

Research Report June 2019

INDONESIA INVESTMENTS

“End to Uncertainty”



Indonesia Investments Research Report

End to Uncertainty

June 2019



Table of Contents

Preface	4
Introduction	6
Contact	9

Columns - Economy, Politics and Social Issues of Indonesia - June 2019

• Peak in Urbanization; a Consequence of the Traditional Lebaran Holiday & a Strategy to Escape Poverty	11
• Presidential Election Update: Indonesia's Constitutional Court Rejects Subianto's Legal Challenge, Improvement in Perceptions of the Investment Climate	23
• Bali United Becomes the First Football Club to Conduct an IPO on the Indonesia Stock Exchange	32
• Indonesia-Chile Comprehensive Economic Partnership Agreement to Come into Effect in August 2019	39
• What Is the Most Famous Fast-Moving Consumer Goods Brand in Indonesia?	44

Update Indonesian Economy & Financial Markets - June 2019

• Rupiah Exchange Rate Update: Strengthening on US Dollar Weakness, Eyes on G20 Summit	47
• Central Bank's Monetary Policy: What Did Bank Indonesia Decide at Its June Policy Meeting?	53
• Consumer Price Index Update: Easing Inflationary Pressures in June	59
• Manufacturing Update: Activity Softening in June, But a Rising Trend Can Be Detected So Far This Year	63
• Trade Balance Indonesia: Bouncing Back to a Surplus in May but Outlook Remains Gloomy	67

Events Calendar Indonesia	77
Public Holidays Indonesia	82
Forecast Macroeconomic Indicators	83
Poll Results - Your Opinion	84
Back Issues Research Report	87

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, most relevant 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 both 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, the 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. For information about Indonesia Investments, please visit: www.indonesia-investments.com.



To purchase the monthly research report of Indonesia Investments, you can request for further (payment & subscription) details by sending an email to info@indonesia-investments.com or by contacting **+62.8788.410.6944** (including WhatsApp messages). For questions, comments, and other feedback we can also be contacted through these two channels.

Price Overview Research Reports Indonesia Investments - Individual Subscriptions:

1 edition (one month)	IDR 150,000	USD \$10	EUR €10
3 editions (three months)	IDR 450,000	USD \$30	EUR €30
6 editions (six months)	IDR 900,000	USD \$60	EUR €60
12 editions (one year)	IDR 1,800,000	USD \$120	EUR €120

Back issues of our research reports can also be purchased by contacting us at info@indonesia-investments.com or +62.(0)8788.410.6944.

Both content and photography in this report is copyright of Van Der Schaar Investments B.V. (all rights reserved) except when indicated otherwise. Our permission is required by those who want to publish or distribute (part of) this report (Dutch law applies to this research report). This also implies that our research reports cannot be distributed or shared among the workers or management within a company or an organization (*electronic rights*). We therefore offer special corporate subscriptions to companies/institutions that want to distribute our reports among their staff-members and/or boards:

Price Overview Research Reports Indonesia Investments - Corporate Subscriptions:

1 edition (one month)	IDR 1,500,000	USD \$100	EUR €100
3 editions (three months)	IDR 3,600,000	USD \$240	EUR €240
6 editions (six months)	IDR 5,400,000	USD \$360	EUR €360
12 editions (one year)	IDR 7,200,000	USD \$480	EUR €480

Lastly, we would like 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

We now know for certain who will be president of Indonesia in the 2019-2024 period. It is, again, Joko Widodo who will lead the nation. Although the General Elections Commission (KPU) had already - in late May 2019 - officially declared incumbent President Widodo (often nicknamed 'Jokowi') the winner of the 2019 presidential election, it still took a ruling from the Constitutional Court to confirm the KPU's decision.

The Constitutional Court ruling was required because defeated presidential candidate Prabowo Subianto filed a legal challenge against the official election result. According to Subianto's team widespread corruption and vote-buying had delivered Widodo the victory. However, Subianto's team could not bring any credible evidence to the table and therefore their claims were rejected unanimously by the panel of nine judges.

The ruling is final and binding. In other words, political certainty has returned to Indonesia. This is obviously a positive matter for the nation's investment and business climate. With Widodo in office for another five-year term, we can expect the continuation of massive public investment in infrastructure development, much-needed reforms, and a welcome attitude to investment (for example through deregulation but perhaps also by opening investment opportunities for foreign investors through another revision of the country's Negative Investment List).

