MONTHLY ALERT

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POLITICAL AND POLICY ISSUES TO WATCH

Photo credit: The Jakarta Post: https://www.thejakartapost.com/indonesia/2024/05/08/the-more-the-merrier-prabowos-coalition-backs-plan-for-bigger-cabinet.html

President-Elect's Power Consolidation

As Indonesia braces for the inauguration of its new parliament and President-elect Prabowo Subianto and Vice President-elect Gibran Rakabuming Raka in October, the political landscape is abuzz with power dynamics and coalition maneuvers. The formation of the incoming government not only holds implications for Indonesian politics but will also shape the trajectory of the nation's economy. Although Indonesia applies a presidential system of government, Prabowo faces the intricate challenge of navigating party coalition interests while ensuring effective governance.

One prominent narrative shaping the discourse is the potential formation of a "big tent" ruling coalition, encompassing not only parties that supported Prabowo-Gibran's successful bid but also those that backed their erstwhile opponents in the recent presidential race. The period following the Constitutional Court's confirmation of their victory has seen maneuvers by both winners and losers towards consolidating power. Press reports suggest a strong possibility of such a coalition forming both in the executive branch and at the legislative level (House of Representatives, DPR).

The rationale behind such consolidation is multifaceted. Firstly, Prabowo's party ranks just third in terms of votes won in the legislative election, necessitating the formation of a broader coalition in order to govern effectively. Attention is focused on whether the leading party, PDIP, will join the coalition, amid rumors of enticing cabinet seat offers. Secondly, the purpose of such a consolidation of power is questioned. While a big tent coalition would aim at inclusivity and the mitigation of post-election tensions, it also eliminates the possibility of healthy public debate in parliament. Concerns linger about whether Prabowo's aspirations align with developmental goals, or risk compromising Indonesia's long-term aspirations, such as becoming a top-five global economy by 2045. Whether such consolidated power will be directed towards expanding fiscal capacity, including through increased budget deficits and foreign debt acquisitions, also remains a point of contention. A grand coalition along these lines reduces the checks and balances that a solid opposition supplies.

The parallels drawn between Prabowo's potential coalition and the current administration under President Jokowi raise both optimism and skepticism. While proven effective in managing diverse interests, challenges loom large, stemming from the complexities of coalition politics and divergent agendas within the government.

Analysts caution against the perpetuation of entrenched political practices and stress the importance of professionalism in cabinet appointments. Prioritizing professionals over politicians is deemed essential for economic growth and governance effectiveness. Furthermore, concerns about democratic erosion and power concentration underscore the need to safeguard democratic institutions and promote accountability.

As Prabowo prepares to assume office, critical issues such as economic management, social cohesion and environmental sustainability require urgent attention. Effectively balancing competing priorities and navigating shifting geopolitical realities will be paramount for the incoming administration.

In conclusion, Prabowo-Gibran's victory signals a new chapter in Indonesian politics, characterized by both opportunities and challenges. The acceptance of the Constitutional Court's decision confirming the duo's victory by their erstwhile opponents and their supporters underscores the resilience of democratic institutions, while the formation of a big tent cabinet marks the dawn of a new governance era. The success of Prabowo's presidency, however, will hinge on his ability to address pressing socio-economic issues while upholding democratic principles amidst political dynamics.

Regional Head Elections Loom, Set for 27 November

The General Elections Commission (KPU) is gearing up for the simultaneous regional election of governors, regents and mayors (Pilkada) across Indonesia in November. These elections will take place in 37 out of 38 provinces, with Yogyakarta being exempt due to its special status, where governance is overseen by a sultan acting as governor. Additionally, elections will be held in 508 out of 514 regencies/cities, with six administrative areas in Jakarta exempted. Over 207 million people are set to participate in these elections. The voting is set for 27 November, following a schedule that includes candidate registration, campaign periods and vote counting until 16 December. This simultaneous election is particularly notable for incentivizing political parties, which contested the presidential election last February, to collaborate in nominating candidates rather than continuing the competition seen during the race for the country's top executive office already won by Prabowo, as noted above.

The schedule for the 2024 Pilkada is as follows:

- 27 February-16 November: Notification and registration of election monitors
- 24 April-31 May: Submission of potential voter lists
- 5 May-19 August: Fulfillment of requirements for independent candidate support
- 31 May-23 September: Updating and compiling voter lists
- 24-26 August: Announcement of candidate registrations
- 27-29 August: Candidate registration
- 27 August-21 September: Examination of candidate requirements
- 22 September: Determination of candidate pairs
- 25 September-23 November: Campaign period
- 27 November: Voting day
- 27 November-16 December: Vote counting and result recapitulation

