

Indonesia: Currency slips ahead of elections

The Indonesian Rupiah (IDR) slid more than 1% over the past few days ahead of the February elections



Sudirman Central Business District in Jakarta, Indonesia

Indonesia goes to the polls on 14 February

Indonesia goes to the polls in a little over two weeks with the nation set to elect a leader other than President Jokowi, who is not eligible for re-election. As of the latest election polling, Defense Secretary Prabowo remains in the lead (52.3%) with Anies (former Java governor) and Ganjar (ruling party candidate) trailing in the polls with 21.3% and 19.7%, respectively. Secretary Prabowo may have bolstered his election bid by teaming up with Gibran Rakabuming, the eldest son of President Jokowi who will run as his candidate for Vice-President.

Indonesia's Presidential Election requires a candidate to secure a majority of the popular vote and at least 20% of the votes in more than half of Indonesia's provinces to secure the presidency. If no candidate can secure both criteria, the elections will progress to a second round of voting with only the top two candidates in a run-off election.

Most analysts still expect the election to progress to a run-off election on 26 June although frontrunner Prabowo has recently polled above 50% for the first time since the campaign started.

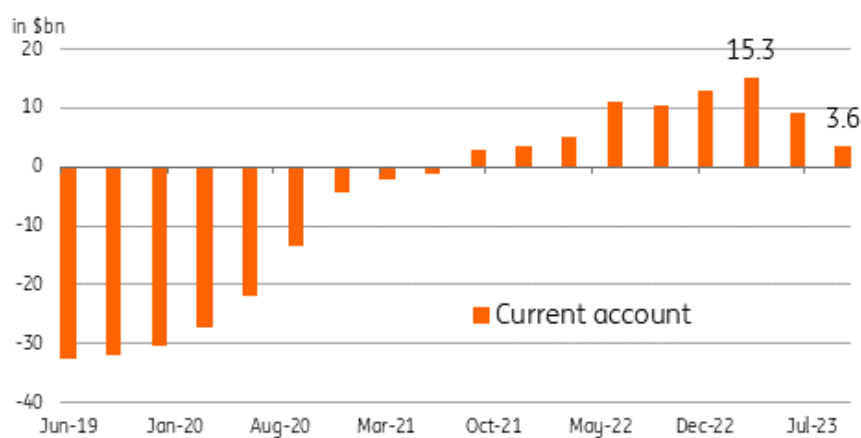
IDR slides on anxiety

The IDR has slid recently and is down more than 1.2% over the past week. This has been put down largely to anxiety over reported dissent amongst cabinet members, including Finance Minister Sri Mulyani Indrawati. Reports have been circulating that some cabinet officials are mulling quitting their posts due to disagreements on disbursements related to spending on social assistance.

A potential exit for the Finance Minister appears to have investors concerned given Indrawati's recent success in delivering fiscal targets even ahead of schedule.

It remains unclear if there will indeed be a cabinet shakeup, but it certainly does not help improve sentiment ahead of the election.

Indonesia continues to post a current account surplus



Source: Bank Indonesia

Bank Indonesia steps in but overall fundamentals look to hold

Bank Indonesia (BI) indicated that it has been active in stabilizing the IDR after its recent slide, saying that it believes the currency would eventually strengthen, in line with its still solid macroeconomic fundamentals.

With the economy still posting a current account surplus and a budget deficit of roughly 1.7% of GDP, macroeconomic fundamentals still point to the IDR stabilizing once the current bout of uncertainty fades. Thus, we expect BI to continue to provide a presence to ensure IDR stability in the near term while hoping to ride out this recent bout of volatility ahead of the elections.

We will be closely monitoring these developments as well as the results of the 14 February election should they indeed lead to substantial changes in stance for both fiscal responsibility and external account stability.