

Indonesia

8 February 2024

Election Watch - III: The Home Stretch

Election Day on 14 February is within sight and the contest is heating up. Ahead of the elections, we consolidate the FAQs that we have received.

1. Will Prabowo Subianto-Gibran Rakabuming be able to win in the first round on 14 February?

Recent electability surveys show that the Prabowo-Gibran pair is gaining traction. The latest Lembaga Survei Indonesia (LSI) survey on 10-11 January suggests that 47% of the electorate will vote for Prabowo-Gibran. The contest for second place is getting tighter. The Anies-Muhaimin pair has overtaken Ganjar-Mahfud in recent electability surveys suggesting that if a second-round contest were to take place, Anies looks better for the second place than Ganjar.

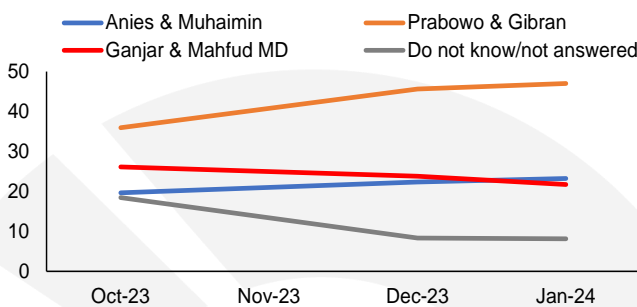
The majority vote is only one of two criteria that a candidate needs to meet. The second criteria are that the candidate pair needs to get 20% of the vote across more than half of Indonesia’s 38 provinces (i.e., 20 provinces). There is limited information on this and hence, it remains to be seen if this criterion can be met by any of the three candidate pairs on 14 February.

The upshot is that the election outcome, first round or second round, remains a close call. In our view, there is still a non-negligible chance of second round run-off on 26 June 2024.

Lavanya Venkateswaran  
Senior ASEAN Economist  
+65 6530 6875  
[lavanyavenkateswaran@ocbc.com](mailto:lavanyavenkateswaran@ocbc.com)

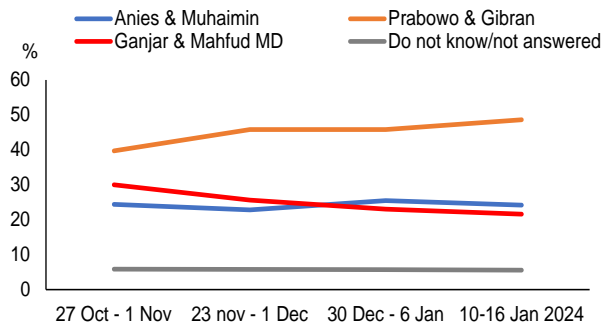
Ahmad A Enver  
ASEAN Economist  
+65 6530 6818  
[Ahmad.Enver@ocbc.com](mailto:Ahmad.Enver@ocbc.com)

Lembaga Survei Indonesia



Note: Electability surveys of 3 pairs simulation. The latest survey was conducted between 10 Jan - 11 Jan 2024. There were 1,206 respondents and the margin of error is ±2.9%. Source: Lembaga Survei Indonesia, OCBC.

Indikator Politik



Note: Electability surveys of 3 pairs simulation. The latest survey was conducted between 10 - 16 Jan 2024. There were 1,200 respondents and the margin of error is ±2.9%. Source: Indikator Politik, OCBC.

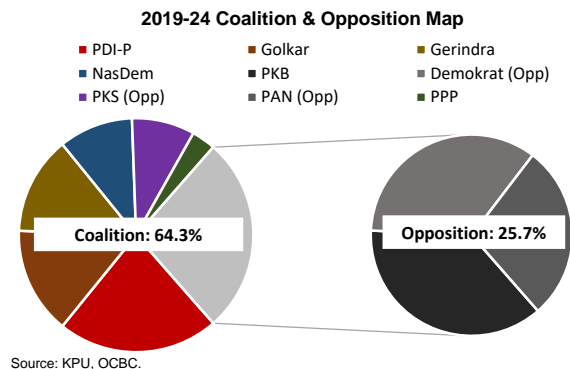
2. Is this round of elections only about the President?

