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Macro Insights Weekly
100 days of President Prabowo

Group Research

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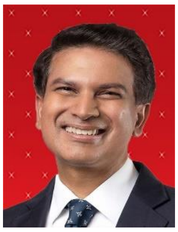

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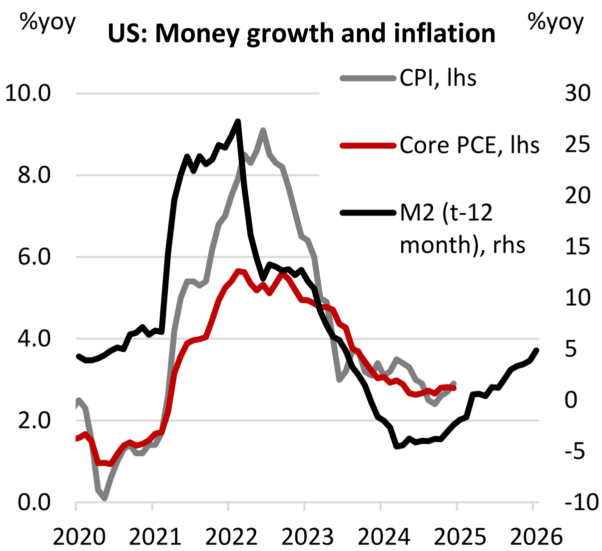
- *Indonesia's new government, under President Prabowo Subianto, recently completed its first 100 days. The administration ought to be credited for an energetic and popular start to its term.*
- *A notable boost has been provided to social spending.*
- *Room for such spending has been created through wide ranging cuts in other areas.*
- *Given external uncertainties, the govt has been busy strengthening international relations.*
- *Bank Indonesia is playing a growth supporting role.*
- *Key would be to convey an internally consistent reform agenda.*

Chart of the Week: US M2 growth and inflation

A tight labour market, strong retail demand, and seasonal factors are adding heat to US inflation readings, with January headline and core CPI surprising on the upside. A monetary dimension appears to be at play too. After contracting through most of 2024, US broad money supply growth has picked up. M2 growth is a decent predictor of core inflation a year from now, as seen in the chart below. The Fed needs to watch out, as the relationship points to well above 3% core inflation ahead.



Source: Bloomberg, DBS

Commentary: 100 days of President Prabowo

Indonesia's new government, under President Prabowo Subianto, recently completed its first 100 days. A survey conducted by Kompas media group in January gave a high approval rating of 80.9%, reflecting satisfaction on security and social welfare issues. Key developments in this period include:

Social assistance programs and human capital focus. Targeted support programs for vulnerable households and farmers have been introduced, covering sustenance needs like food, housing, and health. The flagship free nutritious meal program for school children was rolled out, with free health checkups from February 2025. Plans are afoot to build 3mn affordable homes per year, which might be funded by housing bonds or state banks providing longer tenor mortgages. Budget allocation towards the free meal program has been raised to IDR 171trn (4.7% of total spending), proposing to reach around 40mn residents this year. This marks an increase from IDR 71trn earlier. Annual free health screening program is likely to cost IDR 3trn i.e. 0.1% of total spending (reduced from previous estimate). The Government Purchase Price (HPP) for rice and corn has been raised.

Rationalisation of public spending. The government announced expenditure cuts worth IDR 306.7trn (8% of total spending; 1.2% of GDP). Four-fifth of this will be via lower allocations to ministries and rest from a cut to regional transfers. These reductions are expected to help with efforts to reorient allocations towards social assistance projects.

Cuts across ministries are uneven. For instance, the Ministry of Public Works faces a reduction from approximately IDR 120trn to IDR 33bn, while the Ministry of Education and Research's budget has been cut from around IDR 62trn to IDR 37.5trn. Together with opex budget, the axe is also likely to fall on capital expenditure, as signalled by a cut to transport infrastructure, delays towards capital and machinery & equipment allocations.

Strengthening international relations. President Prabowo has been active in stepping up regional cooperation, taking steps to balance global powers and work towards economic partnerships. In his previous role as the Defence Minister, there were efforts to engage in multilateral defence and security frameworks; these are likely to be followed through under his Presidency. Recent discussions and visits have spanned the West, South Asia and Northeast Asia. Indonesia officially joined the BRICS alliance in early-January, which is viewed as representative of developing countries and the Global South.

The parliament has approved the creation of a new **sovereign investment fund called Daya Anagaya Nusantara Investment Management Agency (Danatara)**. This agency is expected to assume control over the government holdings in selected state companies, from the SOE Ministry, along the lines of Singapore's investment agency. Initial capital is expected to be to the tune of IDR 1000trn ($61bn), which if materialises would push the agency to be amongst the frontrunners in the region.

The action is not all fiscal and structural. The central bank is getting involved in supporting the cycle as well. Bank Indonesia surprised with a 25bp rate cut in January, signalling a shift in focus towards growth, as the decision was accompanied by modest downward revisions to its GDP projections. The cut contrasted with the cautious tone over rupiah volatility at the December meeting and was delivered despite the currency's extended weakness into this year on the back of a strong dollar.

