

Indonesian Bank Bailout Exposes Split in Ruling Coalition

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Sharp political divisions in Indonesia's ruling coalition emerged last Tuesday as the representatives of political parties on a parliamentary special committee on the 2008 bailout of Bank Century presented their findings. The committee was set up last year to probe into allegations of illegality and corruption in the bank rescue that implicated Vice President Boediono, a former central bank chief, Finance Minister Sri Mulyani Indrawati and President Susilo Bambang Yudhoyono.

Despite Yudhoyono's ruling coalition having a majority on the parliamentary committee, seven out of the nine party reports found that the bailout was both illegal and corrupt. Moreover, Golkar and the Prosperous Justice Party (PKS) joined the opposition parties—the Indonesian Democratic Party of Struggle (PDI-P) and the Peoples Conscience Party (Hanura)—in naming Boediono and Sri Mulyani as responsible for the illegal bailout.

President Yudhoyono remains in the clear, despite persistent rumours in recent months that he could face impeachment proceedings over alleged support that Bank Century backers provided for his campaign in last year's presidential elections. Yudhoyono maintains that in the midst of the global financial crisis the bailout was necessary to prevent a run on the country's banks. He also claims that un-named politicians are fabricating a criminal case to try to topple him.

Bank Indonesia and the Finance Ministry jointly decided to prop up the failing Bank Century, which had been under intensive central bank supervision since 2005, following its purchase of risky bonds worth \$US230 million. A number of frauds, including by the bank's principal owner Robert Tantular—currently serving a five-year prison term for embezzlement—undermined the bank even further.

The official justification for the bailout was to prevent a meltdown of Indonesia's banking system. However, public outrage began to grow after the escalating costs were exposed during a hearing between parliamentarians and the Finance Ministry in mid-2009. The government had injected up to 6.76 trillion rupiah (\$US676 million), almost four times the original 1.3 trillion rupiah agreed. Last October, the total worth of Bank Century was just 6.9 trillion rupiah.

The handouts took place as millions of Indonesians were sliding even further into poverty. Those who benefited from the bailout were high-profile and politically-connected owners and depositors. According to *Asia Times*, among the bank's major depositors were several prominent families, as well as Indonesian state-owned insurance firm PT Jamsostek and national tin miner PT Timah. Bank Century, which was established by the Tantular family

and flourished under the Suharto dictatorship, had reportedly enjoyed favourable treatment from the authorities, particularly Bank Indonesia, for years.

The parliamentary committee was set up late last year to examine why Bank Century continued to operate after its frequent breaches of banking rules and whether the rescue funds found their way into political parties' coffers. The overriding aim of the government's representatives on the committee was to placate popular anger and reassure international financial institutions that corruption would not be tolerated. At the same time, each of the parliamentary parties represented sought to make as much political mileage out of the inquiry as possible.

A series of damning accusations emerged. During a presentation broadcast live on nationwide television on February 8, the parties on the special committee said they found "irregularities" and "data manipulation" dating back to before Bank Century was created from the merger of three troubled smaller banks in 2004. These continued up until the bailout, with alleged violations including possible banking crimes and money laundering.

Bailout funds were channelled for illegal purposes. Some 1,427 Bank Century accounts had active transactions and moved bailout money even after services were suspended because the lender was under special surveillance by Bank Indonesia.

Undermining the official justification, Boediono's predecessor at the central bank, Burhanuddin Abdullah, testified that the bank's collapse would not have posed a systemic threat. He also pointed out that withdrawals of more than 5 trillion rupiah (\$540 million) were made from the bank shortly after it was bailed out and put under the control of the Deposit Insurance Agency (LPS). In other words, the bank's owners had looted the bank, leaving behind massive debts for the government to pick up.

The parties represented on the special committee provided conflicting accounts of what took place. Asman Abnur of the National Mandate Party (PAN), part of Yudhoyono's ruling coalition, previously declared there were "indications of corruption, state losses, abuse of power and breaches of the law".

The PDI-P said it had identified at least 45 alleged crimes or regulatory violations, beginning with the merger that created the bank. It accused Bank Indonesia of weak regulation and lacking prudence from the merger, which created Bank Century. In addition to Bank Indonesia, the party also accused three other state institutions of malpractice: the deposit agency LPS, the Financial System Stability Committee (KSSK) and the Coordination Committee (KK).

The Peoples Conscience Party (Hanura) said it had found 62 violations, beginning with the merger process and including the bailout itself. The party blamed eight institutions it said should be held responsible for the bailout, including the LPS. The Golkar Party said it had identified at least 58 indications of possible crimes related to the bailout, while the Prosperous Justice Party (PKS) said that it had discovered 18 alleged crimes.

A final report reconciling these differences is due to be presented to a plenary session of the House of Representatives this week. According to the *Jakarta Globe*, Yudhoyono has been lobbying parties in the ruling coalition, "to clarify and balance the 'truth' in the scandal". If the plenary session endorses a finding that Boediono and Sri Mulyani were involved in illegal activities, they face possible impeachment and/or criminal charges.

The high-profile scandal has already had an impact on the economy. Mirza Adityaswara, chief economist at PT Bank Mandiri, commented: "Demand for loans ... has not increased quickly after the presidential election, and this is probably due to big corporations delaying expansion because the political situation has heated up." If political infighting continues to dominate the headlines, the government's goal of 5.5 percent economic growth may not be met, Mirza added. The government has wanted credit expansion to top 20 percent, but Bank Indonesia figures show lending up only 5.3 percent through most of 2009 compared with the year-earlier period.

Foreign investors have been demanding a transparent conclusion to the bailout investigation. James Castle, an American business consultant and representative of the International Business Chamber, said the most important thing was "transparency, that everything goes according to the laws and regulations". "We could not ask more of our friends to come here because they view the legal system as lacking transparency. They prefer to invest elsewhere, such as China," he warned.

A great deal is at stake for Yudhoyono. He won the 2009 presidential elections on a platform attuned to the demands of Washington and international financial institutions, of further economic restructuring and a stepped-up fight against corruption. His administration quickly became embroiled in two scandals: the Bank Century bailout and a second involving attempts by the police, businessmen and political figures to discredit the Corruption Eradication Commission (KPK). If he cannot pull his coalition partners into line, Yudhoyono confronts a potentially damaging split in his administration, as well as the prospect of losing his vice-president and finance minister.

A rather panicked editorial in yesterday's *Jakarta Globe* urged an end to the infighting, declaring: "The political wrangling around the Bank Century bailout points toward a dangerous trend. Indeed, there is a growing fear that Indonesia risks becoming ungovernable if the House and executive branch of the government cannot work in concert for the greater good of the nation. For the past four months, the House has been paralysed by the bailout investigation, with its legislative duties sidelined. Meanwhile, Yudhoyono's cabinet has been distracted to a large degree."

There is, however, no indication that parliamentarians in this week's plenary session on the scandal will heed the warning.

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