

Indonesia Official Election Results

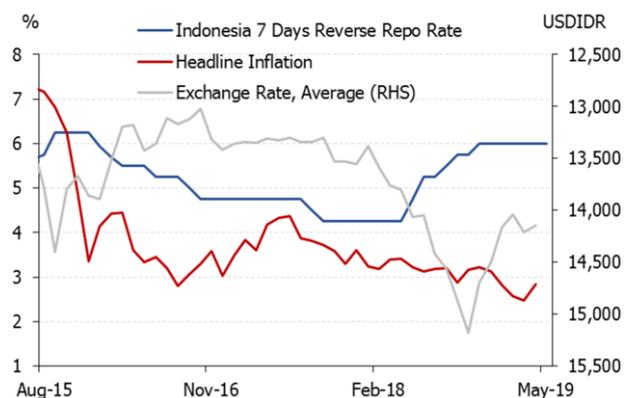
Jokowi re-elected, to focus on tougher economic reforms

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OVERVIEW

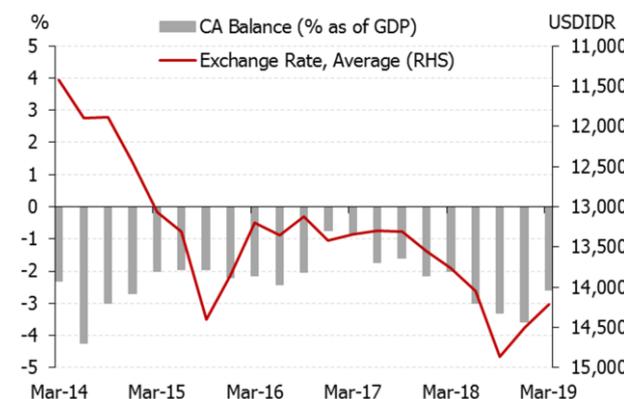
- Incumbent President Joko Widodo comfortably known as Jokowi won in the official vote re-count with a 55.5% tally ahead of his challenger, former army General Prabowo Subianto. The official announcement by the election commission (KPU) confirmed the initial results earlier last month that showed Jokowi and his running mate for vice president, Ma'aruf Amin, having secured 55.0% of the votes. The recount was undertaken because Prabowo refused to accept the official result, claiming he has sufficient evidence to prove there were massive electoral frauds. A court decision on Prabowo's claims is expected to be announced in June.
- Tougher economic reforms ahead?** Following the official election results and awaiting the inauguration of the president and vice president scheduled in October, Jokowi is set to kickstart his unfinished economic agenda given this is his second and final term as president. He recently pledged to implement tougher economic reforms if re-elected and aim to reduce the current account deficit which is weighing heavily on the Rupiah. Previously, he imposed additional import duties of various consumer products in part to reduce the current account deficit. He also ordered additional imports of various food staples to boost stocks in a move to ensure adequate supply domestically while to maintain lower inflation. Meanwhile, Jokowi imposed control on fuel prices few months ahead of the presidential election, typically a populist move to woo voters. As a result, inflation has remained subdued since late 2018, while the latest figures showed inflation increased to 2.8% YoY in April (Mar: 2.5%) but still comfortably closer to the lower end of Bank Indonesia's (BI) 2.5-4.5% target range. Maintaining the fuel subsidy is unsustainable in the long term and we expect Jokowi is compelled to gradually remove it especially when the nation is struggling with a twin deficit. As fuel subsidy cut a possibility, we expect inflation to pick up in the 2H19 and amplified by seasonally higher inflationary pressure ahead of Eid-ul-Fitr celebration, bringing inflation to hit the lower end of our forecast range of 3.1-3.6% (2018: 3.2%).
- Focus on boosting domestic demand.** After the country's GDP grew 5.2% in 2018 (2017: 5.1%) beating consensus' 5.1% and marking the highest growth since 2013, the Indonesian economy is expected to grow a decent 5.1% this year (Bloomberg's consensus) amid ongoing US-China trade tension and global growth slowdown thanks to its domestic consumption which have remained resilient backed by its young and vibrant population. On average, the economy grew 5.0% during Jokowi's first term as president, still below the 7.0% target that he set upon taking office back in 2014. Some critics argue that the Indonesian economy is running on autopilot and Jokowi failed to boost growth despite massive government spending much of it on improving public infrastructure. Government expenditure reached USD155.0b in 2018 and precisely 26.8% are channelled towards construction projects. However, the economy grew just 5.2%. Recently the government has set aside more than USD400.0b to build airports, power plants and other major infrastructure in the next five years as well as reallocating its new capital city outside of Jakarta.

