Some side notes from 2M2025 budget realisation

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Summary

- Snapshots of the monthly budget realisation data confirm slower spending in some areas, though higher spending on personnel and subsidy have helped support purchasing power early in the year.
- The government appears to have allocated more subsidy spending toward energy, indicating reduced support for non-energy programmes such as interest subsidies on MSME loans.
- Lower public support may discourage banks from maintaining their MSME loan portfolios, although mortgage loans in support of the government's public housing agenda may not readily expand given the limited liquidity conditions.

- The government has finally announced the budget realisation data for the first two months of the year, with the fiscal balance standing at 0.13% of GDP deficit by the end of February 2025. The 20.9% YoY contraction in state revenues dominates the headlines, although, contrary to popular concerns, the decline appears to be driven by technical factors such as higher tax rebates (due to overpayments following the implementation of the effective tariff/TER mechanism since 2024) and the 10-day delay/relaxation in VAT payments.
- Despite the government's argument that tax payments technically still maintain their positive growth in 2025, it should be noted that some of TER tax rebates were repaid in December 2024. Meanwhile, VAT revenue so far in 2025 is down 12.2% YoY, while the reported 8.3% YoY figure came by averaging together data from January-February 2025 together with December 2024.
- The market appreciates the government's commitment to budget transparency, but the headline figures do not seem to help much in reassuring investors. Apart from the declining revenue, accelerated interest payment realisation in February 2025 (+67.6 Tn YoY) strikes fear in investors, with some foreign investors now expecting a 2.8-2.9% of GDP deficit in 2025 (against the 2.53% target). What results then, is the USD 183.7 Mn of foreign outflows from the SBN market throughout the past week, although the benchmark 10Y SBN yield remains stable at 6.94% thanks to the robust domestic demand.

Consumption: Relying on the same tool

- Apart from revenues and interest payments, the spending side of the 2025 state budget data has also come under public scrutiny. The sharp drop in the government's discretionary spending (as much as IDR 9.8 Tn for spending on goods/materials in January 2025) has been linked to the government's recent budget optimisation effort, which may translate adversely to the growth momentum in the short-term given the stunted spending realisation. On the other hand, non-discretionary spending, such as personnel and subsidy expenses, seems to have continued uninterrupted, helping to maintain consumers' purchasing power early in the year.

- Despite still being early in the year, the budget realisation data still offer a worthy insight into how far the incumbent administration diverges from its predecessor on fiscal priorities, with the allocation of the subsidy budget between energy and non-energy subsidies being one of the most striking differences. The government spent IDR 10.7 Tn on subsidies between January and February 2025, virtually all of it (99.49%) on energy subsidies. Meanwhile, spending on non-energy goods (such as fertilisers and interest on KUR) stood at a mere IDR 53.6 Bn by the end of February 2025, indicating the government's decision to put less priority on KUR and non-fuel subsidies ***(see Chart 1)***.

- The lower subsidy spending on non-energy goods seems to be a part of the government's budget optimisation effort, which aims to eliminate wasteful spending by "centralising" the distribution channel (for fertilisers and other things). However, it is the seemingly lower expenditure on KUR interest subsidies that may have left more to be discussed. The seemingly lower fiscal support for MSME loans is not too surprising, given that the allocated budget for the programme has decreased by 17.7% YoY even before the recent round of budget adjustments. Be that as it may, the lower KUR subsidy realisation so far in 2025 remains a worthy topic, given the context of current conditions in the domestic banking sector and the government's growth strategies.

- The previous administration, as we remember, treated the MSME sector as a core part of its growth strategy, sharing the stage with the infrastructure sector. The seemingly lower support for MSME loans, then, marks a stark contrast between this government and its predecessor. Instead, the current administration appears to champion large-scale Keynesian schemes such as public housing projects (targeted at 3mn units per year).

"The slowing MSME loan growth due to the weaker fiscal support and stagnating mortgage loans trapped the Indonesian economy in a quandary"

- The government's decision to redirect its support from the MSME sector to the construction and property sectors (particularly residential properties) is understandable, as it may shift the onus of job creation from the largely informal MSME sector to the more formal construction and related industries. This shift in fiscal and growth priorities could also encourage domestic banks to follow suit, potentially leading to a continued decline in MSME loan growth ***(see Chart 2)***. Various support measures – such as Bank Indonesia's KLM[1] incentives – could be further introduced to stimulate a U-turn in the demand for mortgages, thus promoting mortgages and relegating MSME loans to banks' loan portfolios.

- Alas, domestic banks may not have much liberty in following the government's new order in haste, especially with the currently restrictive domestic liquidity condition. There remains a question about the demand for such public housing projects, as subprime locations and

[1] (ID) *Kebijakan insentif likuiditas makro*.

