

Research Announcement: Moody's - Indonesia's clean energy targets will be tough to reach; coal to remain dominant for some time

Singapore, September 04, 2019 --

- » Indonesia plans to add 50.4GW of new power generation capacity over the next 10 years, primarily comprised of coal
- » Renewable energy faces multiple challenges in the country, making adoption slow

Moody's Investors Service says in a new report that Indonesia's target to increase the share of renewable energy to 23% of primary energy needs by 2025 from 12% currently will be difficult to achieve, and that coal will continue to dominate the country's energy mix over the next 5-7 years.

"The evolving policy and regulatory framework will make it difficult for Indonesia to meet its renewable energy targets on time, and we expect changes to its energy mix will be gradual," says Abhishek Tyagi, a Moody's Vice President and Senior Analyst.

In addition to the policy and regulatory framework, which has seen multiple changes over the years, the levelized cost of electricity for wind and solar remains higher than for coal-based generation capacity, which benefits from subsidies.

The absence of a strong electricity grid on many Indonesian islands also makes it difficult to have large project sites that could benefit from economies of scale.

And another reason for the slow adoption of renewable energy is concerns over fall in utilization rates for coal-based projects.

"Most of Indonesia's renewable energy plans are also centered around geothermal and hydro, which require longer development lead times than wind and solar projects," adds Tyagi.

Given these challenges, Moody's does not expect adverse policy actions to discourage coal-based additions in the medium term.

However, financing for new coal-based projects and refinancing for existing coal-based projects will become more challenging, as some banks and financial institutions have taken a policy decision to not lend to coal projects.

Subscribers can access the report at: http://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1156738

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