

Indonesia Investments

A Blessed Ramadan (Mubarak)

- Inflation Rises in Indonesia; Key to Keep Food Prices in Check as Ramadan Starts
- COVID-19 Threat Vanishes; When Will the Indonesian Government Lift Restrictions?
- Various Macroeconomic Indicators Show Promising Readings in Q1-2022
- Indonesia Holds Huge Potential for Wind Energy. Can It Tap This Potential?
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- Is Bangladesh a Lucrative Export Market?



MARCH 2022

Van Der Schaar Investments B.V.
CV Indonesia Investments

Indonesia Investments

Monthly Report – March 2022

A Blessed Ramadan
Ramadan Mubarak



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Preface

The monthly report of Indonesia Investments 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 crucial international developments that 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 is the key reference and access point for gaining knowledge about the markets, economy, business sectors, politics, and cultures of Indonesia. This online platform is owned by Van Der Schaar Investments B.V., a privately-held investment company (Ltd.) that 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.

We offer two types of subscriptions (or individual purchases):

(1) **Weekly updates + monthly reports;** on average we send one or two analyses of relevant subjects per week (“weekly updates”) to make sure that our audience gets the latest and most relevant news quickly (and complete with an analysis). These updates also form the basis of the forthcoming monthly report (in which the topics are usually discussed in more depth as we have more time to make an analysis).

(2) **Monthly reports only;** usually between the 2nd and 5th of the month, we release our monthly report. As mentioned above, this report discusses the most relevant economic, political, and social developments that took place in Indonesia (or global developments that impact on Indonesia) in the preceding month.

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Disclaimer

Lastly, we would like to emphasize that – although we strive to present accurate, up-to-date, and objective information in our reports – Indonesia Investments cannot guarantee the accuracy of all data and information that is included. We also do not intend to provide legal, investment, tax, or accounting advice through the contents of this report, and therefore the reader should not perceive this report as such. In short: Indonesia Investments cannot be held responsible for decisions based on the content of this report.

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Introduction – March 2022 Report

As we entered April 2022, we entered a very special month because on 2 April 2022 Ramadan started. Ramadan, which is the ninth month of the Islamic calendar, is very special for the Muslim community around the world because it is the month in which the Qur'an was revealed to Prophet Muhammad. It is particularly known for being a month of fasting, prayer, reflection, and community. And therefore, we wish readers who celebrate Ramadan a month filled with blessings (*Ramadan Mubarak*).



Also for the national economy, the Ramadan month has significance. It is a month in which people tend to consume more (particularly food and drinks as people gather to break the fast in the evenings). Meanwhile, when approaching *Eid al-Fitr*, which is perhaps better known as *Lebaran* (referring to the celebrations that mark the end of the fasting month), people are bound to spend more on a range of consumer goods (such as clothes, bags, and snacks), supported by the 13th month wage many formal

sector workers or employees receive, and in preparation for the *mudik* (typically a week-long holiday when millions of city-dwellers return to their places of origin that are usually located in the rural or sub-urban regions, to spend a few days with their families).

As such, the Ramadan month is a period when economic activity increases, which is a positive matter for the country's gross domestic product (GDP) growth, while the *mudik* leads to a significant money rotation from the urban centers to the sub-urban and rural regions.

However, the increase in consumption (and the challenges of fine-tuning supplies) also typically causes inflationary pressures. And especially now, the topic of inflation is very relevant as – around the world – there exists concern over rapidly growing inflation (and stagflation).

In fact, March 2022 was also the month in which the US Federal Reserve raised its benchmark interest rate by 25 basis points in an effort to combat excessive inflation that has reached a 40-year high of 7.9 percent year-on-year (with further rate hikes likely to occur in the USA in the months to come). It is an inflation level that suggests the US economy has not only been recovering from the COVID-19 crisis but has also been overheating amid the US government's massive spending agenda, while at the same time a number of supply-chain bottlenecks and other COVID-19 crisis-induced

disruptions persist that add to inflationary pressures in the USA. Moreover, energy prices have also been soaring since Russia invaded Ukraine in late-February 2022, causing a war that persists until the time of writing.

