

# Indonesia Investments

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## Feeling the Impact of El Niño

- Zooming in on Rice and the Impact of India's Rice Export Ban on Indonesia
- To What Degree Can El Niño Cause an Increase in Indonesian Inflation in 2023?
- Despite Supporting the Transition to Renewable Energy, Oil Remains Crucial
- Economic Growth of Indonesia at 5.17% in Q2-2023, Beating Expectations!
- Indonesia Opens the Door a Bit Wider for Expats Who Want to Buy Property
- Manufacturing Gains Momentum in Q3

**AUGUST 2023**

**Van Der Schaar Investments B.V.  
CV Indonesia Investments**

# Indonesia Investments

Monthly Report – August 2023

**‘Indonesia Feels the Impact of El Niño  
in the Second Half of 2023’**



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## Preface

The monthly report of Indonesia Investments is written and published by business consultancy CV Indonesia Investments, headquartered in Yogyakarta (in Indonesia), with the assistance of investment company Van Der Schaar Investments B.V. (based in Delft, the Netherlands). This report aims to inform the reader of the latest, most relevant, political, economic and social developments in Indonesia as well as those crucial international developments that (may) impact on the economy of Indonesia or on its politics.

Our reports are intended for a diverse audience, including individual and corporate investors, financial market participants, diplomats, policymakers, decision-makers, academics, journalists, and analysts.



The website [www.indonesia-investments.com](http://www.indonesia-investments.com) is the key reference and access point for gaining knowledge about the markets, economy, business sectors, politics, and

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## Introduction – August 2023 Report

The month of August is always an occasion for festivities as Indonesia celebrated its Independence Day on 17 August 2023. As usual, the Indonesian President delivered a speech in front of the People's Consultative Assembly (in Jakarta), one day ahead of Independence Day.

For the purpose of this Indonesia Investments report, it is possibly most interesting to take a look at Indonesia's macroeconomic assumptions (for 2024) that President Joko Widodo presented to the nation during his speech on 16 August 2023.

### Macroeconomic Assumptions in Indonesia's 2024 Revised State Budget:

Indicator	Assumption
Economic Growth	5.2% (y/y)
Inflation	2.8% (y/y)
Gov't Securities (SBN), 10-year	6.7%
Rupiah Value	IDR 15,000 (per USD)
Indonesia Crude Oil Price	USD \$80 (per barrel)
Crude Oil Lifting	625,000 (barrels per day)

Sources: Nota Keuangan of the Finance Ministry and the 2024 Revised State Budget

In terms of economic growth in 2024, the Indonesian government set an ambitious target of 5.2 percent year-on-year (y/y). While we feel this target is slightly too high (amid weakening global economic growth and declining global commodity prices), the recently released Q2-2023 gross domestic product (GDP) data should certainly have managed to inspire policymakers in Indonesia. Based on the latest data, which are analyzed in one of the articles in this report, the Indonesian economy expanded by 5.17 percent (y/y) in the second quarter of 2023, beating essentially all forecasts.

Meanwhile, the headline inflation assumption for Indonesia in 2024 is relatively low at 2.8 percent (y/y). Indeed, by now, we should have become used to seeing a low inflation rate for Indonesia. Since his first full calendar year in office (2015), Widodo has brought structurally low inflation to Indonesia (with the exception of 2022 when a combination of matters – including the start of the Russo-Ukrainian war and higher subsidized fuel prices in Indonesia – pushed inflation nearly to 6 percent).

Still, there are definitely some inflationary pressures on the near-term horizon that could be felt into 2024. Related matters that get attention in this edition include the inflationary pressures stemming from India's decision to ban exports of certain rice types. India accounts for around 40 percent of rice that is traded around the globe, and considering the global rice market is already a shallow market (with relatively few suppliers) it is immediately felt heavily when a big player like India cuts exports. Already international rice prices have surged by around 20 percent.

Moreover, the concern is that other countries, like Vietnam and Thailand, follow the example that was set by India. After all, the main reason why India cuts rice exports is the (looming) impact of the El Niño weather phenomenon. And, this phenomenon is felt by the whole Asian region, where around 90 percent of rice is produced. And so, the danger is that we see a repeat of the 2007-2008 global rice crisis.

El Niño, which on average occurs every two to seven years, is a naturally occurring phenomenon of periodic warming of the sea surface temperatures in the central and eastern regions of the Pacific Ocean that then brings a longer-than-usual dry season to Asia. This phenomenon typically lasts for nine until 12 months. During that period there exist higher chances of forest fires and disappointing harvests (including rice).

And so, El Niño can certainly push inflation higher, in the form of rising rice prices, in the second half of 2023. This is a big risk for the dozens of millions of Indonesians who live just above the poverty threshold, as they spend a significant portion of their disposable incomes on rice.



Another topic that receives in-depth attention in this report is Indonesia's oil sector. In the table above, we saw that the government set a crude oil lifting target (the term refers to crude oil that has been processed and is ready to be sold) of 625,000 barrels of oil (bpd), per day, in 2024. However, Indonesia has a habit of falling short of its crude oil lifting targets, each year. For example, in the first half of 2023, oil lifting reached a total of 615,500 bpd, which is well below the targeted 660,000 bpd set in the 2023 State Budget. So, the decline in Indonesia's oil sector (which started in the 1990s when Indonesia's crude oil production peaked at 1.7 million bps) continues.

