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BI to boost rupiah liquidity

JAKARTA: Bank Indonesia (BI) will conduct regular open market operations of repo and foreign exchange swap auctions three times per week to boost rupiah liquidity in the banking system, the central bank said in a statement.

The publication of a fixed auction schedule for the next six months is expected to increase certainty for lenders in managing their liquidity. The move comes as the central bank seeks to shield the financial industry from the impact of an aggressive tightening cycle in 2018.

The central bank has conducted two repo auctions and three foreign exchange swap auctions in February.

The schedule of such auction was previously only made available on a monthly basis. BI injected Rp 345.5 trillion (US$24.1 billion) through repo auctions in 2018 and has lent Rp 76.5 trillion in January and February. It also provided 243.33 trillion rupiah through foreign exchange swap auctions last year.

BI left its benchmark interest rate unchanged for a third month in February after raising rates for a total of 175 basis points last year. With the Federal Reserve signaling a more flexible policy stance, the governor said BI's benchmark rate has almost reached its peak. Indonesia's rupiah tumbled the most in eight months on Friday, trimming its year-to-date gain to 0.5 percent. — *Bloomberg*

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J. Post

Rupiah slips most in eight months to lead Asia sell-off

Ruth Carson and Kartik Goyal
BLOOMBERG/SINGAPORE/MUMBAI

Central bank intervenes to limit sell-off in currency, bonds

Risk-averse sentiment bolsters dollar and pushes down rupiah

The rupiah slid the most in eight months, leading losses among Asia's emerging-market (EM) currencies, amid rising concern global growth is slowing. Indonesia's central bank said it intervened to limit a sell-off in the currency and local bonds.

The rupiah tumbled as much as 1.4 percent, the biggest intraday drop since June, to hit a two-month low of 14,335 per dollar. Yields on Indonesia's 10-year bonds climbed seven basis points to 7.96 percent.

Emerging-market assets fell across the board in Asian trading after the European Central Bank (ECB) cut growth forecasts Thursday, and China's export data released Friday was worse than economists estimated.

The risk-off sentiment is bolstering the dollar and pushing down the rupiah, Bank Indonesia said.

"A synchronized decline for the Asian markets is expected into the end of the week, underpinned by the gathering of growth concerns seemingly manifesting across all regions," said Jingyi Pan, market strategist at IG Asia Pte in Singapore.

Mounting global worries have punished emerging-market assets in recent weeks, seemingly drawing an end to a rally that started in December amid signs the Federal Reserve was turning dovish. Optimism is turning to caution as central banks from Europe to Australia follow the Fed's tilt, fueling fresh jitters about the outlook for growth.

The rupiah's decline is also "a bit of unwinding of a carry trade that's happening right now across EM high yielders as a result of the risk-off situation", said Sim Moh Siong, a currency strategist at Bank of Singapore Ltd.

"It's more of a broad risk-off situation, moving on from what happened overnight, in terms of how the market interpreted the ECB move."

Bank Indonesia will remain in the market to stabilize the rupiah, Governor Perry Warjiyo said. The central bank will buy a "large amount" of government bonds, said Nanang Hendarsah, executive director for monetary management.

Marcus Wong, strategist at CIMB Bank Bhd. in Singapore said yesterday's dovish ECB decision had no doubt provided further propulsion for the dollar in the near-term, with EM currencies potentially in the crosshairs.

As the bellwether for EM sentiment, we may see some further rupiah weakness, though we do not expect to see anything close to the EM rout seen in September or October 2018, he said.

As long as United States Treasury yields remain range-bound around these levels, we expect foreign flows to remain in the EM Asia region, he added.

Sim Moh Siong of BOS said the rupiah's weakness "warrants a caution" even as it is not too dramatic. He said he expected new catalysts to drive the market.

"Right now, it's bit of a vacuum and we won't get any news till the meeting between Trump and Xi on trade," he said.

Data meanwhile continue to point toward softening of global growth. So, I guess we are in a period of wait and worry

Ha Keon-hyeong, economist at Shinhan Investment Corp. in Seoul, added concerns over Indonesia's fiscal policy and upcoming presidential election, combined with the fear of global economic slowdown, were weighing harder on the rupiah compared to other emerging currencies.

The economist added emerging currencies might get some support to strengthen in 3Q when the global economy is expected to rebound.

Mar. 12. 2019
J. Post

Reserves strengthen in February, but risks loom

Marchio Irfan Gorbiano
THE JAKARTA POST/JAKARTA

> Foreign-denominated global bonds issuance helped jack up reserves: BI
>
> US, China slowdown could suppress RI exports, affect rupiah: Expert

The issuance of foreign-denominated global bonds by the government has contributed to strengthening the country's foreign exchange reserve position, Bank Indonesia (BI) announced on Friday.

Foreign exchange reserves were recorded at US$123.3 billion in February, higher than the $120.1 billion that was booked in January.

The central bank estimated the current foreign exchange reserve level was adequate to finance 6.9 months of imports or 6.7 months of imports and payment of the government's short-term external debt. The foreign exchange reserve level was well above the international adequacy standards of about three months of imports.

BI Governor Perry Warjiyo said in Jakarta on Friday that the latest foreign exchange reserves figure was "more than adequate" for Indonesia for the payment of its short-term external debt, imports financing and to act as buffer for the central bank in stabilizing the rupiah's value.