In the context of the Fed rate hike, important questions now are whether the Federal Reserve can push US inflation lower without causing a recession in the world's top economy, and how long other central banks can wait before raising their benchmark interest rates, including the central bank of Indonesia (Bank Indonesia).

While inflation is currently still under control in Indonesia (in fact, it is quite low by Indonesian standards at slightly over 2.5 percent year-on-year), it is certainly true inflationary pressures have been building in Indonesia amid recovering economic conditions and high energy prices (that can only partly be absorbed through public energy subsidy spending). And considering the Ramadan-Idul Fitri period arrived, inflationary pressures are bound to rise further. In our opinion, Indonesian inflation is something worth following in the period ahead (although it seems unlikely at this point that inflation will reach a level where it requires Bank Indonesia to conduct an immediate interest rate hike).

Conflict of Interest at Indonesia's Constitutional Court?

Looking back at March 2022, what were some of the remarkable issues in Indonesia? Well, over the past couple of months we have often read news stories in Indonesian

media about a possible third term for Indonesian President Joko Widodo (despite the fact that the Indonesian Constitution caps the presidency at two five-year terms), and stories about the ruling coalition – allegedly – trying to delay the country’s 2024 presidential and legislative elections to give Widodo some more time as president.

We have never taken those stories seriously. First, President Widodo has – on more than one occasion – publicly emphasized that he does not seek a third term. Second, delaying the 2024 elections (on the request of the incumbent cabinet) would only involve a three-month period, at tops (although some high-profile figures, including Investment Minister Bahlil Lahadalia, seem to support a longer delay).



However, when we read in mid-March 2022 that Anwar Usman, the Chief Justice of Indonesia’s Constitutional Court, is planning to marry President Widodo’s younger sister (named Idayati) on 26 May 2022 (both being widow/widower), we could not

resist becoming a bit suspicious and wondering whether a possible delay in the 2024 elections – let alone the third term for President Widodo – might now become a bit easier to arrange. After all, when the key person in the country’s Constitutional Court is married to a close relative of the President, then there certainly is a conflict of interest at play.

While we certainly do not rule out being witnesses of a true love story, we do wonder whether it would be wiser for Usman to step down from his position. Usman himself stated in local media that he does not see the conflict of interest, and therefore does not plan to step down. However, we would argue that it is not only important for people in his position to avoid an *actual* conflict of interest, but also the *appearance* of a conflict of interest because it is highly probable that next time the Constitutional Court issues a verdict that is in favour of the cabinet or government, people will think “well, that figures”. And, in that context, some of our subscribers may remember that in our November 2021 edition – when we discussed the Constitutional Court’s ruling on the Omnibus Job Creation Law – we were a bit surprised by the ruling.

The court ruled that the law was unconstitutional, but it handed the government and House of Representatives (DPR) two years to revise and amend the law. During that (maximum) period of two years, the Omnibus Law maintains its legal status in the sense that all of the 47 Government Regulations and four Presidential Regulations that have been imposed as derivative regulations of the Omnibus Law continue to

be in effect (but the government is not allowed to issue any new strategic regulations until the legal framework is improved). In our opinion, it is remarkable that, on the one hand, the Court declares the Omnibus Job Creation Law “unconstitutional” but, on the other hand, allows this law’s derivative regulations to remain in effect. What this implies is that there are currently 51 regulations in effect in Indonesia that are essentially “unconstitutional”. For the government though the Constitutional Court’s ruling was positive because if these 51 regulations had to be scrapped, it would have caused a chaotic regulatory mess.

After reading the news about the upcoming marriage between Usman and Idayati, we immediately remembered this remarkable ruling. Again, we want to emphasize that our thoughts are an example of what happens when there is the *appearance* of a conflict of interest (which does not require an actual conflict of interest).

