

Indonesia favors rupiah stability

above growth in rate move

Karlis Salna

BLOOMBERG/LAKARTA

Indonesia's central bank is showing its willingness to sacrifice economic growth for currency stability in its latest aggressive move on interest rates.

Bank Indonesia (BI) surprised economists with a bigger-than-forecast 50 basis-point hike on Friday, on top of two rate increases in May aimed at halting a currency rout. That takes the benchmark rate to 5.25 percent, with analysts betting there's more tightening to come.

Southeast Asia's biggest economy has been among the hardest

hit in the region following a sell-off in global emerging markets triggered by rising United States interest rates. The rupiah has slumped more than 5.7 percent against the dollar this year.

Before the market turmoil, BI had been cutting interest rates to spur spending, lowering the key rate eight times since 2010, but with little success in boosting economic growth much higher than 5 percent. That underscores the challenge for policy makers as they try to stabilize the currency while providing enough support to the economy as President Joko "Jokowi" Widodo seeks a second term in office in an election next year.

"There should be no doubt in the market's mind about the determination of the new governor to hike further if needed to defend the rupiah," Khoo Goh, head of Asia research at Australia & New Zealand Banking Group Ltd. in Singapore, said on Friday after the decision.

But there is a cost that comes with the aggressive tightening, Goh said, adding whether the 50 basis points move is enough will still depend on the broader environment, but BI has shown that they are willing to sacrifice some near-term growth for rupiah stability.

The rupiah gained as much as

0.6 percent against the dollar on Friday after the rate decision and was down 0.4 percent to 14,390 as of 12:10 p.m. in Jakarta on Monday. The benchmark Jakarta Composite Index gained 0.12 percent after rallying 2.3 percent on Friday.

BI Governor Perry Warjiyo on Friday again pledged a monetary policy stance that's pre-emptive, front-loading, and ahead of the curve. To mitigate the risk to the broader economy, the central bank also eased some macro-prudential measures, such as relaxing limits on loan-to-value ratios for property to allow banks to boost lending on home loans.

BI is supporting domestic demand by relaxing loan-to-value rules, which come into effect on Aug. 1. Even if the rupiah stabilizes in the short-term, we expect more rate hikes as long as the current account deficit continues to widen and the Federal Reserve keeps raising interest rates.

Finance Minister Sri Mulyani Indrawati has said the government is willing to accept slower economic growth as a trade-off for stability.

While the economy has been growing at about 5 percent, that's well below historical levels and lower than the 7 percent Jokowi had targeted when he took office.

Inflation is also low by Indonesian standards, with consumer prices rising 3.1 percent in June, the slowest pace of growth since December 2010.

Euben Paracuelles, an economist at Nomura Holdings Inc. in Singapore, said the central bank's hawkish tone remains intact and the focus will shift to fiscal policy to provide support to the economy.

"There is scope for targeted macro-prudential measures to provide some offset," he said. "Importantly, I think this is when fiscal policy needs to do some more heavy-lifting to boost growth and they have scope for that too."

CONSUMER PRICES

Inflation low during Idul Fitri, air travel main factor

Farida Susanty and
Marchio Irfan Gorbiano

THE JAKARTA POST/JAKARTA

The Central Statistics Agency (BPS) announced on Monday that inflation in June stood at 0.59 percent, the lowest inflation during Idul Fitri for the past eight years thanks to controlled food prices during the festive period, which usually sees heightened demand.

June's inflation was higher than the 0.21 percent in May, bringing the year-to-date (ytd) inflation to 1.9 percent.

Despite the month-to-month increase, year-on-year (yoy) inflation stood at 3.12 percent, lower than the 4.37 percent and 3.21 percent inflation that was recorded in June 2017 and July 2016, respectively, both of which also coincided with the Idul Fitri period.

The latest figure was also still within the government's target range of between 2.5 and 4.5 percent this year, as outlined in the 2018 state budget.

"The inflation in June was well-managed, considering that it encompassed the Idul Fitri holiday. [The figure] is much lower than Idul Fitri in previous years," said BPS head Suhariyanto in Jakarta.

The largest contributor to the inflation was in the transportation sector, particularly air travel, which saw increased demand as people visited their hometowns to celebrate the holiday with their family.

