

**THE COORDINATING MINISTRY FOR ECONOMIC AFFAIRS
REPUBLIC OF INDONESIA**

*Main Building, Ministry of Finance, Jl. Lapangan Banteng Timur No.2-4 Jakarta 10710
Tel: (021) 351-1178 Fax: (021) 351-1186 Website: <http://www.ekon.go.id>*

Trade and Investment News¹, 12 January 2009

Highlights

National

- Indonesia and France demand action on Gaza at the UN
- Manokwari earthquake forces 17,400 to evacuate

Politics

- Constitutional Court promises speedy hearings of electoral disputes

Law & order

- Drug offenses jump 64% since 2006, narcotics agency says
- Ombudsman rules best in response to complaints

Economy

- Finance minister says unspent 2008 funds a blessing
- Government commits to achieve 5% growth

Business briefs

Macroeconomy

- Bank Indonesia cuts benchmark rate by half point to 8.75%
- Government confident on stand-by loan availability

Investment

- President Yudhoyono assures investment community on election-related security

State concerns

- Govt. to swap debt for nature, health programs

SOEs

- PT Telkom confident on loans for capital expenditure

Private sector

- Qatar Telecom looks at early tender for PT Indosat shares
- PT Exelcomindo to fund expansion with rights issue

Banks

- Central bank expects lower CAR, more bad loans
- Bank Mandiri achieves 25% loan growth in 2008

Power

- State utility PT PLN assures new capacity on stream this year

Oil & Gas

- Vice President Kalla says government to go ahead with new fuel price cut
- Tax holiday extended for oil & gas equipment imports

¹ *This Trade and Investment News is a publication of the Coordinating Ministry for Economic Affairs of the Republic of Indonesia. Readers are welcomed to forward it in its original form but no reproduction is allowed without permission.*

NATIONAL

Indonesia, France demand new UN resolution on Gaza

Indonesia and France called Saturday for a new UN resolution to end the bloody conflict between Hamas and Israel in Gaza, Agence France-Presse reported.

President Susilo Bambang Yudhoyono, who spoke on the telephone with France's President Nicolas Sarkozy, said both were "unsatisfied" because the UN appeal for a truce has been dismissed.

"We appreciate that France, as a permanent member of the UN Security Council, keeps searching for a solution for the Palestine and Israel problem," Dr. Yudhoyono said.

Both countries agreed there should be a new resolution that could be obeyed by both parties, Dr. Yudhoyono said, adding that he hoped Sarkozy's visits to Arab and Middle East countries would solve the problem.

"I support the solidarity action, such as donating blood, by Indonesians. What they (Palestinans) need most is humanitarian aid.

W. Papua earthquake evacuees reach 17,400

Continuing earthquakes in Manokwari, West Papua have forced 17,400 residents to evacuate, said West Papua deputy governor Rahimin Katjong, reported The Associated Press.

Katjong said many people who fled from their homes are weak from illness and their medical conditions could worsen.

"Many are suffering from malaria and respiratory problems due to the rainy season," added Katjong.

The death toll stood at four as the remains of an infant girl, a nine-year-old boy and a man were found in Sorong, around 100 km from the epicenter.

"The number of damaged buildings jumped fourfold to 5,800 as many more were found in remote areas," said Katjong.

Seismic activity has not quieted down in West Papua. On Thursday, a 6.0-magnitude earthquake jolted Manokwari, followed by a 5.2-magnitude shock and then a 5.1-magnitude one.

The majority of the earthquakes came last Sunday -- the strongest of which registered magnitudes of 7.6 and 7.3 -- and were centered 135 km outside Manokwari

On Thursday, the Navy placed its hospital ship *KRI Dr Suharso* on alert to assist victims of the Manokwari earthquakes, reported Antara.

'La Nina' weather to affect Indonesia until March

A forecast by the US National Oceanic and Atmospheric Administration (NOAA) said Indonesia will remain affected by the La Nina weather pattern until at least March, *The Jakarta Post* reported.

"Based on current observations, recent trends and model forecasts, La Nina conditions are likely to continue for the next three months," a NOAA Climate Prediction Center (CPC) statement said, Antara reported.

The CPC said the impact of La Nina will include above-average precipitation across most of Indonesia.

As it is located on the equator, Indonesia feels the impact of climate developments from both the northern and southern hemispheres.

Hundreds of Papuan refugees to return from PNG

More than 700 West Papuans living in Papua New Guinea (PNG) are choosing to return home to the Indonesian side of the border despite claims they face human rights abuses, Australian Associated Press reported.

The Indonesian Embassy in PNG's capital Port Moresby next month will begin flying the West Papuans to Vanimo in Sandaun Province on PNG's northeast coast, before driving them across the border to their former homes.

Hakim Abdul from the embassy said the voluntary repatriations were happening because conditions in West Papua had steadily improved since 2001.

"The Indonesian government has made West Papua a special province; there is more autonomy than ever before. It's very different now," he told reporters.

The Indonesian government said it will pay for the repatriation and was working with the PNG government on the issue, he said.