"The increased foreign exchange reserve [in February] was more than enough to finance the imports, [government's] short term external debt and for stabilizing the rupiah's exchange rate," said Perry.

The increase of foreign exchange reserves was driven by the issuance of global sukuk (sharia-compliant bonds), as well as by foreign exchange receipts from the oil-and-gas sector, BI said in a statement.

The government had issued $2 billion in global sukuk last month, which comprised a $750 million green global sukuk with 5.5 years maturity and a $1.25 billion sukuk with 10 years maturity.

The increased foreign exchange reserve level, however, was occurring at a time when the rupiah was slightly weakened because of risk-off sentiments in the market, which led to a stronger United States dollar.

The rupiah weakened to Rp 14,223 against the greenback on Friday, down from its previous day's level of Rp 14,129 per US dollar, data from the Jakarta Interbank Spot Dollar Rate (JISDOR) revealed. The rupiah's position in the spot market was even weaker at Rp 14,314 per US dollar, down by 1.21 percent, according to data from Bloomberg.

Perry said the central bank would maintain its presence in the foreign exchange market to stabilize the rupiah, along with its fundamental value, while also maintaining the market mechanism.

He added that the rupiah's depreciation over the past week was mainly driven by external risk-off factors that boosted the greenback, such as positive manufacturing data from the US, the European Central Bank's (ECB) dovish statement, upward movement of global oil prices and geopolitical factors such as uncertainties over Brexit and the failure of a recent US and North Korea summit to produce a positive outcome

"[These] global factors brought risk-off sentiments, which led to a strengthened US dollar against other currencies, including the rupiah," said Perry, adding that domestic factors remained positive, marked by low inflation and incoming foreign portfolio capital, among other things.

Tokyo-based economist Eric Sugandi said the factors cited by Perry were likely to be temporary, while identifying that a potential downturn in the global economy, as well as in the US and Chinese economies, in 2019 and 2020 was a potential threat to the rupiah's value in the long run.

"The slowdown of the US and China's growth could suppress Indonesia's exports, which would weaken the fundamental support from Indonesia's economy for the rupiah's [exchange rate]," said Eric.

Persistent depreciation of the rupiah's value may force BI to intervene in the market to stabilize the currency, a move that would deplete the foreign exchange reserves, said Center of Reform on Economics (CORE) Indonesia research director Piter Abdullah.

However, he said that the external development remained tilted to the downside, marked by a slowdown in global growth and a dovish stance by the US Federal Reserve.

"The dovish global environment would likely be more influential in the long term, [which would lead to] slight pressures on the rupiah and a maintained foreign exchange reserve [level]," said Piter, adding that Indonesia would have the opportunity to build up its foreign exchange reserves as the rupiah stabilized.

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Industry key item in next five-year plan

Marchio Irfan Gorbiano
THE JAKARTA POST/JAKARTA

President Joko "Jokowi" Widodo's administration has added bolstering the manufacturing sector to the policy objectives set out in its National Medium-Term Development Plan (RPJMN) for the next five years, along with infrastructure and human capital development.

The revitalization of the manufacturing sector was one of the main challenges Indonesia faced right now, and this should reflect in the development plan for the period of 2020-2024, said National Development Planning Agency (Bappenas) head Bambang Brodjonegoro.

The draft of the plan is still under Bappenas' assessment, while Jokowi is running for a second term in office in the presidential election set for April 17.

Manufacturing identified as priority for 2020-2024, alongside infrastructure, human development

Industrial production could lift GDP growth above 6 percent: Report

"One of the biggest challenges in the need to transform the economy [is] the revitalization of the manufacturing sector, which has to be supported by capable human resources," said Bambang after a recent Cabinet meeting at the Presidential Office in Jakarta.

At a separate occasion, Finance Minister Sri Mulyani Indrawati said improving manufacturing was part of a larger framework to boost exports and attract investment to the country. Exports and investment, she said, were key factors Indonesia should improve to tackle medium-term challenges, which included the current account deficit and weak capital account.

A recently released report by the Asian Development Bank (ADB) and Bappenas estimated that Indonesia's gross domestic product (GDP) growth could reach 6.31 percent on average between 2020 and 2024. The estimate is based on the assumption that the share of workers employed in the manufacturing sector gradually increases over that period.

Bambang said Bappenas proposed an annual GDP growth target of between 5.3 percent and 5.5 percent for 2020, a slight increase from the target of 5.3 percent outlined in this year's state budget. Inflation, meanwhile, was projected to fall to between 2 percent and 4 percent next year.

Mohammad Faisal, research director at the Center of Reform on Economics (CORE) Indonesia, said that, at the macro level, the government should ensure that the effort to reinvigorate manufacturing would apply across various industries.

"There are a lot of policies on manufacturing that go beyond the domain of the Industry Ministry; for example policies on trade and energy," said Faisal. "All of those policies should be coordinated to boost the competitiveness of the manufacturing sector."

He went on to suggest that the government put its focus on developing manufacturing subsectors closely linked with commodity-based industries, considering Indonesia's abundant natural resources, so that the country had a competitive advantage in international trade.

"[Our] palm oil is very competitive vis-à-vis other countries because of its relatively low price; if we can process [palm oil into higher-value products] then we can be very competitive, as the raw materials are affordable," said Faisal.

Aside from improving the manufacturing sector, Jokowi told his ministers at the recent Cabinet meeting about the need to continue developing human capital as a medium-term priority.