The Presidential elections have garnered most of the headlines, but these are simultaneous elections for the House of Representatives and local government representatives.

The elections for the House of Representatives, crucial in approving legislation, is also important for economic reform prospects. The PDI-P currently holds the largest number of seats in the Lower House (128 out of 575 seats) followed by Golkar (85) and Gerindra (78). The latter is Prabowo Subianto’s party. While President Jokowi had the support of the legislature in the second term (2019-24), he consolidated his position by bringing in his ‘opposition’, including Prabowo Subianto, into the government.

Current Seats in the Parliament		
Party	Seats	% of Total
PDI-P	128	22.3
Golkar	85	14.8
Gerindra	78	13.6
NasDem	59	10.3
PKB	58	10.1
Demokrat (Opp)	54	9.4
PKS (Opp)	50	8.7
PAN (Opp)	44	7.7
PPP	19	3.3

Source: KPU, OCBC.



With President Jokowi’s implicit defection from the PDI-P towards Prabowo’s Gerindra, the composition of the House of Representatives may change significantly. It will be crucial to understand if the incoming President has a strong influence in the Parliamentary process. To that end, the composition of the Lower House, the political coalitions and alliances that follow the 14 February elections will be watched closely.

### 3. How and when will the results be reported?

Historical precedence suggests that ‘quick count’ results follow later on the election day. These quick counts have proved fairly accurate in past elections, albeit with some institutions more credible than others. The formal announcement from the Election Commission (KPU) will follow (approximately) a month after the elections.

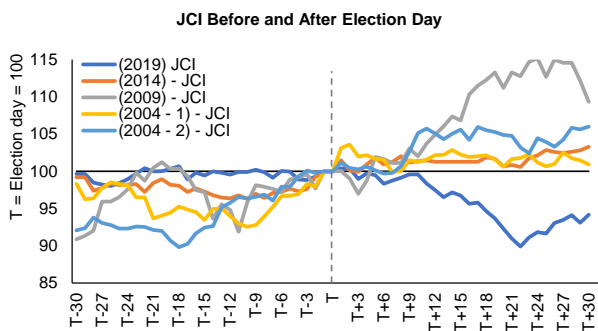
	Dates	Stages
1 Round	14 Oct 22 - 21 Jun 23	Updating voter data and compiling voter lists
	6 Dec 22 - 25 Nov 23	DPD nomination
	24 Apr 23 - 25 Nov 23	Nomination of members of DPR, Provincial DPRD, and Regency/Municipal DPRD
	19 Oct 23 - 25 Nov 23	Presidential and Vice-Presidential nominations
	<b>28 Nov 23 - 10 Feb 24</b>	<b>Election campaign period</b>
	11 Feb 24 - 13 Feb 24	Quiet Period
	<b>14 Feb 24</b>	<b>Voting Day</b>
	15 Feb 24 - 20 Mar 24	Recapitulation of Vote Count Results
IF 2 rounds	2 Jun 24 - 22 Jun 24	Election campaign period
	23 Jun 24 - 25 Jun 24	Quiet Period
	<b>26 Jun 24</b>	<b>Voting Day</b>
	27 Jun 24 - 20 Jul 24	Recapitulation of vote counting results
	1 Oct 24	Pronunciation of the Oath/Promise of the DPR and DPD
	20 Oct 24	Oath/Promise of the President and Vice President

**4. How have assets markets reacted to past election cycles?**

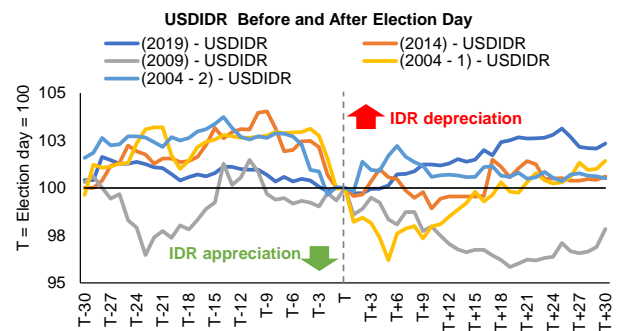
Ahead of past elections, asset markets have been volatile. The equity index, JCI, was weakest fifteen days prior to the election and subsequently picked up. Similar trends were observed in 10-year yields, which rose to a high 10-12 days prior to the elections. The 2009 elections were impacted by the Global Financial Crisis so are an anomaly.