POLITICS

Court agrees to help speed up trials of poll disputes

The Constitutional Court has agreed to speed up trials for legislative elections disputes and violations, a move that has engendered hope that the presidential election, which pins on the results of the legislative elections, will proceed on schedule, *The Jakarta Post* reported.

The court's chief justice, Mahfud MD, said after meeting with General Elections Commission (KPU) members, representatives from the Supreme Court, the Attorney General's Office and the National Police in Jakarta on Thursday that he was confident the 2009 elections would be conducted smoothly. "God willing, everything will be OK," he told a press briefing.

The meeting, he said, agreed that all election violation cases would be solved within five days of the KPU's official announcement of the results of the elections.

The Supreme Court will also prepare a ruling on quick trials for election disputes he said, adding that the AGO had said it had prepared 927 prosecutors to handle all disputes and violations nationwide.

The guarantees backed up by the two courts have given the KPU confidence it can conduct a successful presidential election, which it says will be held on July 27 or 28.

KPU chairman Abdul Hafiz Anshary said the legislative elections would still be held April 9, and election results announced May 9.

LAW & ORDER

Drug offenses jump 64%

The National Narcotics Agency reported a 64% increase in criminal drug cases since 2006, half of the cases involved narcotics such as heroin and crystal methamphetamine, raising calls in some corners for an Islamic edict (*fatwa*) against drug use, *The Jakarta Globe* reported.

Agency data showed that drug cases jumped from 11,400 in 2006 to 19,453 in 2008. In 2007, 17,757 cases were recorded. The data also showed that there were 72 people on death row for drug-related offenses in 2008, three of whom were executed.

The Nation Anti-Drugs Movement (Gannas), a non-governmental organization, wants drug use to be declared as *haram* — forbidden under Islam — saying its figures show that at least 40 Indonesians die each day from drug abuse.

Adi Feri, the group's chief, said the increasing number of drug users, distributors and dealers was a shared responsibility of "every single person in the country." "Rp30 trillion (\$2.76 billion) a year is spent on illicit drugs," he said.

Gannas, established in 2007, is cooperating with the government and state institutions by providing free drug rehabilitation for 500 persons a year, given that the National Narcotics Agency spends only Rp1 trillion a year on rehabilitation.

"Prison terms for drug users should be substituted with rehabilitation," Feri said. "We cannot just punish them by having them spend years in jail. We have to cure them."

Police top in complaint response: Ombudsman

The National Police are the most responsive state institution when following up on public complaints, the Ombudsman Commission said, *The Jakarta Post* reported.

"We received many complaints from the public concerning the police, but the institution is quick to respond," commission chairman Antonius Sujata said after meeting with President Susilo Bambang Yudhoyono at the presidential office.

"Among the least responsive institutions was the Supreme Court. They are slow in responding to our recommendations and offer no explanation for their poor performance," Sujata added.

The Ombudsman Commission is responsible for supervising public services conducted by state and private institutions and offers recommendations to institutions which receive complaints.

The commission has now been issued greater authority with the passing of the 2008 Ombudsman Law, which allows it to impose administrative sanctions on institutions that ignore its recommendations.

ECONOMY

Growth at 5% this year with 'blessing in disguised'

Indonesia's Finance Minister spent last week promoting the government policy decision to achieve at least 5% in growth this year utilizing a "blessing in disguised" of a significantly under-spent budget in 2008. **(Note: please find attached a file of the full text of the press release on this matter).**

Bank Indonesia trimmed its benchmark interest rate by a half point to 8.75%, in excess of analysts' expectation and signifying a shift to relaxation of tight money, a move the business community has been demanding.

The government meanwhile said it had approved plans for investment totaling \$4.92 billion (Rp54.2 trillion) for six mineral processing plants in an apparent immediate move to capitalize on the new mining law.

On Monday, Indrawati told a meeting with editors and senior economists that the confidence that growth of 5% could be achieved reflected study of Indonesia's economic performance over the past five years and especially of last year's budgetary performance.

A statement on the meeting issued by the coordinating ministry on Tuesday noted that income per capita has been growing steadily over the past five years while the pace of growth accelerated and the economy deepened.

Macroeconomic stability had helped per capita incomes jump 1.8 times and now stood at more than \$2,000 per capita. Poverty had been reduced and there had been net employment growth since 2006.

The government realized that the public would be disappointed with only 5% growth since 30 years of good economic performance had nearly been swamped by the crisis of 1997-98, the statement said.

The crisis had created a deep trauma among the public, and a level of concern raised by unpleasant steps that had to be taken, the statement quoted Indrawati as saying. The sharp rise in the price of fuels in October 2005 had been one such unpleasant step but altogether such steps had helped to stabilize the economy and get it moving it once more.

Technological change had made it more difficult to create jobs, she added. This worldwide trend had forced many countries to reorient their economic policies. Factors such as continued high unemployment and poverty meant that it was essential for Indonesia to grow faster over the next few decades.