This component, as well as

those of financial services and communication, saw inflation of 1.5 percent in June, primarily driven by increased demand for air transportation.

Land transportation also contributed 0.08 percent of the inflation in June.

Commenting on the matter, Transportation Ministry air transportation director general Agus Santoso said even though the increase in fares had contributed to inflation, the government had ensured they did not surpass the permitted maximum fares.

"[The air fares during Idul Fitri] did not surpass the permitted maximum fare. Mostly they just about hit the [limit]," he said.

Meanwhile, foodstuff prices were up by 0.88 percent in June, contributing 0.19 percent to overall inflation, with several commodities including fish, chicken, beef and shallots, recording price increases.

The Idul Fitri holiday period usually coincides with an upward demand for foodstuffs. Nevertheless, some commodities recorded price deflation in June such as eggs, red chilies and rice.

Core inflation stood at 0.24 percent in June, while volatile inflation was recorded at 0.9 percent over the same period. Inflation in administered prices, meanwhile, was recorded at 1.38 percent as air fares went up.

Center for Reform in Economics (CORE) Indonesia executive director Mohammad Faisal said the June inflation reflected the ongoing

inflation trend this year, which is generally lower than last year.

"Overall the components of the inflation are lower except for foodstuffs. Food [prices] are higher than last year even though the government claimed to be able to manage food prices," he said.

Yoy inflation in foodstuffs was recorded at 3.47 percent this year, higher than the 2.43 percent yoy inflation in the category recorded over the same period last year, the BPS data revealed.

Gadjah Mada University economist Tony Prasetyantono said the relatively low inflation during the Idul Fitri period was a result of the government's effort to improve infrastructure, which eased the distribution of goods across the archipelago, coupled with relatively sluggish consumer demand.

"Purchasing power is still there, but consumers are rational enough to cautiously anticipate the impending crisis," said Tony, referring to several factors that could trigger global crises, and which had the potential to impact Indonesia, such as rising United States interest rates and the ongoing trade war sentiment between the US and China.

The outlook might not be all bleak as he cited the inflation in airline fares as a reflection of shifting consumer spending patterns that favor leisure spending.

"The leisure economy has become a priority [for consumers] so that when airline fares go up, demand is still high," he said.

July 3, 2018

J. Post

STOCK MARKET

JCI remains attractive, expected to rebound in second half

Winny Tang

THE JAKARTA POST/ JAKARTA

Indonesia's equity market is predicted to rebound in the second half of the year as it remains attractive for investors, despite the uncertainty over ongoing trade tensions and politics.

According to Hasan Ukim, president director of Citigroup Sekuritas Indonesia, the fluctuation in the Jakarta Composite Index (JCI) was partly caused by uncertainty over the trade war between the United States and China, which has now spread to other countries and regions such as Canada, Mexico and the European Union.

The trade war caused a decline in market confidence and resulted in massive foreign outflows that dragged down the JCI.

Net foreign sell in all markets amounted to Rp 49.12 trillion (US\$3.41 billion) year-to-date.

"If there is certainty, the JCI has the potential to rebound," Hasan said, adding that Citigroup Sekuritas forecast the JCI to hit 6,500 by the end of 2018.

The average JCI price-to-earnings (PE) ratio, an indicator of market valuation, currently stands at 14, which is considered low compared to the highest level of 17, which it achieved in the past, he went on to say.

"I'm sure that the foreign funds will come back sooner or later, because the JCI's valuation is already low," he said.

With massive foreign outflows from emerging countries, including from the Indonesian equity market, other markets such as the US have benefited.

However, if the US Federal Reserve continues to increase its rate, the US stock market's valuations would eventually increase.

The JCI rose significantly by

2.33 percent on Friday to 5,799.24 after Bank Indonesia (BI) raised its reference rate — the seven-day reverse repo rate — by 50 basis points (bps) to 5.25 percent.

However, on Monday, the JCI came under pressure once again as it closed at 5,746.77, declining by 0.90 percent from the previous day.

The rupiah traded at Rp 14,331 per US dollar on Monday, strengthening from Rp 14,404 per dollar on Friday, according to the Jakarta Interbank Spot Dollar Rate (JISDOR).

William Surya Wijaya, vice president of research at PT Indosurya Bersinar Sekuritas, said the central bank's decision to raise the benchmark rate was needed to maintain market confidence and reduce rupiah volatility.