This time the volatility has been not only due to the political cycle but also moves in UST yields and concomitant adjustments to US Federal Reserve rate cut expectations. The 10-year Indo GB yield moderated to a low of 6.521% on 2 February before rising to 6.600% (as of 7 February).

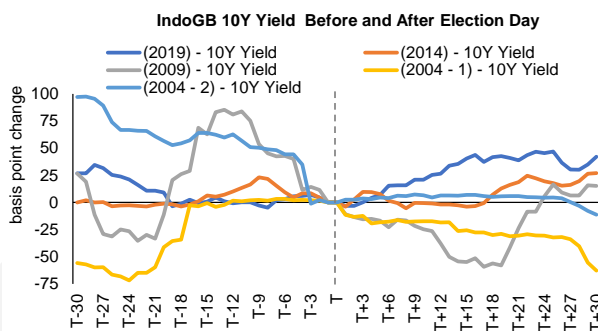
The currency exchange rate versus USD, i.e., USD/IDR rate was also at its weakest around the same period 10-12 days prior to the elections, during past election cycles. Ahead of this round, USD/IDR has been volatile. IDR depreciation pressures, external factors notwithstanding, were exacerbated on certain days by rumours of Finance Minister Sri Mulyani Indrawati’s resignation. The pair has, however, recently moved lower on expectations of a first-round win.



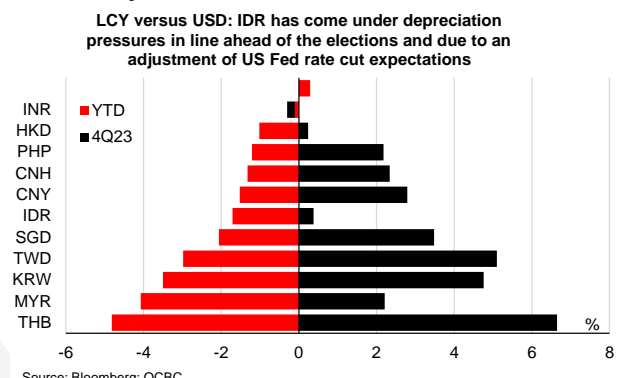
Note: Two rounds of election were held in 2004 (July and September). Source: Bloomberg, OCBC.



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Note: T = Election day. Two rounds of election were held in 2004 (July and September). Source: Bloomberg, OCBC.



Source: Bloomberg; OCBC

**5. What is at stake in the upcoming elections?**

Investors are looking for a sense of broader policy continuity from the next Presidential candidate. Incumbent President Jokowi has adopted numerous longer-term development priorities that necessitate that the incoming President follow through, in order to yield substantive results. These including down streaming in the mineral and resources sectors, shifting the national

capital to Nusantara (East Kalimantan) from Jakarta by 2045 and a continued focus on infrastructure spending.

We have consolidated the views of the three Presidential candidates over the debates, discussions and campaigns from the past few months. Our take is that there is no clear candidate for policy continuity but based on recent rhetoric Prabowo Subianto and Ganjar Pranowo are most likely to continue some of President Jokowi’s flagship policies. That said, Ganjar highlighted at the final Presidential debate on 4 February that he will relook at the labour provisions of the Omnibus Law, a key piece of legislation from the Jokowi administration, suggesting an increasingly critical outlook for President Jokowi. Anies Baswedan will differ the most from President Jokowi. He has publicly criticised President Jokowi’s down streaming policies and the shift of the national capital to Nusantara.

From a market standpoint, a Prabowo victory in the first round along with a strong mandate for the Lower House will be treated as a positive outcome, in our view. On the flipside, a second-round run-off between Prabowo and Anies and no clear party strongholds for the Lower House will be a worse case outcome. Notwithstanding the initial market reaction, the cabinet appointments for key economic posts such as Finance Minister and Coordinating Minister for Economic Affairs will be watched closely and crucial for policy continuity. Technocratic appointments to these posts will allow for greater investor confidence.