Chart 1: Inflation, Interest Rate & USDIDR



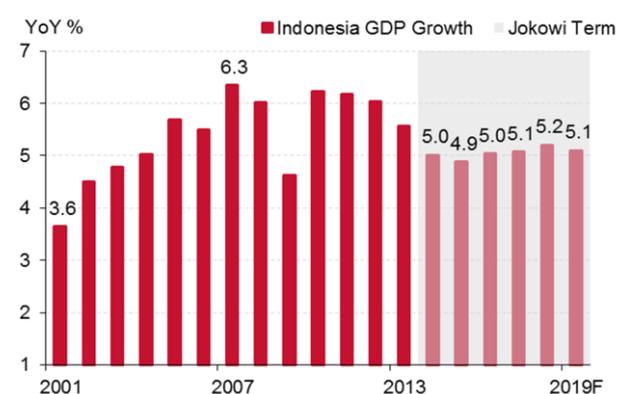
Source: CEIC, Kenanga Research

Chart 2: Quarterly CA Balance Vs USDIDR



Source: CEIC, Kenanga Research

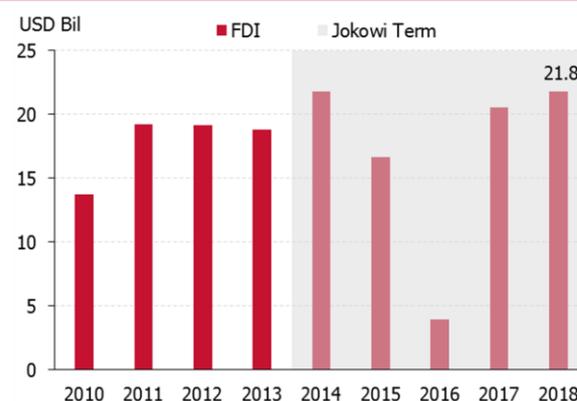
Chart 3: GDP Growth



Source: World Bank, Kenanga Research

23 May 2019

- Jokowi vows to liberalise and abolish rules that limit investment.** Despite a list of mega projects in the pipeline, Indonesia needs to improve its Foreign Direct Investment (FDI) and the export-oriented sector. Indonesia received USD21.8b net inflows of FDI in 2018. Late last year, Jokowi laid out a plan to open more sectors to woo foreign investors by revising the 2016 Negative Investment List (DNI). According to Indonesia's Industry Minister, the government plans to make Indonesia a regional manufacturing powerhouse that focusses on automotive, chemicals and electronic industries to boost the contribution of the manufacturing sector to 25.0% of the economy by 2025 (2018: 20.0%). We see this as a positive move amid the fact that Indonesia's protective and strict policies has all the while been hindering its growth potential. The impact of such move, however, is expected to boost the economy in the long term.

Chart 4: Net Inflows of Foreign Direct Investment


Source: CEIC, Kenanga Research

- Improving tax compliance and balancing growth.** Indonesia's tax revenue to GDP is among the lowest in ASEAN, although its fiscal deficit remains relatively low at 1.8%. In the 2019 state budget, the government is expected to collect USD125.8b in taxes or 72.5% of state revenue. Though the contribution to the government's coffers remains significant, overall tax to GDP is projected to be below 12.0% and among the lowest in the region after Myanmar mainly due to poor tax compliance. Jokowi in the presidential debate a few months ago conveyed that he has consistently conducted reforms in taxation in a bid to increase the government's revenue. He introduced a tax amnesty program back in 2016-17, which successfully increased tax collection and number of taxpayers while saw assets worth around USD330.0b declared. Also, there is a slight improvement in services and online taxes related to submission of annual tax returns (SPT) through e-filing facilities. In its election campaign, Jokowi pledge to cut corporate tax rates although no specific tax rate was proposed. Indonesia currently taxes corporates between 20.0-25.0% and is considered one of the highest in the region.

Table 1: Indonesia-ASEAN tax-to-GDP ratio trend

Country	2012	2013	2014	2015	2016	2017
Myanmar	4.5	5.5	5.8	6.0	6.4	6.0
Indonesia	11.4	11.3	10.8	10.8	10.3	n/a
Laos	13.6	13.7	13.8	13.5	12.9	12.2
Philippines	12.9	13.3	13.6	13.6	13.7	14.2
Singapore	13.8	13.4	13.7	13.3	13.7	14.8
Malaysia	15.6	15.3	14.8	14.3	13.8	n/a
Thailand	15.4	17.0	15.8	16.1	15.4	14.8

Source: World Bank, Kenanga Research

- Moving forward, we believe Indonesia would eventually enjoy robust economic growth if it pursues diligently the planned structural reform and liberalisation, particularly to raise FDI and reduce trade restrictions. Hence, **we forecast Indonesia's GDP growth to grow by 5.0% in 2019** a tad lower than last year's 5.2% and below consensus but matching the average growth of Jokowi's first term in office, weigh down by external uncertainties in particular on the impact of the US-China trade war, China slowdown and weak commodity prices. While BI has enough space to reverse its 7-day repo rate following six rates hikes last year to stem Rupiah's sharp depreciation and narrowing of its current account deficit, **we maintain our outlook that the policy rate would stay put this year barring unforeseen external shocks.** This is mainly to support its structural reforms, global economic uncertainties and to stabilise the Rupiah.

