

In **Indonesia**, Presidential elections were held on February in which Mr. Prabowo Subianto won in the first round. He will not be sworn in until October 1, which leaves a large period of time in which news about future policies can trickle into the market. Even though Mr. Prabowo has the right focus on wanting to support economic growth, his initial statements about accepting a larger fiscal deficit and higher government debt levels were taken exceedingly negatively by the markets. The reality is that Indonesia does have space both in its fiscal accounts and debt levels to allow for some government pump priming – primary fiscal balances are near 0 and it was even positive in 2023, fiscal balances including interest payments are around 2.5% which is low for EMs and even AEs these days, and government debt is low at around 35% of GDP. Nonetheless, as the market reacted negatively, Prabowo has already walked back some of his targets and is acquiescing to market-imposed demands. He is even being labeled “Pragmatic Prabowo” by some analysts. Recall that Prabowo is the son of the 1950s finance minister Soemitro Djojohadikusumo who implemented fiscally prudent policies that reduced government deficits and inflation at the time, so he has a track record to follow. Prabowo is also the leader of Gerindra party whose platform was to ensure policy continuity. Like Lula, Prabowo has certain social priorities like offering a free school lunch program, but he too should be practical in accepting limits to social spending and the fiscal deficit.

Narendra Modi was reelected as **India's** prime minister in June. His being chosen was not a surprise, but the fact that his party, the BJP, was not able to secure a majority on its own was a major negative surprise. The more interesting angle is to review the reasons why the BJP lost their majority in the lower house of congress given that on the surface the economy is doing so well, and that Modi is quite popular. On the economic side, the reality is that many people have been left behind in India's economy as most of the growth has been driven by government spending while private investment, jobs, and consumption in rural areas where most people live have been lagging. The government's fiscal discipline and infrastructure investment-led approach has been appreciated by investors, but private investment has yet to pick up significantly, so job creation and consumption remain weak. Separate from the economic side was the strident Hindu-nationalist, anti-Muslim rhetoric adopted by the BJP, which proved unpopular even the state where a new, highly publicized Hindu temple was erected to increase Modi's image. The data shows that voters penalized the BJP in constituencies and states where it ran a negative campaign. The result was that the BJP vastly underperformed expectations and was forced to form a coalition government relying on two recent partners that are considered loosely held. With the opposition emboldened and a weak coalition, it is likely that there could be more disruptions in policy than India has experienced during both of Modi's administrations over the last ten years.

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