

Research Report November 2018

INDONESIA INVESTMENTS

“Rolling Out the Red Carpet for Investors”



Indonesia Investments Research Report

Rolling out the Red Carpet for Investors

November 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, 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

In terms of the economy, November 2018 was an interesting month for Indonesia. What took many by surprise is that the Indonesian rupiah appreciated markedly against the US dollar over the past couple of weeks. Meanwhile, there is room for more appreciation as the United States and China seem to agree on pausing their tariff war. US President Donald Trump reportedly left the G-20 summit in Argentina (held on 30 Nov - 1 Dec) with an agreement not to raise tariffs on Chinese goods in the next 90 days, while Chinese President Xi Jinping was quoted saying cooperation is the best choice for China and the United States. This news should calm markets and allow some capital inflows in emerging market economies, including Indonesia. However, we remain living in volatile times and thus it does not take much to reverse this situation again.

What was also a surprise was the Indonesian central government's announcement of the 16th economic policy. There was a 17-month gap between the 15th and 16th economic package and we were actually not expecting to see a new package ahead of the legislative and presidential elections that are scheduled for April 2019. The latest policy package aims at attracting more investment through an expansion of the country's tax holiday program as well as a revision of the Negative Investment List. Secondly, the new package encourages commodity exporters to deposit their foreign exchange earnings at designated banks at home (and preferably convert foreign exchange into rupiah).

It is always a good sign to see the government making efforts to boost investment and economic growth. However, we are not too optimistic as we feel Indonesia's investment climate is plagued by several big and structural bottlenecks that scare off part of (potential) investors. For example, the lack of adequate infrastructure development, regulatory uncertainty, and the quality of local human capital.

Although we have seen great developments (especially in terms of infrastructure development) under the administration of President Joko Widodo, there is still a long road ahead to tackle these structural bottlenecks. In fact, it will require the efforts from multiple governments to come as there are no quick fixes in these aforementioned areas.

Another topic that is in the spotlight in this edition of our research report is Indonesia's Q3-2018 economic growth. Although at 5.17 percent year-on-year (y/y) Indonesia's Q3-2018 growth in fact slightly exceeded our expectations, we did become less optimistic about economic growth next year and therefore we decided to cut our outlook for Indonesia's economic growth in 2019 from 5.3 percent (y/y) to 5.2 percent (y/y) amid tough external conditions and Bank Indonesia's aggressive monetary tightening. Meanwhile, the "political year" (with legislative and presidential elections scheduled to take place in April 2019) brings uncertainties about who is in charge of the nation in 2019 and beyond. Such political uncertainties make direct investors, especially foreign ones, cautious.

Meanwhile, there is concern about the export performance of Indonesia, particularly now palm oil prices have been falling significantly this year. The Indonesian government therefore offered a helping hand to domestic palm oil farmers and traders. In late-November the government said it plans to temporarily remove the palm oil export levy that was introduced in 2015. As usual, this new government incentive has supporters and critics. Each side's views will be put forward in this edition.

Various other interesting topics - all related to economic, political and social developments that occurred in Indonesia in the month of November 2018 - are discussed in this research report (see the table of contents on page three).

Another topic that we want to mention in this introduction is investigators' preliminary report of the fatal crash of Lion Air flight JT-610 on 29 October 2018. Although the preliminary findings that were reported by investigators are no definitive conclusions, they seem to point at a series of mistakes, negligence, and lack of communication that involves Boeing, Lion Air and not only the pilots on the fatal flight but also the pilots who flew the penultimate flight.

Thank you for purchasing the November 2018 edition - entitled "**Rolling out the Red Carpet for Investors**" - and we hope that this report contains valuable information for you!

Research Department
Indonesia Investments
Delft & Jakarta, 2 December 2018






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