

POLITICAL PULSE

Fuel price cut now on the table...

President Yudhoyono has put the option of cutting domestic fuel prices on the table, as the sharp decline in global oil prices are propelling a growing number of policymakers and consumer advocates to call for a price cut. The president cautioned, however, the government would need to model various scenarios to ensure any fuel price cut would not threaten the budget.

Legislative hearings held by the energy commission earlier this week also discussed the issue. Some MPs like Effendi MS Simbolon (PDIP) and Alvin Lie (PAN) have called for an immediate price adjustment and suggested it would be ‘criminal’ for the administration not to. The lawmakers argued that the legislation that provided the legal umbrella for the government to raise fuel prices in May on surging international oil prices also enabled the administration to lower prices. Energy minister Purnomo Yusgiantoro, meanwhile, reported during the hearings that whether or not domestic fuel prices could be cut would depend not only on the average price of oil in the global market, but also on the rupiah-dollar exchange rate as well as on budget reserves.

Commentary & Analysis

...but Govt moving cautiously

With stabilizing consumer prices already bolstering popular support for SBY (**Political Pulse 23 October**), the incumbent would definitely score huge political points from a fuel price cut. Nonetheless, the administration is moving cautiously given the impact lower fuel prices would potentially have on the state budget and tax revenues. It certainly does not want to be caught in a situation where the government-set fuel price is higher than the price of non-subsidized fuel sold to industries, or the price of premium quality gasoline sold by private companies – something that could materialize soon if global oil prices continue its downward trend. At the same time, lowering fuel prices would potentially affect the state budget particularly in terms of tax revenues.

Risks of price indexing

A proposal to benchmark prices to an international index would help address the budgetary issues and give the government an important opportunity to reduce fuel subsidies and move towards a more market-based pricing system. Problems could arise if prices go up again though, and administration officials are concerned – particularly given the election period - of the kind of political backlash Megawati faced in 2003 when she initially sought (and ultimately backtracked) to benchmark domestic fuel prices to an international index when global oil prices were rising.

Capping prices at current levels

Like he did prior to the decision to raise fuel prices in May, President Yudhoyono will likely let his subordinates publicly hash out the issue with parliament and economists over the next several weeks. The current proposal is to benchmark prices to a global index while maintaining a ceiling at current price levels. If a political consensus can be reached and if budgetary authorities are comfortable with the pricing mechanism there is a high probability that the administration will lower domestic fuel prices.

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Troubled conglomerates target Sri Mulyani...

Reports are surfacing of efforts to remove the coordinating minister for economic affairs **Sri Mulyani Indrawati** from the cabinet, after she rejected requests for a government bailout of a major Indonesian conglomerate facing serious financial difficulties arising from the global financial crisis. Intensive lobbying efforts reportedly reached the president's office, but Sri Mulyani refused to budge despite accusations of her "lack of nationalism". The apparent compromise was for several state-owned companies to participate in a bid to purchase the conglomerate's assets. Presidential spokesman Andi Mallarangeng has strongly denied the rumors of the coordinating minister's possible ouster and rebutted local media reports that the government would use state finances to bail out any company.

Commentary & Analysis

... little chance for her dismissal now...

At this stage, there appears to be little chance for Sri Mulyani's removal. The chief economics minister is a highly respected member of Yudhoyono's inner circle. The minister's coordinated response with Bank Indonesia governor Boediono to the Indonesia liquidity crisis has also been generally received positively by most market players, and her dismissal given the circumstances would only undercut the credibility the president and financial authorities have been trying to build on Indonesia's financial system over the past several years. Sri Mulyani's removal would also be a major blow to SBY's political standing if he was seen to be bowing down to pressure from business interests.

...but crisis makes her increasingly vulnerable

Nevertheless, these developments highlight the high stakes games taking place amidst the financial crisis. If the financial markets continue to deteriorate, Sri Mulyani would be a primary target of blame and would make her increasingly vulnerable to political attacks.

20% threshold to benefit established tickets

Meanwhile, on the legislative front the draft law on the presidential elections has been finalized with the all-important legislative threshold to nominate a presidential candidate set at 20% of parliament seats or 25% of the popular vote. This is significantly higher than the 3% of parliament seats required for the 2004 elections that ultimately produced five tickets. The new ruling will limit the contest to a maximum five tickets and more likely produce 2-4 tickets contesting the 2009 elections. Given current polls it will be a stretch for any of the parties to get 20% of the DPR seats and will almost certainly force political parties to form alliances to push their candidates in next year's presidential poll. The new ruling is a setback for Yudhoyono whose party PD is unlikely to get more than 20% of parliament seats, but what it mainly does is make it much more difficult for third party candidates like Wiranto (Partai Hanura), Prabowo Subianto (Partai Gerindra) or Sultan Hamengkubuwono X who lack the political infrastructure of PDIP, Golkar and PD to make a presidential bid.