The size of the problem could be seen if the 'near poor' are included in the statistics, when nearly half of the population would have to be counted. Such people were constantly at the mercy of economic problems either at home or on a global or systemic scale and reinforcing this large part of the population was an important task ahead, Indrawati said, according to the statement.

The Growth Commission led by Nobel Prize-laureate Profesor Michael Spence meanwhile has identified Indonesia as one of 15 countries with the capacity to sustain a high level of economic growth and to accelerate growth into the future.

Indonesia – along with China, India, South Africa and Brazil had been invited to become Enhanced Engagement Countries in a partnership with the OECD developed nation group. Initially, Indonesia had been accepted as a full member of the OECD Development Center.

Indrawati told the meeting with editors that, for the year ahead, growth would be driven by domestic consumption. The government hoped the global economy would start to recover in the second half of 2009, while Indonesia's election cycle would pump money into the economy. Indonesia needed expand its expertise in tradables, the minister added.

Indrawati, who made similar comments to international news agencies in Singapore on Tuesday, was following the lead of President Susilo Bambang Yudhoyono, who on Monday announced plans to spend an extra Rp50 trillion (\$4.5 billion) to help sustain economic growth, *The Jakarta Globe* reported.

Indrawati told journalists that Rp38 trillion for spending would come from money left over from the 2008 state budget, which she described as "a blessing in disguised," as well as Rp12.5 trillion already allocated last year for the stimulus package.

She said Rp12.5 trillion would be spent first in two stages, with a Rp9 trillion stimulus package for large companies affected by the global crisis. Companies would be eligible for value added tax exemptions if they have a minimum of 500 employees and sell their products in local and overseas markets, with the aim of ensuring that job levels were maintained.

Another Rp2.4 trillion would be used to exempt local manufacturers from import duties on raw materials. A total of 14 sectors are involved, including the automotive, electronics, aerospace, power generation and milk powder sectors. She did not say how the remaining Rp1.07 trillion would be spent.

Government revenues are being helped by an increase in tax collections which will help cushion the economy during the slowdown, she said.

"The elections will stimulate demand. With the global price trend declining both on oil and food, we can maintain the purchasing power of households in Indonesia," she said in Singapore, Bloomberg reported.

"The decline in export demand won't sharply correct Indonesia's expansion because overseas shipments account for less than a fifth of growth," she added.

The government is planning a retail sukuk (Islamic bonds) next month, and a yen-denominated bond issue, possibly around the middle of the year.

Meanwhile state power utility PT PLN's bond issue, a test of the market's appetite for Indonesian paper, was oversubscribed, with the company reported to be taking in Rp2.2 trillion (\$201 million), over its target of Rp1.5 trillion.

Indicators:

	October	November	November 08/November 07	Cumulative 2008
Total exports	\$10.81 billion	\$9.61 billion	-2.36%	\$128.09 billion
Non-oil & gas exports	\$9.0 billion	\$8.17 billion	5.61%	\$100.45 billion
	November (y-o-y)	November (m-o-m)	December (y-o-y)	December (m-o-m)
Inflation	11.68%	0.12%	11.06%	-0.04%
	Full year 2006	Full year 2007	First half 2008	Third quarter 2008
GDP growth	5.5%	6.3%	6.4%	6.3%
Tourist arrivals	October	November	Growth/loss (m-o-m)	Growth/loss (y-o-y)
	529,400	524,200	-0.99%	9.94%

Source: Central Statistics Agency

BUSINESS BRIEFS

MACROECONOMY

BI cuts key rate to 8.75%

Bank Indonesia (BI) on Wednesday cut its key interest rate by 50 basis points to 8.75%, more than expected, to spur growth amid a global economic slowdown and as inflationary pressures eased, Reuters reported.

"For 2009, our monetary policy should pay more attention to efforts to support economic growth while continuing to rein in inflation and stabilize the financial sector," BI governor Boediono said in a statement, Deutsche Presse-Agentur reported.

BI raised its key interest rate six times during 2008 to 9.5% to curb inflationary pressures which have now eased due to falling commodity and oil prices, the central bank's statement said.

Economists said Wednesday's move that followed a quarter-point cut in December should support government efforts to prop up the economy and said they saw more cuts in the first quarter of this year.

"This will definitely help the government's planned stimulus package," said Gundy Cahyadi, an economist at IDEAglobal in Singapore.

"The reduction shows BI wants commercial banks to follow suit with shorter lags and with greater magnitude in terms of their loan interest rates to shore up domestic business," said Enrico Tanuwidjaja, an economist at Oversea-Chinese Banking Corp. in Singapore. Last month's cut was "just the beginning of their monetary policy easing cycle."

An 8.4% increase in the rupiah in the past month also gave the central bank more scope to lower borrowing costs.

The finance ministry welcomed the rate cut, saying it should support government bonds.

"We see the prices of government bonds in the last two days have been increasing. We are optimistic it will be better in the future," Treasury Director General Rahmat Waluyanto said.

The ministry on Wednesday said it planned to sell retail sukuk (Islamic bonds) next month, and a yen-denominated bond issue, possibly around the middle of the year.