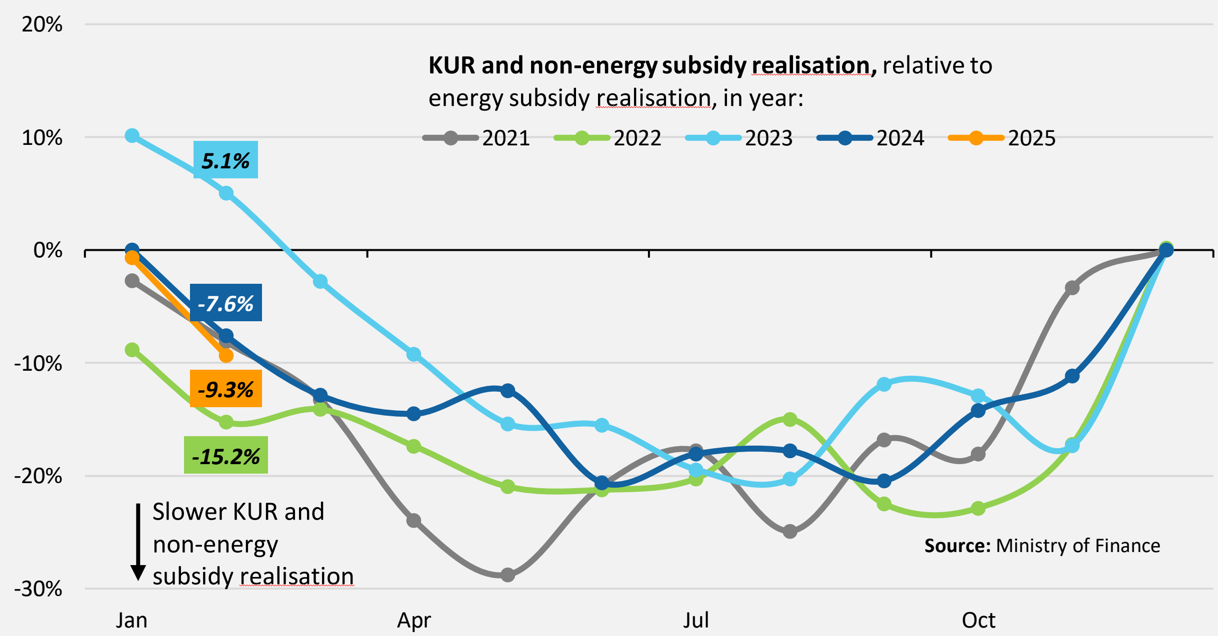
below-par building quality have often been cited as factors dampening interest in government-sponsored housing initiatives. The stagnating middle-income population may also limit banks in substantially expanding their mortgage portfolio, given households' seemingly weakening ability to service such loans at the moment ***(see Chart 3)***.

- The economy, then, seems to be trapped in a quandary, as its old economic booster engine (MSME loans) has run out while the new one (public housing construction) may suffer from a slower rollout. This dilemmatic situation may force the government to react, with the limited fiscal room forcing it to be creative in carving out space within its below-the-line budgeting. BI, of course, has been a model of creativity when it comes to bringing liquidity under the currently pressing global situation. Alas, considering that non-interest tools have pretty much been tapped out (LTV is at 100%, and RRR could be as low as 4% for banks that meet the KLM requirements), the central bank may eventually need to increase its tolerance level regarding the Rupiah's value to once again use its interest tool to shore up liquidity in the market.
- Fortunately, the recent dovish shift in the Fed's rate expectations has helped bring some semblance of stability to the Rupiah, potentially allowing BI to chart its path toward another rate cut. However, it might be prudent for BI to wait for the Fed's move before adding another 25bps to its rate cut tally in 2025, given the elevated global market volatility currently. Additionally, the central bank may want to assess the impact of its strengthened KLM incentive before making its next move, which will only start to kick in early next month.

Chart 1

Putting the brake?

KUR and non-energy subsidy disbursement continue to lag total subsidy spending in 2025, despite its lower allocated budget.



Source: Ministry of Finance

Chart 2

Shifting focus

MSME loans have been slowing down since 2024, a trend which may continue as the government seems to have shifted its focus to property loans.