Key Theme	Anies Baswedan Muhaimin Iskandar	Prabowo Subianto Gibran Rakabuming Raka	Ganjar Pranowo Mahfud MD
Nusantara	Critical of developing and shifting the capital to Nusantara	Supportive of Nusantara	Agreeable to Nusantara
Down streaming	Increasingly critical of the policy: over-reliance on China, limited employment generation, poor quality control and dangerous working conditions	Down streaming as core strategy to develop economic strength into the medium-term and will continue the policy	See down streaming as ways to increase multinational cooperation especially among countries in the south
Infrastructure	This will remain a focus: create 14 new economic growth centers outside of Java equal to Jakarta to avoid overpopulation in any single city	Build 10 innovation cities (IKN – genome & nanotechnology industry; Sumatra 1 – chips & neuroscience industry; Sumatra 2 – IOT & sensors industry; Java 1 – AI & computational technology industry; Java 2 – mobile devices & VR/AR industry; Java 3 – robotics & autonomous vehicles industry; Bali – human-computer interface & social media industry; Sulawesi – biotechnology & agriculture industry; Maluku – energy storage industries;	Reform state-owned enterprises (SOEs) in the infrastructure sector;  Improve distribution of social assistance using technology
Fiscal	Tax Ratio Target: 13-16% - Carbon tax, tax 100 richest people, evaluate tax holiday and allowances, - Creation of state revenue agency (BPN) directly under president. - Incentives: Erase Individual income tax (PPH), saving tax, social tax.	Tax Ratio Target: 23% - Tax on SMEs, tax on beverages, tax on wheat imports - Creation of state revenue agency (BPN) - Incentives: Lower individual income tax (PPH), 2-year tax exemption for MSMEs - Possibly public debt to GDP ratio to 50% from ~40% in 2023.	Tax Ratio Target: 14-16% - Carbon tax, digital platform tax, inheritance tax above IDR 100bn, - Creation of state revenue agency (BPN) directly under president - Incentives: Tax holiday and tax allowance for domestic players,
Growth/Development goals	GDP Growth: 5.5% - 6.5% Poverty Rate: 4.5% Job openings: 15mn	GDP Growth: 6% - 7% Poverty Rate: below 6% Job openings: More jobs in creative industry	GDP Growth: 7% Poverty Rate: 2.5% Job openings: 17mn

Source: KPU; Jakarta Post, Jakarta Globe, Kompas, OCBC

## Macro Research

Selena Ling  
Head of Strategy & Research  
[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)

Tommy Xie Dongming  
Head of Greater China Research  
[XieD@ocbc.com](mailto:XieD@ocbc.com)

Keung Ching (Cindy)  
Hong Kong & Macau  
[Cindyckeung@ocbcwh.com](mailto:Cindyckeung@ocbcwh.com)

Herbert Wong  
Hong Kong & Macau  
[HerberhtWong@ocbc.com](mailto:HerberhtWong@ocbc.com)

Lavanya Venkateswaran  
Senior ASEAN Economist  
[LavanyaVenkateswaran@ocbc.com](mailto:LavanyaVenkateswaran@ocbc.com)

Ahmad A Enver  
ASEAN Economist  
[Ahmad.Enver@ocbc.com](mailto:Ahmad.Enver@ocbc.com)

Jonathan Ng  
ASEAN Economist  
[JonathanNg4@ocbc.com](mailto:JonathanNg4@ocbc.com)

Ong Shu Yi  
ESG Analyst  
[ShuyiOng1@ocbc.com](mailto:ShuyiOng1@ocbc.com)

## FX/Rates Strategy

Frances Cheung, CFA  
Rates Strategist  
[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

Christopher Wong  
FX Strategist  
[ChristopherWong@ocbc.com](mailto:ChristopherWong@ocbc.com)

## Credit Research

Andrew Wong  
Credit Research Analyst  
[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

Ezien Hoo, CFA  
Credit Research Analyst  
[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

Wong Hong Wei, CFA  
Credit Research Analyst  
[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

Chin Meng Tee, CFA  
Credit Research Analyst  
[MengTeeChin@ocbc.com](mailto:MengTeeChin@ocbc.com)

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