The sukuk, which will mature on February 25, 2012, will be offered from February 6-20 and will be listed on the bourse on February 26. The ministry plans to announce the yield for the issue on February 5, a day before the offering period starts.

"The return must be higher than deposit interest rate in state-owned banks, but it will be comparable with the yield of government bonds with the same maturity," Waluyanto said.

Govt. expects \$5B in loans to finance budget gap

The government expects to secure \$5 billion in standby loans from a number of overseas lenders in the first quarter of this year as part of efforts to anticipate possible difficulties in financing the projected 2009 budget deficit, an official said late on Wednesday, *The Jakarta Globe* reported.

The government has requested standby loans from a number of creditor-countries, including Japan, Australia, Britain and France, as well as from multilateral development agencies including the World Bank and the Asian Development Bank.

Anggito Abimanyu, head of fiscal policy at the Finance Ministry, said that a number of the creditors have already responded to the government's request.

"We are currently working on the policy, the terms and the structure of the loans," he said.

Rahmat Waluyanto, Director General for Debt Management at the ministry, has said that the government aimed to raise Rp99.7 trillion (\$9.2 billion) in gross bonds issuance this year.

After deducting bonds maturing this year and possible buybacks, the government is looking at a net figure of Rp54 trillion.

The expected budget deficit in 2009 is set at Rp51.3 trillion, equivalent to 1% of GDP.

The economic downturn, however, is making it harder for the country to attract offshore investors.

"The World Bank will have a cross meeting (of top management) in February. So if the lead creditor is the World Bank, then we expect to get confirmation from them at least in February," Abimanyu said.

He added that confirmation from Australia and Japan would most likely arrive in April, and from the French government in February.

Slower growth expected for non-oil-and-gas exports

Indonesia's non-oil-and-gas exports are expected to grow between 4.3% and 8% this year amid a global economic slowdown, after rising an estimated 18% in 2008, Trade Minister Mari Pangestu said on Tuesday, Reuters reported.

"The slowdown is because of the global economic situation and the recent development in commodity prices," Pangestu told reporters at a press conference.

The government previously reported that non-oil-and-gas exports for January-November 2008 totaled \$100.45 billion, up 20.18% from \$83.59 billion in the same period 2007.

Earlier, Coordinating Minister for the Economy Sri Mulyani Indrawati said that overseas sales would only grow between 6 to 7% in 2009.

Indonesia's overseas sales weakened by 2.36% to \$9.01 billion in November compared to the same period last year, the Central Bureau of Statistics (BPS) said.

Meanwhile, Indonesia's trade surplus widened to \$890 million in November from \$200 million in October due to declining imports, data issued Monday showed, Dow Jones reported.

Excluding imports to free-trade areas, where imported commodities are processed into export goods, Indonesia had a surplus of \$2.46 billion, compared with a \$1.99 billion surplus in October and \$2.27 billion in November 2007, BPS said.

BPS said that Indonesia's non-oil and non-gas exports to the US remained resilient in November, edging up slightly to \$935.2 million from \$922.7 million in October.

INVESTMENT

Investors need not worry about security: President

President Susilo Bambang Yudhoyono assured investors not to worry about security issues during the general elections this year as the government guarantees security, Antara reported.

"Indonesia will be able to maintain security, so that it is not necessary for investors to be afraid of anything. No need for them to remain in a wait-and-see position or postpone their investments" Yudhoyono said after officially opening the first trading session in 2009 at the Jakarta Stock Exchange building on Monday.

"We had a direct election in 2004 and since then over 200 provincial and district leaders' election have been implemented. The government along with the general elections commission (KPU), the general election supervisory agency, the Constitutional Court, regional KPUs, and the police should carry out their tasks well," he said.

In this current situation, Yudhoyono said Indonesia would be able to manage and control the country's politics and security during the general elections.

"There will be some clashes, friction and difficult campaigns. These incidents often happened in advanced and in the developing countries," he said.

The president also asked domestic investors to concentrate more on efforts to improve market capitalization in share trading at the Indonesian Stock Exchange.

STATE CONCERNS

Indonesia to swap debt for environment, health projects

Indonesia will exchange about \$70 million of loans from the United States and Australia for funding for environment and health projects in order to reduce its debt, Reuters reported on Friday.

"The US has given its commitment (for a debt swap) through tropical forest conservation acts to finance conservation programs in Indonesia which are worth \$19.6 million," said Mahendra Siregar, deputy to the chief economics minister.

"As for Australia, we will begin a negotiation for debt conversion of as much as AU\$75 million for health programs for tuberculosis, AIDS and malaria," he said.

The government wants to reduce the debt-to-GDP ratio to 30% this year, from 33% in 2008, in a bid to improve its credit rating and attract more investment.

Indonesia's outstanding foreign debt as of October 31, 2008, was \$62.10 billion, half of which was bilateral loans.

November tourist arrivals up 9.9% from year ago

Foreign tourist arrivals rose 9.9% in November from a year ago, as some holiday-makers switched from Thailand and India because of political and safety concerns, Reuters reported.