Aside from BI's move, he believed more positive sentiments would emerge in the second half that could support the JCI.

"Some company's financial performances will be released in the second half. The Asian Games, simultaneous regional elections, Christmas and the New Year will also support the JCI, especially in the consumer sector," he said.

Stocks from banking, consumer goods, infrastructure and the property sectors will be attractive to buy, especially big caps as such stocks generally rebound faster after pressures, he added.

The Indonesia Stock Exchange (IDX) welcomed a new board of directors last week.

New IDX president director Inarno Djajadi vowed to attract more companies to conduct initial public offerings (IPO) this year and also make the market more liquid for investors.

The bourse is now focusing on conducting settlements of trade within two working days (T+2), from the current three days (T+3).

Freeport divestment deal

SOON

July 3, 2018
J Post

Stefanno Reinard Sulaiman

THE JAKARTA POST/JAKARTA

Indonesia is close to becoming the major shareholder of PT Freeport Indonesia, which operates the world's largest gold and copper mine, as the lengthy negotiation on the issue is reaching a conclusion.

It has been nearly a year since United States-based mining giant Freeport-McMoran (FCX), the parent company of PT Freeport Indonesia (PTFI), agreed in August last year to increase Indonesia's ownership in the mining company from 9.36 to 51 percent.

The deadline of the divestment has been changed over time from April to June this year as a result of several issues, but mainly because of the share valuation.

The agreement will basically

New contract gives Freeport term until 2041

Freeport remains operator until Inalum ready

Inalum ready for purchase of Rio Tinto's interest

give both parties an assurance on the future operation of PTFI, such as in terms of investment stability (regarding a long-term tax and royalty deal) and the scheme of the operational transition.

State-Owned Enterprises (SOE) Minister Rini Soemarno said recently the agreement was expected to be finalized in around two weeks.

"This kind of agreement is important for both parties as we have to maintain transparency

and professionalism," she said, adding the agreement would also make sure PTFI's operation would be free from any government intervention in the future.

Meanwhile, regarding the tax and royalty calculation for PTFI, Rini said it was currently still in the hands of the Finance Ministry. However, it is said that the agreement will lock the tax and royalty deal until 2041, which is the due date for PTFI's new contract period.

PTFI will also convert its contract of work (CoW) into a special mining permit (IUPK), which will terminate the previous right to extend its contract up to 50 years.

Rini also promised the government would settle the environmental problems, which the Supreme Audit Agency (BPK) believed had cost the nation US\$13 billion, before the agreement was sealed.

Furthermore, the agreement is

also likely to make FCX the temporary operator for the mining as it has the experience, rather than PT Indonesia Asahan Aluminium (Inalum), the country's holding company for mining business.

"They [FCX] said to us that it is okay if Indonesia owns 51 percent, but it [Indonesian government] lacks operating experience," she said, adding that the government agreed with the statement.

Fajar Harry Sampurno, the State-Owned Enterprise (SOE) Ministry's undersecretary for mining, strategic industries and media affairs said FCX would handle the mining operation until Inalum was completely capable.

"FCX will still be dominant in the operation while we learn along the way, but PTFI is still the mining superintendent," he told *The Jakarta Post* on Monday.

The agreement will also set

out the deal to buy the participating interest (PI) of Rio Tinto, the world's second-largest miner, in PTFI's Grasberg mine, says Fajar.

Under a joint venture deal between Rio Tinto and PTFI that was signed in 1995, the former was entitled to a 40 percent share of the entire production of Grasberg's Block A, where the latter's whole mining operation is located.

"The deal with Rio Tinto is done and we will combine it with the [Freeport] agreement," he added.

Meanwhile, for the valuation of 51 shares that will be divested by FCX, (including Rio Tinto's PI), both Rini and Fajar have said it is around \$3.5 billion to \$4 billion.

Rini said President Joko "Jokowi" Widodo had been informed about the valuation before Idul Fitri, which was on June 15.

Previously, Inalum president director Budi Gunadi Sadikin said

he was ready to kick off the acquisition process.

Inalum is a leading consortium of Indonesian investors that will take over PTFI's majority stake.

Budi, a former president director of state lender Bank Mandiri, said Inalum had locked the funding commitment, which came from a consortium of banks, and could be disbursed once the acquisition took place. "The funding is there, we are just awaiting the green light," he said.

