

Indonesia Elections: Competition, Continuity & Capital

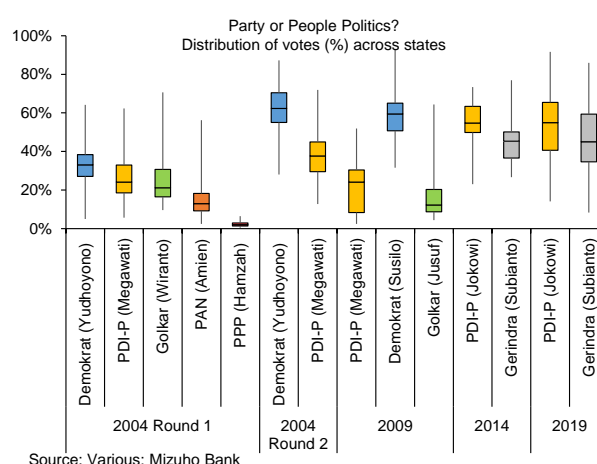
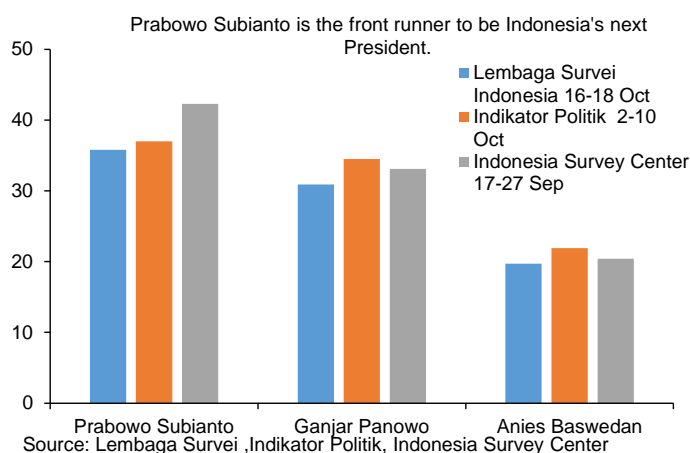
In a nutshell:

- With President Jokowi set to end his second term, Indonesia's Legislative and Presidential election is slated for **14 February 2024**. The Presidential election will be an **initial three-way fight** with current polls too close to call, leading to a **highly-likely second round elections on 26 June 2024**.
- The three **President-Vice-President** pairings are *Prabowo Subianto* (current Defence Minister) and *Gibran Rakabuming* (son of President Jokowi, current Mayor of Surakarta), *Ganjar Pranowo* (Governor of Central Java) and *Muhammad Mahfud* (current Minister Political, Legal and Security Affairs) and *Anies Baswedan* (ex-Governor of Jakarta) and *Muhaimin Iskandar* (Deputy Speaker of the People's Representative Council).
- While **political competition** is expected to be **intense** in the months ahead, **continuity in economic policy is likely** as candidates are often amenable to **work together post elections** putting aside ideological differences. Thus far, it is expected that major initiatives such as the movement of Indonesia's capital will proceed as planned.
- While some election pledges may dampen revenue collections, the **fiscal consolidation plans should also remain intact** with the resulting trajectory still dependent on structural factors such as improvement in tax collections and global commodity cycles.
- **Consumption boost in Q1 2024 (and possibly till Q2 2024)** on election spending will serve to support growth.
- Meanwhile, the **IDR will remain relatively more susceptible to global factors amid occasional bouts of fleeting weakness** should tail risks of political instability surface.

Indonesia is set to vote in simultaneous legislative and Presidential elections on 14 February 2024, as **current President Joko Widodo's (Jokowi) second and final term comes to an end**. To become Indonesia's eighth president, the candidate needs to achieve an outright majority (>50%) of the national vote with at least 20% of the votes spread over more than half of the provinces in Indonesia; failing which, Indonesians will have to vote between the top 2 candidates on **26 June 2024**. Given the current opinion polls, a **second round Presidential election is certainly possible**. The official campaign period will begin on 28 November 2023 and last till 10 February 2024.

Competition: Three-way fight

Coalition politics is prevalent in Indonesia as the presidential and vice-presidential candidate pairs have to be **nominated by political parties or coalitions of political parties** that have at least 20% of the seats in the People's Representative Council or at least 25% of the national vote from the previous general election. **PDI-P**, which Jokowi is a member of, is the only party that can nominate candidate pairs without forming a coalition. For the 2024 elections, there are **three pairs** of presidential and vice-presidential candidates. **The race to become Indonesia's next President will be an intense one given the tight margins at current opinion polls.**



- Prabowo Subianto**, leader of **Gerindra**, is the **current front runner** as indicated by opinion polls. Prabowo challenged Jokowi twice in 2014 and 2019 and lost on tight margins on both occasions. A **former general**, he was appointed the defence minister after his defeat in the 2019 polls. Prabowo has pledged to continue President Jokowi's economic legacy, and has chosen **Gibran Rakabuming (Jokowi's eldest son)**, current Mayor of Surakarta, as his vice president candidate.

