

Research Report May 2019

INDONESIA INVESTMENTS

“A Deeply Divided Nation”



Indonesia Investments Research Report

A Deeply Divided Nation

May 2019



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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, 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.

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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

There occurred three important matters in the month of May 2019; matters that had a significant impact on Indonesia;

(1) **The Ramadan month**; for Muslims this is the holy fasting month. Besides fasting, this period also involves an emphasis on prayer, reflection and community. Considering Indonesia is home to the world's biggest Muslim population, the arrival of the Ramadan month is felt significantly across the country. One of the characteristics of Ramadan is reduced working hours, hence workers' productivity tends to decline. Business activity slows considerably during this month and comes to a near complete standstill during Idul Fitri (also known as Lebaran or Eid al-Fitr), the celebrations that mark the end of Ramadan (Idul Fitri is a one-week national holiday).

Although it did not impact on Indonesia's first quarter economic growth, we discuss the relation between Ramadan/Idul Fitri and the economy in more detail in the article "Indonesia's Trend of Slowly Accelerating Economic Growth Continues into the First Quarter of 2019". This includes the traditional rise in consumption in the Ramadan/Idul Fitri period as well as the huge boost of money that flows into the regional economies as millions of Indonesians travel from the bigger cities to their places of origin during the Idul Fitri holiday.

(2) **The official election results**; on 21 May 2019 Indonesia's General Elections Commission (or KPU) announced the official election results of the country's 2019 presidential and legislative elections. As expected, incumbent President Joko Widodo was declared winner of the country's presidential election with 55.5 percent of the vote, while Widodo's Indonesian Democratic Party of Struggle (PDI-P) secured 19.84 percent, thus remaining Indonesia's biggest political party.

What was also expected - and unfortunately indeed occurred - was that defeated presidential candidate Prabowo Subianto did not accept his defeat. His refusal to accept his defeat and his efforts to continuously delegitimize the KPU and more broadly Indonesia's democracy triggered violent riots in Jakarta as well as in several other locations across Indonesia. Eight people have reportedly died in clashes with police, while over 700 people have been injured. In this May 2019 report we devote one article to these official election results, the reactions of all involved sides, and all other key developments on 21-22 May 2019 (and beyond) related to the elections.

(3) **Escalation of the USA-China tariff war**; right at the start of May 2019 trade tensions between the United States and China flared up sharply, causing a big sell-off in stock markets around the globe. Meanwhile, the Indonesian rupiah depreciated strongly against the US dollar. This sudden turn of events is in stark contrast to the outlook we provided in our preceding reports. In April 2019, both nations seemed committed to find a solution to end the tariff war, something that triggered widespread risk appetite across global financial markets. But, once again, we are

reminded of the fact that US President Donald Trump's style of leadership is seemingly rather impetuous and difficult to predict.

And therefore uncertainty reappeared across global financial markets after Trump announced in early May 2019 that the USA more than doubled tariffs on USD \$200 billion of Chinese goods because China "broke the deal and tried to renegotiate". China immediately announced plans to retaliate against the duty increases. Hence, we witnessed a sharp escalation of the tariff war.

This May 2019 edition is a bit thinner than our usual reports because it was impacted by the long Lebaran holiday. Moreover, we also had to delay the release date of this report because Indonesia's Statistics Agency (BPS) only disclosed its May 2019 data (such as inflation data) on 10 June 2019, while in normal circumstances it releases these data on the first Monday of the month.

We would also like to take this opportunity to thank you for purchasing this May 2019 edition of our report, titled '**A Deeply Divided Nation**'. We hope it contains valuable information for you!

Indonesia Investments

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Jakarta, Indonesia - 6 June 2019

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