Executive director of Jakarta-based mining research group ReforMiner Institute, Komaidi Notonegoro, said the agreement was a win-win situation for both parties as it was basically a type of business deal.

"Not all of our wishes can be accommodated, the same goes for Freeport. So this is the best option for both parties," he said. (ris)

Motorists adapt to car ban

Fachrul Sidiq

THE JAKARTA POST/JAKARTA

Jakarta began on Monday a test run of the odd-even traffic policy to ease the city's notorious gridlock ahead of the Asian Games. But those affected have called on the authorities to revise the plan.

The month-long trial, which restricts cars from using most of the city's main thoroughfares during the day based on their license plate number, has forced affected commuters to leave their cars at home despite the lack of an integrated transportation system.

The policy, which was previously implemented on Jl. Sudirman and Jl. MH Thamrin, in South and Central Jakarta, respectively, during the morning and afternoon rush hours, has now been applied to other major thoroughfares, namely Jl. S. Parman in West Jakarta, Jl. Gatot Subroto, Jl. MT Haryono and Jl. Metro Pondok Indah in South Jakarta, as well as Jl. DI Panjaitan in East Jakarta and Jl. Benyamin Sueb in Central Jakarta from 6 a.m. to 9 p.m. every day, including weekends.

It is expected that the reduced congestion can facilitate access to nine Asian Games venues scattered throughout the city.

M. Permadi Sudjana, 43, a product consultant manager at a private company, whose office is in Blok M, South Jakarta, said he stayed at his office on Monday and had to reschedule meetings with his clients because his odd-numbered license plate prevented him from driving around the city.

"My job requires me to be mobile to meet a number of clients everyday in various locations. This policy truly hampers my activity," said Permadi, who resides in Pancoran Mas, Depok, in West Java, adding that he had asked his clients to reschedule meetings to odd-numbered dates.

He said he believed the existing public transportation services would not be sufficient to support his mobility, adding that he would have to drive his car through alternative roads and limit the number of client meetings. "Is it really necessary to implement it for 15 hours?" he said.

More complaints and rants came from those who have homes or offices along Jl. Metro Pondok Indah, which is smaller than the other restricted streets, and only has one Transjakarta bus line and smaller public buses as alternatives.

Gandaria City Mall general manager Lili Mulyadi said while the mall management, which is located on the street, supported the success of the Games, she urged the government to adjust the implementation hours of the policy.

"We hope the government will adjust the policy's operational hours to only during morning and afternoon rush hours. We also hope it is not implemented on the weekend, considering that the road is not the main road used for the Asian Games," she told *The Jakarta Post*.

The government included Jl. Metro Pondok Indah since it is the

Car drivers postpone plans on first day of widespread car restriction in Jakarta.

Additional bus lanes, parking sites not available

main access road to Pondok Indah Golf Course, a venue for the Games.

Separately, in a copy of a letter made available to the *Post*, developer PT Metropolitan Kentjana, which developed Pondok Indah Mall, Pondok Indah Office Tower and Pondok Indah Hospital, has reportedly filed a similar request to Transportation Minister Budi Karya Sumadi, stating that many residents have complained about the policy as it hampers their access to the three premises.

"We hope the policy is implemented during morning and afternoon rush hours for one week only from Aug. 20 to 26, when Golf events are held," read the statement, which is signed by the company's president director, Husin Widjajakusuma.

Pondok Indah is widely known for its affluence, and has very few public transportation options available. Direct metro lines are not available to the area.

Aji Prakoso, a banker working in the area, said commuting was not an option for him.

"I drive around a lot to banks to cash checks," he said. "I still don't think that public transportation around here is safe enough for me."

Jakarta Transportation Agency traffic management head Priyanto said traffic on Monday had been smoother compared to previous days.

"Overall vehicle movement has improved. On average, cars moved at 21.5 kilometers per hour from 20 kmph previously," he said, adding that the policy would be continuously evaluated, taking on board input from residents.

The Greater Jakarta Transportation Body (BPTJ), whose similar policy at several tollgates connecting peripheral areas to Jakarta has improved vehicle movement, and the Jakarta Transportation Agency have promised to provide several park and ride facilities near the affected roads and at least 204 buses to transport commuters to several areas.