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MARKET OUTLOOK

GDP Growth Hits 5.11% in Q1/2024

In the first quarter of 2024, the economy expanded 5.11% year-on-year, surpassing market estimates of 5.0%. This growth was primarily driven by robust household consumption during Ramadan and Idul Fitri celebrations, coupled with government cash handouts. Statistics Indonesia (BPS) reported a surge of 4.91% in household spending, up from 4.47% in Q4/2023, while government spending rose a notable 19.90% (compared to 2.81% in Q4/2023), largely due to election-related expenses. However, fixed investment decelerated to 3.79% from 5.02%. The trade balance showed weaker growth in exports (0.50%) compared to imports (1.77%), resulting in a negative impact on GDP. Across various sectors, output picked up pace in mining (9.31% vs 7.46%), healthcare (11.64% vs 3.06%), manufacturing (4.13% vs 4.09%), communication (8.39% vs 6.46%) and wholesale & retail trade (4.58% vs 4.09%), although construction slightly eased (7.59% vs 7.68%). BPS also noted that the number of unemployed individuals remained high, reaching 7.2 million in February, higher than the 6.93 million recorded in 2020, the first year of the Covid-19 pandemic. For the whole year 2024, the economy is expected to grow 5.2%, driven by initiatives aimed at boosting domestic consumption and the anticipation of a smooth transition to a new government.

April Inflation Benign at 3.0%

In April, the annual inflation rate stood at 3.0% year-on-year, slightly below market expectations of 3.06% and lower than March's 3.05%. This figure remained within Bank Indonesia's target range of 1.5% to 3.5%. According to BPS data, notable changes in price movements include moderation in food (7.04% vs 7.43% in March), housing (0.50% vs 0.55%), health (2.08% vs 2.17%), accommodation/restaurants (2.47% vs 2.51%), clothing (0.67% vs 0.89%), furnishings (0.99% vs 1.03%), and recreation & culture (1.58% vs 1.62%). Additionally, the cost of communication & financials continued to decline (-0.13% vs -0.13%). Conversely, prices accelerated for transport (1.33% vs 0.99%) and education (1.72% vs 1.70%). Core inflation in April reached 1.82%, up from 1.77% in March. Monthly, the Consumer Price Index (CPI) rose 0.25%

BI Raises Rates to Support Rupiah

Bank Indonesia (BI) increased its benchmark rates for April by 25 basis points. This adjustment brings the BI-Rate to 6.25%, the Deposit Facility rate to 5.50% and the Lending Facility rate to 7.00%. BI Governor Perry Warjiyo said that this decision aims to stabilize the Rupiah exchange rate amidst global risks while keeping inflation within the 2024 target range of 1.5% to 3.5%. He highlighted unexpected high inflation and robust US economic growth as factors driving speculation of a smaller and longer-than-expected decline in the US Federal Reserve's interest rate. Perry emphasized BI's close monitoring of global economic dynamics and geopolitical tensions, emphasizing the need for robust policy responses to mitigate negative impacts on Indonesia's economy. The Rupiah/USD exchange rate saw a 2.5% decrease month-on-month at the end of April and a 5.4% decline compared to its rate at the end of 2023, settling at 16,249.

Trade Surplus Continues in March. Forex Reserves Down to US$136.2 Billion at End April

In March, Indonesia's trade recorded a surplus of US$4.47 billion, driven by a surplus of $6.51 billion in non-oil and gas trade, while there was a deficit of $2.04 billion in oil and gas trade. Exports surged to $22.43 billion in March, up 16.40% from February but down 4.19% from March 2023. Non-oil and gas exports also grew to $21.15 billion, up 17.12% month--on-month but down 4.21% year-on-year. Meanwhile, imports for March totaled $17.96 billion, a decrease of 2.60% from February or 12.76% from March 2023. Oil and gas imports reached $3.33 billion, up 11.64% month-on-month or 10.34% year-on-year. Non-oil and gas imports amounted to $14.63 billion, down 5.34% from February or 16.72% from March 2023. For the first quarter of the year, the trade balance showed a surplus of $7.31 billion, with exports and imports down 7.25% and 0.10%, respectively, as reported by BPS. Meanwhile, foreign exchange reserves remained robust at $136.2 billion, though this figure saw a slight decrease from $140.4 billion in March. This sum is sufficient to cover 6.1 months of imports, significantly surpassing the international benchmark of three months for import financing, as reported by BI.

Manufacturing Expansion Slows in April with PMI at 52.9

The Indonesian manufacturing sector sustained its growth in April, although at a slower pace than in March, as indicated by the S&P Global Indonesia Manufacturing Purchasing Manager's Index (PMI) declining from 54.2 to 52.9. Despite slower growth in production and new orders, purchasing activity increased notably as firms aimed to build up inventory ahead of expected future growth. However, confidence levels decreased, leading to some temporary layoffs and a slight reduction in employment. Input costs continued to rise steeply, contributing to higher output prices. Output and new orders increased, mainly driven by domestic demand, while export sales remained subdued. Despite challenges, firms maintained positive expectations for future output growth.

	2022	2023	Latest 2024		2024*
GDP Growth (real) yoy	5.31%	5.05%	*5.11%*	*1st Q 24*	*5.00%*
CPI yoy *1)*	5.51%	2.61%	*3.00%*	*Apr*	*3.50%*
X-rate to US$, year end	14,979	15,416	16,025	7-May	*16,250*
JSX, year end	6,839	7,273	7,124	7-May	-
BI 7-day RR rate	5.50%	6.00%	6.25%	24-Apr	*5.75%*

1) Starting January 2024, the base year was changed to 2022 and the CPI covers 150 cities
*Sources: BPS, BI, *CastleAsia forecast*