Gibran (36 years old) was only permitted to run after the Constitutional Court ruled that a minimum age requirement of 40 need not apply to all candidates. Gibran's inclusion will serve to garner the **votes of younger voters as well as tap on his father's support base**. That said, his **relative inexperience will also be a contentious point alongside tail risks of fears surrounding political dynasty formation which may shed support in some quarters**. Gibran was originally from PDI-P, whose Presidential nomination is Ganjar Pranowo.

- Ganjar Pranowo** is the Governor of Central Java between 2013 and 2023 and is **nominated by the PDI-P**. PDI-P's favourable voter base and strong volunteer mobilization will have to indirectly contend with the popularity of Jokowi who arguably inflated the electorate's preference for PDI-P in the previous two elections. **Muhammad Mahfud**, the current Coordinating Minister for Political, Legal and Security Affairs, is Ganjar's running mate and has previously served as Constitutional Court chief justice. His **close ties with the country's largest religious organization, Nahdlatul Ulama (NU)**, is critical to secure **significant votes**.

For this pairing, party politics are becoming a tricky affair. Jokowi's son, Gibran, effectively ended his membership by running for vice president despite the lack of a formal dismissal or resignation. Despite reports of strained ties, ex-President Megawati Soekarnoputri (who is also Chairman of PDI-P) and Jokowi have **refrained from any direct criticism of each other thus far**. President **Jokowi** continues to hold onto his stance of **remaining neutral** in his support of candidates.

- The third contender is **Anies Baswedan**, who was nominated by NasDem. He was a former Minister of Education and Culture in Jokowi's Cabinet from 2014-16, and Governor of Jakarta from 2017-22 where he served as an independent. Anies' term as Jakarta's governor is at best, mixed. While his steadfast COVID-19 response and efforts to improve the city's transportation system are broadly acknowledged, his work on employment, environmental and housing issues remains contentious. His running mate is **Muhaimin Iskandar, chairman of the National Awakening Party (PKB)**, who also has **ties to NU**. **Nonetheless, these ties are far from rock solid** with certain fractions in NU disapproving of Anies or had previous feuds with Mahaimin.

Continuity: Pre-Election Diversity and Post-Election Unity

“**There are no permanent friends, only permanent interests.**” While this phrase may be one of the most popular and representative one in politics, for Indonesian politics one should **view it together with “Unity in Diversity”** which is Indonesia’s national motto. While **diversity** of Indonesia’s political parties has often led to **intense political competition** during campaigning, **allegiances have been observed to be rather fluid**. PKB, which supported Prabowo’s candidacy since August 2022, left his coalition in October 2023 when Anies Baswedan’s camp offered PKB Chairman Muhaimin a place as Anies’ running mate. Meanwhile, Gibran has effectively left PDI-P to run as Subianto’s VP candidate.

Unity is also observed in Indonesian politics as convergence is often achieved during government formation with ideological differences put aside. **Candidates (and parties) can often look past differences amplified during campaigns and be amenable to work together**. Jokowi appointed Prabowo (his rival in the two-man race) as his defence minister after the 2019 election, which was one of the most polarized elections in Indonesia’s history marked by riots. The addition of Gerindra (Prabowo’s party) into the current governing coalition subsequently gave President Jokowi nearly full control of the parliament.