At Indonesia Investments we immediately noticed the perceived improvement in the country's investment climate as we suddenly (after the Constitutional Court's verdict) received a wave of new requests for our assistance on the subject of the establishment of foreign-owned limited liability companies (PT PMAs) and representative offices (KPPAs). These PT PMAs and KPPAs are the two legal entities that are most commonly used by foreigners to start doing business in Indonesia. This is in stark contrast to the situation we experienced in the past couple of months when we received very few requests from foreigners for the establishments of PT PMAs and KPPAs. And, indeed, data from the Investment Coordinating Board, or BKPM, also showed that foreign direct investment (FDI) realization in Indonesia has actually been contracting in recent quarters. Thus it is clear - but this is something we already knew - that foreign investors have a lot of confidence in Widodo. We assume FDI realization is set to rebound soon.

We firmly believe that - after ten years under the leadership of Widodo (two terms of five years) - Indonesia will be a much stronger country than it was in 2014 when Widodo first took office. Not only much-needed infrastructure development (which tackles specific economic and social problems) but also structural reforms (such as winding down the government's massive energy subsidy spending; a move that has led to upgrades in Indonesia's sovereign credit ratings from the big three international credit rating agencies, hence opening up a pool of new investment into Indonesia), and a focus on attracting private (direct) investment (for example by improving

coordination and cooperation between the central and regional governments through the online single submission, abbreviated as OSS, system) strengthens the country, structurally.

What is crucial for further economic and social development of Indonesia is that the government after Widodo (after 2024) will continue his good examples and proactive work. Although it is somewhat premature to discuss this topic, there are question marks about Indonesian politics after 2024 as we expect that several key people who have been dominating Indonesian politics over the past years, or even decades, are to retire from politics.

For example, former president Megawati Soekarnoputri, Chairwoman of Indonesia's biggest political party (PDI-P), will be approaching the admirable age of 80 years in 2024. Recently, news surfaced that the PDI-P is currently searching for a 'daily chairman' who will handle the party's daily affairs, while Soekarnoputri remains the party's general chairwoman. It is a sign that Soekarnoputri is (gradually) stepping back from politics. Few, however, can imagine a PDI-P party without Soekarnoputri. There is also no clear successor at this moment. Her daughter, Puan Maharani, is a minister in Widodo's cabinet. However, many doubt she has the skills and charisma to lead the party. Perhaps it is Widodo himself who can succeed Soekarnoputri as chairman of the PDI-P party after 2024. This way, the PDI-P is likely to remain popular among a large part of the Indonesian people. However, it would imply that the 'Soekarno family' has to give away its political power. Many don't see that happening.

Similarly, former president Susilo Bambang Yudhoyono (SBY), Chairman of the Democratic Party (PD), will be around 75 years old by 2024 and is also expected to, gradually, step back from politics. This raises doubts about the future of his PD party (a party that was specifically set up as SBY's political vehicle in the early 2000s to guide him to the presidential office). In the last two legislative elections the PD's support tumbled drastically as SBY had completed his two presidential terms (but also several scandals within the PD as well as rising criticism on SBY's leadership as president contributed to the party's decline).

However, SBY's son Agus Yudhoyono could become one of the new rising stars in Indonesia's national politics. When Agus first entered politics (for his unsuccessful bid to become Jakarta governor in 2017), many - including us - doubted his political skills. However, during the 2019 elections, when Agus basically took over the party's leadership from his father (who was at his wife's bedside in a Singaporean hospital where she later died of leukemia), we saw a much more mature Agus Yudhoyono. It would be no surprise to see Agus taking over chairmanship of the PD party from his father within the next couple of years. This could also put Agus into a position to join the 2024 elections as vice-presidential candidate.

Another key question mark is whether defeated presidential candidate Prabowo Subianto still has big political ambitions of his own. By the year 2024, his age will be around 73 years, which is more-or-less the same age as US President Donald Trump who is now seeking re-election in 2020. However, over the past years there has been some speculation that Subianto's health

is not in perfect condition. Also in the case of Subianto, his political vehicle (the Gerindra party), was set up merely to guide Subianto to the presidential office and therefore the party is bound to lose a significant amount of support once Subianto decides to step down as party chairman. Moreover, there is no clear successor available. Subianto's only child is a fashion designer in France who does not want to be involved in politics. Hence, an 'external' person seems required to succeed Subianto. Perhaps someone like Jakarta Governor Anies Baswedan is among the right candidates.