Table 2: Indonesia President

No.	President	Office Start	Last Service	Party	Assistant
1	Soekarno	18-Aug-1945	12-Mar-1967	Partai Nasional Indonesia	Mohammad Hatta
2	Soeharto	12-Mar-1967	21-May-1998	Partai Golongan Karya (Golkar)	Hamengkubuwana IX, Adam Malik, Umar Wirahadikusumah, Soedharmono, Try Sutrisno, Bacharuddin Jusuf Habibie
3	Bacharuddin Jusuf Habibie	21-May-1998	20-Oct-1999	Partai Golongan Karya (Golkar)	
4	Abdurrahman Wahid	20-Oct-1999	23-Jul-2001	Partai Kebangkitan Bangsa (PKB)	Megawati Soekarnoputri
5	Megawati Soekarnoputri	23-Jul-2001	20-Oct-2004	Partai Demokrasi Indonesia Perjuangan (PDIP)	Hamzah Haz
6	Susilo Bambang Yudhoyono	20-Oct-2004	20-Oct-2014	Partai Demokrat (Dem)	Muhammad Jusuf Kalla, Boediono
7	Joko Widodo	20-Oct-2014	-	Partai Demokrasi Indonesia Perjuangan (PDIP)	Muhammad Jusuf Kalla, Ma'aruf Amin

Source: Various news, Kenanga Research

KEY MANIFESTO JOKOWI - MA'ARUF

JOKOWI - MA'ARUF	
1. Economic competitiveness	<ul style="list-style-type: none"> Focus on urban and digital infrastructure to accommodate the development of the digital economy. Industry revitalisation for industry 4.0. This includes a change of policies in natural resources management, switching from a commodity-based economy to developing national industry, as well as increasing the minimum domestic component requirement and logistics infrastructure. To develop new economic sectors, with a focus on tourism, Islamic finance and the digital economy. Fiscal and structural reform will be conducted to increase efficiency and ease of doing business, as well as to reduce interest and increase productivity.
2. Human development	<ul style="list-style-type: none"> To provide basic services such as clean water and sanitation, and to support child development and health care. National Health Insurance-Healthy Indonesia Card (JKN-KIS) program will be extended with broader coverage and better services. Affirmative action for the poor and people from underdeveloped regions will be available under existing programs such as the LPDP and Bidik Misi scholarship programs. Vocational schools will be designed to suit the needs of industry, to prevent a mismatch between education and the job market. Broader access to funds and scholarships will be provided for workers to increase their skills. Religious education institutions will be given attention, as there is an emphasis on religious institutions as providers of "national character education" and an aim to instil religious values through education. Introduces a gender-responsive budgeting system as well as objectives to increase female participation in education, politics, and to empower women in the economy.
3. Development equality	<ul style="list-style-type: none"> To assist in increasing productivity and ensure an inclusive economy through, among other measures, providing technology to farmers and fishermen. To provide credits for funding, tax incentives and help to go digital and start exporting. Zakat and waqf will serve as instruments for poverty alleviation and reducing inequality. Islamic finance and the halal industry will also be developed, and <i>pesantren</i> (Islamic boarding schools) are expected to have their business units in partnership with the public and private sectors. To continue strengthening regional economies through infrastructure development and fostering local industries.
4. Sustainable development	<ul style="list-style-type: none"> Focus on waste management, including of hazardous waste and plastics. Climate change mitigation on preventing forest fires and peatland conservation, developing renewable energy, ecofriendly public transportation and green spaces in urban areas.
5. Arts and culture and national characteristics	<ul style="list-style-type: none"> The protection of intellectual property and musician welfare, while in film, the focus turns to fund, workers' rights and people's appreciation. Sports will be promoted and developed through education, leisure and as an industry. Focus on a mental revolution within the bureaucracy and the maintenance of social harmony, with the latter concerning moderation in religious activities.
6. Rule of law	<ul style="list-style-type: none"> Focuses on the harmonisation of existing laws and regulations and deregulation when needed. Legal reform will cover both criminal law and civil law. To strengthen the Corruption Eradication Commission (KPK) and introduce a national anticorruption strategy. To resolve human right abuses and to include human rights in the education curriculum. Religious freedom is guaranteed and the protection of indigenous people's rights, agrarian rights and disability rights.
7. Security and defence	<ul style="list-style-type: none"> Participation in international organizations including the Indian Ocean Rim Association (IORA). Improve security in border areas and protect Indonesian citizens abroad. To modernise the military by updating the weaponry system and developing the cyber and defence industry. Police reform will be conducted. Coordination with intelligence agencies will also be increased.
8. Bureaucracy	<ul style="list-style-type: none"> To guarantee civil rights and press freedom, as well as increasing digital literacy and strengthening the electoral process. Greater transparency in the recruitment and budgeting processes, to more education and training, smart office reform to a better retirement and remuneration system. E-government system is expected to deliver better performance and transparency.
9. Central-regional government relations	<ul style="list-style-type: none"> To promote regional autonomy by designating subdistrict, district and villages as the frontier for the delivery of public services and the implementation of the Village Law. To combat widespread corruption at the regional level. There will also be deregulation through the revoking of problematic bylaws. Regional governments are expected to improve cooperation to boost economic development and economic competitiveness.

Source: Various news, Kenanga Research

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