Monetary policy is likely to do more of the heavy lifting in supporting growth as the government's focus remains on fiscal consolidation. in midst of efforts to raise revenue collections. The latter is especially in focus after the decision to defer the VAT rate increase and introduction of stimulus measures to spur growth. Beyond a likely pause in February, we expect 50bp more (revised from 25bp earlier) rate cuts in 2025.

The March 1 deadline to implement tighter export earnings' FX holding requirement looms. Resource exporters will be required to keep 100% of their foreign currency denominated earnings onshore for at least a year. The spirit of this regulation is broadly consistent with the authorities past efforts to attract export revenue proceeds since more than a decade back. Some concessions are likely as exporters seek some room to allocate the receivables towards operational costs and import payments.

Rough global waters

Tariff risks will continue to linger as the US administration mulls over further direct as well as reciprocal tariffs on trading partners. US runs a small trade deficit with Indonesia, which stood at $18bn in 2024 (1.5% share) and ranking 15th in the overall deficit list. The trade deficit has nearly doubled from 2015 levels. Risks from reciprocal tariffs is smaller for Indonesia, although investment curbs (like asked of Apple) and other non-tariff barriers are also likely to be under scrutiny. With Indonesia's investment and trade linkages more tied to China than the US, growth implications from the former become important.

Our analysis on the correlation of China's GDP growth with key trading partners (using band-pass filter) shows that North Asia is highly exposed to a slowdown in Chinese demand in the event of trade tensions, while correlation with Indonesia is modest at 0.1-0.15.

In view of potential trade tensions, inability to secure a bilateral trade agreement with the US might hurt opportunity to strengthen linkages. With the US likely to be a source of noise, the Indonesian government might seek to diversify trading partners, for instance to Latin America and India.

Indonesia's EV battery ecosystem is actively seeking deeper collaboration with existing North East Asian countries like S Korea and Japan, yet another example of it risk diversification strategy.

The Prabowo administration ought to be credited for an energetic start to its term. The key would be maintain reform momentum, keep policies internally consistent, and deal with external challenges adroitly.

Taimur Baig and Radhika Rao

FX: EUR and AUD to meet resistance

We are cautious about adopting an overly pessimistic view of the USD. Last week's 1.2% depreciation brought the DXY Index to a significant support level of around 106.70. The greenback's sell-off was driven by US President Donald Trump's surprise phone call to Russian President Vladimir Putin, sparking hopes of an end to the war in Ukraine.

American and Russian officials are scheduled to kick off talks this week in Saudi Arabia without the EU or NATO. US Secretary of State Marco **Rubio said the next few days will determine how serious Moscow is about peace in Ukraine** as both sides try to set up a Trump-Putin summit before Ramadan month starts on March 1. Meanwhile, the **EU has responded with an emergency summit of its leaders** – including the UK, Brussels, and NATO – in Paris early this week.

There are many irreconcilable red lines regarding Trump's plan to secure a quick settlement. The partition model – where Ukraine agrees to let Russia keep occupied areas – will likely be resisted by Ukraine and its EU allies. For example, the model sets a dangerous precedent that weakens Ukraine's sovereignty and NATO's credibility without assurances of ending future Russian aggression. The sanctions opposed by Russia were also not discussed during the Trump-Putin phone. Hence, it is still too early to predict how Trump's peace plan will proceed and where it would lead.

EUR faces another political uncertainty this week – **the German federal elections** on February 23. The opposition CDU/CSU is leading but will find it difficult to form a sustainable and effective coalition due to the fragmented political landscape. If the far-right AfD, trailing in second place, gains more seats in the Bundestag, it would have a stronger ability to disrupt legislation and weaken the post-election coalition-building efforts. The AfD is a Euroskeptic and a fiscal hawk (somewhat) that criticizes military aid to Ukraine with a pro-Russia tilt. Hence, **Germany's election could erode investor confidence that fuelled the EU equity rally and the EUR's recent gains** driven by the ECB's more aggressive rate cuts and the fatigue in the Trump Trade. Trump's steel/aluminium and reciprocal tariffs should also **cap EUR/USD at its 1.05 psychological resistance level**.

AUD/USD may depreciate again after two weeks of appreciation, a pattern established in October. Last week's 1.2% appreciation brought AUD to a significant resistance level of around 0.6350. We expect the **Reserve Bank of Australia to lower the cash rate target by 25 bps to 4.10%** at its February 18 meeting. Australia's CPI and core inflation have returned to the official 2-3% target range. Real GDP growth fell to 0.8% yoy in 3Q24, its worst growth since 4Q20. The RBA considered US tariffs a greater threat to the economy than inflation. On February 19, the **wage price index is expected to slow to 3.2% yoy in 4Q24** after declining below 4% to 3.5% in 3Q24. On February 20, the **unemployment rate will likely rise a second month to 4.1%** in January from 4% in the previous month. Unsurprisingly, Prime Minister Anthony **Albanese's approval ratings have fallen to their lowest levels since 2022 ahead of national elections** that must be held by May 27. While the polls favour a victory by the opposition Liberal-National coalition, a minority government cannot be ruled out.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)