It will definitely be interesting times for those who monitor Indonesian politics. But for now, and for the remainder of this report, let us return to the present. Five more years of Widodo as head of state (supported by a majority in parliament) puts Indonesia in a great position to strengthen its economic fundamentals although the global environment remains filled with challenges and threats amid subdued economic growth and the ongoing tariff war between the United States and China. Unfortunately, it is Vietnam that manages to benefit the most from this trade war in the form of rising exports and investment realization. This certainly forms a missed opportunity for Indonesia and makes us think 'what if there had not been a lost decade between 2004 and 2014 but instead SBY had pushed for structural changes and reforms like Widodo has done since 2014?' This would surely have put the country in a much stronger position today.

For the past couple of months Indonesian politics have been in the spotlight of our reports. This certainly makes sense because the legislative and presidential elections have huge impact on the investment and business climate of the country. However, now the elections are over we hope to resume our focus on relevant economic, financial and social issues in Indonesia in the upcoming reports (although the country's politics will always be on our radar and discussed in our reports when we feel it is necessary).

Lastly, we would like to take this opportunity to thank you for purchasing this June 2019 edition of our report, titled '**End to Uncertainty**'. We hope it contains valuable information for you!

Indonesia Investments
Research Department
Jakarta, Indonesia - 4 July 2019

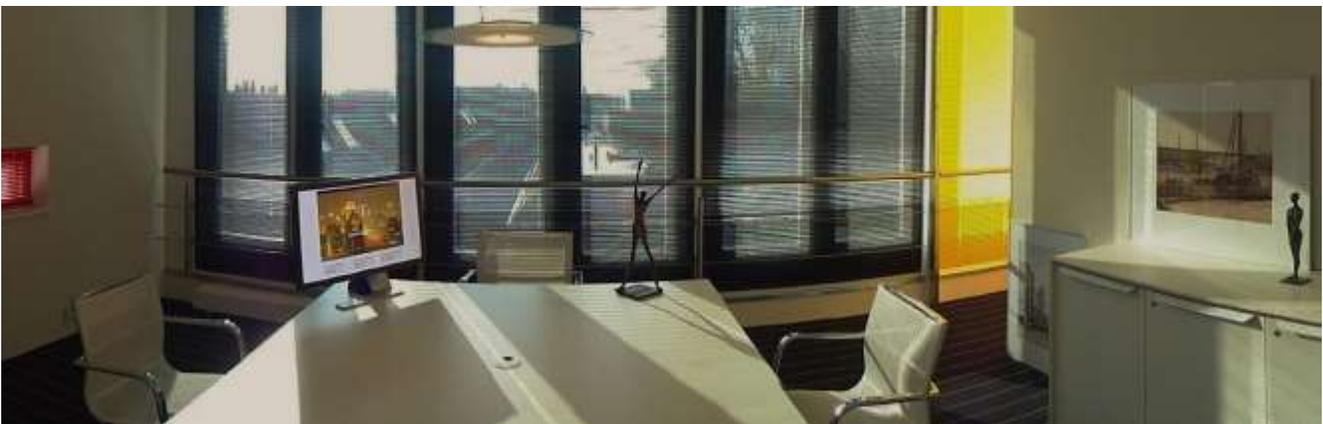
Contact

Office Delft, the Netherlands

Vaandelstraat 42
2611 DB Delft
The Netherlands
M +31 (0)6 27 05 85 32
E info@vanderschaar-investments.com

Representative Jakarta, Indonesia

APL Tower, 16th Floor, T9
Podomoro City (Central Park)
Jl. Let. Jend. S. Parman, Kav 28
West Jakarta - 11470, Indonesia
P +62 (0)21 135 760 830
M +62 (0)8 788 410 6944 (incl. WhatsApp texts)
E info@indonesia-investments.com



SAVE THE DATE

15 OCTOBER 2019

The Indonesia Trade & Investment Summit 2019 is the pre-eminent platform for investment and trade development. It brings together leading trade practitioners and eminent scholars, high-level government officials, and representatives of international and non-governmental organizations, executives of global companies and stock exchanges, head of investment promotion agencies, heads of international organizations, and international media from 100 countries.

The Summit devises strategies and solutions for investment and trade development challenges in Indonesia. It offers a unique opportunity to influence investment-related policymaking, shape the foreign investment environment, and to network with global leaders in business.



Jakarta
15 Oct 19