On the first day of the trial, however, the services were not available.

Transjakarta spokesperson Wibowo said the number of commuters on all 13 bus corridors on Monday increased to 173,445 from last Monday's 157,714.

"We're still not sure if the increase was due to the odd-even policy," Wibowo told the *Post*. "We need to study the statistics to ascertain the contributing factors."

Greater Jakarta commuter train operator PT Kereta Commuter Indonesia (KCI) reported no passenger surges amid the odd-even expansion trial.

"There was no significant increase as of Monday," company spokesperson Eva Chairunisa told the *Post*. (rfa)

July 3, 2018
J. Post

RI welcomes first wind farm in Sidrap

Dyaning Pangestika
and Andi Hajramuni

THE JAKARTA POST/JAKARTA/
MAKASSAR

Indonesia joined the ranks of countries shifting to renewable energy on Monday by opening its first ever wind farm in Sidrap, South Sulawesi, a project that is expected to produce 75 megawatts (MW) of electricity for more than 70,000 households.

Speaking at the inauguration ceremony, President Joko "Jokowi" Widodo said the wind farm, which boasts four turbines, was proof that renewable energy could contribute to the country's ambitious 35,000-MW electricity program.

"The country has the potential [to produce renewable energy sources] in the form of wind, water, geothermal energy and sunlight. In the future, we will push for the use of more renewable electrical energy sources."

Construction of the 100-hectare Sidrap Wind Farm begun in April 2016. It has been billed as the largest of its kind in Southeast Asia.

A consortium of four companies worked on the project with an investment of US\$150 million.

State electricity company PLN will source electricity from the wind farm and distribute it to customers in South Sulawesi, Southeast Sulawesi and West Sulawesi.

According to PLN, 40 percent of the farm's materials were sourced locally and its construction employed 500 people from surrounding communities.

Sidrap was chosen for the project's location as the district stands at between 180 and 385 meters above sea level, where wind can reach speeds of up to 6 m per second, powerful enough to generate electricity.

The government is currently working on another wind farm in Jeneponto, also in South Sulawesi

Jokowi inaugurates
100-hectare wind farm in
South Sulawesi

Sidrap Wind Farm to
generate 75 megawatts
of electricity

si and plans to construct more in East Kalimantan and West Java.

Jokowi emphasized in his speech that Indonesia needed to invest more in renewable energy.

"New and renewable energy sources are currently only capable of generating 2,000 MW, which is less than 10 percent of the targeted 35,000 MW," he said, adding that the country should invest more in other clean energy sources, like geothermal energy, water, wind and sunlight.

"Hopefully we can reach our target of producing 23 percent [of 35,000 MW] by 2020."

Energy and Mineral Resources Minister Ignasius Jonan, who was present at the inauguration ceremony, said Sidrap Wind Farm would be part of a network of power plants that could provide an additional 750 MW of electricity for 1.1 million households in South Sulawesi, Southeast Sulawesi and West Sulawesi.

In November last year, PLN signed power purchase agreements (PPAs) with nine indepen-

dent power producers (IPPs) who will build power plants based on renewable resources in various capacities totaling 640.45 MW.

The largest of these projects is a hydropower plant in Poso, Central Sulawesi, which will have a capacity of 515 MW and cost \$831 million to build.

The project will be an expansion of the existing 195-MW power plant owned by Kalla Group's Poso Energy.

"This will be the largest hydropower plant in Indonesia," Ignasius added.

The second-largest plant located in Rantau Dedap, South Sumatra will produce geothermal energy with a capacity of 86 MW.

The remaining seven, which are micro-hydro power plants with an accumulated capacity of 39.65 MW, will be located in Java, Sumatra, Sulawesi and West Nusa Tenggara.

In addition to generating renewable energy, Sidrap Wind Farm, according to Jokowi, could turn the area into a new tourist destination.

"I can see all the blades of the wind farm rotating from here, which means that there is enough wind [to produce energy]," the president said.

"It feels like I'm in the Netherlands, but I am actually in Sidrap right now.

RI seeks support to counter EU biofuel criteria

The government is collecting international support to counter the European Union's plan to limit the entry of biofuels into the EU market by setting additional criteria for acceptable palm oil products.