In November, 524,162 foreign tourists visited Indonesia, up from 476,800 a year ago.

The number of foreign tourists for the first 11 months rose 12.8% to 5.62 million, boosted by arrivals to Bali, but still below the government's full-year target of seven million visitors.

"The holiday season started in the middle of November," said Ben Sukma, chairman of Indonesian Travel Agents Association.

"With the terrorist attack in Mumbai and a coup in Thailand, many people were doubtful about those places and switched to Indonesia instead."

Indonesian tourism generated up to Rp70 trillion (\$7 billion) in 2008, said an official from the Ministry of Culture and Tourism on Monday, *Kompas* reported.

Last year, Indonesia received 6.45 million foreign visitors with each spending up to \$1,178 per day, according to Sapta Nirwandar, the Ministry's Director General for Marketing.

"Even though we are in the midst of a global economic downturn, the Visit Indonesia 2008 program achieved favorable results," Nirwandar said, adding that the program will continue in 2009.

Nirwandar also said that due to the ongoing economic decline, the Indonesian government would focus its tourism promotion efforts within Southeast Asia.

SOEs

Telkom confident of Rp8T loans from state banks

State-owned telecommunication company PT Telkom said it is confident of securing about Rp8 trillion (\$736 million) in loans from domestic banks to fund expansion this year, despite tight liquidity in finance markets, *The Jakarta Globe* reported.

"I've met with four banks and they said that they are ready to lend to Telkom this year," said Rinaldi Firmansyah, Telkom's president director, adding that the lenders are PT Bank Mandiri, PT Bank Rakyat Indonesia, PT Bank Negara Indonesia and PT Bank Tabungan Negara.

Firmansyah said the banks were committed to providing the loans, but acknowledged that they had not signed any agreements as yet but that "was only a matter of time."

Firmansyah estimated Telkom's capital expenditure would reach Rp22 trillion to Rp24 trillion this year. Telkom spent about Rp25 trillion last year.

He said Rp14 trillion to Rp15 trillion would be spent developing the company's GSM and CDMA cellular networks, while the remainder would be spent on fixed-line networks and other projects.

Aside from the Rp8 trillion in bank loans, the company planned to finance its capital expenditure internally, Firmansyah said.

The company is highly liquid because of the money flowing in from its pre-paid cellular customers, he said.

"Our target (for revenue) this year is quite conservative, single digit only, at most 10%," said Firmansyah. Revenue growth for 2008 was projected at about 9%.

Despite the conservative target, the company said it wanted to increase its market share to 60% of cellular and fixed-line users from 50%.

Firmansyah said about 70% of the Indonesian market owned fixed-line or mobile telephones in 2008, and total penetration was expected to grow to about 80% by the end of this year.

In 2008, Telkom had a total of 83 million users, consisting of about 63 million Telkomsel subscribers, 13 million Flexi (CDMA-based cellular) users and approximately seven million fixed-line users.

Telkomsel awarded tenders for rural areas

Indonesia's largest mobile phone operator, PT Telkomsel won two tenders worth a combined Rp534 billion (\$48 million) to provide telecommunication services in rural areas of Java and Sumatra, Bloomberg reported on Friday.

Telkomsel will provide services in villages on Java at a cost of Rp201 billion, the Ministry of Communication and Information announced in a statement on its web site on Friday. The company will also run services in eastern Sumatra for Rp333 billion, the ministry said.

The *Bisnis Indonesia* newspaper said that Telkomsel, a unit of PT Telkom, was selected ahead of rival bidders including PT Indosat and PT Indonusa System Integrator Prima for the so-called universal service obligation tenders.

PRIVATE SECTOR

QTel may hold tender offer on January 16

Qatar Telecom (QTel) will soon hold a tender offer for shares in PT Indosat to lift its stake to a maximum 65%, the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) said on Thursday, Reuters reported.

"QTel has just registered its statement for a tender offer. The tender offer might be held on January 16," Bapepam-LK chairman Fuad Rahmany said, adding that this might inject around Rp8 trillion (\$732 million) of liquidity to the market.

The move came after Bapepam-LK said that QTel could hold a tender offer without having to spin off Indosat's fixed-line business afterwards. Bapepam-LK said late last year that the tender offer could go ahead at a price of Rp7,388 (\$0.676) per share.

QTel plans to raise its stake in Indosat, Indonesia's second-largest mobile phone operator, to the maximum allowed.

It bought a stake from ST Telemedia for \$1.35 billion in June, increasing its ownership to 40.8% from around 10%.

Excelcomindo plans rights issue in 2009

Telecommunication company PT Excelcomindo Pratama said it plans a rights issue of new shares in efforts to increase its free float on the bourse, Dow Jones reported on Thursday.

"There is a plan to issue a maximum of 10% new shares later this year, pending the market situation," Excelcomindo spokeswoman Myra Junor said without revealing the date.

A Malaysian TM International Bhd.(TMI) executive was quoted in a Malaysian news report Thursday as saying that Excelcomindo may shelve a private share placement because of unfavorable market conditions.

