

# Political fallout grows over Indonesian bank bailout

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A festering scandal in Indonesia over the government bailout of the mid-sized Bank Century late last year is threatening to cast a shadow over the second term of President Susilo Bambang Yudhoyono. The president, newly elected vice-president and former central bank governor Boediono, and other prominent members of the Yudhoyono team are all implicated in the decision.

Bank Indonesia (BI) and the Finance Ministry jointly decided in November 2008 to prop up the failing Bank Central. The bank had been under intensive central bank supervision since 2005, following its purchase of risky bonds worth \$US230 million. Since then, a number of frauds, including systematic looting by the bank's principal owner Robert Tantular—currently in prison on embezzlement charges—undermined the bank even further.

The official justification for salvaging Bank Century was that its failure would have had a domino effect on the banking sector amid the unfolding global financial crisis, a collapsing Jakarta stock market, an unstable Indonesian currency and severe liquidity problems at a number of banks.

An editorial in the *Jakarta Post* declared that the bank's collapse could have set off a "vicious cycle" within the banking industry. The government told parliament that 23 other mid-sized banks, which had already experienced runs on their deposits, were at risk if Bank Century had been allowed to fail.

BI's head of financial system stability, Wimboh Santoso, said the collapse of Bank Century could have harmed the financial markets, especially for state bonds

and stocks. Bank Century also had bills in other small and medium banks that would have suffered. Closure of the bank would have exacerbated the country's expensive credit default swap arrangements used as insurance against the failure of an underlying financial instrument.

However, public outrage over the bailout began to grow after its escalating cost was exposed during a hearing between parliamentarians and the Finance Ministry in late July. The government, through the Lembaga Penjamin Simpanan or Deposit Insurance Corporation, had injected up to 6.76 trillion rupiah (\$US676 million) of taxpayer funds into Bank Century. The figure was more than double the original estimate of 2.5 trillion rupiah, the basis on which the Financial Sector Stability Committee intervened in November. Last October, the total worth of the bank was just 6.9 trillion rupiah.

The handouts to Bank Century took place as millions of Indonesians were sliding further into poverty. The *Jakarta Post* calculated that the bailout was equivalent to building 13,520 new elementary schools, or new national-scale roads in Sumatra and Java, or the Public Works Ministry's entire allocation for agricultural irrigation in 2009.

Questions have been raised about who benefited from the bailout. Attention has focussed in particular on high-profile and politically-connected owners and depositors. According to *Asia Times*, among the bank's major depositors are the wealthy Sampoerna and Arifin Panigoro families, as well as Indonesian state-owned insurance firm PT Jamsostek and national tin miner PT Timah.

Bank Century emerged from financial organisations established by the Tantular family in 1965, and flourished under the Suharto dictatorship. Its predecessor, the Bank Central Dagang, folded in the 1998 Asian economic crisis. The Tantular family has reportedly enjoyed favourable treatment from the authorities, particularly the BI, going back years. Bank CIC, also owned by the Tantular family, quickly became mired in problems and posted a negative capital adequacy ratio in 2002. It should have been closed, but was saved by the central bank.

Several businessmen close to Yudhoyono are believed to have been major depositors with Bank Century, including Hartarti Murdaya, who helped finance Yudhoyono's 2004 and 2009 election campaigns. Moreover Aulia Pohan—father-in-law of Yudhoyono's eldest son and currently in jail over bribery—was the BI deputy governor in charge of the banking sector when the central bank rescued Bank CIC.

The House of Representatives' financial commission ordered the Supreme Audit Agency (BPK) in August to conduct an investigative audit of the bailout. A separate investigation by the Corruption Eradication Commission (KPK) is increasingly likely. According to the *Jakarta Post*, four tranches of capital injection made by the Deposit Insurance Corporation (DIC) to Bank Century—on November 23, December 5, February 3 and July 21—gave rise to suspicions that the new management put in place in by the DIC had not been fully apprised of the real state of the bank at the outset.

Further, massive and unexplained withdrawals of 5.67 trillion rupiah were made from the bank during the first three weeks in November—a few days after the bank was bailed out and put under DIC control. It is now known that several of the bank's owners had looted the bank before fleeing the country, leaving behind huge debts for the government, as the new owner, to pick up.

The scandal is potentially disastrous for the new Yudhoyono administration. Outgoing vice-president Jusuf Kalla, who stood against Yudhoyono in the

election, has already been sniping at his replacement Boediono and Finance Minister Sri Mulyani Indrawati for their “poorly thought out” decision. Kalla, who was acting president at the time of the bailout, has issued a statement declaring that he did not receive reports from the finance ministry and the central bank.

Boediono has had little to say on the affair, leaving Mulyani to defend herself against Kalla's accusations. The scandal may end up engulfing Mulyani, who is reportedly unpopular in business circles because of her tough anti-corruption stand in the tax and customs offices. There are already indications that she will take a different ministry in the next administration due to be installed later this month.

The BPK is expected to complete its audit at the end of the year.



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