

Research Report October 2018

INDONESIA INVESTMENTS

“Bali in the World’s Spotlight”



Indonesia Investments Research Report

Bali in the World's Spotlight

October 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.

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.



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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

What has started to puzzle us is that in each research report we have to devote one article to a tragic disaster. Since we launched our monthly research reports in May 2018 there have been Islamic terrorist attacks in Surabaya (involving a new phenomenon called the “family suicide”), big earthquakes in Lombok and Central Sulawesi (and a devastating tsunami) where thousands of people died. And - now - in this October 2018 edition it is the fatal crash of a brand new Lion Air Boeing that needs to be discussed. It is an air crash that killed 189 passengers and crew.

Indonesia does not have the greatest reputation in terms of aviation safety. However, over the past two years both the USA and the European Union removed Indonesian airlines from their blacklists; a decision that was celebrated in Indonesia (although very few airlines in Indonesia actually fly to the USA or European Union). But while we have to wait for the investigation into the causes of the Lion Air plane crash to obtain accurate information and answers, the air crash does already make some people rethink the quality of safety oversight in Indonesian aviation.

Another big news story in Indonesia in the month of October was a corruption scandal around the ambitious USD \$19 billion Meikarta property and infrastructure project in West Java. Only one month ago we wrote in our September 2018 research report that “contrary to the Meikarta project - where there also occurred problems related to building permits but these issues have been largely swept under the carpet - the land reclamation project north off the coast of Jakarta was doomed because it became a crucial topic in the local gubernatorial election.” Well, it was a theory that did not hold up for long. Also without political battles related to the local or national elections, Meikarta and the Bekasi regency are now under some serious investigation. Still, it is unlikely that the whole Meikarta project is to be scrapped simply because that would also punish thousands of Indonesian consumers who bought one or more apartments in the project. They would then become victims of greedy local government officials, a greedy developer, and a complex regulatory system that is full of bureaucracy (red tape) and therefore encourages short cuts through bribery. Meikarta may not become as large and spacious as initially planned but we do believe that the new city will be build. However, it is best to wait and see for further developments before investing in a Meikarta apartment.

Meanwhile, in terms of the performance of the Indonesian rupiah in October 2018 there are two interesting developments. Firstly, the rupiah depreciated to a 20-year low against the US dollar (peaking at IDR 15,253 per US dollar on 11 October 2018 based on Bank Indonesia’s JISDOR rate) and remains among the most fragile emerging market currencies in Asia. Second, despite depreciating to a 20-year low we detected some serious rupiah stabilization in October. In fact, based on statements from central government and Bank Indonesia officials, a new equilibrium exchange rate has been accepted at around IDR 15,000 per US dollar.

Recent rupiah stabilization was made possible by falling crude oil prices, while markets seem confident that the Federal Reserve will wait for December 2018 to raise its benchmark interest rate one last time this year (in fact there was no monetary policy meeting scheduled by the Fed for October and that allowed some calmness in markets).

Another big event that was on the agenda this October was the 2018 Annual Meetings of the International Monetary Fund (IMF) and World Bank Group in Nusa Dua (Bali). This event gave several opportunities and advantages to Indonesia: (1) infrastructure development on Bali was sped up ahead of the event, (2) an estimated 34,000 people visited the event, thus providing a great boost in terms of money circulation on Bali, and (3) it put Bali in the world's spotlight and put Indonesia on the big global stage, hence providing plenty of opportunities to showcase the nation.

Thank you for purchasing the October 2018 edition - titled "**Bali in the World's Spotlight**" - and we hope that this report contains valuable information for you!

Research Department
Indonesia Investments
Delft & Jakarta, 6 November 2018


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