

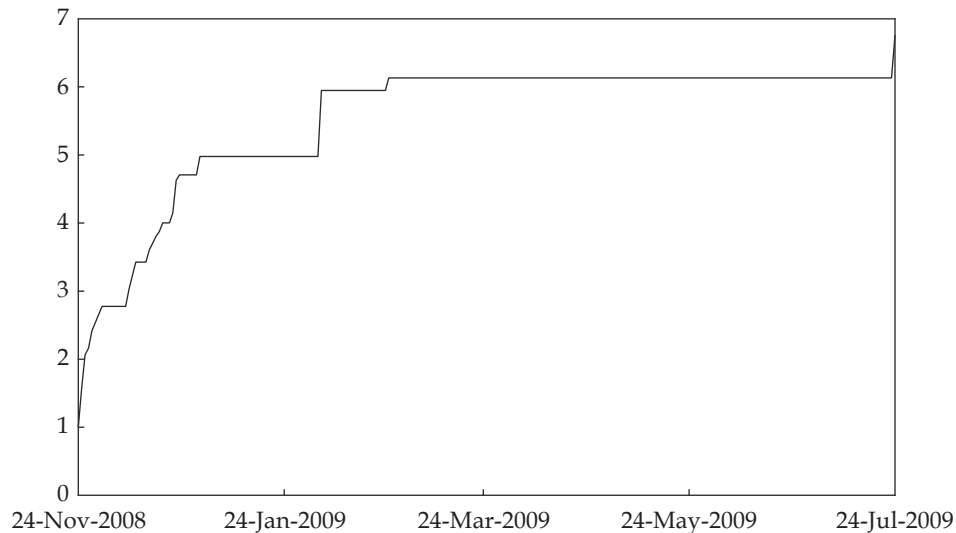
The Bank Century bail-out

Another episode that has captured public attention is the bail-out of Bank Century. Ever since its establishment, Bank Century- the result of a merger of three ailing banks in December 2004- has provided much cause for concern. According to the Supreme Audit Agency (Badan Pemeriksa Keuangan, BPK), the bank's track record included several banking law violations between 2004 and 2008 that were not adequately dealt with by the central bank, Bank Indonesia (BI) (BPK 2009). During the global financial crisis (GFC), its problems reached new levels of urgency, such that between September and October 2008 its capital adequacy ratio (CAR) fell from 2.4 to -3.5%, far below the prescribed minimum of 8%. BI responded by providing three 'short-term funding facilities', on 14, 17 and 18 November, totalling Rp 689 billion (about \$73 million).

Despite these liquidity injections the bank continued to falter. By 20 November 2008, its CAR was estimated to have plummeted to -35.9%, and BI brought the Bank Century case to the Financial System Stability Committee (Komite Stabilitas Sistem Keuangan, KSSK). The committee, chaired by Finance minister Sri Mulyani, was seriously concerned that the failure of even a small bank could have a deep psychological impact throughout the banking system, given existing turbulence in financial markets as a consequence of the GFC. It therefore approved the bail-out on 21 November. While BI's initial estimate of its likely cost was just Rp 0.63 trillion, the actual disbursements required by the Deposit Insurance Corporation (Lembaga Penjamin Simpanan, LPS) had ballooned to Rp 5 trillion by the end of 2008, and eventually to Rp 6.76 trillion by July 2009 (figure 1).

Interestingly, although LPS disbursements to the bank had by February 2009 increased nine-fold from the initial estimate, the bail-out was virtually ignored before the parliamentary and presidential elections in April and July 2009. It was not until August that newly elected DPR members began to criticise the decision. Media reports, coloured by speculation that the bail-out funds had benefited SBY's election campaign, were accompanied by calls for the resignations of Boediono (who was BI governor at the time of the bail-out) and Sri Mulyani. These political attacks were further invigorated by a report on the bail-out by BPK in mid-November. The newly appointed BPK chairman, Hadi Purnomo - a former tax chief dismissed by Sri Mulyani in 2006 in a bold move to root out graft in the

FIGURE 1 *Bank Century: Cumulative Deposit Insurance Corporation Disbursements (Rp trillion)*



Source: BPK (2009).

finance ministry (McLeod 2008)- declared that Rp 2.9 trillion of the LPS disbursements were illegal and required further investigation (*JP*, 23/11/2009). On the basis of the BPK report, politicians eager to attack the government- including those from parties supposedly in coalition with SBY's Democratic Party (Partai Demokrat, PD)- voted to set up a special parliamentary committee of inquiry (Panitia Khusus, or Pansus) to probe more deeply into the Bank Century affair.

According to the Finance minister and the former BI governor, the bail-out was necessary to sustain financial sector confidence and stability. By preventing contagious bank runs, the government contributed to Indonesia's success in weathering the GFC better than most Asian countries (*JP*, 16/1/2010). Technical arguments about systemic risk and the relative cost of bailing out or liquidating the bank failed to resonate with the parliamentary inquiry committee, however. Televised cross-examinations of Sri Mulyani, Boediono and other KSSK members left the strong impression that scoring political points and discrediting senior officials was more important than adding substance and clarity to the case. Some of the most outspoken critics were guilty of inconsistency, having themselves pressed for rapid and far-reaching government intervention as the GFC peaked. Pansus member Bambang Soesatyo (of the Golkar party), who levelled a series of media attacks against Sri Mulyani,² had argued in April 2008 that the government needed to act 'not in a matter of days, but in a matter of hours, even minutes [to sustain] financial markets' (*Kompas*, 28/4/2008). His colleague Maruarar Sirait (of the Indonesian Democratic Party of Struggle, PDI-P), who was one of the

1 Soesatyo accused Mulyani through the press of having met secretly with Bank Century president director Robert Tantular before the KSSK approved the bail-out. Although this allegation was quickly disproved, Soesatyo refused to apologise (*Kompas*, 13/12/2009).

most vocal critics of the bail-out, had urged the finance ministry in October 2008 to 'take immediate action to prevent the crisis from hitting capital markets and spreading to the banking sector' (*Suara Pembaharuan*, 13/10/2008).

In short, it appears that political parties - from within and without the current coalition- have exploited the investigative powers of the Pansus primarily to advance their political agendas. For the Islamic parties (PKS, PAN, PPP and PKB),³ who were unhappy with SBY's choice of the technocrat Boediono as his vice-presidential running mate, the case provided a useful platform from which to press for his replacement. For the opposition parties (PDI-P, Hanura and Gerindra), the parliamentary inquiry offered an opportunity to undermine the government's anti-corruption image. And for Golkar, which remained a somewhat reluctant coalition partner at best, it provided a possible means to unseat Mulyani, who had become *persona non grata* for the party's chair, Aburizal Bakrie.

Conflict between Mulyani and Bakrie - one of the country's wealthiest citizens - appears to be at the heart of the current political turmoil. It has grown out of a series of issues. In October 2008, Mulyani publicly refused Bakrie's request to close the stock exchange after Bakrie-controlled companies rapidly lost 30% in value (*Wall Street Journal*, 10/12/2009; Gunawan and Siregar 2009: 22-3). Tensions increased further when the minister issued travel bans on executives from certain Bakrie companies accused of tax evasion. She has also reportedly urged Bakrie to take responsibility for the Lapindo mudflow disaster (McMichael 2009), and opposed his plans to buy into one of the country's largest gold mines. A reconciliation meeting initiated by the president in early November 2009 seemed only to worsen the conflict, and shortly afterwards the Golkar chair gave his blessing to the parliamentary committee inquiry (*JP*, 16/12/2009), which has tied Mulyani up in long-winded hearings and the need to defend herself against media attacks.