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Govt axes imports to ease pressure

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Regulation to detail goods subject to taxes

Govt to halt power plant projects

The government will move forward with its plan to reduce the current account deficit (CAD) by curbing the import of consumer goods, which are deemed to bring minimal added value to the economy.

It also plans to boost exports as part of its main strategy to increase foreign exchange (forex) reserves and, therefore, ease pressure on the rupiah.

The plan to curb imports will be implemented with the issuance of a ministerial regulation pertaining to taxes imposed on the handover of goods and imports or other business activities.

The Finance Ministry has identified around 900 items that could become subject to this tax, which is different from an import duty.

"We will issue the regulation tomorrow [Wednesday] morning. It will detail around 900 imported consumer goods, particularly those that bring minimal added value [to the economy], but rather erode our foreign exchange," Finance Minister Sri Mulyani Indrawati said on Tuesday.

The regulation will replace a prevailing regulation that covers the collection of taxes on more than 800 imported goods, with tax rates ranging from 0.5 to 10 percent.

The imported consumer goods mentioned in the prevailing regulation include digital single lens reflex (DSLR) cameras, perfumes and refrigerators, all of which are subject to 10 percent tax.

Other consumer goods subject to this tax are video game consoles, at 7.5 percent.

Consumer good imports grew 27.03 percent year-on-year (yoy) to US$9.9 billion (Rp 148.2 billion) from January to July, according to Statistics Indonesia (BPS) data.

Despite the increase, imported consumer goods contributed only 9.23 percent to total imported goods in the same period, far below raw materials and capital goods, which made up 75.02 percent and 15.75 percent, respectively.

Moreover, Sri Mulyani said the government would try to control demand for forex by selecting projects that had high-import content, particularly those carried by state-owned enterprises that could temporarily be halted.

Energy and Mineral Resources Minister Ignasius Jonan said on Tuesday that the government had halted 15,200-megawatt power plant projects.

Jonan said the government expected to reduce the import of materials set to be used in the power plants.

"To reduces imports, we have revised the continuation of the projects from 2021 to 2026," he said in a press conference on Tuesday.

The projects to be halted are those that had yet to reach financial closure. "We expected that by halting those projects, which stand at around $25 billion, we could reduce the burden of imports by up to $10 billion," he said.

Centre for Strategic and International Studies (CSIS) economic department head Yose Rizal Damuri welcomed the government's move, saying that it allowed the government to carry on with projects deemed to have high multiplier effects.

Sri Mulyani also said the government would utilize fiscal incentives to boost exports, including by providing greater financing access to exporters through the Indonesian Eximbank (LPEI).

In the proposed budget for 2019, the government has allocated Rp 2.5 trillion of investment financing to LPEI to facilitate the latter's efforts to boost exports.

Boosting exports and curbing imports are part of the government's main strategy to cut the CAD, which ballooned to $8 billion in the second quarter from a $5.7 billion deficit recorded in the previous quarter. The latest figure was equal to 3 percent of the gross domestic product (GDP).

Coordinating Economic Minister Darmin Nasution said separately that the country's economic fundamentals remained sound, highlighted by manageable inflation and sustained economic growth at around 5 percent for the past few years.

He, however, noted that the CAD was an Achilles heel for the domestic economy, while saying that Indonesia's ballooning CAD was still lower than other emerging-market countries such as Argentina and Turkey.

The rupiah continued its slide on Tuesday, trading at Rp 14,840 per US dollar on Tuesday, which was weaker than the previous day's Rp 14,767 per dollar, according to the Jakarta Interbank Spot Dollar Rate (JISDOR). In the spot market, the currency was quoted at Rp 14,935 as of Tuesday, according to data from Bloomberg.

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Current account deficit and steel imports

Romauli Panggabean
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There seems to be a positive correlation between massive infrastructure development and the increase of Indonesia's current account deficit (CAD). Throughout the first half of 2018, Indonesia's CAD increased to US$13.7 billion, having doubled from the $6.8 billion recorded over the same period last year.