In the human capital area, Bambang said the government would like to focus on lowering the rates of stunting and maternal mortality, among other key indicators, while continuing to strengthen vocational training.

He added that human capital development programs would be designed in a way to ensure that workers skills match labor market demand.

Aside from being prepared in the 2020-2024 medium-term plan, policies to deal with the key agenda points would be reflected in the 2020 government work plan (RKP), which would be a continuation of this year's program, Bambang said.

Sri Mulyani added that the discussion of the Cabinet meeting would be used as the foundation upon which her ministry would draft macroeconomic projections and devise fiscal policy (KEM-PPKF). The draft, she said, would be submitted to the House of Representatives in May as part of the annual budgetary process between the government and lawmakers.

The KEM-PPKF is a preliminary official document that acts as a guideline for the government to arrange the state budget. The draft of the proposed budget will then be deliberated by lawmakers and the government in House sessions before being passed into law.

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DEBT PAPER

Government pins hope on sukuk to deepen financial market

Riska Rahman
THE JAKARTA POST/JAKARTA

The government is hoping that Indonesia's huge Muslim population will boost demand for its sharia-compliant debt paper, also known as sukuk, and help develop the financial market.

It recently issued its latest retail sukuk called the SR-011, which offers a yield of 8.05 percent annually. The yield, however, is slightly lower than the 8.15 percent offered in the previous sukuk issuance, the ST-003.

The government decided to set a lower yield as the financial market is bullish despite Bank Indonesia keeping its benchmark interest rate — the seven-day reverse repo rate — at 6 percent and the United States Federal Reserve adopting a dovish stance this year.

"The bullish market prompted bond yields to go down, resulting in the return on the retail sukuk falling as well," said Luky Alfirman, director general of financing and risk management at the Finance Ministry.

The lower return, he said, would ease the burden on the state budget.

Aside from lowering the yield, the government set a lower target for the issuance as it expects to rake in at least Rp 10 trillion (US$698.5 million), only half of the target of Rp 20 trillion in 2017, when it issued the SR-009 series.

However, Luky said he was hopeful that the latest sukuk series, the last offer date of which is scheduled for March 21, would exceed its target in order to help plug the state budget deficit.

Bank Mandiri quantitative analyst Reny Eka Putri told *The Jakarta Post* that Luky's optimism would most likely prove well founded as the previous issuances of retail bonds managed to reap more money than the government's indicative target.

For example, the conventional retail saving bond of SBR005 managed to book Rp 4 trillion from retail investors, while the sharia-compliant ST-003 booked a total of Rp 3.13 trillion. Both of those notes exceeded their indicative target of Rp 2 trillion each.

"The current market condition is quite favorable for the sukuk as macroeconomic conditions are far better than last year," she added.

This year, she said, the market was moving toward a bullish state where the rupiah, the Jakarta Composite Index — the main gauge of the Indonesia Stock Exchange (IDX) — and bond market were a lot stronger than last year as a result of stable global conditions.

Aside from plugging the deficit, Luky said the issuance of the retail sukuk was expected to help widen Indonesia's retail investor base and reduce the dependence on foreign funds to finance the state budget.

He hoped that the sukuk issuance could increase activities in Indonesia's financial market, particularly the sharia-compliant sector.

The growing popularity of sukuk in the global financial market and Indonesia being the largest Muslim-majority country inspired the government alongside House of Representatives to issue a law on sharia-compliant sovereign debt papers in 2008.

Since then, the sukuk market has grown rapidly with the government issuing sovereign sukuk, regular retail sukuk and project-based sukuk. Most recently, Indonesia listed a total of $2 billion of global regular and green sukuk at the Singapore Stock Exchange and NASDAQ Dubai in the United Arab Emirates.

Corporations have also joined the trend by issuing sukuk to fund their expansion or refinance their debts, such as telecommunication companies XL Axiata and Indosat, both of which have listed their sukuk on the IDX.

Nonetheless, Reny of Bank Mandiri said, the sukuk market in Indonesia was not growing as fast as its conventional counterpart, as corporations and most Indonesian investors were still unfamiliar with the instrument.

That was why she thought that the government, along with banks and financial services firms as sukuk distribution agents, should promote and raise greater awareness about the instrument, particularly in the eastern part of the country.

"This product [sukuk] has great potential, not only because it's interesting for Muslims but also for domestic investors in general as sukuk offer more choices for them and they deepen our financial market," she said.

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Jakarta to pay hefty subsidy for MRT

The Jakarta Post
JAKARTA

If the Jakarta administration wants cheap tickets for passengers of both the MRT and the light rail transit (LRT), the city will have to spend close to Rp 1 trillion (US$70 million) per year in subsidies.

The Jakarta Transportation Council (DTKJ) estimated that if the city charged passengers between Rp 8,500 and Rp 12,500 per ride for the MRT and between Rp 5,000 and Rp 7,000 for the LRT, for at least 65,000 passengers per day on the MRT and 14,255 people per day on the LRT, it would have to allocate Rp 672.38 billion in public funds for the former and Rp 327 billion for the latter.

DKTJ head Iskandar Abubakar said he expected the subsidies to amount to Rp 22,000 per passenger for the MRT and Rp 36,000 for the LRT. Without the subsidies, passengers would have to pay Rp 32,000 for the MRT and Rp 42,000 for the LRT.

In a meeting with the Jakarta Council on Friday, Iskandar proposed that the city would pay the same amount of subsidies for all passengers, whether they held residency in Jakarta or not.

