

ANDBANK RESEARCH

Global Economics &
Markets

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Working paper - 85

Indonesia – Job done !

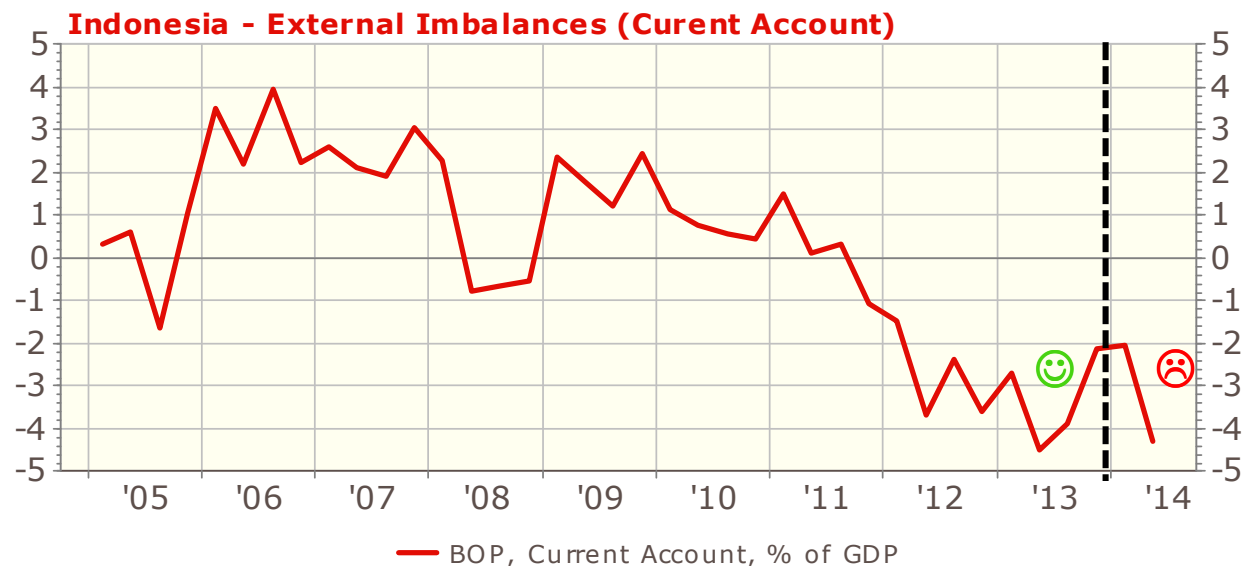
After a 20% return in hard currency, now its time to take profits!

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Private Bankers

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Indonesia – Earlier this year it seemed that the country was following the path to redemption

- ✓ After the pro-reform Joko Widodo (Jokowi) was elected as president in July, investors engaged in a kind of euphoria. An euphoria that was reinforced by the first signs of some imbalances that were being fixed.
- ✓ After central bank tightening measures, Indonesia's current account deficit reduced from 4.4% of GDP in 4Q13, to just 2.1% in 1Q14, but ... this positive dynamic was interrupted abruptly (see the chart). Why?



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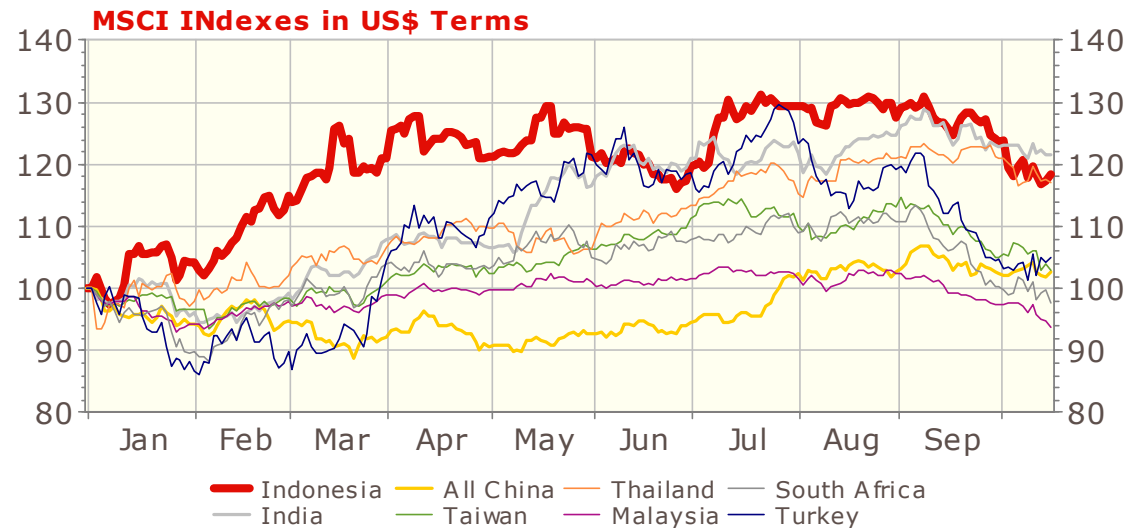
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Indonesia – The losing candidate (Pravowo Subianto) leads a coalition dedicated to obstructing Jokowi's reformist agenda.

- ✓ A series of parliamentary moves (driven by the losing candidate Subianto) to re-concentrate power in the hands of old Jakarta elites would be undermining the reformist impulse driven by the winning candidate, that include (1) the elimination of fuel subsidies within four years, (2) reforms in the labor market practices, and (3) reforms in the area of foreign investments.
- ✓ The good news is that (according to sources familiar with the issue) coalitions in Indonesia are extremely fluid, what means that Jokowi could end up making deals that give him parliamentary majority.
- ✓ The bad news is that (also according to sources) fluidity is driven by a political "quid pro quo", which will likely force the new president to dilute his reform agenda to accommodate vested interests, and this could cause some consternation among investors. Especially among foreign investors).
- ✓ The short term risk is that these political shenanigans will probably delay the much needed structural reforms.
- ✓ **All these factors could result in a combination of low national politics and poor economic policies, which in turn will keep Indonesia in a difficult position:**
 1. Still managing its challenging external position
 2. Adjusting its economy to the end of a weakening commodity cycle
 3. Which in turn will undermine the transition towards a more sustainable trajectory (as India appears to be doing)

Conclusion – The Indonesian has already done its job! So it is better to take profits now.

- ✓ If Jokowi (and thus Indonesia) declines to take the hard choices and waits for better external conditions, who knows if Indonesia will be able to leave de “Fragile Five” club.
- ✓ According to this, and given its impressive relative outperformance compared to its peers, and (of course) compared to the developed markets, we think it is now time to close our buy recommendation and TAKE PROFITS!



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