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REPUBLIC OF INDONESIA**

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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***

President launches 2009 election education program

President Susilo Bambang Yudhoyono officially launched a national campaign aimed at giving the public a better understanding of the 2009 general elections, at the State Palace on Friday, Antara reported.

The new 2009 polls logo was also introduced at the launch, which was attended by members of the national Commission of General Elections (KPU), regional election commissions and the General Elections Supervisory Body.

According to the KPU, 16 existing parties are automatically eligible to take part in next year's elections, while the remaining 35 would have to pass the KPU's factual verification test up to regional level.

The national commission has set June 25 as the deadline for the regional commissions to conduct factual verification tests on the 35 parties down to the district/city level, the results of which will be announced on July 3.

Sixteen of the 51 parties currently have seats in the House of Representatives (DPR) and have registered at the KPU to take part in the 2009 polls.

The 16 parties are including Golkar Party, Indonesian Democratic Party of Struggle (PDI-P), United Development Party (PPP), Democrat Party, National Mandate Party (PAN), National Awakening Party (PKB), Prosperous Justice Party (PKS), Star Reform Party (PBR), Prosperous Peace Party (PDS), Crescent Star Party (PBB).

Thirty-five other parties have also passed the administrative verification test to join the 2009 general election.

Prosecutors removed over anti-corruption failures

The Attorney general has removed 25 district prosecutors last week for failing to meet the minimum annual target of three corruption cases, an official said, Agence France-Presse reported.

A spokesman for the Attorney General's Office said they had been stood down as part of a long-term drive to tackle chronic corruption.

They are expected to undergo extensive retraining before being considered for re-appointment, reports said.

"There are 25 heads of district prosecutor offices where handling of corruption cases stood at nil," *Koran Tempo* newspaper reported Deputy Attorney General Muchtar Arifin as saying. The evaluations covered the 2007 calendar year.

Successive governments after the fall of the Suharto regime in 1998, including the current administration of President Susilo Bambang Yudhoyono, have vowed to fight corruption.

TNI business 'much reduced'

The government has made strides in untangling the once-dominant military from the economy, with the number of military-owned businesses "much reduced", the country's top official auditor said on Wednesday.

Despite a history of owning everything from shopping malls to golf courses under the military-backed dictatorship of Suharto, Supreme Audit Board (BPK) chairman Anwar Nasution said the generals' business wings had been clipped.

"In the past (the military) made their money from what? From rent-seeking activities. But now they have already (been) much reduced," he told Agence France-Presse.

Increased oversight following Suharto's 1998 fall and the pressures of competition in the liberalized economy has led to a "significant" drop in the number of military businesses, Nasution said.

He said the military was still involved in illicit business ventures in far-flung regions such as Papua, where it is reputed to run protection rackets for mining interests.

This was peanuts compared to the Suharto days, he said. "It's only small money; they get extra income to buy a small jeep."

Defense Minister Juwono Sudarsono told reporters last month that the government had forced the military out of hundreds of businesses after launching a restructuring program in 2004.

"It's very hard to dispel the public notion that there is no more this giant octopus of the armed forces there was in the 70s and 80s. The business is very, very small by comparison to what it was 20 years ago," he said.

RI condemns Israeli expansionism

The Indonesian government has condemned Israel's plan to build 884 more houses in East Jerusalem because it could derail peace negotiation efforts with Palestine, Antara reported.

The government called on the international community and the United Nations to pay attention to the planned settlement expansion given that the issue is a basic factor for the continuation of peace negotiations, the Indonesian Foreign Ministry said Thursday in an official statement.

"Indonesia hopes that Israel will meet the commitment it made in the joint Israeli-Palestine declaration issued at the Annapolis meeting," the statement said.

The government supports UN Security Council resolutions which demand the return of all Arab lands being occupied by Israel, the recognition of the Palestinian people's right to self-determination and the establishment of an independent Palestinian state in their homeland with Al-Quds as-Syarif (East Jerusalem) as the capital city. This is based on "land for peace", the statement said.

An Israeli Housing Ministry spokesman recently announced that a tender would be held for the construction of houses in Har Homa and Pisgat Zeev, settlements which are part of Palestinian territories occupied by Israel in the 1967 war.