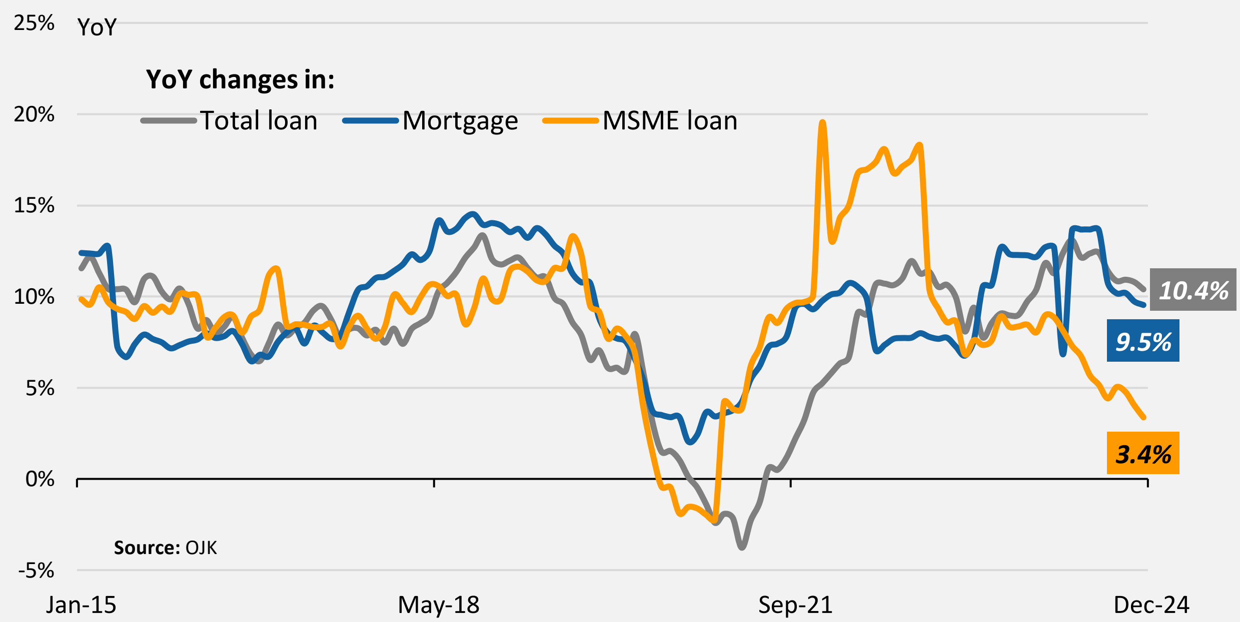
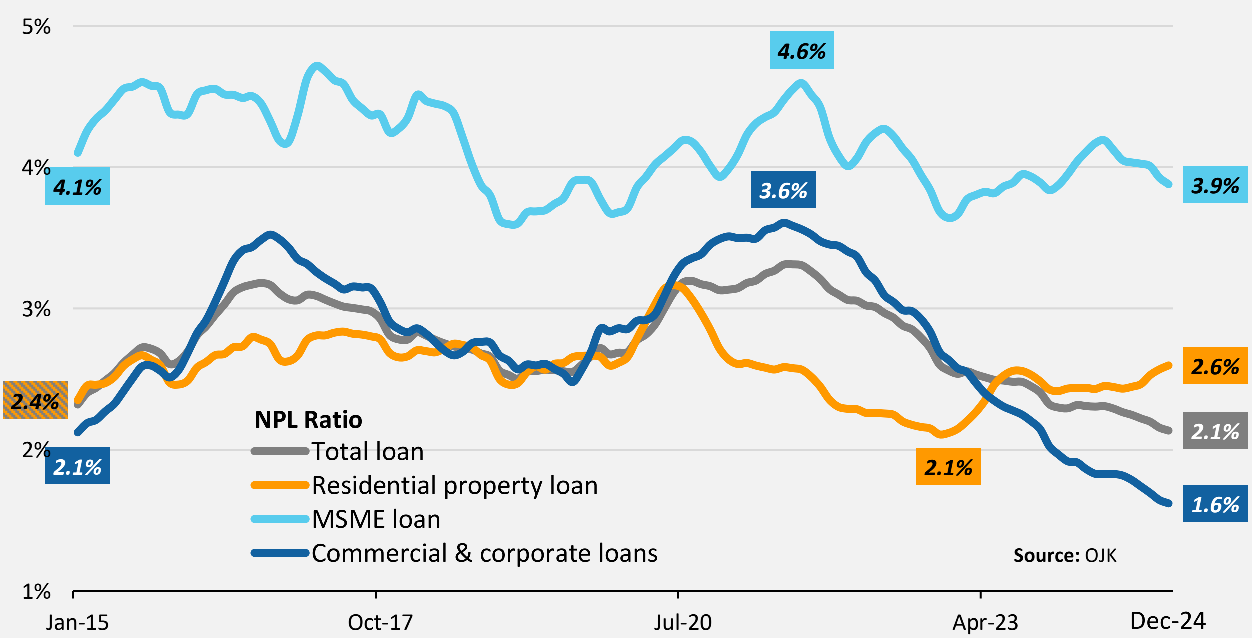


Chart 3

Risky ventures

Despite the incentive to push residential property loans, increasing property loans may pose banks with more risks given the increasing NPL ratio.