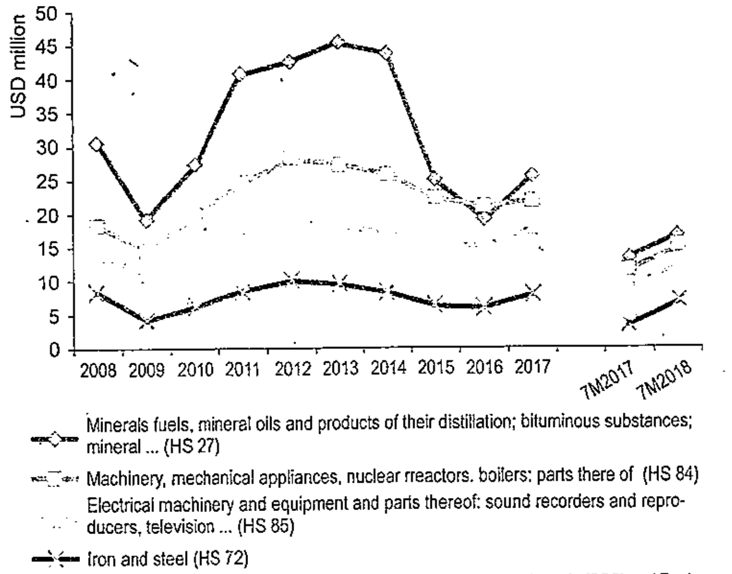
Based on trade balance data from Statistics Indonesia (BPS) and Trademap, the widening of the CAD has occurred in tandem with the negative trade balance.

Hence, we suspect that infrastructure construction has contributed to the increase of the CAD. Therefore, it is important to analyze the imported products that can be reduced to save our CAD.

The value of Indonesia's exports has gradually declined since 2012. The end of the commodity boom dragged down the value of Indonesia's exports, which heavily depend on commodities such as crude palm oil (CPO), coal and rubber. In 2017, exports rebounded and grew 16.8 percent, the first positive growth since 2011.

Throughout the first seven months of 2018, exports also grew positively at 11.35 percent. However, export growth had been overshadowed by high import growth in the same period (24.5 percent). Consequently, the trade balance declined and became negative.

Top 4 imported products in Indonesia



Source: Statistics Indonesia (BPS) and Trademap

Based on the graph, iron and steel are the fourth-largest imported products in Indonesia's import basket. The need for steel in the domestic market increased as infrastructure development progressed.

Almost all infrastructure projects need steel as construction material. As a result, steel imports have continued to grow since 2016, when President Joko "Jokowi" Widodo's Nawa Cita nine-point development program commenced throughout the archipelago.

Going into detail, there are two types of steel that have been massively imported to Indonesia, namely hot rolled steel and scrap.

Hot rolled steel is a more solid type of steel mainly used for construction, while scraps are materials for domestic steel production.

Given the two types of steel, there are at least two conclusions we can make. First is that infrastructure development attracts global steel producers to export their products to Indonesia, and second is that the increase in domestic steel production also increases imports.

Discontinuing infrastructure projects might not be the best solution for Indonesia. Based on our calculations, reducing the number of infrastructure projects would affect Indonesia's GDP.

For example, if the government terminates its one road development project with total investment of approximately Rp 1 trillion ($67 million), output will decrease by around Rp 1.88 trillion. We imagine that discontinuing more infrastructure projects would reduce output and subdue the GDP to grow lower-than-expected. The cost of termination might be bigger than expected if we take into account the impact on the economy.

Further, discontinuing infrastructure projects will also hurt domestic steel producers.

For example, Krakatau Steel, the biggest domestic steel producer in Indonesia, has enjoyed higher revenue since 2016, in line with the start of various infrastructure projects in Indonesia. Clearly, project terminations will also negatively affect Krakatau Steel and other domestic steel producers.

Therefore, instead of discontinuing infrastructure projects, the government should encourage the use of domestic steel in government-backed infrastructure projects by fully utilizing local content requirement (TKDN) certification.

Hence, contractors that participate in the government's projects must use domestic steel that have received TKDN certification. As mentioned above, demand for steel has increased as a result of the government's infrastructure projects. Therefore the utilization of TKDN will curb imported steel from making its way into government projects.

TKDN will also help the government prevent steel alloy with non-standard specifications from entering Indonesia's steel market.

It is common for steel producers to cheat by changing their steel specifications, by coating their steel products with chrome, thus becoming alloy steel to avoid tariffs.

Alloy steel enjoys zero tariffs, while ordinary steel products are slapped with tariffs of 5 to 15 percent.

If projects are discontinued, it is important to only terminate projects with high import content and low multiplier effects.

Based on input-output calculations, there are three types of infrastructure projects with high import content, namely buildings and electricity installation, gas, drinking water and communications.

Agriculture-related infrastructure, road, bridges and ports also have high import content.

All the aforementioned projects have high output multipliers. However, if the government must choose, roads, bridges and ports have the lowest multipliers compared to other projects. The termination of such projects would minimize losses for the economy.

In conclusion, there are many ways to reduce the deficit in the current account. However, to reduce steel import dependency, the government needs to fully utilize the TKDN policy.

The next stage is to terminate infrastructure projects, but only those with high import content and lower multiplier effects.