US Attorney General Mukasey in visit

US Attorney General Michael B. Mukasey was to visit Indonesia at the weekend to express support for the establishment of the anti-corruption task force, the US Embassy said Friday.

He will meet his Indonesian counterpart Hendarman Supandji and sign an agreement providing \$750,000 for the task force on Monday, the embassy said in a statement emailed to Xinhua.

Mukasey also plans to meet with other senior Indonesian officials for discussions on US-Indonesia joint efforts to combat terrorism and trans-national crimes.

REGIONS

Five European divers survived

Five scuba divers from Britain, France and Sweden have survived the treacherous currents of waters off eastern Indonesia.

The five, who went missing for more than two days in seas off East Nusa Tenggara were found alive Saturday, police said.

According to a report from The Associated Press, police said rescuers found all five European divers on Rinca island and took them to Labuhan Bajo on board a motorboat.

A search was launched after the five — Kathleen Mitchinson, Charlotte Allin and James Manning of Britain, Elena Neralairen of Sweden, and Lauren Pinel of France — were reported missing by other foreigners who were waiting to dive. Police and soldiers plied waters on port authority boats and small vessels borrowed from local residents.

Laurent Pinel, 31, said the group survived off mussels scavenged from the beach and had to fight off a komodo dragon during the 36 hours they spent on tiny Rinca island.

He said the group of divers had spent about nine hours adrift at sea after being swept away from their dive boat in a strong current late Thursday afternoon.

Jakarta avoids widespread tidal flooding

Minor floods caused by unusually high tides slowed traffic and led to residents having to wade through water in low-lying parts of northern Jakarta almost every night last week, but a feared severe surge of sea water predicted by the World Bank did not materialize.

A report from *The Straits Times* said favorable weather last week and reinforced embankments acted as barriers to the flow of sea water into Jakarta.

An astronomical cycle that occurs around every 18 years caused the tidal wave, the World Bank's infrastructure unit said.

Western Sulawesi highway to open in 2009: Official

The Western Sulawesi Highway will be fully functional in 2009 with construction already underway and 80% of land already acquired, said the Public Works Ministry directorate general Hermanto Dardak.

The four-lane, 1,000-km highway starts in Makassar, South Sulawesi, and continues north to Maros, Takalar, and Pare-Pare. The highway then travels north to Polewali and Mamuju, West Sulawesi, continuing east to Donggala and Toli-Toli, Central Sulawesi, before winding up in Gorontalo province and ending in Bitung, on the northern tip of North Sulawesi.

"The highway will increase shipping which should also increase economic growth two-and-a-half fold," said Hermanto in a report from Antara.

Sulawesi will be the third major area in the country to build a trans-island highway after the Java Northern Coastal Highway, known by its local acronym Pantura, and the Sumatra Eastern Highway.

E. Kalimantan air base upgrade complete in 2009

Tarakan in East Kalimantan will have a major air force base in 2009 by upgrading a current post, commander of the 2nd Air Force Operations Command, Rear Marshal Yushan Sayuti, said, Antara reported.

"Upgrading the post into a base is part of the Air Force' strategic plan to have a major outpost in the northern part of East Kalimantan," he said.

The new Tarakan Air Force base will be a Type-C base, commanded by a lieutenant colonel with around 200 support personnel. Aircraft squadrons will not at first be based in Tarakan, but it will receive aircraft from other air force bases, Sayuti said.

The upgraded base will cover 168 hectares with a new apron and taxiway.

Another 108 hectares were acquired by the East Kalimantan provincial administration from residents that were later handed over to the Air Force.

ECONOMY

Deficit to be trimmed back

The finance minister said last week the budget deficit would come in at 1.8% of GDP and in one reported comment pointed to a deficit as low as 1.5%. The government originally planned a 2.1% deficit.

The government said in a statement to parliament that based on latest economic conditions until May 2008, the 2008 state budget deficit is projected to reach Rp82.3 trillion, or 1.8% of GDP.

"The lower-than-expected deficit is due in part to a cut in fuel subsidy (following the fuel oil price hikes in May) but it may go up if global crude prices jump beyond expectation," she said.