The EU has agreed to extend the deadline to phase out biofuel use from 2021 to 2030. At the same time, however, the union is planning to set extra criteria for biofuel accepted to the EU market.

Coordinating Maritime Affairs Minister Luhut Pandjaitan, who has been leading Indonesia's diplomacy on palm oil matters, said the government considered the new deal to be still unfair.

Luhut argued that the criteria for acceptable crop-based biofuel, which will take effect in February 2019, was unjust for Indonesia, the world's largest palm oil producer.

"We can't be dictated to. It is our product and we are the ones who know it best. So how can they [EU] be the ones who regulate it?" Luhut said.

On June 14, the European Commission, the European Parliament and EU member states agreed to increase renewable energy use in Europe.

Basically, the new regulatory framework extends the deadline for palm oil used in transportation by nine years from the previous deadline of 2021.

However, the agreement also set criteria for the certification of two types of crop-based biofuels (CBB) in relation to indirect land-use change risk (ILUC risk) by distinguishing high-level risk fuel from low-level risk.

It is expected that in February 2019, the European Commission will report on the status of production expansion of relevant food and feed crops worldwide and set out in a delegate act the criteria for the certification of "acceptable" biofuels.

The Indonesian government, Luhut said, would hold two meetings with the primary goal of setting up counter criteria.

In August, Luhut said the government would hold a meeting with oil palm smallholders, the EU and the United Nations to discuss the potential acceptable criteria for palm oil by referring

to the Sustainable Development Goals (SDGs).

"Meanwhile, in September, we will meet with the UN to discuss the future impacts of the EU's phasing out of palm oil [in biofuel], especially on [increasing] poverty," he added.

Other than meetings, Luhut said the government would also bring the matter to the upcoming UN climate conference (COP24) in December in Katowice, Poland.

"All of those are efforts to be credible as we will be offensive on this matter. Hence, we expect to collect the supporting data from reputable and international institutions," he said.

Luhut also said he had asked the EU to include Indonesia in the discussion about the criteria.

The Council of Palm Oil Producer Countries (CPOPC), whose members include Indonesia and Malaysia and supply 80 percent of the world's palm oil, concurred that the EU's criteria for acceptable biofuel may only benefit the union.

CPOPC executive director Mahendra Siregar argued that the ILUC-risk criteria from the EU was controversial as it had various methodologies and seven calculation models.

"If the EU wants to stress out on environmental impacts, why only use one criteria that blindly sees the impact on other countries? Hence, for me, this has become a matter of intervention from a country to another," he told *The Jakarta Post* on Friday.

Separately, Indonesian Biofuel Producers Association (APROBI) chairperson Paulus Tjakrawan said the government should team up with fellow major palm oil producers Malaysia and Thailand to discuss the criteria.

"It [criteria] has to be objective and fair as it will be used as an import requirement for palm-oil-based biofuel to Europe," he said.

Exports of palm-oil-based biofuel to the EU dropped 54 percent to only 164,000 tons in 2017 year-on-year (yoy), according to data from the Indonesian Palm Oil Producers Association (GAPKI).

July 3, 2018
JPost

Bakrie skips KPK questioning in e-ID case

JAKARTA: Golkar Party advisory board head Aburizal Bakrie failed to meet a summons on Monday issued by the Corruption Eradication Commission's (KPK) for questioning in the e-ID graft case.

Aburizal, who served as the party's chairman from 2009 to 2014, was scheduled to be questioned as a witness for businessmen and graft suspects Irvanto Hendra Pambudi and Made Oka Masagung.

"The KPK has received a letter from witnesses' who are unable to come in for questioning today, [including] Aburizal Bakrie, who is currently outside of Indonesia," the antigraft body's spokesperson, Febri Diansyah, said on Monday.

He further said the questioning would be rescheduled.

A number of high-profile politicians have been implicated in the graft case, including former House of Representatives speaker Setya Novanto, who was found guilty and sentenced to 15 years' imprisonment.

Apart from Aburizal, investigators also summoned law and human rights minister and former lawmaker Yasonna Laoly, former Home Ministry official Diah Anggraeni as well as former lawmakers Tamsil Linrung and Mulyadi.

While Tamsil and Mulyadi failed to fulfill the summons, Yasonna and Diah met the summons. "I don't know the two suspects and never communicated with them," Yasonna said after the questioning.—JP