

Election Update: Jokowi still ahead in polls

Wednesday, April 10, 2019

Highlights

- Jokowi continues to lead strongly in most recent polls but there is one outlier poll showing him holding a small lead.
- Our base case scenario is still for a Jokowi win although closely watch how big a margin of victory he can achieve.
- Markets can be said to be generally stable but a post-election rally cannot be ruled out if there is administrative continuity.
- Delivering on reforms will require the support of multiple political parties in parliament and hence, the eventual winner might not so easily be able to carry through their campaign promises.
- In a Jokowi victory, we expect business as usual overall whilst a Prabowo victory may only just see some short term negative knee-jerk reaction from the market.

With the Indonesian Presidential elections just about a week away, the current incumbent President Joko Widodo (Jokowi) continues to lead in all the major polls (see chart 1) with the exception of one. However, this poll remains an outlier and shows Jokowi only holding a small slightly over 5% lead. As for the other polls, Jokowi is still leading by more than double digits in. Our base case scenario is for a Jokowi win but the margin of victory he achieves should be closely watched.

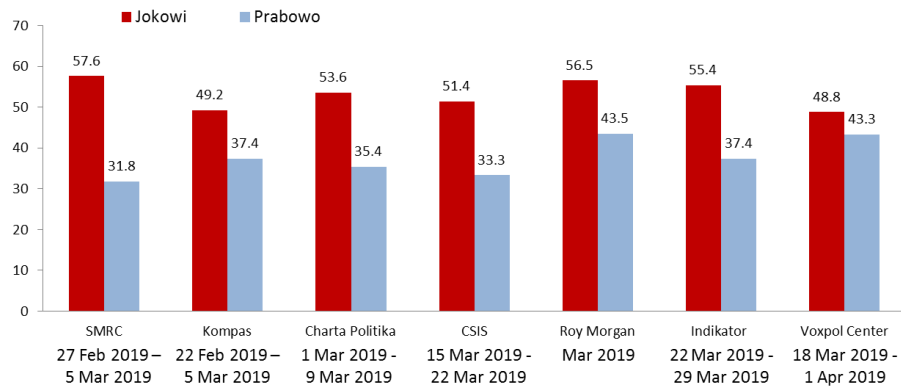
So far, markets to date remain stable despite the upcoming elections. The USD – IDR has stabilized in the range of 14,100 – 14,300 in the last few weeks (see chart 2) whilst the IDR sovereign yield curve has not moved much for the last month or so. The Jakarta Composite Index (JCI) additionally has also continued to remain flattish since January 2019 (see chart 3). The 5 year CDS has been on a downward trend so far for 2019 but did climb marginally in the second half of March 2019 before stabilizing (see chart 4). A few factors can explain the current nature of markets. It could be that there may be strong expectations of policy continuity with a Jokowi victory but investors may prefer to be cautious in case results surprise them. If this does hold true, we won't rule out the possibility of a post-election rally especially in light of a comfortable convincing Jokowi win. Alternatively, there may be little belief that much would change in terms of government policy regardless of who wins the race and rather it is a lack of external catalyst to drive the markets.

Both Prabowo and Jokowi have promised quite a number of economic reforms (see table 1) should they win but we don't see the winner of this election as being able to easily push such reforms through. Indonesia's parliament itself is divided among various political parties (which is likely to also be the case post-elections) and any winner would have to face the challenge of garnering cooperation among different parties. In a Prabowo victory, it may take even more time for his proposed reforms to be pushed through given that the parties allied with him are likely to only control a small portion of the parliament. Even if parties do switch sides, negotiations between the Prabowo camp and the other parties may still take time. Also, certain economic reforms such as renegotiating Chinese related investments can be long drawn out as they may touch on the sensitivities of international relations between two countries (a case in point would be such as Malaysia's renegotiation on her East Coast Rail Link).

Despite what promises the two sides may make, a few key lingering issues would still have to be resolved. These include reforming the fuel subsidy system, developing infrastructure, raising the tax revenue, easing business regulations and strengthening export orientated industries. For further information on the importance of such reforms, please refer to our earlier piece - [Indonesia Presidential Election 2019](#).