Contributing to revenue, tax revenues jumped 47.6% in five months ending May 2008 from the same period last year, with the government expecting the growth to accelerate after July

On Thursday, Bank Indonesia (BI) raised its key interest rate by 25 basis points to 8.50% to offset the threat of inflation, which is set to accelerate in coming months following a rise in fuel prices, Agence France-Presse reported.

Analysts had expected a larger rise as inflation is believed to be heading to 12.7% this month as a result of the late-May fuel price rises averaging 28.7%.

Annual inflation in May jumped to 10.38% due to higher food and fuel prices, the first double-digit figure since September 2006 when inflation hit 14.55%.

Investment interest came from Russia, with a plan by Uraltrac and a local company to build a heavy equipment plant in Kalimantan with an investment of \$500 million. Arab interests were also reported to be interested in developing 'rice estates' to grow rice for export and in the shariah banking sector.

The week began with the release of the inflation figure while the trade balance is \$1.6 billion in April, partly caused by lower returns from crude palm oil exports.

Indicators:

	March	April	April 08/ April 07	Cumulative 2008
Total exports	\$11.9 billion	\$10.97 billion	23.09%	\$44.59 billion
Non-oil & gas exports	\$9.14 billion	\$8.49 billion	15.09%	\$34.73 billion
	April (y-o-y)	April (m-o-m)	May (y-o-y)	May (m-o-m)
Inflation	8.96%	0.57%	10.38%	1.41%
	Full year 2005	Full year 2006	Full year 2007	First quarter 2008
GDP growth	5.60%	5.5%	6.3%	6.28%
	March	April	Growth/loss (m-o-m)	Growth/loss (y-o-y)
Tourist arrivals	502,000	459,100	-8.55%	4.50%

Source: Central Statistics Agency

MACROECONOMY

Deficit at 1.8% of GDP: Minister

This year's deficit is set for 1.8% of GDP as the government reins in expenditure, Finance Minister Sri Mulyani Indrawati stated in a written statement to the House of Representatives, *The Jakarta Post* reported.

The statement also noted the government's projection that growth next year would be between 6.2% and 6.5%, with inflation at 5.8% to 6.2%.

The government initially planned to run a deficit of 2.1%, up from last year's 1.8%.

The government said that based on latest economic conditions until May 2008, the 2008 state budget deficit is projected to reach Rp82.3 trillion, or 1.8% of the gross domestic product (GDP), down from the earlier projected level of 2.1%.

State revenues and grants were estimated at Rp937.8 trillion and state expenditures projected at Rp1,020.1 trillion, Indrawati said. Subsidies would take Rp252.3 trillion of expenditure, including Rp200.8 trillion in energy subsidies.

"The energy subsidy consists of Rp132.1 trillion in fuel subsidy and Rp88.5 trillion in electricity subsidy," she said.

The forecast was based on an assumed oil price of \$110 to \$115 a barrel, oil production of 0.927 million barrels a day, and a rupiah exchange rate of Rp9,000 to Rp9,200 per dollar, she said.

"The lower-than-expected deficit is due in part to a cut in fuel subsidy (following the fuel oil price hikes in May) but it may go up if global crude prices jump beyond expectation."

In the revised 2008 state budget, the government had set state revenues and grants at Rp895 trillion and expenditures at Rp989.3 trillion so that the budget deficit was expected to reach 2.1% of the GDP.

The state revenues consist of domestic receipts of Rp892 trillion and grants of Rp2.9 trillion. The domestic receipts comprise tax receipts of Rp609.2 trillion and non-tax state revenues of Rp282.8 trillion.

State expenditures consist of the central government's expenditures of Rp696.7 trillion and the transfer of Rp292.6 trillion in funds to regional governments.

In the revised 2008 state budget, the budget allocations for subsidy reach Rp234.41 trillion, including Rp126.82 trillion in fuel subsidy, Rp60.29 trillion in electricity subsidy, Rp8.59 trillion in food subsidy, Rp7.81 trillion in fertilizer subsidy, Rp1.02 trillion in seed subsidy.

BI raises benchmark rate by 25 bps to 8.50%

Bank Indonesia (BI) raised its key interest rate by 25 basis points to 8.50% on Thursday to offset the threat of inflation, which is set to accelerate in coming months following a rise in fuel prices, Agence France-Presse reported.