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ADDITIONAL HIGHLIGHTS

Indonesia's anti-corruption court sentenced Burhanuddin Abdullah, a former central bank governor to five years in prison and asked him to pay a Rp250 million fine for his role in the misuse of state funds. Abdullah, 60, was accused of illegally transferring funds to Indonesian lawmakers, judge Gusrizal said this week. Under Indonesian law a loss to the state is construed as corruption. Abdullah is the second successive central bank governor to be convicted of corruption as President Susilo Bambang Yudhoyono tries to weed out graft in the Southeast Asian nation. Abdullah said he will appeal. Abdullah's predecessor, Sjahril Sabirin, in 2002 successfully appealed a conviction related to an alleged misuse of state funds, a year before his term ended.

[Bloomberg News, 29 October 2008](#)

An international security expert has warned that the imminent execution of the three men convicted over the 2002 Bali bomb attacks could provoke a fresh terrorist attack in Indonesia. Sidney Jones, from the International Crisis Group, told Adnkronos International (AKI), that the possibility of an attack was remote but should still be taken seriously. "Radical groups are certainly going to try and send as many people as possible into the streets to show support for the bombers," Jones told AKI. "The risk is that these rallies could turn violent." According to risk assessment centers based in Jakarta, in coming days there could be protests by radical Islamic groups outside government buildings, and the embassies and consulates of the United States, Britain and Australia throughout the archipelago. "We cannot rule out the possibility of a terrorist attack, but the chances are very small," Jones said.

[AKI, 28 October 2008](#)

Australia is urging its citizens to rethink travel to Indonesia, saying the threat of a terrorist attack is high as the country prepares to execute three militants over the 2002 Bali bombings. The convicts -- Imam Samudra, Amrozi Nurhasyim and Ali Ghufron -- have "exhausted their legal options" to avoid their death sentences, which will be carried out next month, Jasman Panjaitan, a spokesman for Indonesia's attorney general, said. Australia's Department of Foreign Affairs and Trade updated its travel advice for Indonesia last week to include news of the impending executions of the bombers, who killed 202 people, including 88 Australians, on the tourist island of Bali in 2002. The department left Indonesia's risk rating unchanged at level four on a scale of five.

[CNN, 25 October 2008](#)

The Sultan of Yogyakarta, announced that he would run for president next year. Sri Sultan Hamengkubuwono X, whom many Javanese regard as semi-divine, said he would address widespread unemployment and poverty if he won the election against incumbent Susilo Bambang Yudhoyono. "Fulfilling the call of the mother country, I am ready to be the president in 2009," the sultan, 62, told a crowd of about 200,000 who braved the rain to gather in Yogyakarta's main square to hear him speak, applauding enthusiastically. Hamengkubuwono, who is also governor of Yogyakarta, is not the first Indonesian royal to dabble in politics. Some of his royal counterparts from the various kratons, or palaces, in Bali and elsewhere have joined political parties.

[Reuters, 28 October 2008](#)

The Prosperous Justice Party (PKS) last weekend published its list of eight potential candidates to be nominated to run for the July 2009 election. The names on the list were Hidayat Nur Wahid (People's Consultative Assembly Speaker), Tifatul Sembiring (PKS' President), Salim Segaff Al Jufri (Ambassador to Saudi Arabia), Anis Matta (PKS Secretary-General), Irwan Prayitno (Head of Commission X, DPR), Suharna Surapranata (PKS Advisory Board Chairman), Sohibil Iman (Member of PKS Board), Surahman Hidayat (Head of PKS Sharia Council).

[Koran Tempo, 27 October 2008](#)

Most factions in the House of Representatives are pushing for the controversial pornography bill to be passed this week, despite a threat by the Indonesian Democratic Party of Struggle (PDI-P) to boycott the move and rejection from several provinces. The passage of the bill was made possible after

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eight of the 10 factions at the House accepted the draft. The PDI-P walked out of the deliberation process and the Prosperous Peace Party (PDS) rejected it. Leaders of all factions will meet House leaders later this week for the House plenary session to approve the bill. Thursday 30 October will be the last sitting day before the House goes into recess.

[The Jakarta Post, 29 October 2008](#)

Indonesia's navy chief of staff will start an official visit to Russia last week to discuss bilateral military-technical cooperation. "The main purpose of my visit is to study Russia's shipbuilding capacity, both in terms of surface ships and submarines," Fleet Admiral Tedjo Edhy Purdijatno said. Jakarta became a major weapons customer for Russia eight years ago when the United States slapped an arms embargo on the country over alleged human rights violations. Washington has since lifted the ban, but Indonesia, the world's most populous Muslim country, continues to turn to Russia for its military hardware imports.

