

Indonesia Flash

Indonesia's elections – The plot thickens

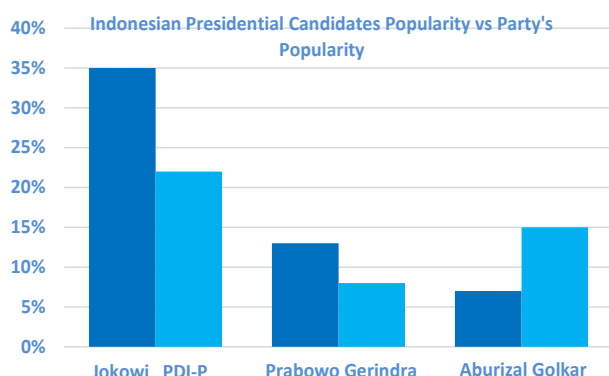
1. PDI-P disappoints, leaving Indonesian politics in a state of flux
2. With coalition politics unavoidable, stitching the right post poll alliance is key
3. Indonesia needs an able leadership to provide a strong dose of structural reforms and Jokowi could be the person
4. Jokowi remains the presidential favorite, but with big shoes to fill, he needs to be more explicit about his national policy platform

In a dramatic turn of events, Indonesian politics finds itself in state of flux ahead of crucial Presidential elections this July 9th. Quick counts (early poll tallies), often a reliable indicator of actual outcomes, of Indonesia's April 9th parliamentary elections point towards a likely fragmented make-up in the House of Representatives, one characterized by a hotchpotch of coalition parties. None of the 12 contesting parties seem to have achieved the minimum threshold of votes needed to field a presidential candidate on their own. As anticipated, the Indonesian Democratic Party of Struggle (PDI-P), the main opposition party led by former president Megawati Soekarnoputri, emerged on top but PDI-P's victory was far less convincing than widely expected (19% of national votes against expectations of nearly 30%), which suggests that the party failed to capitalize on its immensely popular presidential nominee Mr. Joko Widodo, better known as 'Jokowi'. As per Indonesia's presidential nominating system, a party needs to garner 20% of the 560 seats in the national House of Representatives or 25% of popular vote to nominate a presidential candidate or forge an alliance with other parties to reach either threshold.

Stitching the right post poll alliance is crucial for enabling the next President to implement tough policy reforms

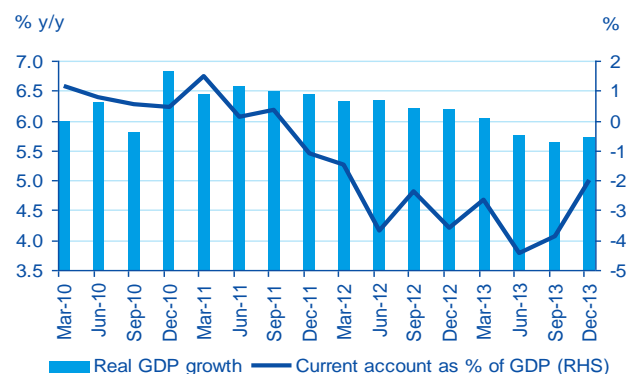
Trailing the PDI-P with 14% of the popular votes is the Golkar party, the political machine of the late Suharto and now led by an oligarch and presidential hopeful, Aburizal Bakrie. Not far behind in the third place is the Great Indonesian Movement Party, or Gerindra, headed by a former special-forces commander, Prabowo Subianto, winning about 12% votes. The Democrat Party of the outgoing president Susilo Bambang Yudhoyono stood a poor fourth with just 9%, reflecting voters' frustration with rampant corruption and a recalcitrant bureaucracy that has plagued Indonesia. Meanwhile, reversing years of declining vote share, four Islamic parties together garnered almost 30% of the votes, which places them in a key bargaining position with the three major parties in the ensuing drama of political jockeying to form a coalition. Absence of a strong mandate in the national legislature could have a direct bearing on the upcoming Presidential elections as also on the eventual President's ability to steer policy. Major parties would thus be mindful of the fact that coalitions involving a medley of parties with conflicting policy agendas could fuel transactional politics while undermining the efficacy of decision making process. Stitching the right post poll alliance where partner parties agree upon a pragmatic governing agenda would be a key for strong presidential leadership that tackles Indonesia's pressing structural challenges and reinvests growth.

Chart 1
Despite PDI-P's poor show, Jokowi is still presidential favourite



Source: BBVA Research and Indonesian Survey Institute - January 2014

Chart 2
Indonesia needs a strong leadership to push structural reforms



Source: CEIC and BBVA Research

With external rebalancing and macro stabilization underway, Indonesia needs a strong dose of structural reforms

Indonesia's economic growth faces a 'soft landing' (GDP Est: 5%-5.5% y/y in 2014 vs 5.8% in 2013) in wake of the recent aggressive monetary tightening to stem high inflation and a deteriorating external balance. The Bank of Indonesia hiked policy rates by 175 bps in 2013, and appropriately so. Furthermore, in its bid to contain the fiscal deficit below 2.5% of GDP and augment macro stability, the government has cut public spending and initiated fuel subsidy reforms. Given a limited monetary and fiscal space, kick-starting growth requires the next government to expedite structural reforms, which have been fraught by bureaucratic delays. These include removing infrastructure bottlenecks, tackling land acquisition issues, liberalizing trade and investment policies and enhancing labour productivity through skill development. On the fiscal front, measures to boost the tax revenue and cut wasteful expenditure through further fuel subsidy reforms are a key.

Despite PDI-P's weak outcome, Jokowi still remains the presidential favorite...

Even though a landslide victory might have eluded the PDI-P, the party's nominee, Jokowi, remains the frontrunner in Indonesia's presidential race. The unassuming leader benefits from a corrupt-free reputation, a man-of-the-people touch and a willingness to undertake tough measures. As the Mayor of Solo (voted as the world's third best city mayor in 2012) and the incumbent Governor of Jakarta, his policies have helped boost tax revenues, reduce bureaucratic bottlenecks, revive long-stalled infrastructure projects and improve local health services.

...but with big shoes to fill as a President, Jokowi needs to be more explicit about his national policy platform

However, Jokowi's inexperience at national level politics and a lack of a concrete national policy platform are a weakness often exploited by rival parties. Apart from promising a more 'people centric governance', he has been reticent about his action plan to solve Indonesia's complex problems. In contrast, the Gerindra party, whose vote share surged from 4.5% in 2009 to 12% this year, has laid out a detailed plan addressing agriculture and infrastructure problems.

Policy uncertainty also hurts investor sentiment. Taking cues from Jokowi's stint at the city level would present a mix picture for investors. While he has stood against a multi-billion dollar investment initiative in Jakarta to introduce cheap, fuel efficient cars and has blocked permits for shopping malls, on a positive note, he capped wage hikes in Jakarta last year to levels far below those demanded by labour unions.

Finally, with 29% of the 187 mn voters under aged 30, Indonesia's youth wield huge power to affect the outcome of Presidential elections. Although Jokowi's self-effacing charm as a 'change agent' could work in his favour, one can never be certain as a fickle youthful democracy is prone to depict swing voting behavior.

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