The Indonesia Stock Exchange composite index jumped by 1.6% after the announcement, with dealers saying investors were relieved the rise had not been steeper. "This kind of mild rate hike should help companies to maintain their growth," a trader said.

Annual inflation in May jumped to 10.38% due to higher food and fuel prices, the first double-digit figure since September 2006 when inflation hit 14.55%.

Most analysts polled by Reuters before the policy meeting had expected the central bank to raise its benchmark one-month BI rate BIPG by 50 basis points to 8.75%.

\$321M in net capital outflows in May: BI

Bank Indonesia recorded \$321 million in net capital outflows in May, due mostly to higher domestic inflation, the bank said Friday, Dow Jones reported.

The central bank said foreign ownership in Bank Indonesia Certificates fell 41% in May to \$1.79 billion from \$3.06 billion in April.

Net inflows into government bonds were valued at \$520 million in May, while \$409 million flowed into stocks.

"Elevated domestic inflation triggered capital outflows especially from Bank Indonesia certificates. Meanwhile, government bonds and stocks recorded inflows," the bank said.

On-year inflation surged to a 20-month high of 10.38% in May, from 8.96% in April after the government hiked subsidized fuel prices by 29% on average May 24.

Tax revenue up 47%

Tax revenues jumped 47.6% in five months ending May 2008 from the same period last year, with the government expecting the growth to accelerate after July, an official said Friday. Xinhua reported.

The tax revenue totaled Rp217.3 trillion (\$23.3 billion) against last year's Rp147.2 trillion (\$15.8 billion), said Director General of Taxation Darmin Nasution. The current figure represents 34% of the full year target, he said.

"Usually (tax revenue) will grow faster after July, when our economic activities get more dynamic," he was quoted as saying by leading news website Detikcom.

Govt. aims to raise Rp3T from bond sale

The Finance Ministry said Tuesday that it plans to raise Rp3 trillion from rupiah-denominated government bonds at an auction next week as part of an effort to help plug the budget deficit, Reuters reported.

The ministry said in a statement it plans to auction fixed rate bonds coded FR0047 maturing in 2028, FR0048 maturing in 2018, and FR0049 maturing in 2013. All are re-openings of existing issues.

The 20-year bonds carry a coupon rate of 10%, while the 10-year and the 5-year bonds carry a coupon rate of 9%.

The ministry said that proceeds from the auction on June 10 will be used to help plug the 2008 budget deficit.

The ministry expects Rp98.06 trillion in net bond sales next year, down from Rp117.8 trillion in the 2008 revised budget.

BI sells Rp22.47T of 1-month bills

Bank Indonesia (BI), said it sold Rp22.47 trillion in 28-day bills at 8.35%, with BI accepting 59.33% of incoming bids, Bloomberg reported.

It sold Rp7.7 billion of 91-day bills at 8.53%, accepting 33.47% of the bids. BI also sold Rp1.06 trillion of Islamic bills that will pay a return of 8.35498%.

INVESTMENT

Russian co to build \$500M Kalimantan equipment plant

Russia's Uraltrac plans to team up with PT Minang Jirdanindo to build a heavy equipment plant in Kalimantan with an investment of \$500 million, Asia Pulse reported.

A joint venture company, PT Uraltrac Indonesia, will be established to build the project early next year, President Valery M. Platonov was quoted as saying by *Bisnis Indonesia*.

The factory will be built with local content making up 60% of the components, Platonov said.

He said negotiations on the project have been underway with Indonesian authorities since 2006. He said Uraltrac needs a new big market and Indonesia is a potential market for heavy equipment.

Gulf investors keen to open 'rice estates'

A number of Middle Eastern investors including Kuwait, Qatar and Saudi Arabia have expressed keen interest in creating 1 million hectares of paddy fields in Indonesia, National Logistics Agency (Bulog) chief Mustafa Abubakar said, Asia Pulse reported.

Abubakar said he had met with an Islamic Development Bank (IDB) delegation in Jakarta to discuss the plan to invest in the agricultural sector.

He said the Middle Eastern investors would cooperate with Bulog in developing the rice estates. The rice produced would be exported to the Middle Eastern countries, he said.

It would take at least six months for Bulog to make preparations for the cooperation so that the project could be started in 2009, he said.