[RIA Novosti, 21 October 2008](#)

The House of Representatives' move to probe the abductions of democracy activists in 1997-1998 has received mixed reactions. Last week, committee chairman Effendi Simbolon announced the committee would summon several retired generals, including President Susilo Bambang Yudhoyono -- Indonesian Armed Forces (ABRI) chief of socio-political affairs at the time -- former ABRI commander Wiranto, former Army Special Forces (Kopassus) chief Prabowo Subianto, and former Jakarta military chiefs Sutiyoso and Sjafrie Sjamsoedin. Political experts were quick to criticize the probe as "politicking", pointing out that the retired military generals to be summoned by the House's special committee on the abductions were mostly presidential hopefuls.

[The Jakarta Post, 23 October 2008](#)

A grenade exploded at the headquarters of the former Free Aceh Movement (GAM) guerrilla fighters in the capital of Indonesia's restive Aceh province, an official says. The blast smashed windows in the house occupied by the Aceh Transitional Committee (KPA), the body set up to represent the ex-rebels, but there were no injuries, committee spokesman Ibrahim Syamsuddin said. The KPA demanded the government set up a special police team in Aceh, which has been shaken by a spate of grenade attacks and kidnappings in recent months. "Those behind this violence are against peace in Aceh," it said in a statement.

[The West Online, 23 October 2008](#)

The Supreme Audit Agency (BPK) has exercised a "disclaimer opinion" on financial reports from the Defense Ministry and the Indonesian Military (TNI) over the last two years for failing to include huge amounts of non-tax income. The reports did not present clear income, estimated at billions of rupiah, generated mostly from productive assets such as rented land and buildings, because the money had not been reported to the Finance Ministry. The BPK also found the lost state money from the undervaluation of the two institutions' assets that may have been sold illegally or rented out by certain military officers.

[The Jakarta Post, 23 October 2008](#)

The House of Representatives last week passed the state ministry bill, which limits the number of ministries to 34 and allows ministers to have deputies. The passage ends a three-year deadlock in deliberations over the bill. During the deliberation process, the House had proposed a limit to the number of ministries to only 25. "The bill is expected to push for bureaucratic reforms by limiting the number of ministries for a more efficient and effective presidential system," House Speaker Agung Laksono told a plenary session to endorse the new law. Agun Gunandjar Sudarsa, head of the House's special committee deliberating the bill, said the new law forbade the president from naming state ministries they would set up.

[The Jakarta Post, 22 October 2008](#)

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Pairs of candidates supported by the National Mandate Party (PAN) have unofficially won East Kalimantan's gubernatorial election. Awang Faroek Ishak and Farid Wadjdy had received the greatest number of votes at East Kalimantan's election held Thursday, last week. The pair was supported by 14 parties, including PAN, the United Development Party (PPP) and the Democratic Party. Separately, it was predicted that Fauzi Bahar, the incumbent candidate for the Padang Mayorality election, who ran with Mahyeldi Ansharullah (the South Sumatra legislative council's deputy chairman), would win by as they had garnered 155,838 eligible voters or 51.51 percent. The pair, nominated by PAN and PKS, defeated four other pairs of candidates.

