would also rise.

Belanak Field

ConocoPhillips will begin production at its huge floating production facility in the Belanak field in the South China Sea next month, the Oil and Gas Upstream Regulatory Body (BP Migas) said Monday (23/8/04).

Kardaya Warnika, deputy head of BP Migas, said the Belanak floating production storage and off-loading (FSPO) facility was expected to produce up to 100,000 barrels per day (bpd) of crude oil and 30,000 bpd of liquefied petroleum gas.

Output from the Belanak field is expected to increase the country's dwindling crude oil output, Kardaya said. Indonesia is now producing 1.072 million bpd of crude, below its quota of 1.27 million bpd set by the Organization of Petroleum Exporting Country (OPEC).

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