

**Research Report August 2018**

# **INDONESIA INVESTMENTS**

**“A New Chapter in Indonesian Politics?”**



# Indonesia Investments Research Report

## *A New Chapter in Indonesian Politics?*

August 2018



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## Preface

Indonesia Investments' monthly research report is written and published by Van Der Schaar Investments B.V. - located in Delft, the Netherlands. The report aims to inform the reader of the latest political, economic and social developments in Indonesia as well as those key global developments that are impacting on the Indonesian economy or politics.

Our research reports are intended for a wide audience, including individual and corporate investors, financial market participants, policy makers, journalists, academics, and analysts.

The website Indonesia Investments is the reference and access point for gaining knowledge about Indonesian markets, economy and cultures. The website is owned by Van Der Schaar Investments B.V., a privately-held investment company (Ltd.) which was established in 2009 but stands in a tradition that stretches back to urban development in the Dutch capital city of Amsterdam in the early 20th century.

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Lastly, we want to emphasize that although we strive to present accurate, up-to-date, and objective information to the reader, Indonesia Investments cannot guarantee the accuracy of all data that is included in this report.





## Introduction

Emerging markets continued to feel heavy pressures in August 2018. They are bracing for another interest rate hike in the USA (the Federal Reserve is expected to raise its benchmark interest rate twice more; in the months September and December) and they are also still learning to cope with the impact of simmering trade tensions, led by political decision-making in the USA and China.

However, starting from the middle of August a series of bad news (from emerging markets) complicated matters and gave rise to contagion worries. Issues include the collapse of the Turkish lira, soaring inflation in Turkey (while markets doubt whether the Turkish central bank can address this issue appropriately), South Africa's slide into recession in Q2-2018, and the currency crisis in Argentina. It all has resulted in fear of contagion to other emerging markets, thus demand for safe haven assets rises, while emerging markets need to adjust to tighter global liquidity conditions.

Indonesia is among the more fragile emerging markets on the Asian continent, having a wide current account deficit and plenty of foreign-denominated corporate debt. Meanwhile, a large chunk of local stocks and bonds are in the hands of foreign investors and therefore it makes Indonesia vulnerable to sudden capital outflows in times of global economic turmoil. These are all subjects that are discussed in detail in this research report (specifically in the chapter on the rupiah performance and the chapter on Bank Indonesia's monetary policy responses to the aforementioned challenges).

But it is not all about the financial markets. There was much more that happened in Indonesia in August 2018. Several (other) news stories stood out last month: (1) the announcement and registration of the presidential and vice-presidential candidates in the context of Indonesia's 2019 presidential election, (2) new devastating earthquakes on the island of Lombok, (3) the successful Asian Games where Indonesian athletes collected 31 gold medals, (4) better-than-expected GDP growth in the second quarter of 2018, and (5) Independence Day celebrations.

Thus, from an economic, political and social perspective plenty of positive and negative issues occurred in Indonesia in August. In other words, there are plenty of topics to discuss to fill the pages of this research report.

Research Department  
**Indonesia Investments**  
Delft & Jakarta, 5 September 2018

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