"The capital city belongs to all Indonesians, not only Jakartans [...]. It would be very complicated to ask for passengers' KTP only to buy MRT or LRT tickets," he said.

During the meeting with councilors of Jakarta Council Commission C, which oversees city finances, the city administration through the DTKJ proposed ticket prices of Rp 10,000 for the MRT and Rp 6,000 for the LRT.

Some of the councilors in the meeting said the city administration could achieve cheap fares only if it found an alternative source of funding to finance the operation of the new mass transit systems.

Commission C member Ruddin Akbar Lubis of the Golkar Party suggested the Jakarta administration ask for funding from the central government and raise money from the private sector to pay for the subsidy, given that a large number of passengers of the MRT and the LRT were government workers or employees of private companies living in suburbs of the capital.

"Ideally, the subsidy would be around 40 percent from the central government, 40 percent from the private sector and 20 percent from the local administration, so that we can reduce the burden. I am sure the private sector will agree to this. Just like they agreed to chip in for the construction of the Semanggi interchange," Ruddin said, referring to a project paid for by a private company in exchange for a higher building floor coefficient permit.

Rudin said that, although more discussions were needed before the city could decide on the MRT and LRT fares, he urged the city administration to stick to its plan of opening the MRT and LRT later this month.

"We can provide a free service for two months while waiting for the discussions [...]. The Jakarta administration's budget is enough to cover this," he said.

Ruslan Amsyari, a fellow member of Commission C, backed the proposal to charge higher fares from non-Jakartans, given that they were likely to make up the majority of users.

"We should be more concerned about Jakartans when deciding MRT and LRT rates and subsidies. It's their tax money after all," Ruslan told *The Jakarta Post* on Friday.

Ruslan, a politician from the Hanura Party, proposed fares of Rp 10,000 for Jakartans and Rp 12,000 for non-Jakarta residents.

Djoko Setijowarno of the Indonesian Transportation Society also backed the idea of subsidized rides, noting this was a common practice in major cities of the world, like Paris.

"The passengers could only pay 20 percent of the fare if the government and the private sector [paid] 80 percent of it, or at least 50-50," Djoko said.

Joko also supported the idea for the Jakarta administration to make the service free for two month to boost ridership in an effort to reduce traffic.

The National Development Planning Agency recorded in 2018 that congestion in Greater Jakarta caused Rp 65 trillion in costs every year. Citing the data in January 2019, President Joko "Jokowi" Widodo said that "we have to be brave" to stop the annual losses caused by perennial traffic jams.

Iskandar of the DTKJ said the agency had been working with the Jakarta administration's economic bureau to find new sources of revenue to pay for the MRT and LRT operations, including studying the option to increase parking fees for private vehicles around MRT and LRT stations.

"Owners of buildings around there also will have to pay more. We can raise the land and building tax or collect access fees for buildings near the Transit Oriented Development projects, such as the Kempinski hotel and Grand Indonesia mall in Central Jakarta. We can also get revenue from advertisement in stations and trains," Iskandar said.

PT MRT Jakarta finance director Tuhiyat and LRT Jakarta president director Allan Tandiono said the two firms would wait for the outcome of discussions between the City Council and the Jakarta administration on the passenger fares, as they had no authority on deciding it. **(ggq)**

Jakarta needs to subsidize around Rp 1 trillion for MRT, LRT per year

Councillors urge city to impose higher fees

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MRT, LRT not for profit: Anies explains hefty subsidies

The Jakarta Post
JAKARTA

Anies stresses MRT, LRT to serve public and reduce economic loss from congestion

Ongoing discussions between city administration and DPRD regarding subsidized tariff

Amid concerns that the Jakarta administration would have to spend nearly Rp 1 trillion (US$70 million) per year in subsidies to support the operation of the city's MRT and light rapid transit (LRT) systems to make them affordable for passengers, Jakarta Governor Anies Baswedan said they were public services and not intended for making a profit.

"We are not a private company seeking as much profit as possible. The state builds public transportation so we can reduce the economic loss from traffic congestion," Anies said over the weekend.

He said the "profit" from MRT and LRT ticket sales could be measured by their impact on the country's economy caused by fewer traffic jams.

The city administration has expressed high hope that the presence of two new, modern public transportation systems could entice people to leave their private vehicles at home and switch to mass transit.

The National Development Planning Agency (Bappenas) reported in 2018 that the constant congestion in Greater Jakarta cost the state Rp 65 trillion every year.

The city administration and the Jakarta City Council are currently at loggerheads over the final fares to be charged for the MRT, to be launched this month, and the LRT, to be launched in April.

In a recent meeting the administration proposed to the City Council's Commission C overseeing economic affairs that the fare for the MRT be set at Rp 10,000 and for the LRT at Rp 6,000. The price was lower than the pre-subsidy per-rider costs of Rp 32,000 for the MRT and Rp 42,000 for the LRT.

Based on estimates that the MRT would have 65,000 passengers per day and the LRT 14,255, the city administration said it calculated that the MRT would need Rp 672.38 billion in subsidies annually and the LRT would need Rp 327 billion.

The councilors had said the administration's proposals and calculations regarding the fares were too sudden and unclear. They argued that the discussion took place mere weeks before the MRT was to start operations toward the end of this month.

Commission C head Santoso said there was as yet no agreement over the fares as the two parties were still discussing the city administration's subsidy allocations. He said the council would continue meeting with the administration and the operators of both services, PT MRT Jakarta and PT LRT Jakarta, to accelerate the discussions.