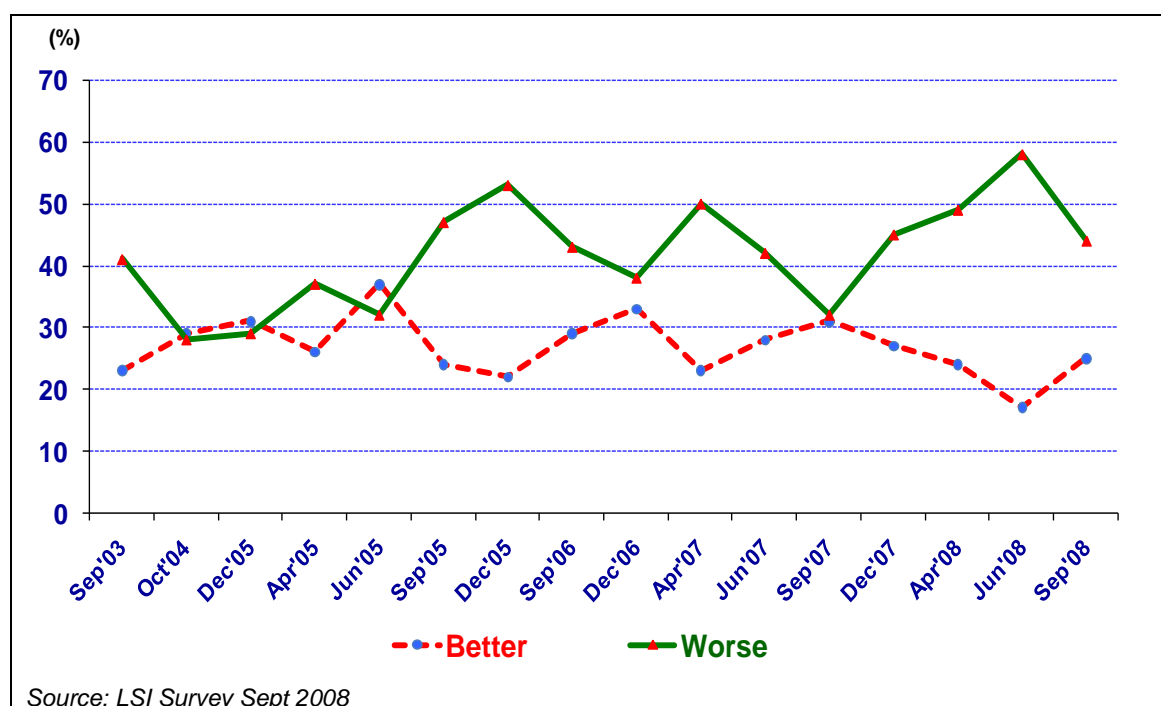
[The Jakarta Post, 27 October 2008](#)

Note: Following each article in Additional Highlights is the URL of the original source. Click on it to access the full article online. Views expressed in the Additional Highlights are not necessarily those of CastleAsia/PT Jasa Cita.

POLLS & SURVEYS

1. LSI Poll – Do you think the economy has fared better or worse compared to a year ago?

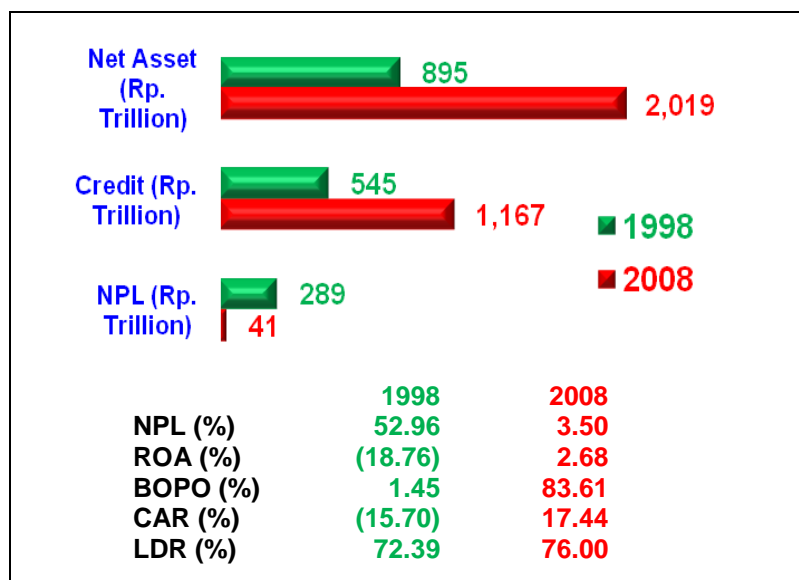
Although the majority of respondents view the economy as doing worse than a year ago, there is a noticeable decline from the peak in June coinciding with falling commodity prices that is strengthening Yudhoyono's popular support – a trend that could continue if the price of oil and other commodities continue its sharp decline.



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2. Kompas/Bank Indonesia – Contrasting Conditions 1998 v. 2008. Below are indicators produced by Bank Indonesia and published in Kompas (29 October) contrasting banking and economic conditions the country faced in 1998 and 2008.

Contrasting Banking Conditions- 1998 and 2008



Source: Bank Indonesia-Kompas, 29 Oct 2008

Contrasting Crisis- 1998 and 2008		
Conditions	1998	2008
Politics and Security	Rioting, leadership crisis	Stable, conducive
Banking Industry	Fragile	Strong fundamentals
SBI Rates	>70%	8-10%
Role of Business	Major asset withdrawals particularly by ethnic Chinese	No major withdrawals (yet)
Foreign Reserves	US\$22 billion	US\$57 billion
Economic Growth	-13%	> 6%
Rate of Exchange Rp/US\$	>Rp. 15.000	Fluctuating
Foreign Debt	Significant	Relatively small
Basic Necessities	Serious supply problems for food, other items	Surplus supplies

Source: Bank Indonesia-Kompas, 29 Oct 2008

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3. Media Indonesia Online Poll – How do you think Amrozi and others convicted of the 2002 Bali bombings should be punished?