Instead of a private placement, Excelcomindo is considering a rights issue to increase its free float, said TMI executive director and chief financial officer Yusuf Annuar Yaacob.

Yaacob said the proceeds from the issue would be used to pay Excelcomindo's debt and fund its capital expenditure, the report added.

Excelcomindo is 83.8% owned by Malaysia's TM International Bhd.

Waterford collapse won't affect Indonesia operations

The Indonesian plant of troubled Irish crystal and pottery maker Waterford Wedgwood will keep running despite its parent struggling to stay afloat, the subsidiary's director said Tuesday, Agence France-Presse reported.

The factory outside Jakarta will continue as the main global production site for ceramics under the Royal Doulton and Wedgwood brands, said Narinder Paul Arora, director of PT Doulton Multifortuna.

"We're continuing as normal. As per the announcement yesterday (Monday), it's purely the UK and the Irish companies that are in administration, but the Indonesia factory will produce as normal and will continue as normal," he said.

Financial firm Deloitte was called in Monday as administrator for the British and Irish operations of loss-making Waterford Wedgwood -- which started as Waterford Crystal in 1783 -- after it failed to secure a buyer.

Its Indonesia factory was established in 1995 and employs 1,500 people. The factory has been at the center of an ongoing effort to move manufacturing to Asia in order to compete with cheaper producers.

Alfamart IPO attracts few investors

Retailer PT Sumber Alfaria Trijaya said on Friday that it was being realistic about its 10% share sale via initial public offering (IPO) because of the bearish market, *The Jakarta Globe* reported.

"We are realistic about the current conditions," Alfaria's vice president director Henry Komala, told reporters on Friday. "Although we hoped we could have up to five times oversubscription, we would settle for any oversubscription."

The company, which operates a chain of mini-markets called Alfamart, acknowledged that the share sale had not attracted large numbers of investors because of the market downturn.

Alfaria offered its shares from Wednesday to Friday, to be followed by a listing on the Indonesian Stock Exchange on January 15.

The company is aiming to raise Rp135.6 billion (\$12.5 billion) from selling 343.17 million shares, or 10% of the company's enlarged capital, through the sale. The price has been set at Rp395 per share, revised down from a price of Rp475 per share projected earlier.

"We remain optimistic in the company's future as there's a lot of opportunity in Indonesia's retail market," Komala said. "Regardless of economic conditions, people are still buying the products that we sell."

Proceeds of the IPO would be used to build more stores and distribution centers, Komala said. The company currently has 2,500 mini-markets, mostly located on Java.

Before the IPO, PT Sigmantara Alfindo held 60% of Alfamart, with the remainder owned by PT Cakrawala Mulia Prima.

After the offering, Sigmantara's stake will have been diluted to 54%, while Cakrawala will own 36%.

BANKS

BI predicts lower CAR, higher bad loans in 2009

With lending likely to grow between 18% and 20%, slower than last year's 30%, other indicators used to gauge a bank's financial health are also set to weaken, a deputy governor at Bank Indonesia (BI) said Wednesday, *The Jakarta Post* reported.

BI predicted the capital adequacy ratio (CAR) -- a comparison between a bank's capital base with its risk-weighted assets -- will fall to an average of 14.3% this year, rather than the 16% booked last year, Muliaman D. Hadad said.

Non-performing loans (NPLs) are set to increase from 4% in 2008 to 5% in 2009, Hadad told a media conference.

"Sufficiency in capital reserves is a must for every bank amid the bumpy conditions during the current recession," said Hadad, urging banks to strengthen their capital base to cope with the current challenges.

Although the predicted CAR rate is still higher than the permissible minimum level of 8%, a decline in the figure is an indicator of weakening performance in the sector, Siti Fajriah, another deputy governor, said.

"We will monitor every bank and ask them to soon add more capital if they fail to reach the mandatory CAR," she said.

As of October last year, local banks generated Rp1,674.2 trillion (\$153 billion) in third-party funds and disbursed Rp1,343.5 trillion in loans, putting the loan-to-deposit ratio (LDR) at a healthy 80.24%.

On lending, Hadad said that growth of 20% this year would be good enough in current circumstances, but did not rule out higher growth supported by a declining trend in central bank key interest rates to help spur growth.

Banks account for 79% of assets in the financial sector, of which some 70% is controlled by the 15 largest banks.

Local banks posted profits of Rp45.9 trillion in the January-October period last year, up from Rp41.55 trillion in the equivalent period in 2007.

Bank Mandiri's 2008 outstanding loans up 25% on year

PT Bank Mandiri's total outstanding loans at the end of 2008 were 25% higher than at the same time last year, the bank's chief executive said Monday, Dow Jones reported.

"The bank's total outstanding loans rose by 25% on year from Rp138.53 trillion a year earlier," Agus Martowardojo told reporters.

He said the increase in lending should help the bank's net profit for 2008 increase by more than "two digits" in percentage terms.

For 2009, Bank Mandiri's chief financial officer Pahala Mansyuri expects the bank's net profit to also rise by more than 10%.