The main concern of councilors, Santoso said, was that the subsidies were too big, especially since the services might be used by people who are not citizens of Jakarta. He said that MRT passengers from the first station in Lebak Bulus in South Jakarta might be residents of neighboring cities such as Depok in West Java and Tangerang city, Banten.

"The subsidy is bigger than the ticket price paid by passengers. That is not a subsidy, but a treat," he said as reported by Kontan.

The central government and Jakarta administration share the responsibility of paying the loan from Japan International Cooperation Agency (JICA) to fund the construction of the MRT, which reached Rp 16 trillion for the Phase I project and Rp 22.5 trillion for Phase II. The central government is responsible for 49 percent of the loan, while the Jakarta administration must shoulder 51 percent.

However, the city administration takes sole responsibility for subsidizing the operational cost of the service from its regional budget.

Djoko Setijowarno, a transportation expert from the Indonesian Transportation Society, said there should not be concerns about profits or losses in managing urban public transit, especially, he added, as Jakarta as a capital city had a big regional budget with a sizeable amount of unused funds of Rp 14 trillion last year.

Still, he warned that the city and the city-owned firms must find new sources of revenue to cover the operational expenses of the MRT and LRT to achieve maximum benefits from the facilities. Djoko suggested that the administration increase parking fees for private vehicles around MRT and LRT stations and raise the land and building taxes on buildings near the transit-oriented development projects around the stations.

Moreover, he also suggested the city ask for funding from the central government and involve the private sector in the subsidy scheme.

"The government should have creative ideas like this," he told *The Jakarta Post*.

Spanning 15.7 kilometers, the MRT, which has been given the name Rattanga, is to connect Lebak Bulus in South Jakarta and the Hotel Indonesia traffic circle in Central Jakarta in about 30 minutes. The Jakarta LRT is to serve passengers on a 5.7-km trip from Kelapa Gading in North Jakarta to Rawamangun in East Jakarta.

Members of the public have shown excitement over welcoming the country's first subway service. MRT Jakarta aims to attract 285,600 passengers for its public trial run taking place from March 12 to 24. As of Friday, 166,523 people had signed up to participate, according to PT MRT data. **(ggq)**

PERFORMANCE

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SOEs still face challenges under Jokowi

Stefanno Reinard Sulaiman
THE JAKARTA POST/JAKARTA

Since President Joko "Jokowi" Widodo assumed power in 2014, he has made infrastructure development one of his main programs, with many state-owned enterprises (SOEs) involved in most of the projects.

The decision of the administration to give SOEs the infrastructure projects has left the business community with a question about fairness.

Meanwhile, there are also questions about the financial performance of these state-owned companies and the situation of the state budget regarding the financing of those projects.

Less than two months before the April 17 presidential election, the government hosted a meeting in Jakarta with leaders of about 150 SOEs, reminding them about how supportive the government is for their activities.

SOE Minister Rini Soemarno emphasized that the support for the SOEs started at the beginning of President Jokowi's tenure in 2014.

"The goal is to illustrate that for the last four years [until 2018], we [SOEs] have been fully supported by Jokowi, especially in the first days of the government when he made capital injections into SOEs," she said.

"[The capital injection] allowed us to invest and to complete many of the government's programs, especially for connectivity."

The total capital expenditure (capex) of the SOEs was Rp 221 trillion (US$15.6 billion) in 2015, which doubled to Rp 487 trillion in 2018, according a document obtained by *The Jakarta Post*.

The capex was mainly for infrastructure projects, which had been the main mission of the Jokowi administration for the last four years before it changed its focus to human development this year.

The government debt, however, rose 84.2 percent from Rp 1.2 trillion in 2015 to Rp 2.3 trillion last year and then its third-party funds (DPK) also rose 30.3 percent from Rp 2.4 trillion in 2015 to Rp 3.2 trillion.

"[Growing debt] is normal, just like [for] any other growing company," SOE Ministry secretary Imam Apriyanto said. "The amount of debt is still at a safe level."

Meanwhile, the total assets of SOEs as of December 2018 were worth Rp 8.09 trillion, 40.4 percent higher than their total assets worth Rp 5.7 trillion in 2015.

The profits of SOEs grew 25.3 percent to Rp 188 trillion last year, up from Rp 150 trillion in 2015, making their contribution to the state budget in the form of taxes, non-tax revenues and dividends Rp 422 trillion, a 39.2 percent increase from 2015.

"By the end of this year, we aim to book Rp 200 trillion in profits, a 6.3 percent [increase] from last year's Rp 188 trillion," Imam said.

When asked about the number of SOEs that are still recording losses, Rini said there were fewer than a dozen.

Imam explained that two of them were the state-owned PT Merpati Nusantara Airlines and the state postal service, PT Pos Indonesia.

"The clear message from the minister to them [the SOEs in a loss position] is that there must be no more cases of salary payment delays, especially cases of unpaid salaries," he said.

Back in November, it was reported that Merpati had a total debt of Rp 10.95 trillion: Rp 1.09 trillion owed to preferential creditors, Rp 5.99 trillion to concurrent creditors and Rp 3.87 trillion to separate creditors.

Meanwhile, the latest news about Pos Indonesia's financial problems was that workers were not paid their salaries for at least a month earlier this year.