"This is an optimistic target. But according to our calculation, we need at least two years to realize the project," he said without elaborating on the value of investment needed.

Ramayana plans to add 10 stores in 2008

PT Ramayana Lestari Sentosa plans to spend Rp300 billion to open 10 stores, mostly outside Java this year.

The new stores are expected to contribute about Rp600 billion in sales out of the Rp5.6 trillion expected this year, *Bisnis Indonesia* said, citing finance director Suryanto, who added that the company is targeting a profit of Rp420 billion this year.

Jakarta-based Ramayana, the country's biggest store operator by value, posted a net income of Rp367 billion last year.

Four companies plan to build shipyards

Four companies plan to build shipyards in separate areas of the country with a total investment of Rp3.9 trillion, Asia Pulse reported.

The Arpeni Pratama Ocean Line Group has the largest project with a shipyard to be built in Batam at a cost of Rp3.25 trillion.

It will have the capacity to build 300,000 dead weight ton (DWT) ships, an official of the Industry Ministry said.

PT Waruna Nusa Sentana plans to build a Rp350 billion facility in Belawan, North Sumatra, with a capacity to build 50,000 DWT ships, Director General of Transport Equipment and Telematics Budi Dharmadi said.

PT Jasa Marina plans to invest Rp250 billion to build a shipyard in Central Java with a capacity to build 30,000 DWT ships while PT Noahtu Daya Darotama will invest Rp50 billion to build a shipyard in Lampung with a capacity to build 8,000 DWT ships.

Arpeni president Oentoro Surya said construction of his company's project in Batam will start next year, to be completed in five years.

STATE CONCERNS

Govt. to re-evaluate regional funding

The central government may next year cease general allocation funds (DAU) to regions enjoying hefty windfall profits from the soaring prices of natural resources, *The Jakarta Post* reported.

Finance Minister Sri Mulyani Indrawati said the central government was seeking to allocate more funds to regions with limited or no natural resources.

The proposal is slated to be submitted to the House of Representatives during the upcoming 2009 state budget discussion. "We will ask for the House's approval on this soon," she said.

DAUs account for an average of more than 50% of a province's or regency's annual revenues.

Should the House approve the proposal, profiting regions could establish autonomous administrations while underdeveloped regions would receive more funds.

Wealthy Riau and East Kalimantan provinces, for example, may no longer receive any DAUs, the Finance Ministry's Director General of Fiscal Balance Mardiasmo said.

With abundant gas, gold, rubber and palm oil resources, Riau province is one of the richest in Indonesia, while East Kalimantan is endowed with coal, gold and oil and gas.

For this year, the central government has allocated Rp179.50 trillion for DAUs, up from Rp164.78 trillion last year.

Self-sufficiency in sugar by 2009: Official

Indonesia is on target to achieving self-sufficiency in sugar production by 2009, by increasing the area of plantations, a senior industry official said Monday, Reuters reported.

Indonesia plans to increase the acreage by nearly 5% next year to around 450,000 hectares, boosting output to as much as 3.3 million tons.

"Next year we should be able to reach self sufficiency," said Colosewoko, secretary general of the Indonesian Sugar Association.

Sugarcane plantation area has grown around 5% to 430,000 hectares so far this year from 410,000 hectares in 2007 under a plan to revive the country's sugar output, said Colosewoko.

This increased acreage is expected to yield 2.7 million tons of sugar this year, just short of the 3 million tons of domestic consumption.

The Sugar Revitalization Plan was started by the government in 2003 to raise local output and also make ethanol.

Ethanol is blended into gasoline to run cars and motorcycles so that consumption of the fossil fuel, whose prices have surged to a record, is curbed.

New minimum capital limit for insurance industry

President Susilo Bambang Yudhoyono has signed a new government regulation amending a previous regulation on the insurance industry, raising the minimum capital limit and setting a deadline for compliance of 2010, Asia Pulse reported.

Under the amended regulation, an insurance company is required to have paid-up capital of at least Rp100 billion, a reinsurance company Rp200 billion and a brokerage company Rp1 billion.

A minimum capital limit is also set for companies operated under shariah principles - at Rp50 billion for a shariah insurance company and Rp100 billion for a shariah reinsurance company.

Chairman of the Indonesian association of insurance companies Kornelius Simanjuntak said there are still many insurance companies with capital below the minimum limit.

