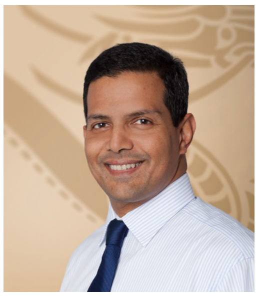
April 2019

Matthews Asia

Matthews Asia Perspective

Indonesia's Election Outcome Removes Overhang for Equities



Sriyan Pietersz
Investment Strategist
Matthews Asia

Indonesia's presidential election appears to have been won by incumbent President Joko Widodo, also known as Jokowi. The Jokowi-Amin ticket defeated the Prabowo-Uno ticket by a margin of around 8.8% of the popular vote (based on Quick Count results). The Prabowo-Uno ticket was led by Prabowo Subianto, a retired army general and former son-in-law of the country's late former President Suharto.

The margin of victory was wider than in Jokowi's win in the 2014 election, when he defeated Prabowo by 6.3%. In the parliamentary election, the political party PDI-P (Jokowi's backer) was leading other parties by a big margin in all of the Quick Count results, appearing to win around 20% of the vote.

Official election results are expected to be announced by May 22, 2019, but this should largely be a formality given the clear margin of victory in the presidential election, although there is still scope for minor changes in the parliamentary election results as seats are reallocated from parties not reaching a minimum 4% popular vote threshold.

Impact on Equity Flows

With the election outcome now generally clear, flows into equities should pick up as the political uncertainty is dispelled. Hesitancy over the election outcome was evidenced by foreign buying stalling from the end of January 2019. In recent weeks, local investors also pulled back slightly as the spread between the Jokowi and Prabowo tickets narrowed; this, too, should reverse going forward.

A shift in focus to the policy agenda and potential interest rate cuts in the second half of 2019 (given low inflation, and stabilization in both the current account deficit and in Indonesia's rupiah) should provide positive reinforcement, while a return of private sector confidence and capital expenditures after several quiet years should help to accelerate earnings growth through 2020. Rate-sensitive sectors such as banks and real estate are likely to be in focus.

Reform Momentum to Resume

Indications are positive for economic reforms after the elections, but labor reforms may come only next year. According to the local press, preliminary discussions have started within the government on key policy reforms to revise the labor law and progressively dismantle existing subsidies. Indonesia's rigid labor laws that dictate high severance pay have long been an impediment to hiring and new investment, so revisions that could address the issues and also introduce a new productivity-based mechanism for setting minimum wages could help increase Indonesia's competitiveness in attracting FDI into labor-intensive export-oriented industries.

Stalled subsidy reforms are also expected to resume in the second half of this year. Other potential policies in the pipeline may include a broader provision of tax holidays to include export-oriented sectors, a reduction of the current negative investment list, and the introduction of tax incentives for corporate R&D and labor force training initiatives. All of these are aimed at boosting both foreign direct investment and domestic private investment to support structural improvement in the balance of payments and boost GDP growth toward the 7% target set in the present administration.

Parliamentary Backing

The Jokowi coalition's position, with around 54% of votes, is significantly better than it was immediately following the 2014 election, when Jokowi began with a coalition that controlled just 37% of the parliament. Once the official counts are finalized, it is likely that the Jokowi coalition may expand further as seats from parties winning less than 4% of the popular vote are reallocated and more parties join the winning ticket, which could potentially take Jokowi's coalition to approximately 65% to 70% of the parliament.

Investments involve risk. Past performance is no guarantee of future results. Investing in international and emerging markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation.

Important Information

Matthews Asia is the brand for Matthews International Capital Management, LLC and its direct and indirect subsidiaries.

The information contained herein has been derived from sources believed to be reliable and accurate at the time of compilation, but no representation or warranty (express or implied) is made as to the accuracy or completeness of any of this information. Matthews Asia and its affiliates do not accept any liability for losses either direct or consequential caused by the use of this information. The views and information discussed herein are as of the date of publication, are subject to change and may not reflect current views. The views expressed represent an assessment of market conditions at a specific point in time, are opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. Such information does not constitute a recommendation to buy or sell specific securities or investment vehicles. This document does not constitute investment advice or an offer to provide investment advisory or investment management services, or the solicitation of an offer to provide investment advisory or investment management services, in any jurisdiction in which an offer or solicitation would be unlawful under the securities law of that jurisdiction. This document may not be reproduced in any form or transmitted to any person without authorization from the issuer.

In the United States, this document is issued by Matthews International Capital Management, LLC. **In Singapore**, issued by Matthews Global Investors (Singapore) Pte. Ltd. (Co. Reg. No. 201807631D). **In Hong Kong**, this document is issued by Matthews Global Investors (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission in Hong Kong (SFC). **In the UK**, this document is issued by Matthews Global Investors (UK) Limited, which is authorised and regulated by the FCA, FRN 667893. In the UK, this document is only made available to professional clients and eligible counterparties as defined by the Financial Conduct Authority ("FCA"). Under no circumstances should this document be forwarded to anyone in the UK who is not a professional client or eligible counterparty as defined by the FCA. This document has not been reviewed by any regulatory authorities.

Matthews Asia

©2019 Matthews International Capital Management, LLC