Lastly, a few words on Indonesia's upcoming legislative and presidential elections (that are scheduled for 14 February 2024). Soon, we will write a new article on this topic as the rivaling coalitions have become clearer now after the National Mandate Party (or PAN) and Golkar threw their support behind Gerindra Chairman Prabowo Subianto's bid to become Indonesia's next president. Moreover, right at the time of writing this introduction, one vice-presidential candidate became known.

Golkar and PAN supporting Subianto is actually quite interesting because it means he can now enjoy the biggest coalition in the battle, even though it seems likely that the National Awakening Party (or PKB) exits this coalition after the PKB's chairman Muhaimin Iskandar was officially declared the vice-presidential candidate of Anies Baswedan. Meanwhile, the Democratic Party (or PD) is likely to stop its support for Baswedan after it has become impossible for PD Chairman Agus Yudhoyono to act

as vice-presidential candidate of Baswedan in the race. In fact, we might see PKB and PD swapping coalitions.

### Coalitions and Their Presidential Candidates:

Coalition Prabowo Subianto	Coalition Anies Baswedan-Muhaimin Iskandar	Coalition Ganjar Pranowo
Gerindra	NasDem	PDI-P
Golkar	PKS	PPP
PAN	PD	
PKB		

With the backing of Gerindra, Golkar and PAN, Subianto's coalition now controls 36 percent of the seats (earned in the 2019 election). For comparison, the coalition that supports Ganjar Pranowo as presidential candidate only controls 25 percent of seats (with nearly all stemming from the Indonesian Democratic Party of Struggle or PDI-P), while the coalition that supports Baswedan in the 2024 race controls 19 percent of seats.

These percentages exclude PKB and PD, as they are likely to move sides. So, if PKB joins the Baswedan coalition, then this coalition controls 29 percent of seats. And if the PD joins the Subianto coalition, then this coalition will control 45 percent of seats

in parliament (based on 2019 elections). We assume that chances are bigger that the PD joins Gerindra (rather than PDI-P) because there still are some tensions between PDI-P Chairwoman Megawati Soekarnoputri and Susilo Bambang Yudhoyono, who is the founder of the PD and father of current PD Chairman Agus Yudhoyono.

While this does put Subianto sort of on pole position, it certainly does not guarantee him a victory in the presidential race because an Indonesian voter who – for example – votes Golkar in the legislative election does not automatically vote for the desired presidential candidate of Golkar in the presidential election. Instead, Indonesians look at the person in presidential races. This also explains why Joko Widodo won the 2014 presidential election despite the fact that his coalition was significantly smaller than the coalition of the then defeated candidate (which was Subianto). Or, in 2019, when the incumbent (Widodo) enjoyed a much larger coalition than his opponent in the race, but the gap between him and the defeated presidential candidate (again Subianto) was much smaller.

Nonetheless, it does make Ganjar Pranowo, who often leads the opinion polls and surveys, look a bit vulnerable. And so, at this moment, we expect to see a very close race between Subianto and Pranowo next year. Interestingly enough, although this has not been confirmed through any official channels, the word on the street is that Widodo actually supports Subianto in the 2024 race (instead of fellow PDI-P party member Pranowo), with the reason being that Subianto promised his full support

behind the development of the new capital city in East Kalimantan (a huge project that was kick started by Widodo).

Meanwhile, the seemingly tight race between Subianto and Pranowo also means that the selection of vice-presidential candidates becomes of crucial importance as he or she can be the key to winning the race for either men. So, besides seeing coalitions take a more concrete shape, we are also eagerly waiting for the names of the people who will run as vice-presidential candidates in the 2024 presidential election. But it could still take a while before official announcements are made. Coalitions have until 25 November 2023 to register their candidates, and it might be of strategic interest of coalitions to announce the vice-presidential candidates at the very last moment.

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**Indonesia Investments**

Yogyakarta, Indonesia

2 September 2023



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## - Food Commodities -

# Global Rice Prices Soared after India Bans Rice Exports; What About the Impact on Indonesia?

There are many important commodities. But if we talk about food commodities, then rice certainly ranks high. This particularly applies to Asia where the populations are dependent on rice as the basic staple food that is consumed every day (and usually up to three times per day).

Besides consumption, Asia also plays a crucial role in terms of global rice production. In fact, it is estimated that more than 90 percent of global rice is not only consumed in Asia but is also produced across Asia.



Indeed, it is true that rice does have a centuries-long history in the West, and so there also developed specific European rice culinary specialties, such as risotto (in Italy)

or paella (in Spain). However, compared to Asia, rice consumption and production are rather insignificant in the West. And so, (rice-producing) Asia is the net exporter of rice to the rest of the world and at the same time the key market.

## **Asia Dominates the World's Production and Consumption of Rice**

There are several climate-related and socio-economic reasons behind Asia being the world's biggest producer and consumer of rice.

Firstly, rice cultivation is well-suited in regions that enjoy a hot and humid climate. Warm temperatures, plenty of sunshine, and heavy rainfall (or ample water supplies from other sources than rain) are optimal conditions for rice to grow. These climate-related conditions can be found in the tropical and sub-tropical climates of Asia.

[...]

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USD \$7.50

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