SOEs

Telkom seeks Rp9T in loans

PT Telkom, the nation's biggest company by market value, is seeking Rp9.3 trillion in loans from banks to help it expand this year, *Bisnis Indonesia* said, citing chief financial officer Sudiro Asno.

The report didn't name the banks that may provide loans to the company.

Meanwhile, PT Bakrie Telecom will get a three-year \$150 million loan from overseas companies to finance its expansion plans this year, *Bisnis Indonesia* reported, citing finance director Jastiro Abi.

The company expects a profit of Rp300 billion on total revenue of Rp3 rupiah this year, Bloomberg said the newspaper reported.

Adhi Karya gets \$94M in new contracts

State-owned PT Adhi Karya has won three new contracts valued at Rp878 billion (\$94 million) to build shopping malls and apartments in Jakarta, *Bisnis Indonesia* said Thursday, citing corporate secretary Kurniadi Gularso, Bloomberg reported.

A mall in Central Jakarta is valued at Rp381 billion, the report said. The two other contracts, the Pakubuwono apartment towers and Griya Niaga mall, are valued at Rp497 billion.

PRIVATE SECTOR

May vehicle sales up 29% year on year

Vehicle sales are estimated to have risen by 29% in May to 49,500 units from a year ago, despite a government decision to hike fuel prices by 30%, Reuters reported, citing an industry official.

Jodjana Jody, head of sales at Toyota Astra Motor, said Toyota sold 17,522 units last month, up 32.9% from the same month in 2007.

Toyota Astra Motor, owned by PT Astra International, is the distributor of Toyota cars in Indonesia.

Indonesia's automotive industry was severely hit the last time the government raised fuel prices in October 2005, but the sector has started recovering from that slowdown.

Sales in the first four months of 2008 rose by nearly 60%, helped by lower interest rates and despite the country's consumer confidence being dented by building inflation.

Excelcomindo gets Rp3T bank loan

Third-ranked cellular operator PT Excelcomindo Pratama said it has secured a loan commitment of Rp3 trillion (\$322 million) from PT Bank Central Asia (BCA), *Bisnis Indonesia* reported Friday.

The three-year loan, which will be used to pay its dollar-denominated bonds ahead of maturity, will carry an interest rate 1.25% higher than the Japan Interbank Offered Rate, or Jibor, president director Hasnul Suhaimi said, according to Bloomberg.

Tempo Scan sets offer date for shares

Pharmaceutical company PT Tempo Scan Pacific said on Wednesday its majority shareholder PT Bogamulia Nagadi is offering to buy 1.04 billion shares, equivalent to a 23.15% stake in the company held by the public, from June 17 until July 17, Thomson Financial reported.

"The purpose of the limited tender offer is to give investors an opportunity to get a better share price should they opt to sell their shares," it said.

Tempo Scan shares have lost nearly 50% of their value since the end of last year. The company has set a tender offer price of Rp700 per share.

The offer price was 7.7% higher than the average price of Tempo Scan shares over the 90 days prior to the announcement of the tender offer. The offer was announced on May 28.

Bogamulia currently holds 71.85% of Tempo Scan shares while the public owns the rest.

BANKS

Niaga, Lippo to complete merge by 2009

PT Bank Niaga and PT Lippo Bank are expected to be completely merged by the fourth quarter of 2009, a senior official at Malaysian state investment vehicle Khazanah Nasional said Monday, Dow Jones reported.

"The legal merger of the two banks is expected to be effective by October this year," said Tan Sri Noryusof, the head of executive committee at Khazanah.

The agreement to merge the two banks was signed Monday by representatives from Khazanah and the banks.

The merger is designed to comply with Bank Indonesia's single-presence policy. Under the policy, companies can't own controlling stakes in more than one bank.

Khazanah indirectly owns 93% of Lippo and has an indirect 64% share in Niaga via its unit Bumiputra Commerce Holdings.

Malaysian Deputy Prime Minister Dato Sri Mohd. Najib Tun Abdul Rajak said that after the merger, the banks, which have changed their names to CIMB Niaga, will become Indonesia's fifth-largest bank by assets.