POWER

Java-Bali grid set for increased power supply

Java and Bali will receive an additional 1,535 MW of power supply this year, state power firm PT PLN said, *The Jakarta Post* reported.

PLN's director for the Java and Bali region, Murtaqi Syamsuddin, said PLN's system in the area would receive more power from three new power plants and two upgraded power plants.

"Some of the power plants under the 10,000 MW crash program will start to operate this year and will increase power capacity for the Java and Bali system," Syamsuddin said.

The government launched the first 10,000 MW power project in 2006 in a bid to anticipate increasing power demand, especially in the Java-Bali system where power demand rises by an average of 6.72% every year.

About 6,800 MW of the capacity from the 10,000 MW program is located in Java and Bali, provided by 10 new power plants, while the remaining 3,200 MW capacity is located outside the Java-Bali system to be generated by about 20 smaller power plants.

Syamsuddin said three new power plants in Java with a total capacity of 1,245 MW would begin operation this year.

The Java-Bali system would also receive additional power from the upgraded Muara Karang Power plant in North Jakarta and the Wayang Windu power plant in West Java. After being upgraded, the Muara Karang and the Wayang Windu power plants will generate 180 MW and 110 MW power, respectively.

PLN raises Rp2.2T from bond sales

State power company PT PLN raised Rp2.2 trillion (\$201 million) from conventional and Islamic bond issues, a securities firm involved in the deals said on Friday, Reuters reported.

PLN raised Rp1.44 trillion from two series of fixed-rate conventional bonds. The five-year bond, maturing in 2014, has a coupon of 14.75%, while the seven-year bond, due 2016, has a coupon of 15%.

It also raised Rp760 billion from two series of Islamic bonds (sukuk) which were issued under the leasing arrangement (ijarah).

PLN had aimed to raise Rp1.5 trillion from the bond issues, to help finance investment in power transmission.

OIL & GAS

Govt. to cut fuel prices: VP

Vice President Jusuf Kalla said on Friday that the government would further cut prices of subsidized fuel following the slumping of the global oil prices, Xinhua reported.

He declined to elaborate on the amount of the reduction.

Coordinating Economics Minister Sri Mulyani said that the government would announce the prices change this Monday.

On Monday, President Susilo Bambang Yudhoyono said he was unsure if there would be room for further cuts in fuel prices, only weeks after the energy and mineral resources minister promised a new cut during January, Reuters reported.

The government cut subsidized fuel prices twice in December following a sharp drop in global oil prices, and had indicated recently that there was room for further adjustment.

"We have lowered the fuel prices twice. I do not know if there is still room to bring them down further to ease the burden," he told reporters.

Oil prices moved forward recently over concern over growing tension in the Middle East.

Indonesia is now selling fuel at above the international price and says it will re-adjust prices on a monthly basis in conjunction with the House of Representatives. It will cap rises to Rp6,000 per liter for standard fuel.

Govt. extends tax holiday for oil, gas equipment imports

The government has exempted oil and gas equipment from import duties for another year starting January 1, 2009. This incentive is expected to boost investment in the country amid falling crude oil prices, a senior official said Friday, *Platts Commodity News* reported.

"The ministerial decree is extended for this year," said Evita Legowo, Oil and Gas Director General at the Energy and Mineral Resources Ministry.

Drilling and production equipment, plant and machinery parts, paints, oils, chemicals and laboratory equipment are among items exempted from a tax of 27.5% imposed in mid-2007, but later withdrawn for 2008 following pressure from oil companies.

The zero import facility is given to companies, which carry out exploration and production activities under a production sharing contract with upstream regulator BP Migas.

Indonesia expects its 2008 oil and gas revenue to come in at Rp303 trillion (\$28.1 billion), up 62.4% from Rp186.64 trillion in 2007. The government has set a lower target for oil and gas revenue this year at Rp226.78 trillion due to the expected lower price of oil.

Govt. agrees to Inpex \$19.6B LNG plant proposal

The government has agreed to a proposal by Japan's Inpex Holdings Inc to build a floating liquefied natural gas (LNG) plant worth an estimated \$19.6 billion, a senior energy and mineral resources ministry official said on Thursday, Reuters reported.

"In principle we have agreed to the Inpex proposal but we are still evaluating the economic value of the project," Evita Legowo, the Director General of Oil and Gas at the energy ministry told reporters.

Inpex, which made the proposal in May, estimates there are more than 10 trillion cubic feet (tcf) of natural gas reserves in its Abadi field in the Timor Sea, potentially one of Indonesia's biggest fields.

If confirmed, it would make the project the second-biggest new gas field after the Tangguh project in Papua, which has combined reserves of 14.4 tcf.

Energy watchdog BP Migas has said previously that Inpex will build one LNG train with capacity of 4.5 million tons a year.

Pertamina to offer \$100M for Verenex stake in Libya's Area 47

State oil and gas firm PT Pertamina plans to offer at least \$100 million to acquire Canadian company Verenex's 50% stake in the Libyan Area 47 oil block, a senior official said Thursday.