Do we think there is some sort of foul play going on between the Constitutional Court and President Widodo? No, not at all. Subscribers should be aware that we are very positive about Widodo’s track-record as President (including his integrity) since he has done great things related to structural reforms and infrastructure bottlenecks (showing that he is not after short-term political success, but after long-term benefit for the country because the fruits of infrastructure projects, some projects requiring more than a decade to be completed, are going to be enjoyed by his successors, not by President Widodo himself).

We also have no reason to doubt Usman's integrity. But, based on point 4 in the Joint Decision of the Chairman of the Supreme Court of the Republic of Indonesia and the Chairman of the Judicial Commission 047/KMA/SKB/IV/2009 02/SKB/P.KY/IV/2009 on the Code of Ethics and Guidelines of Judges' Conduct, judges are prohibited from giving the impression that one of the parties in the litigation – or their proxies – are in a special position to influence them. Therefore, we do feel that it would be in the best interest of the *trias politica* structure (and perhaps even of democracy) if Usman decides to resign from his position. And, while we have heard some people arguing that Usman simply needs to delay the wedding until Widodo has completed his second presidential term in 2024, we have to point out that this strategy would not solve the apparent conflict of interest issue (as it does not require a wedding to establish the conflict of interest; a special relationship between Usman and Idayati would be sufficient).

G20 Presidency; Indonesia Torn Between the West and Russia?

Another looming dilemma involves Indonesia's G20 presidency. In the context of the Russo-Ukrainian war, we had already detected last month that Indonesia is eager to remain neutral, or impartial. For instance, the Foreign Affairs Ministry of Indonesia responded to the Russian invasion by [issuing a statement](#) on 25 February 2022 in which it denounces disrespect for territorial integrity and sovereignty. However, it refrained from explicitly mentioning Russia (as aggressor) and it also refrained from

imposing sanctions on Russia. This is not only in contrast to the aggressive tones and sanctions imposed by the West, but also in contrast to the sanctions and restrictions (against Russia) that were announced by an Asian state like Singapore.



We certainly understand why Indonesia doesn't take a firm stance. Firstly, Indonesia probably lacks profound understanding of the situation (specifically developments related to the expansion of the European Union and NATO into Eastern Europe in recent decades). Secondly, this war is simply too far away, with Indonesia not really being affected (either emotionally or trade-wise). Yes, wheat and crude oil imports are bound to become more expensive for Indonesia, but this negative effect is more-or-less neutralized by the positive effect of higher prices for other commodities.

Thirdly, Indonesia seems particularly eager to remain diplomatic, and neutral, as it holds G20 chairmanship. This presidency is what has now become very challenging amid the Russo-Ukrainian war. The complexity is that the G20 Group is not united

in terms of siding with Ukraine or denouncing Russia's invasion. So far, India, China, Brazil, Saudi Arabia and Turkey seem unwilling to damage their diplomatic relations with Russia, while countries such as Germany, France, United Kingdom, and United States essentially want Russia to be expelled from the G20.

And so, it is a big challenge to keep this group united. Particularly for G20 Chairman Indonesia there is the task of guarding the vision and mission of the G20 under these difficult circumstances. Part of the challenge is to resist pressures from certain sides.

And, indeed, Australian Prime Minister Scott Morrison and Canadian Prime Minister Justin Trudeau have reportedly already contacted President Widodo to express their concerns if Russian President Vladimir Putin is welcome to visit the G20 meeting on Bali in November 2022. It will be interesting to follow whether Indonesia can resist these pressures (like all other G20 countries, Russia was invited by Indonesia back in late-2021 to join the G20 meeting on Bali in November 2022).