Shariah financing up 45% to \$3.4B in April

Shariah financing shot up 45.3% in April to Rp31.02 trillion (\$3.4 billion) in April this year from the same month last year, Asia Pulse reported.

The assets of shariahbanks totaled Rp40.07 trillion in April, up 41.3%, a Bank Indonesia official said

Friday.

The industry, however, still needs to increase its assets by at least Rp52 trillion to reach its target in assets at least Rp92 trillion or 5% of the assets of the banking industry in the country, BI shariah bank director Ramzi A Zuhdi said.

Data at the central bank show the profit of shariah banks fell to Rp783.7 billion in April from Rp802.8 billion in the previous month.

Non-performing loans on the industry rose to 4.39% in April from 4.17% in March.

Outstanding credits up 29% at end-April

Banks' outstanding credits reached Rp1,103 trillion (\$118 billion) as of end-April, an increase of 29% from a year earlier, the central bank said Thursday, Thomson Financial reported.

Outstanding credits in the banking system grew 2.1% from Rp1,080 trillion at end-March, Bank Indonesia said. About 71% of the loans were working capital and investment loans.

Total deposits in the system stood at Rp1,482 trillion, up from Rp1,466 trillion previously.

The system's loan-to-deposit ratio (LDR) improved to 74.47% from 73.7%, while net non-performing loans (NPL) increased to 1.83% from 1.78%.

Bank Danamon seeks to up Adira Finance stake

PT Bank Danamon Indonesia is seeking to increase its stake in PT Adira Dinamika Multi Finance to 90% from 75% as part of its growth strategy, an official said Tuesday, Dow Jones reported.

Danamon vice president director Joseph Luhukay said he hopes the negotiation on the price of the additional shares will be completed later this month.

Luhukay said that Danamon, Indonesia's fifth-largest bank in terms of assets, will finance the acquisition with its own cash but didn't rule out raising funds from the local bond market.

Adira provides loans to car and motorbike buyers. Car and motorcycle sales have experienced strong growth in the past two years but are expected to be impacted by higher fuel prices.

POWER

Govt. plans second series of 10,000 MW plants

The government is drawing up a program to build a second series of power plants with a combined capacity of 10,000 MW across the country to keep up with the mounting public need for electricity according to Energy and Mineral Resources Minister Purnomo Yusgiantoro, Antara reported Thursday.

Some aspects of the program were disclosed by Yusgiantoro following a meeting on acceleration of the first 10,000-MW power plants project at the vice presidential office in Jakarta on Wednesday.

The government had decided to set up another series of power plants with a total capacity of 10,000 MW because domestic demand for electricity was growing fast.

"In a number of regions outside Java, the need for electricity is now growing at almost 10% per year," the minister said.

While the first series of power plants were all coal-fired, the second series would only consist of 30% of coal-fired plants. The remainder would be made up of geothermal, hydropower and other types of power generating facilities, he said.

The geothermal power plants would have a total potential of 27,000 MW and the hydropower facilities 60,000 MW with the rest to be provided by plants running on new and renewable energy sources.

About the time it would take to build the additional power plants, the minister said it would be a 'multi-year project' that would transcend the five-year term of any single administration.

The project was estimated to require a total investment of between \$8 and 9 billion, he added.

Bank of China leads loan to power plant

Bank of China Ltd. said Wednesday it is leading a group of banks in a \$592 million syndicated loan contract with an Indonesian power plant, Dow Jones reported.

The loan, issued by 18 Chinese and foreign banks, will be used to finance the Indramayu power project, Bank of China said in a statement posted on its web site.

It didn't specify the terms of the contract or the capacity of the power project.

State-owned power company PT PLN has been seeking loans to finance the construction of its 35 power plants under the government-sponsored 10,000-MW emergency power project.

Energy World Corp supply deal with PLN

Australian liquefied natural gas developer Energy World Corporation Ltd. said Wednesday it had signed a memorandum of understanding with PT Indonesia Power on LNG supply from its project in South Sulawesi.

Energy World will initially supply 1.5 million metric tons of LNG annually over a period of ten years from 2009, extending to 5 million tons annually from the Sulawesi LNG plant, now under construction.

The Ministry of Energy and Mineral Resources granted a provisional license for the development in late 2006.

Energy World said it expected to sign a heads of agreement on gas sales by the end of the year.