Overall, in a Jokowi victory, we see that it would be business as usual but in the case of what can now be called a "surprise" Prabowo victory, we believe there may be only some short term negative knee jerk reaction from the market.

Chart 1: Various Election Survey Polls



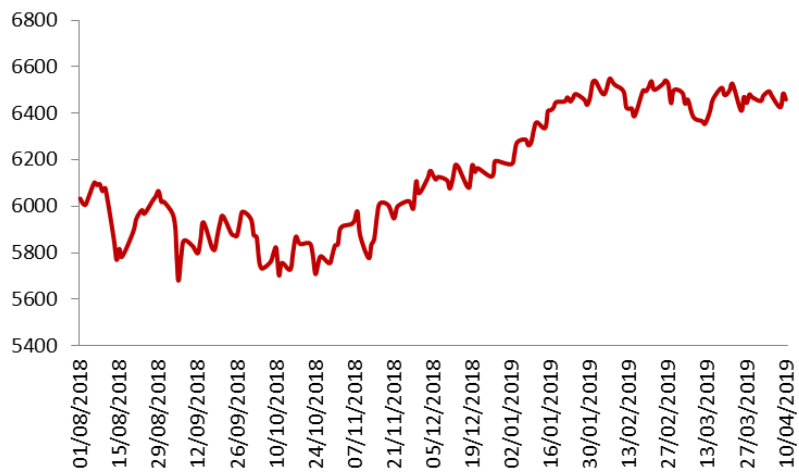
Source: Various Polling and News Websites

Chart 2: USD – IDR



Source: CEIC, Bloomberg and OCBC

Chart 3: Jakarta Composite Index



Source: CEIC, Bloomberg and OCBC

Chart 4: 5 Year Indonesia CDS

Source: CEIC, Bloomberg and OCBC

Table 1: Summary of key economic reform promises/views of candidates

Topic	Jokowi – Ma'ruf	Prabowo- Sandiaga
Food Policy	<ul style="list-style-type: none"> Price support to farmers and cutting the role of middlemen. 	<ul style="list-style-type: none"> Pursue a no import policy and provide fertilizer subsidies to farmers.
Fuel and Electricity	<ul style="list-style-type: none"> Promote the use of biodiesel fuel with the aim to eventually achieve a the adoption of 100% biodiesel from the current 20% mandate. 	<ul style="list-style-type: none"> Promised to achieve energy self-sufficiency by halting imports. Pledged to cut fuel prices and electricity tariffs.
Infrastructure	<ul style="list-style-type: none"> Spoke about improving connectivity and highlighted his current administration's drive on developing infrastructure. 	<ul style="list-style-type: none"> Pointed out the importance of inclusiveness of infrastructure development. Criticized Jokowi for the lack of feasibility studies on the infrastructure projects.
Tech	<ul style="list-style-type: none"> Develop infrastructure, e.g. 4G, etc Ease regulations. Implement "Industry 4.0" Roadmap. 	<ul style="list-style-type: none"> Develop infrastructure. Reduce regulations and restrictions. Build up strategic industries
Taxes	<ul style="list-style-type: none"> Cut corporate tax rates. 	<ul style="list-style-type: none"> Cut company and individual income taxes by 5 – 8% over five years.
Mining	<ul style="list-style-type: none"> His administration did oversee the Indonesian takeover of the Freeport McMoRan's local unit operating the Grasberg copper mine. 	<ul style="list-style-type: none"> Mentioned that more raw materials should be processed onshore. Manifesto does call for companies to repatriate export earnings.
Foreign Investment and China	<ul style="list-style-type: none"> Noted that he works with various countries beyond just China such as the Jakarta MRT with Japan. Spoken on the importance of foreign investment whilst still preserving Indonesian sovereignty (highlighted Grasberg mine acquisition). 	<ul style="list-style-type: none"> Welcomes Chinese investment but believes it must benefit Indonesians – vows to review the high-speed rail project. Open to foreign investment. Mentioned that state must control all natural resources and give out rights for use.
Healthcare	<ul style="list-style-type: none"> Extend healthcare coverage to all Indonesians (currently at 95%) and improve basic infrastructure. 	<ul style="list-style-type: none"> Fix the deficit at government health insurer within first 200 days in office.

Source: Various Online Websites

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