In the energy sector, Imam said state-owned energy holding company Pertamina and state-owned electricity firm PLN still booked profits last year. He did not disclose the exact amounts.

Pertamina finance director Pahala Mansury said last year the firm booked at least Rp 5 trillion in profits. "We'll wait for the final audit from the Supreme Audit Agency [BPK] and hopefully it could by published by end of March," he said.

In previous years, the company was able to book profits of at least Rp 20 trillion, so Rp 5 trillion would be only 25 percent of the norm.

Imam of the SOE Ministry said the government has not yet devised a plan to privatize SOEs in a bid to increase their capital this year, but only focused on completing the program to set up "holding" programs.

"[The programs to set up holding companies that are] in the pipeline are for infrastructure, housing, pharmaceuticals and asset management. By doing this, we could speed up the process of getting extra funds and avoid the use of the state budget," he said.

Commenting on the performance of SOEs under the four years of Jokowi's tenure, an SOE expert from the University of Indonesia, Toto Pranoto, said the establishment of holding companies has proven to be effective.

"In some parts, the holding company has shown a positive trend, but there's still room for improvement. Cement and fertilizer holdings have gone well, but the plantation holding company still lacks improvement," he said.

Fertilizer and cement holding companies were set up before the 2000s under the names of the Pupuk Indonesia Holding Company (PIHC) and PT Semen Indonesia.

The move was followed by the setting up of a plantation-forestry holding company under the name PTPN III in 2014, three years later by the Pertamina energy holding company and four years later by the PT Indonesia Asahan Aluminium mining holding company.

Another task, Toto said, is to slim down the cost structures of several SOEs, especially of SOEs that have big leverage, such as PLN, state-owned steel producer Krakatau Steel, national flag carrier Garuda Indonesia and Pertamina.

Toto said he believes the aim of having total profits from SOEs of Rp 200 trillion this year would not be easy as the growth of revenues is not big enough because of global factors, such as growing trade protectionism.

"So [to achieve the target] they need to radically repair the cost structure [in each SOE], or basically make all activities more efficient as that would compensate for the low growth in revenues," he said.

Mar. 7. 2019 J.Post

Oil, gas bill in limbo again ahead of elections

Stefanno Reinard Sulaiman
THE JAKARTA POST/JAKARTA

> Authorities may have avoided giving any statements that could be seen as controversial
>
> Lawmaker doubtful that House could approve bill before April 17 election

The long-delayed oil and gas bill appears to be in limbo once again after the government avoided raising the matter at a forum intended to discuss the future of the much-anticipated legislation.

The forum on the bill was held recently by a local news outlet in Jakarta and was attended by prominent guests from the government and private sector, including Deputy Energy and Mineral Resources Minister Arcandra Tahar.

However, instead of discussing the matter with the private sector, government officials left the forum early, declining to share their perspectives and suggestions on the bill.

The turn of events has left the oil and gas industry with more questions than answers, prompting speculation the authorities may have deliberately avoided giving any statements that could be seen as controversial with less than two months to go before the presidential and legislative elections are held.

When asked to comment on the bill at a press briefing after the event, Arcandra gave a seemingly exasperated response.

"Why are you asking about this? We discussed [another matter during the forum]," he said before continuing his statement about the need to increase oil and gas production.

As reported previously by *The Jakarta Post*, related ministries are still in the process of harmonizing a draft of the bill, while lawmakers in the House of Representatives are waiting for the government to submit its problem inventory list (DIM).

The ministries are expected to submit their suggestions for the bill to the Cabinet secretary, who will pass them on to President Joko "Jokowi" Widodo for approval.

After obtaining Jokowi's approval, the ministries would report to the state secretary and submit a letter to the House of Representatives, said Hufron Asrofi, legal bureau head at the Energy and Mineral Resources Ministry.

The oil and gas bill was initiated by the House and included in the 2010 National Legislation Program. Since then, deliberations have continued to be delayed. The bill is intended to revise Law No. 22/2001 on oil and gas.

Ramson Siagian, a Gerindra Party lawmaker in the House's Commission VI that oversees the energy sector, was doubtful that the House could approve the bill before the presidential election on April 17.

"I don't think we can finish [deliberating] the bill before the presidential election. The problem [of slow deliberation] now lies in the government," he said, pointing to the fact that Energy and Mineral Resources Minister Ignasius Jonan was the one who needed to submit the DIM of the bill to the House so that deliberations could begin.

Meanwhile, Upstream Oil and Gas Regulatory Task Force head Dwi Soetjipto expressed hope the bill could provide a better regulatory framework for investors.

"There is still great potential in our upstream sector, so we need strong investors who will enjoy [regulatory certainty]. We don't want the sector to be monopolized by a single company, but [it should also be managed] by other big investors," he said.

In the aforementioned forum, industry players raised concerns about permits, taxation and land procurement.

For instance, Antonius Sanyojaya, a tax consultant at global consulting firm PwC, said that there were several ambiguous articles in the bill regarding taxation.

"We think it'd be better if the bill did not include any specific taxation terms as we are concerned it will contradict the existing tax law. It [the law] cannot be too specific," he said after the event.

Antonius also highlighted an article in the bill that stipulated that oil and gas contracts could be renegotiated, which he said could affect the taxation terms and conditions in the agreement.

"When a contract can be renegotiated [after it is signed], this can affect taxation terms, and will create uncertainty for investors. The government has to sit down with investors once more to decide the terms and conditions again," he said.