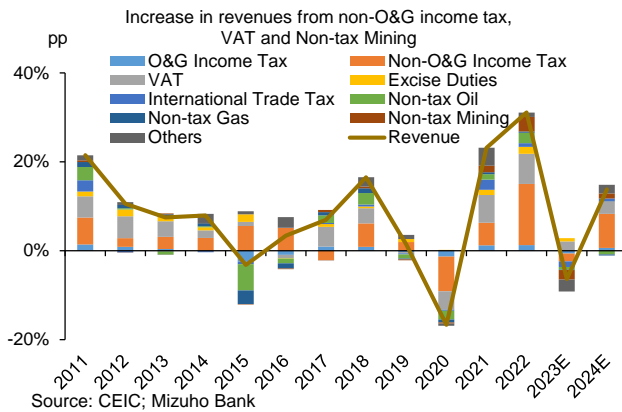
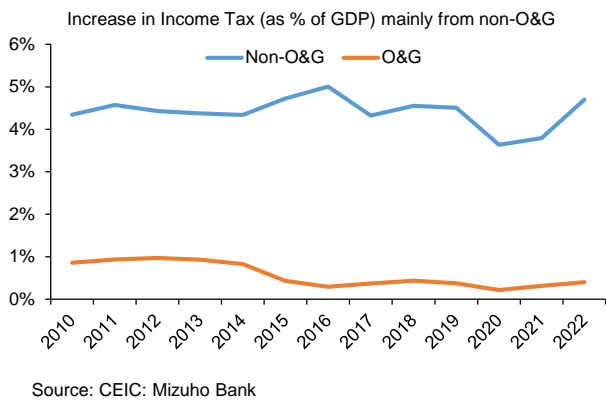
That politicians are amenable to work together within the same Cabinet suggests the **absence of strong inherent ideological positioning**. Consequently, economic policy direction is unlikely to change drastically under the different candidates. Based on the speeches thus far, policy divergence appears to be more akin to shades of grey with varying ground initiatives rather than pivotal policy direction changes. As such, the **focus on inroad investments and “downstreaming” would likely continue**. President Jokowi’s initiated **move of the country’s capital from Jakarta to East Kalimantan would also likely continue**. The Prabowo-Gibran pair has stated that their duty is to continue and perfect existing programs. Pranowo has also explicitly committed to **continue the development of Nusantara**. While the new capital development may be absent in his current pledges, Anies has publicly committed to continue the capital city development early this year.

Notwithstanding the continuity, there is a slight risk of potential riots should the winning margin be tight. At present, this risk is unlikely to be outsized given that candidates have appeared to be relatively moderate in their views.

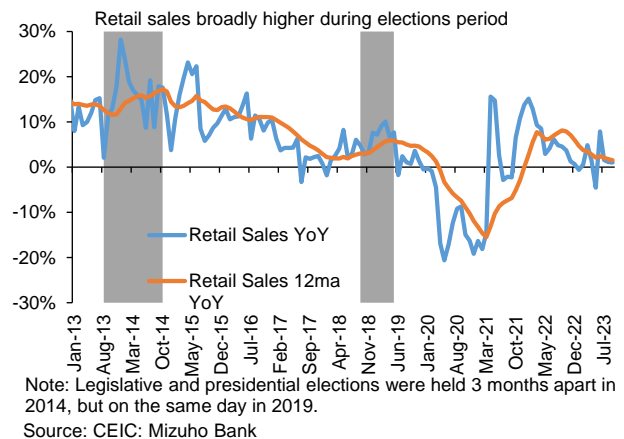
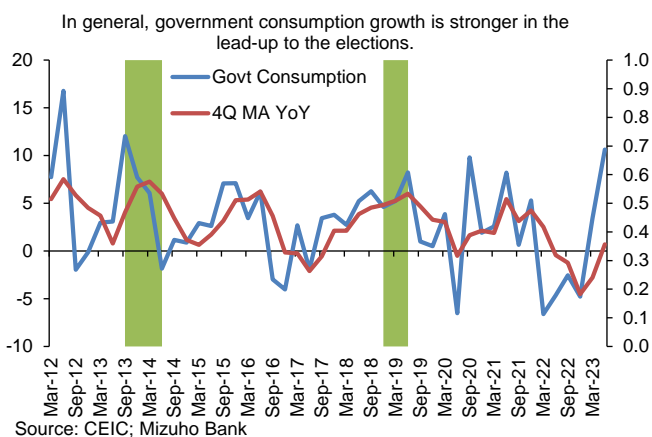
Capital: Fiscal consolidation and Consumption Boost

While headline uncertainty during campaign period is inevitable, the economic uncertainty quotient is much lower. Instead, the **risk would largely be geared towards tweaking the pace of fiscal consolidation**, in light of the pledges announced thus far. In particular, some of Prabowo’s pledges include, among others, providing free lunch, milk in schools, eradicating extreme poverty within first two years of administration, and **raising non-taxable income level and lower individual income tax. These pledges, if acted on, would have a fiscal drag**. In contrast, the other two candidates’ pledges thus far have mainly focused on improving economic activity, with Anies also touching on streamlining bureaucratic processes.

In this regard, Prabowo’s pledges could give rise to the risk of a larger fiscal deficit. While better tax collection in recent years alongside strong mining revenues have paved the way for increased spending within the 3% fiscal deficit ceiling, a Prabowo government could see a slower pace of fiscal consolidation given that one of the pledges was to **reduce the taxable base** – income tax had contributed strongly to revenue growth in the past two years and Indonesia’s tax revenue (as % of GDP) remains low relative to its ASEAN peers.