The writer is a regional and industry analyst at Bank Mandiri

PLN losses affect credibility, projects

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Stefanno Reinard Sulaiman
THE JAKARTA POST/JAKARTA

Losses in first half due to weakening rupiah

Foreign debt, nonrenewable energy dependence causes concern

PLN tainted by graft case in Riau

State electricity firm PLN needs to take immediate action to deal with its financial losses, otherwise the state company's credibility would suffer, energy experts have said.

As well as financial losses, PLN has also been tainted by a corruption case centering on the development of a coal-fired power plant in Riau.

University of Indonesia analyst Toto Pranoto said PLN may defend the financial loss by saying it is the result of the public service obligation. Yet, this would affect the state company's credibility.

"PLN needs good credibility [to attract funds] to finance its projects," Toto said, referring to the company's finances that uses loans from other parties.

"If its performance is terrible, who will be the one to cover [the losses?] PLN's stability is needed to ensure electricity supplies," he added.

The state electricity company publicly stated last week that it suffered losses in the first half because of the weakening rupiah. The company's operations relies on transactions in United States dollars.

As of Thursday, the rupiah has slid to almost 15,000 against the greenback, the weakest level in the last two decades, and analysts have said it could worsen further because of external factors.

In the first half, PLN booked Rp 11 trillion ($736 million) in losses of foreign exchange. Meanwhile, its loss for first half was Rp 5.3 trillion, a 363 percent jump from the same period last year of Rp 2.03 trillion in profit.

International energy think tank the Institute for Energy Economics and Financial Analysis (IEEFA) believed there were two factors causing PLN's losses, namely PLN's dependency on nonrenewable energy with transactions in US dollars and the large amount of PLN's foreign debt.

"With the weakening of the rupiah, PLN has to closely oversee its hedging strategy. PLN also has to reevaluate its projects and ensure increases in capacity are based on actual demand," Jakarta-based IEEFA analyst Elrika Hamdi said recently.

The government has tried to ease PLN's burden by issuing a ministerial decree earlier this year requiring all coal miners to sell their products to PLN at a controlled price of $70 per ton, while the market price is beyond $100 per ton.

As of April, the realization of the domestic market obligation (DMO) for coal has reached 32.6 million tons or 34 percent from the total target of 92 million tons, according to data from the Energy and Mineral Resources Ministry.

"The DMO policy only took effect in March, therefore PLN was still bleeding in the first quarter," he said.

Meanwhile, there is no DMO on gas, which made up PLN's largest expenditure in disbursement for fuel in the first half at Rp 26 trillion, compared to coal at only Rp 23 trillion.

PLN officials could not be reached for comment on Tuesday.

Analysts have said PLN could not function properly as a company because it has been used as a government instrument to ensure affordable electricity prices for the public, especially for the 25 million living in poverty.

President Joko "Jokowi" Widodo, who is seeking reelection next year, has stated that the government will maintain the price of electricity until next year, despite prices of key resources such as coal soaring recently.

Coal is a crucial material for PLN, with the firm stating that until 2027 the use of coal in PLN's power plants will stand at 58.5 percent as it is the cheapest source of energy, casting doubt on renewable energy use in the medium term.

Besides the financial losses, PLN has also been tainted by a corruption case regarding a coal-fired power plant project in Riau, with the project's president director Sofyan Basir being accused of receiving ill-gotten money.

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High-speed railway project to accelerate after fund disbursement

Riza Roidila Mufti
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The Indonesia-China consortium working on the Jakarta-Bandung railway project says it hopes to speed up construction after receiving funds from the China Development Bank (CDB).

The US$274.8 million was the second disbursement from CDB to the consortium, PT Kereta Cepat Indonesia China (KCIC).

KCIC's president director, Chandra Dwiputra, said the funds would be used to settle payments that had previously hindered the project's progress.

Approximately $165.2 million, 60 percent of the funds, would be allocated to pay the remaining down payment for engineering, procurement and construction contractors. Meanwhile, the rest would be used for other needs, including land acquisition, Chandra said.

"The majority of the funds would be used to pay contractors and consultants, and around one-third would be used to settle payments for land acquisition. I hope it can help resolve land acquisition problems," Chandra told *The Jakarta Post* over the phone on Tuesday.

"With the completion of this payment, we believe the project can be accelerated, while the remaining funds will be disbursed based on the progress of construction," he said.

The project received the first loan installment of $170 million from the CBD in April.

State-owned construction company PT Wijaya Karya (WIKA), a member of the consortium, said it was optimistic construction could be sped up, with the support of the second loan installment.

WIKA president director Tumiyana said the loan could enhance stakeholder confidence in the development of the high-speed railway.

"The future challenge is how WIKA as a part of the consortium can help urge the acceleration of the high-speed railway, considering quality and cost," he said.

WIKA has several tasks in the project, including preparing the subgrade, foundation development, structure and architecture.