"Pertamina's offer will be at least \$100 million for Verenex's stake. We... will submit our bid on January 27 at the latest," Pertamina's upstream director Karen Agustiawan said.

Area 47 is operated by Verenex with a 50% stake. The other half is held by Indonesian oil and gas company Medco Energi Internasional.

Verenex said last August that Area 47 could contain around 1.6 billion barrels of oil equivalent (boe) of contingent and prospective resources. A study by DeGolyer and MacNaughton found that discoveries in Area 47 contain a best estimate of 396.4 million boe of oil and gas, of which 339.5 million barrels is oil, Verenex said.

Medco had expected to start production at Area 47 at 10,000 bpd this year and eventually to reach output of at least 100,000 bpd, the former president director of Medco, Hilmi Panigoro, has said.

Pertamina plans to sell unit stakes via IPOs this year

State-owned oil and gas company PT Pertamina said it plans to sell stakes in several units through IPOs this year, chief financial officer Frederick Siahaan said Thursday, Dow Jones reported.

"We have already asked the management at our units to prepare for the IPOs," Siahaan said, adding that he expects that each unit could sell a stake of up to 30% to the public.

Proceeds from the IPOs will be used to help finance the business expansion of the units, he added.

"Our insurance business unit PT Tugu Pratama Indonesia has already expressed its readiness to go public this year, pending the market situation," he added.

Pertamina has 21 units, including PT Pertamina Tongkang and PT Pertamina Retail.

Siahaan did not mention which other units might be included in the IPO program, or give any other details.

Exxon to supply LNG to Pupuk Iskandar Muda

Fertilizer producer PT Pupuk Iskandar Muda (PIM) in Aceh, forced to temporarily shut down in October due to a shortage of liquefied natural gas (LNG), was due to start receiving new supplies from ExxonMobil's Arun LNG plant next week, an official at the upstream oil and gas regulator, BP Migas, said on Monday, *The Jakarta Globe* reported.

This will allow PIM to restart one of its two production units, the official said.

Djoko Harsono, BP Migas's deputy for finance, economics and marketing, said that under a swap arrangement, LNG produced by the Arun plant in Aceh would be diverted from Asian buyers to feed PIM.

Deliveries to the Asian buyers, which include Korean Gas, would be replaced by LNG from PT Badak NGL's plant in East Kalimantan.

"The government is currently seeking gas on the spot market, especially in the Middle East, to supply Badak's customers," Harsono said, adding that with its new supply, PIM will be able to recommence operations before January 15.

PIM needs 110 million cubic feet of gas a day to run its two units, each of which has a daily capacity of 1,750 tons of urea.

Last year, the plant's first production unit was shut down in January, with the second following on October 27.

Raden Priyono, chairman of BPMigas, said that PIM would need nine cargoes of gas in 2009 to keep its plant running. As things stand now, the first unit is expected to start up again later this month, he said, with the second following in July.

Priyono added that the government has promised PIM three cargoes from the BP Tangguh LNG plant in West Papua under a swap arrangement with Exxon Mobil's Arun plant.

MINING

Govt. approves six smelter projects

The government has approved the construction of six smelters worth \$4.92 billion (Rp54.2 trillion), secretary to the Mineral, Coal and Geothermal Energy Directorate General at the Ministry of Energy and Mineral Resources S. Witoro Soelarno said on Tuesday, Antara reported.

"Under the Mineral and Coal Mining Law, minerals must be processed domestically, with a view to give an added-value to the national mining companies," Soelarno said.

The six smelter projects are Nusantara Smelting in Bontang, East Kalimantan, worth \$1.04 billion, for copper and nickel processing, Smelting Gresik in East Java worth \$1.4 billion for copper cathodes, PT Aneka Tambang (aluminum) in Tayan, West Kalimantan, worth \$250 million, an alumina smelter in Bintan, Riau Islands, worth \$500 million, a sponge iron company in South Kalimantan worth \$60 million, and another alumina smelter in Bintan worth \$839 million.

Soelarno said the investors will first conduct feasibility studies which may take up to two years, before starting with construction.

Timah to spend \$21.3M to buy new vessels

State-owned tin mining company PT Timah, the country's largest tin exporter, will purchase four vessels this year representing a total investment of Rp230 billion (\$21.3 million), aimed at supporting its planned expansion in offshore exploration, *The Jakarta Post* reported.

Timah president director Wachid Usman said on Monday the offshore expansion would account for around 50% of the company's output this year, from the current 30%.

Timah would allocate Rp200 billion for buying a big vessel and some Rp30 billion for the smaller ones.

Usman said the vessels would be used to carry the minerals to the onshore processing plant. However, Usman did not mention the source of the funds for the purchase.

Timah plans to maintain production target similar to last year at around 60,000 tons.

However, as of the third quarter of 2008, Timah produced 38,585 tons, 24% lower than the 2007 level. During the same period, Timah posted an 18% jump in net profits to Rp1.49 trillion from Rp1.26 trillion.

Due to the decline in global tin prices, the government has announced that national tin output might decline by 13% to 79,210 in 2008 tons from 91,280 tons in 2007.

===**===