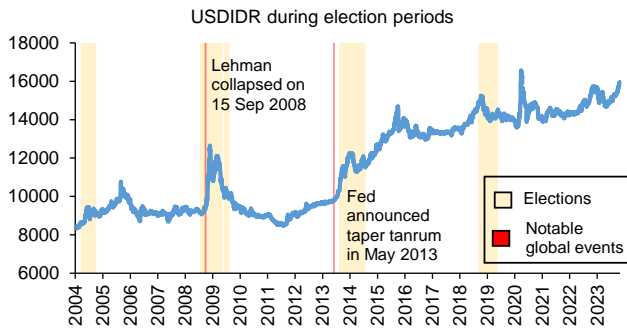
Putting fiscal balances aside and looking at growth, we expect an **expansion in government consumption and an attendant improvement in household spending**. The fiscal spending of holding the elections would add **0.1% of GDP on its own** without accounting for spending by political parties and candidates. Furthermore, **retail spending has historically trended upwards in the lead-up to elections and a consumption boost to the economy is widely expected**. With the current polls being too-close to call, a prolonged election season could result in consumption boost till Q2 2024.



IDR: Structural Persistence

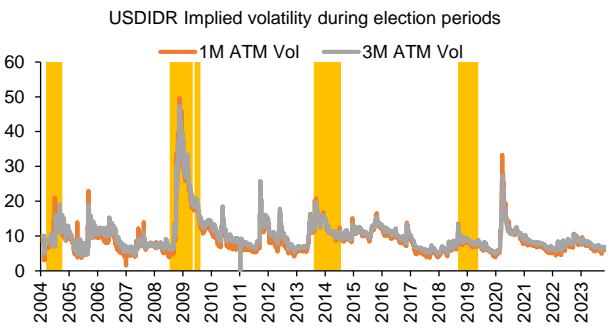
Amid increased headline uncertainty, we **do not expect any outsized moves to the IDR being attributed to the election**. Directionally, across past elections, **USD/IDR has mainly been driven by global risk developments and macro-fundamentals**. For example, the sharp spike in implied volatility and weakening of IDR during GFC was in large part due to worsening risk sentiments. The subsequent sharp weakening of the IDR in 2013 occurred during the taper tantrum episode when the Fed announced future tapering of its policy of quantitative easing, resulting in a surge in UST yields. In addition, the upward climb of the USD/IDR can be attributed to fundamentals given their structural “twin-deficit” from 2012 through 2020.

However, there could be a **potential for increased two-way volatility should the election season be prolonged** (i.e. extended round 2 elections, tight winning margins and candidates’ refusal to concede) as external flows such as FDI may be delayed in the interim but not significantly derailed. The rise in volatility was seen in 2004 where elections proceeded to the second round. In contrast, IDR volatility appears more subdued during the 2019 elections, even as there were riots on the day of announcement of the 2019 poll results in part due to the quick resolution of tensions.



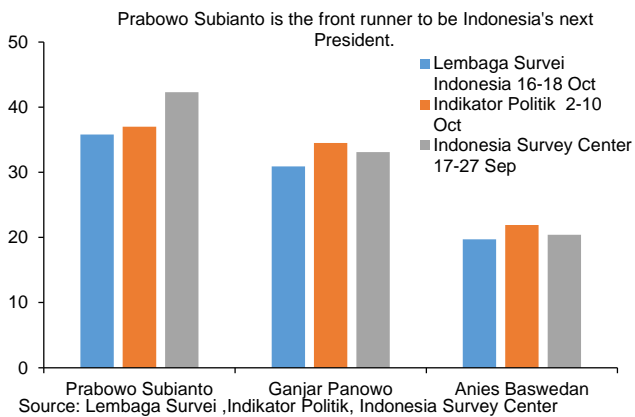
Note: Election periods are taken as the time when list of candidates are published till announcement of results.

Source: Bloomberg; Mizuho Bank

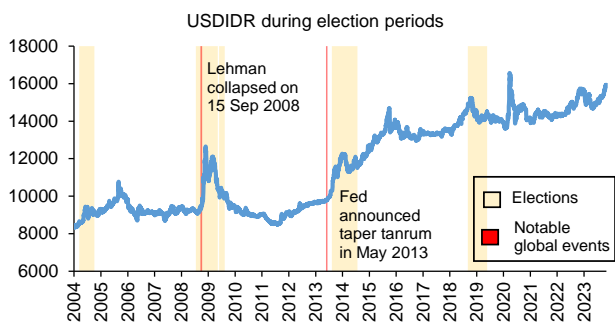


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Source: Bloomberg; Mizuho Bank



Source: Lembaga Survei, Indikator Politik, Indonesia Survey Center



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