And interestingly enough – based on a statement made by Russian Ambassador to Indonesia Lyudmila Vorobiev – President Putin in fact plans to visit this upcoming G20 meeting on Bali. At this moment we assume that this is either bluff on the side of Russia or perhaps a strategy to sabotage this G20 meeting (because if Putin shows up, we expect various Western leaders to cancel their trips to Bali as it seems hard to imagine President Putin sitting at – or near – the same table as US President Joe

Biden or French President Emmanuel Macron at this occasion; the wounds that have been made – or reopened – between Putin and the West are unlikely to heal at all in the future).

And so, it remains to be seen how many leaders will visit the G20 meeting on Bali as it is unlikely Indonesia can welcome all leaders. For Indonesia, this is unfortunate as organizing the G20 meeting is a massive opportunity to present itself to the global community. At the upcoming G20 meeting Indonesia in fact plans to put emphasize on the electric vehicle and electric vehicle battery (for which Indonesia holds great potential with its vast nickel reserves). However, the ongoing Russo-Ukrainian war and tensions between the West and Russia certainly take the shine off the occasion.

Richard van der Schaar, MA Indonesian Studies
Managing Director

Indonesia Investments
Yogyakarta, Indonesia
2 April 2022

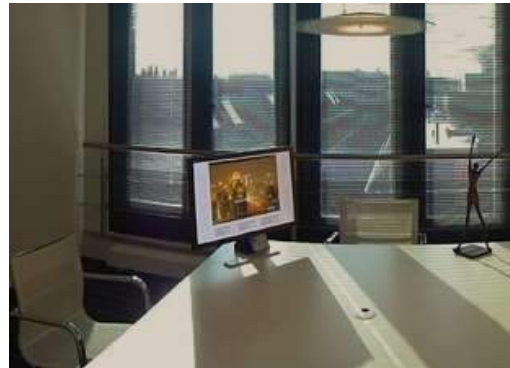


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Contact

Van Der Schaar Investments B.V.

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



CV Indonesia Investments

Nusa Harmoni Brajan, No. 5
 Brajan RT. 14 Tamantirto, Kasihan
 Bantul, Yogyakarta – 55183, Indonesia
 Email: info@indonesia-investments.com
 Tax Number/NPWP: 85.701.415.3-036.000
 M +62 (0)8 788 410 6944 (incl. WA texts)
 E info@indonesia-investments.com



Representative Jakarta, Indonesia

Ms. Lori Siregar
 Director CV Indonesia Investments
 Jl. Tanjung Duren Raya No. Kav 5-9
 West Jakarta - 11470, Indonesia
 M +62 (0)8 82 9875 1125 (incl. WA texts)
 E info@indonesia-investments.com



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Coronavirus Tips: How to Protect Yourself & Others

Immunization programs are ongoing but in case you have fragile health or a medical condition it's important to remain careful to avoid becoming infected with COVID-19 or infect others who have fragile health.

You can protect yourself and help prevent spreading the virus to others if you:



- **Cover your nose and mouth** with a (disposable) tissue or flexed elbow **when you cough or sneeze**. Wear a face mask when going outside (this won't stop aerosols unfortunately but should prevent the larger droplets from spraying), and wash your hands often and thoroughly when back inside.

- **Strengthen your immune system**; people who are healthy (which are usually young people) may not even notice that they are infected with COVID-19. The trick here is that their immune system is stronger (generally). Therefore, now is the time to take some efforts to strengthen your immune system by eating healthy (fruits and vegetables each day), and get some sunshine in the morning for your vitamin D. Also do not forget to exercise! Taking enough time to sleep and avoiding stress are also crucial to improve the immune system. Lastly, it is highly recommended to quit bad habits, most notably: smoking!



- **Ventilation**; make sure that rooms inside houses, apartments, and buildings are properly ventilated as a COVID-19 infected person can spread aerosols so small that a facemask cannot prevent them from going into the air or from going into the lungs of someone who wears a facemask. Ventilation systems need to get a good supply of fresh air from outside and/or use a good filter. It is also advised to open windows or doors in closed spaces so there is a good supply of fresh air.

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Columns & Analyses

March 2022



[...]

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