The high-speed railway will connect four stations, from Halim in East Jakarta, to Karawang, Walini and Tegalluar in West Java, with a total length of 142.3- kilometers.

The groundbreaking ceremony for the high-speed railway took place in January 2016. However, construction has faced various technical and financial challenges. The KCIC aims to complete the project's construction by June 2021, a two-year delay.

Commenting on the progress, Chandra said land procurement had reached 80 percent completion. In the meantime, construction would continue in parallel with land procurement to expedite the development.

Takafumi Fujisawa, a senior policy adviser at the Economic Research Institute for ASEAN and East Asia (ERIA), which is keeping track of the progress, said land acquisition had been the biggest challenge for the project.

"The project has taken the form of a B to B scheme, with a consortium of Indonesian state-owned enterprises and Chinese enterprises, while lending from the China Development Bank has been delayed on account of difficulties in acquiring land," he said.

To accelerate development, he suggested the involvement of local governments.

"The current scheme is the reason why the project has made slow progress. Usually, a mega project like this is carried out in the form of a PPP [public private partnership], for example, private companies are put in charge of operations, while public entities take charge of tracks," he said.

INTERN TAKEHIRO MASUTOMO CONTRIBUTED TO THIS STORY

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CORRUPTION

Collective graft cripples bureaucracy

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THE JAKARTA POST / JAKARTA / MALANG / MEDAN

In the latest effort to purge corrupt public officials, the antigraft body has sacked nearly all members of the Malang Council in East Java.

The Corruption Eradication Commission (KPK) has named 41 of 45 Malang city councillors suspects in a bribery case related to the deliberation of the 2015 city budget.

What makes things worse for the city is that the antigraft body earlier detained mayor Mochamad Anton, who is suspected of distributing Rp 700 million in bribes to councillors.

Both the legislative and executive branches of the city administration are deciding on how to continue the administration's responsibilities – including deliberating the city's budget for next year – to assure that public service and development projects can run smoothly until the end of the year.

Ever since the KPK named 22 councillors suspects in the case on Monday, the council's office in Malang has reportedly been empty, as only five councillors are active to handle tasks, including deliberating a budget revision and passing several local regulations.

The councillors include four politicians not implicated in graft and another councillor, Nirma Cris Desinidya from the Hanura Party, who has been named by the party as a substitute for Ya'qud Ananda Gudban, among 18 councillors arrested by the KPK in the case in March.

Several political parties are prepared to recall the troubled councilors to keep the administration running.

"The [PDI-P] headquarters has recommended four names so that the recalls can proceed," said the chairman of Indonesian Democratic Party of Struggle's (PDI-P) Malang branch, I Made Rian Diana Kartika, on Tuesday.

Collective corruption has been uncovered frequently in regional legislative councils and the House of Representatives, with the bodies responsible for passing annual budgets.

In North Sumatra, the KPK has named or convicted 50 members and former members of the provincial legislative body for allegedly accepting bribes to ease budget deliberation from 2012 to 2014.

The number of troubled councillors accounted for half of the provincial legislative seats in a five-year legislative period.

Sutrisno Pangaribuan, a North Sumatra councillor and PDI-P politician, acknowledged that corruption surrounding budget approval occurred often because of the councillors' budgetary authority and "compromises" made during the days leading up to budget legalization.

Budget deliberation usually takes place toward the middle to end of a year. The government and local administrations usually propose revisions to the current year's budget and proposals for the next.

Sutrisno said an example of compromise was when councillors asked the North Sumatra administration to increase the recess allowance for councillors from Rp 50 million to Rp 75 million per person and allowance for official trips from Rp 1 million to Rp 1.8 million per day.

Compromises had also been made behind closed doors in relation to budget allocations for projects in several regional working units (SKPD), he added. "We cannot monitor such compromises because they are made privately, but such incidents occur," he said.

Following the staggering case in Malang, Home Minister Tjahjo Kumolo has issued a policy based on Law No. 30/2014 on government administrations, which would, among other things, allow local administration heads to issue regulations without the approval of a legislative council plenary, since it may not reach a quorum of 50 percent plus one in the meeting.

Tjahjo has also ordered relevant officials to draft a regulation that would serve as a legal basis for the local government to function. "The important thing is that local governments can function without disruption," Tjahjo said.

KPK chairman Agus Rahardjo has also suggested that political parties immediately process the recalls as so as to not disrupt the activities of the local government.

The government also revealed on Tuesday that thousands of civil servants convicted of corruption remained officially active following their convictions, meaning that they still received pay from the government.

The National Civil Servant Agency (BKN) says 2,357 civil servants convicted of corruption had yet to be dismissed from their institutions after receiving their final and legally binding sentence.