

Indonesia Economic Briefing

PDI-P May Need Coalition Support



Anton Hendranata
Economist/Econometrician
anton.hendranata@danamon.co.id

- **PDI-P may win.** The quick count result of the Indonesia's legislative election indicated that PDIP may win the election. Based on the Indonesia LSI survey, PDIP has received around 19.8% of the votes, which is quite far below the previous prediction that stated PDIP could reach above 25% of the votes. Meanwhile Golkar received around 14.6% of the votes, followed closely by Gerindra at 11.8%.
- **Need coalition.** A political party or coalition could run for the presidential election if the party/coalition has minimal 20% of the parliament chairs or a minimum 25% of popular votes. Based on the quick count result, there could be three parties that would lead a coalition, that is PDIP, Golkar and Gerindra. This means there could be three presidential candidates: Joko Widodo (Jokowi), Aburizal Bakrie (ARB) and Prabowo Subianto.
- **Presidential election, Jokowi win?** The next election could be harder to predict. Does Jokowi's probability of winning the election still as high as the previous polls? Coalition and the future vice president of the PDIP would be the key. The main weakness of the PDIP in the legislative election is the less popularity/votes from the east part of Indonesia. If this could be fixed and propose the vice president that could prop up votes from the east part of Indonesia, then the probability of Jokowi winning the election could still be high.

Market and Policy Implication

- Markets reacted negatively since the PDIP votes was not dominant and below expectation. The stock markets dropped by 3.3% to 4,757, the 10yr bond yield slightly up to 7.81%, while the Rupiah depreciated sharply by around 0.4% to Rp 11,338/USD on the April 10th, 2014. However, we think the correction will be temporary. It is still a healthy correction for the market to be more rational and to be less sentiment-driven.
- We think the national elections (legislative and presidential) will continue to run smoothly. A positive result on the election should help boost more confidence to the economy. We maintain our forecast that the rupiah could strengthen to around Rp11,058/USD by year end, though in the short term, volatility may still cause the rupiah to move in the range of Rp12,000-12,500/USD as the seasonality high Dollar demand in May-June.

Table 1. Indonesia: 2014 Parliamentary election quick count

Party	LSI	Cyrus/CSIS	Kompas	Metro TV	JSI	Average
PDI-P	19.8	19.0	19.2	18.9	18.8	19.1
Golkar	14.6	14.3	15.0	14.7	15.7	14.9
Gerindra	11.8	11.8	11.8	12.3	11.6	11.9
Demokrat	9.7	9.6	9.4	9.9	9.4	9.6
PKB	9.1	9.2	9.1	8.9	10.0	9.3
PAN	7.5	7.5	7.5	7.3	7.8	7.5
PPP	7.1	6.7	6.7	6.4	6.4	6.7
PKS	6.6	6.9	7.0	6.9	6.3	6.8
Nasdem	6.3	4.6	6.7	6.9	6.4	6.2
Hanura	5.3	5.5	5.1	5.4	5.1	5.3
PBB	1.4	1.1	1.5	1.5	1.5	1.4
PKPI	1.0	1.6	0.9	0.9	1.0	1.1

Source: local news

Indonesia: Selected Economic Indicators

	2010	2011	2012	2013	2014E	2015E
National Accounts						
Real GDP (% y-o-y)	6.2	6.5	6.2	5.8	5.7	6.2
Domestic demand ex. inventory (% y-o-y)	5.3	5.7	6.2	5.1	5.5	5.7
Real Consumption: Private (% y-o-y)	4.7	4.7	5.3	5.3	5.2	5.4
Real Gross Fixed Capital Formation (% y-o-y)	8.5	8.8	9.8	4.7	4.0	6.8
GDP (US\$bn) — nominal	710	845	879	871	925	1,086
GDP per capita (US\$) — nominal	2,986	3,509	3,596	3,490	3,640	4,215
Open Unemployment Rate (%)	7.1	6.6	6.1	6.3	6.1	6.1
External Sector						
Exports, fob (% y-o-y, US\$ bn)	32.1	27.0	-6.1	-2.6	4.2	6.0
Imports, fob (% y-o-y, US\$ bn)	43.7	30.3	8.4	-1.4	3.5	4.2
Trade balance (US\$ bn)	30.6	34.8	8.6	6.1	3.3	6.8
Current account (% of GDP)	0.7	0.2	-2.7	-3.3	-2.9	-2.4
Central government debt (% of GDP)	26.1	24.6	23.1	22.0	21.2	22.2
International Reserves –IRFCL (US\$ bn)						
International Reserves –IRFCL (US\$ bn)	96.2	110.1	112.8	99.4	100.0	103.5
Reserve Cover (Months of imports & ext. debt)	7.1	6.3	6.1	5.4	5.6	5.8
Currency/US\$ (Year-end)	8,991	9,068	9,670	12,189	11,058	10,754
Currency/US\$ (Average)	9,085	8,779	9,380	10,428	11,605	10,770
Other						
BI policy rate (% year end)	6.50	6.00	5.75	7.50	7.75	8.00
Consumer prices (% year end)	6.96	3.79	4.30	8.38	4.94	4.61
Fiscal balance (% of GDP; FY)	-0.73	-1.14	-1.77	-2.24	-1.80	-2.00
S&P's Rating – FCY	BB	BB+	BB+	BB+	BB+	BB+

Source: CEIC, *Danamon Estimates

Economic and Market Research

Anton H. Gunawan anton.gunawan@danamon.co.id	Chief Economist	+62 21 5799-1466
Anton Hendranata anton.hendranata@danamon.co.id	Economist / Econometrician	+62 21 5799-1563
Dian Ayu Yustina dian.yustina@danamon.co.id	Economist / Bond Analyst	+62 21 5799-1563

PT Bank Danamon Indonesia, Tbk.
Menara Bank Danamon
Jalan Prof. Dr. Satrio Kav. E IV #6
Mega Kuningan, Jakarta 12950
INDONESIA

Facs: +62 21 5799-1048

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