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ENERGY

Pertamina hopes to benefit from Petronas deal

Stefanno Reinard Sulaiman
THE JAKARTA POST/JAKARTA

State energy holding company Pertamina hopes that its recent deal with Malaysia's state-owned oil giant Petronas will help its businesses expand more efficiently in the long run amid fluctuations in the global oil price.

The deal, signed in Kuala Lumpur, Malaysia, in late February, would be an umbrella agreement for future business cooperation between both companies in terms of operational activities and other strategic measures, said Heru Setiawan who is Pertamina's director of investment planning and risk management.

As a follow-up to a previous government-to-government agreement, the deal also enables the two parties to join hands in working on their overseas portfolios, or oil and gas fields outside of their respective countries.

Heru said there could be possible collaboration at the upstream, midstream and downstream sides, such as research and development, joint exploration activities, technology implementation in oil and gas blocks as well as the trade of products and the sharing of knowledge with regards to renewable energy.

As for collaboration in overseas field, Heru said, one example would be cooperation in oil refining in East Asia.

For the initial stage, the agreement already covered a crude swap mechanism, in which Pertamina's oil production in Malaysia's oilfields of Kikeh, Kimanis and Kidurong was exchanged with the one produced by Petronas in Indonesia's Jabung and Ketapang fields.

"We are seeking countries that have an excess [refining] capacity as we know that the international Brent [crude price] is decreasing. Therefore, we can utilize the [excess] capacity," Heru said.

"In a nutshell, what we agreed upon with Petronas is whether we can use its refineries to process crude from [Pertamina's production in] Malaysia. It can also be done for our crude [produced] in other countries."

Pertamina Internasional EP (PIEP), which is Pertamina's arm that is responsible for managing its overseas assets, handles fields in 12 countries, namely Iraq, Algeria, Malaysia, Canada, Colombia, France, Gabon, Italy, Myanmar, Namibia, Nigeria and Tanzania.

In Malaysia, PIEP owns shares in eight blocks, three of which are production blocks with each stake not higher than 25.5 percent. The Kikeh field is among the eight blocks, located at the offshore Block K near Sabah.

Heru added that beside the crude processing deal, Pertamina also discussed further cooperation with Petronas in oil and gas exploration activities in the Middle East and Africa, considering the fact that both companies own assets in those regions.

"In the upstream [sector], like our asset in Gabon, for example, Petronas also owns assets there. So, we can cooperate in our business operation, such as joint cargo or operations; we can share the infrastructures together," he said.

Pertamina upstream director Dharmawan Samsu said the company was also looking at increasing its stake in Malaysia's oil and gas fields, including the Kikeh field.

"We have a share [in Kikeh] of around 25 percent and there's possibility for us to farm-in, but we are still in early discussions about the concept," he said.

Dharmawan, a former country head of British oil giant BP, said striking a long-term deal with Petronas was an effort to make Pertamina a global energy player.

The statements from both Pertamina's executives came against the backdrop of the company's dwindling profitability, which is arguably due to the government's order to not increase fuel prices, according to experts.

Pertamina finance director Pahala Mansury said the company had booked at least Rp 5 trillion (US$348.7 million) in profit last year, which was a far cry from the Rp 20 trillion it was able to post several years earlier.

He declined to confirm when reporters asked him whether the amount could be lower than Rp 10 trillion.

"I couldn't say [whether it was lower than Rp 10 trillion]. We'll have to wait for the final audit from the Supreme Audit Agency and hopefully it [the result] can by published by the end of March," he said.

Separately, Toto Pranoto, the managing director of the University of Indonesia's Management Institute, told *The Jakarta Post* that the government should improve the cost structure of state-owned enterprises, especially high-leveraged companies like Pertamina.

"[The government] needs to strive for a better cost structure, especially for firms with a high leverage. [...] By doing so, it will help [the companies' finances] when their revenue growth isn't doing well," he said.

CPO to fuel diesel power plants: Minister

JAKARTA: Energy and Mineral Resources Minister Ignasius Jonan says the government is giving state-owned electricity company PLN two years to fuel all diesel power plants in the country with biodiesel made from crude palm oil (CPO).

Speaking before hundreds of students and other Indonesians living in Japan, Jonan said in Tokyo on Sunday that PLN was currently carrying out a study on how to convert CPO into fuel that could be used for diesel power plants.

"PLN is trying to use palm oil. Currently, the Plaju refinery [in South Sumatra] converts palm oil into diesel fuel," said Jonan in a statement received on Monday. Jonan was in Japan to explain to the Indonesians in the country the achievements made in energy development during the four years President Joko "Jokowi" Widodo has been in office. Indonesian Ambassador to Japan Arifin Tasrif also attended the event at the Indonesian Embassy.

The government had made it mandatory for refineries to produce 20 percent blended biodiesel (B20) since September last year and currently it has been conducting research into the use of B100 biodiesel as the major source of energy in trying to reduce the dependency on fossil fuels. — *JP*

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CIVIL INSTITUTIONS

Government defends military, denies plans to reinstate 'dwifungsi'

The Jakarta Post
JAKARTA

The government has denied that it has plans to restore the Indonesian Military's (TNI) *dwifungsi* (dual function), a doctrine imposed under Soeharto's New Order regime that allowed for military involvement in almost all aspects of civilian life.

Presidential Chief of Staff Moeldoko said President Joko "Jokowi" Widodo would not reinstate *dwifungsi*.