The agreement is non-exclusive and Energy World said it's still in discussions with other potential Asian LNG buyers.

OIL & GAS

Fuel consumption may rise by 10%

The recent fuel prices increase has not hampered consumption, with full-year fuel consumption set to rise 10% on the back of a growing economy and a rising number of vehicles, an official said, *The Jakarta Post* reported.

Luluk Sumiarso, Director General of Oil and Gas at the Energy and Mineral Resources Ministry, said the nation's fuel consumption would increase to 39.1 million kiloliters this year.

He said this was partly due to the growth in the economy, which is still targeted to grow at 6.2% to 6.4% despite the recent increase in fuel prices.

Sumiarso said that with the economy growing, people were expected to buy more vehicles, which could lift up consumption, especially for gasoline.

"This year's realization for gasoline will be a bit high since even after the increase people will still buy Premium gasoline rather than non-subsidized Pertamina, because of the latter's high price," he said of Pertamina's high-octane fuel product.

According to ministry simulations, the higher-than-expected fuel consumption would mostly come from Premium gasoline, which could increase by 14% from the initial estimate.

State oil and gas firm PT Pertamina has said that from January to April, fuel consumption reached 12.9 million kiloliters, more than a third of the full-year quota.

Downstream oil and gas regulator BPH Migas said that over the past five years the consumption of Premium gasoline had risen by 5% per year due mostly to the rapid increase in vehicles.

TPPI to produce premium gasoline

PT Trans Pacific Petrochemical Indotama (TPPI) will start producing 50,000 barrels of premium gasoline per day starting next month, Asia Pulse reported.

The production of premium gasoline through conversion of petrochemicals will save the country \$2.6 billion in imports of the fuel a year, an official said.

The company will reduce its output of paraxylene, a raw material used to make synthetic fiber, because the prices of the chemical aren't keeping pace with those of crude oil, president director Amir Sambodo said.

"Gasoline prices follow crude oil prices, so we can make profit margins producing it," he said.

The company, which is controlled by state-owned asset management company PT PPA, produces petrochemicals including paraxylene, benzene, toluene and orthoxylene from condensate.

Mitra Rajasa offers to buy rest of Apexindo shares

PT Mitra Rajasa, a trucking service company planning to acquire PT Apexindo Pratama Duta, offered to buy the remaining shares of the oil drilling services company from public shareholders, Reuters reported.

Jakarta-based Mitra Rajasa is offering as much as Rp1.25 trillion to buy a 19% stake in Apexindo held by the public, the company said in a statement published in *Investor Daily*.

Mitra Rajasa is already planning to buy an 81% stake in Apexindo for Rp5.2 trillion from PT Medco Energi Internasional and Encore International Ltd., it said in the statement.

For the entire acquisition, Mitra Rajasa will pay Rp4.1 trillion in cash and finance the remaining Rp2.35 trillion through loans and bonds, it said.

MINING

Govt. mulls halving royalties on underground coal mines

The government is considering halving the royalties for underground coal mines in a bid to lure investments in the sector, a senior Mining Ministry official said on Monday, according to Antara.

M.S. Marpaung, a director of the Ministry, told the Coaltrans Asia Conference in Bali that the move was aimed at encouraging investors to use new technology to exploit underground coal mines and reduce the impact from coal mining to the environment.

He did not give a specific time frame for the implementation of the plan.

Under the current scheme, the government owns 13.5% of miners' total coal supplies. Miners have to return proceeds from the sale of these coal supplies back to the government.

Indika to complete acquisition of coal mine next month

PT Indika Energy said it hopes to conclude acquisition of a coal mine at a price of \$100 million in Kalimantan by the end of July this year, Asia Pulse reported.

Indika chief executive officer Aziz Arman said that his company planned construction of infrastructure over a period of 18 months with a start-up for the mine in 2010 with production estimated at 600,000 tons in the first year. He did not identify the current owner of the mine.

Earlier Indika, whose core business is in engineering, procurement and construction, said it would spend \$540 million in the next five years to acquire coal mines and build power plants.

Arman said the fund needed to acquire the coal mine comes from the sales of a \$250 million bond it issued last year.

Contracting business contributed Rp2.14 trillion to income of Rp2.33 trillion last year.

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