

## What to Make of Indonesia's Presidential Elections

### In a Nutshell:

- **Prabowo's all but confirmed victory** in the three-way Presidential race, accompanied by his Vice-President Gibran (the son of incumbent President Jokowi) **bodes well for relief rallies in rupiah** and wider **Indonesian asset markets** as *prolonged elections uncertainty is averted* and *policy continuity is assumed*.
- **But these are low hanging fruits that fall short of sustained valuation boost** to rupiah/equities/bonds.
- Whereas, the **critical challenges to surmount if economic optimism, and attendant surge in the currency/asset markets are to be sustained** are;
  - political capital and savvy to navigate various political factions to form an effective, coordinated government;*
  - efficacy in delivering policy clarity and certainty;*
  - to induce investments to lift potential growth (to 6-7%) and;*
  - significantly bolster structural fiscal strength.*
- The **jury is still out**. It follows that **investors may not quite be "all in"**; and justifiably so.
- Hence, "*caution*" is the operative function that *ought to rein in initial rupiah cheer*.
- On the aside, *falling short of fiscal/MoF high bar risks wider credit premium* (spreads).

But Not Unconditional Rejoice: *But* that said, it is *premature, if not presumptuous, to project unbridled and sustained euphoria* entailing sustained rallies in Indonesian assets and the rupiah. Point being, **bona fide rejoice cannot be unconditional**, based exclusively on Prabowo's presumed elections win, **given the range of unknowns**.

Political, Policy & Economic-Fiscal Unknowns: Specifically, lingering risks of *political tensions/fractures* are *not negated*. What's more, *neither policy continuity nor efficacy of plan/policy execution* are *established*. Finally, *economic-fiscal primacy* is *not guaranteed*.

From Polls to Political Buy-in: It is **one thing to sweep polls**, but **quite another to secure political buy-in**. Rumblings of discontent in the elections run-up suggest that **Prabowo's defacto political support** across the various Parties, within the Cabinet and in the Legislature **may not be quite as ubiquitous**. And likely has less sway than the incumbent President Jokowi.

Policy Clarity & Certainty Critical: **Political capital/legitimacy to be able to translate political vision into policy clarity and certainty** is especially critical at a time when **Indonesia needs to woo international investors**; to confidently endorse/partner/finance mega-projects (such as shifting the capital) and industrial transformation aimed at downstream (with notable ambitions of being a leading EV producer) manufacturing value-add.

To Achieve Economic Potential: At stake is the lofty **ambition of tapping on demographic and resource endowments** and exploiting "China plus one" opportunities to realize economic potential and achieve "Middle Class" status. To this end, **boosting growth to 6-7% from ~5% trend** is almost non-negotiable.

The Cabinet Litmus Test: To convince investors of a “win-win” from Indonesia’s economic boom requires work and coordination across various Ministries. Hence, **political capital** and **savvy to establish a stable and well-regarded Cabinet**, *retain key position-holders* and *court heavy-weights of international repute* will be the **litmus test** for **Prabowo’s ability to lead and govern; unfettered by political factions** to unwaveringly achieve economic prosperity.

Delicate but Essential Fiscal Balance: A key **pre-condition for economic prosperity is macro-economic stability**, which in turn **requires that the Finance Ministry to strike a delicate balance** *between positive fiscal impulse* to lean into and boost growth multipliers, yet establish *sustainable fiscal rectitude*. Moreover, it is **imperative that the Ministry of Finance is able to establish fiscal credibility**. *Failure to do so* could result in *wider credit/risk premium* that will inevitably *compound fiscal pain* and further *compromise the rupiah* – a **slippery slope that must be avoided**.

No Free Lunch: **Fiscal sensitivities are especially accentuated** as Prabowo’s election promises and proclivities suggest heavier spending. Notably, if his campaign promise of *free lunch for all students* (with an estimated ~IDR300trln/US\$19bn/1.4% of GDP annual price tag) and the ex-General’s *inclination for a strong military* translates into actual policy, then it may prompt **justifiable scrutiny on** upsized government and resultant **risks of fiscal slippage**. And the time tested fact is that there is *simply no fiscal free lunch*.

“Show Me the Money”: To that end, it is not sufficient to merely stopgap fiscal slippage by limit spending elsewhere. Instead, **sustainably raising revenue collections to address long-time revenue lag and catch up with peers**, **must feature** as part of broader fiscal consolidation. Especially **if unnecessary growth trade-offs and macro-stability doubts are to be blunted**.

Currency & Credit: The good news is that if the Finance Ministry **manages to structurally solidify fiscal position** (led by the top-line) **will go a long way to bolster fundamental rupiah valuations and dampen susceptibility to downside volatility**. *Especially if positive credit ratings outcomes* from fiscal enhancement to *feed off, and into, rupiah boost*. But the bar remains high and the currency-credit/fiscal feedback can cut both ways.

Conditional Relief, Not Conclusive Cheer: All said, **Prabowo’s dominant lead suggestive of an outright victory** is **consistent with initial relief buoyancy in rupiah and Indonesian assets**. **But sustained economic cheer is conditional** on *enduring political stability/buy-in*, accompanying *policy clarity/certainty* and *economic stimulus backed by fiscal fortification*.

And so **initial rupiah cheer** is likely **to be cautiously reined in**, with *further upside conditional on delivering economic/fiscal results and political stability*. Furthermore, **potentially wider credit risks premium** impacting bonds/rates also **cannot be dismissed** as *fiscal credibility* and associated *confidence in the MoF* are assessed.

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