"After reforms, the TNI has become a professional institution," he told journalists during a discussion on Friday at the Presidential Office.

After living with the New Order regime, which allowed the military to have a tight grip on politics and business, the country began to reform after its fall in 1998.

Active military officers are now confined to barracks, as they are banned from running in elections and being involved in politics or business.

TNI commander Air Chief Marshal Hadi Tjahjanto made in January a surprise move by demanding that active military officers take on more civilian roles in government institutions to address overstaffing issues that left middle and high ranking officers without jobs.

The plan would require an amendment to the 2004 Law on the TNI because the prevailing law does not allow TNI members to be involved in civil service or political activities.

President Jokowi agreed to provide officers with more civilian posts to solve the overstaffing issue.

The plan was widely criticized by military reform icons and rights activists who argued it would take the country back to a time before the Reform Era.

The dispute culminated with the arrest and charging of Robertus Robet, a lecturer from Jakarta State University (UNJ) and former activist that participated in 1998 rallies that led to the downfall of Soeharto.

During a rally on Feb. 28, he sang an old march song that criticized the Indonesian Armed Forces (ABRI), the name of the military during the New Order era. The march was often sung during the 1998 protests.

Robertus was named a suspect and charged under Article 207 of the Criminal Code for insulting those in power or legal institutions.

Moeldoko, who was a TNI commander during the administration of president Susilo Bambang Yudhoyono and later briefly under Jokowi, said the government appreciated criticism from the public because it was "a form of respect for democracy".

"But please don't let the criticism result in something that goes against the law," he said.

Moeldoko also explained that the 2004 law on the TNI allowed military officers to hold posts in 10 institutions.

The institutions are the Office of the Coordinating Political, Legal and Security Affairs Minister, the Defense Ministry, the office of the Military Secretary for the President, the National Intelligence Agency, the National Cyber and Encryption Agency (BSSN), the National Resilience Institute (Lemhannas), the National Defense Council (Wantannas), the National Search and Rescue Agency, the National Narcotics Agency and the Supreme Court.

Coordinating Maritime Affairs Minister Luhut Binsar Pandjaitan, who is also a retired military general, supported Jokowi's plan, saying that he would avail some posts at his office.

Responding to Moeldoko's statements, University of Indonesia defense expert Edy Prasetyono said the Jokowi administration had shown a commitment to military reforms.

He further said that active military officers were not allowed to hold leading positions at any of the 10 civil bodies, though regular posts were allowed.

"Some people still have a different perception about it as they think that TNI officers working at government institutions is a return to the dual function," Edy said.

Another military expert, Khairul Fahmi from the Institute of Security and Strategic Studies (ISESS), said Moeldoko's statements were only wordplay.

"His statement is more of a one-sided claim that could fall apart if it meets facts and reality," he told the *Post*.

Khairul argued that military officers holding positions in civil service institutions would affect policy-making.

"They are also involved in program development and budget arrangement. Aren't they part of the political process?" he added. **(das)**

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Freeport, Amman get export permits

JAKARTA: The Energy and Mineral Resources Ministry has issued one-year export permits for gold and copper miners PT Freeport Indonesia (PTFI) and PT Amman Mineral Nusa Tenggara.

The ministry's mineral supervision and business director, Yunus Saifulhak, explained that the ministry had allowed PTFI to export 198,282 wet metric tons (wmt) of copper concentrate, while for Amman Mineral, the government had allowed it to export 336,100 wmt.

The amount of concentrate allowed to be exported was based on the work program and budget of the respective companies, Yunus said, adding that PTFI was expected to produce 1.3 million tons wmt of copper concentrate. "About 1.1 million tons is to be sent to a smelter owned by PT Smelting Gresik [in East Java], while about 200,000 tons will be exported," he said as quoted by *kontan.co.id.* over the weekend.

Meanwhile, Amman Mineral president director Rachmat Makkasau confirmed the company had obtained an export permit for the next 12 months. "We appreciate the government's support and we will focus on producing concentrate to fulfill the export quota based on the government's recommendation, apart from supplying domestic demand," Rachmat said. PTFI's export permit had expired on Feb. 15, while Amman Mineral's on Feb. 21. — *Kontan*

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Antam records fivefold growth in profit

JAKARTA: State-owned diversified miner PT Aneka Tambang (Antam) plans to significantly increase its production and sales of nickel ore and bauxite in 2018, benefiting from the government's policy to relax the mineral ore export ban that started early last year.

Antam aims to produce 11.25 million wet metric tons (wmt) and sell 9.3 million wmt of nickel ore in 2018, up 101 percent and 228 percent, respectively, compared to last year.

Moreover, Antam's bauxite production and sales targets both stand at 1.6 million wmt for 2018. This, if realized, will pave the way for the company to record a 126 percent annual increase in production and 90 percent increase in sales.

"In 2018, Antam targets significant operational performance growth in the company's main commodities' production and sales compared to unaudited operational performance in 2017," Antam president director Arie Prabowo Ariotedjo said in a statement on Wednesday.

Antam obtained in April 2017 a one-year permit to export 2.7 million wmt of low-grade nickel ore with content below 1.7 percent, and 850,000 wmt of washed bauxite. Then, the company secured another one-year permit last October for the export of 1.2 million wmt of low-grade nickel ore.

Meanwhile, Antam has also set a target to produce 2,201 kilograms of gold and sell another 24,000 kg in 2018, up 11 percent and 81 percent, respectively. — *JP*