



WHY PRESIDENT PRABOWO SUBIANTO IS NOT OUT OF THE WOODS

On the surface, President Prabowo Subianto appears to have overcome the challenge to his position when violent protests erupted across the nation in August last year. There have been no further large-scale protests since August, credible polling shows him to be still quite popular and his coalition is holding together. Critically, the military-security apparatus remains aligned with him: that makes any effort to oust him, either constitutionally or through a coup, a steep challenge.

Nevertheless, his position is fragile and a premature loss of power cannot be ruled out, even if it is not the base case. A confluence of factors leaves the tinder dry on the ground, making possible a political conflagration that could end the support he now gets from the political parties and military-security agencies: these are agencies that are not loyal to him personally but have formed coalitions of convenience which can fall apart if stressed.

The problem for Prabowo is that stress points are evident in the system:

Rising risk that socio-economic irritants lead to another round of protests:

Polls showing high popular support for Prabowo did not stop ordinary folks from rising in protest last August. They did so then because years of slow job growth and weak median wages meant that it did not take too much for them to arise in protests, as they did last year. These irritants have not been sufficiently addressed by Prabowo's handouts. In fact, if the Iran war persists and pushes food and energy prices even higher while shortages of fuel and key items emerge, the socio-economic irritants will be further inflamed.

The potential triggers are:

- A spike in overall inflation but particularly in fuel prices which Prabowo will have little choice but to pass onto consumers. We think this is quite likely given our assessment that the Iran war and its disruptions will be prolonged, keeping oil prices high and supply dislocations more likely in important commodities such as diesel, jet fuel, fertilisers and so on.
- Weather forecasters believe another El Nino event is underway which would lead to weather events that are likely to hurt farmers and possibly cause food prices to spike.

Prabowo's chaotic management style is undermining his credibility.

Prabowo keeps suffering from self-inflicted political wounds. This is the result of his fundamental character and personality.

He rushed to join President Trump's Board of Peace for Gaza just as the US-Israeli war on Iran and Lebanon aroused anger against those two countries among Indonesia's elite as well as masses. He was forced to reverse his decision.

His administration also agreed a trade deal with the US which seemed to give away a lot to the US, just as the US Supreme Court negated President Trump's tariffs and made such deals worthless.

In the latest fiasco, Prabowo appeared to have initially agreed to US demands for American military overflight rights across Indonesian territory only to reverse course after strong opposition from within his own administration.

These incidents reflect his poor judgement and the poor quality of advice he is receiving from his inner circle. It is more than likely that he will make more political and policy misjudgements which will further undermine his credibility and possibly trigger a sharp loss of confidence in him from within the political elite.

Poor economic policy could spark economic stresses.

The Iran war has aggravated a fiscal position that was already on a dangerous trajectory due to his errors of judgement – reversing the planned VAT hike a year ago, mounting an unaffordable free school lunch programme, committing

to expensive defence purchases, and sticking with his costly plan for territorial military units.

The appointment of Yudhi Purbaya as Finance Minister replaced a highly credible though not perfect Finance Minister with someone whose loose tongue, keenness to ingratiate himself with Prabowo and arbitrary removal of key officials all have given Indonesia a bad name in financial markets and among investors.

This is where the rubber will hit the road and where the political players are under-estimating how a financial or economic accident could trigger political turbulence. Possible triggers include:

- Rising global risk aversion makes Indonesia highly vulnerable. We see many stress points in global finance – extended valuations in US tech, an unsustainable AI capex boom that is flattering the earnings numbers in US equity markets, private credit tremors, bond market ructions.
- As these factors trigger capital outflows from risky assets such as emerging markets like Indonesia, the Rupiah would come under more pressure – having already crossed above the psychological 17,000 level against the US Dollar.
- It is almost certain that the fiscal situation will worsen. If Indonesia had credible leadership, the financial markets would have accepted a raising of the fiscal deficit cap from 3% of GDP. But not if the current leadership does it.

Intra-elite conflict

As we have discussed before: there is the Prabowo-Jokowi feud and there is infighting within the Prabowo camp as well. There is nothing to suggest that these challenges have diminished in any way.

A disenchanted and resentful business sector

Prabowo continues to shake down the big business groups. He has promised even more confiscation of land from plantation owners and miners. He is now demanding another round of Patriot bonds sold at a very low yield.

He is risking a business sector that becomes angry enough to coalesce with other disenchanted groups in the political elite to move against him.

Conclusion

We do not see anything changing the confluence of dangers that are listed above. The accumulation of political vulnerabilities reminds us of how once-dominant leaders suddenly fell. It was like this in the fall of 1964 when Khrushchev was ousted abruptly – the same loss of credibility from self-inflicted wounds and misjudgements. In May 1998, the once unassailable Suharto fell as well – a loss of authority that resulted in virtually all his allies deserting him.

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