Economic Calendar

		Actual	Previous	Forecast*
03 March 2025				
ID	S&P Global Manufacturing PMI	53.6	51.9	52.3
ID	**Inflation Rate YoY, %**	**-0.09**	**0.76**	**0.5**
US	S&P Global Manufacturing PMI	52.7	51.2	51.6
06 March 2025				
EA	Retail Sales YoY, %	1.5	2.2	2
US	Balance of Trade, (Bn)	-131.4	-98.4	-123
07 March 2025				
CN	Balance of Trade, (Bn)	170.52	104.84	152.0
ID	**Foreign Exchange Reserves, USD Bn**	**154.5**	**156.1**	**156.0**
US	Non-Farm Payrolls, th	151	125	150.0
09 March 2025				
CN	Inflation Rate YoY, %	-0.7	0.5	-0.4
10 March 2025				
ID	Motorbike Sales YoY, %	4.0	-5.5	-4
11 March 2025				
ID	Consumer Confidence	126.4	127.2	127.5
ID	Car Sales YoY, %	2.2	-11.3	-7
12 March 2025				
ID	Retail Sales YoY, %	0.5	1.8	0.4
US	Inflation Rate YoY, %	2.8	3	2.9
17 March 2025				
ID	**Balance of Trade, USD Bn**	**3.12**	**3.49**	**1.0**
CN	Retail Sales YoY, %	4	3.7	3.7
US	Retail Sales YoY, %		4.2	3.5
18 March 2025				
EA	Balance of Trade, (Bn)		15.5	-
19 March 2025				
ID	**Interest Rate Decision, %**		**5.75**	**-**
20 March 2025				
US	**Fed Interest Rate Decision, %**		**4.5**	**4.5**
ID	M2 Money Supply YoY, %		5.9	-
ID	Loan Growth YoY, %		10.27	-
ID	Tourist Arrival YoY, %		8.72	-
28 March 2025				
US	PCE Price Index YoY, %		2.5	-

*Forecasts of some indicators are simply based on market consensus
Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.50	Dec-24	1.70
UK	4.50	Feb-25	1.50
EU	2.65	Mar-25	0.25
Japan	0.50	Jan-25	-3.50
China (lending)	2.00	Sep-24	5.05
Korea	2.75	Feb-25	0.75
India	6.25	Feb-25	2.64
Indonesia	5.75	Jan-25	5.84

Money Mkt Rates	14-Mar	-1 mth	Chg (bps)
SPN (1Y)	6.02	6.12	-10.5
SUN (10Y)	6.95	6.81	14.5
INDONIA (O/N, Rp)	5.68	5.63	4.7
JIBOR 1M (Rp)	6.38	6.39	-1.0

Bank Rates (Rp)	Dec	Nov	Chg (bps)
Lending (WC)	8.62	8.68	-5.92
Deposit 1M	4.92	4.78	14.17
Savings	0.68	0.67	1.19

Currency/USD	14-Mar	-1 mth	Chg (%)
UK Pound	0.773	0.803	3.93
Euro	0.919	0.965	5.00
Japanese Yen	148.6	152.5	2.59
Chinese RMB	7.237	7.307	0.96
Indonesia Rupiah	16,350	16,375	0.15

Capital Mkt	14-Mar	-1 mth	Chg (%)
JCI	6,515.6	6,532.0	-0.25
DJIA	41,488.2	44,593.7	-6.96
FTSE	8,632.3	8,777.4	-1.65
Nikkei 225	37,053.1	38,801.2	-4.51
Hang Seng	23,960.0	21,294.9	12.52

Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)
Stock	3,083.7	3,531.1	-447.42
Govt. Bond	890.2	881.3	8.86
Corp. Bond	5.1	6.0	-0.89

Trade & Commodities	14-Mar	-1 mth	Chg (%)
Baltic Dry Index	1,669.0	801.0	108.4
S&P GSCI Index	551.7	574.4	-4.0
Oil (Brent, $/brl)	70.6	77.0	-8.3
Coal ($/MT)	106.1	110.1	-3.6
Gas ($/MMBtu)	3.89	3.66	6.3
Gold ($/oz.)	2,984.2	2,897.9	3.0
Copper ($/MT)	9,731.9	9,239.2	5.3
Nickel ($/MT)	16,250.4	15,312.9	6.1
CPO ($/MT)	1,081.4	1,071.8	0.9
Rubber ($/kg)	1.99	1.98	0.5

External Sector	Feb	Jan	Chg (%)
Export ($ bn)	21.98	21.43	2.58
Import ($ bn)	18.86	17.94	5.18
Trade bal. ($ bn)	3.12	3.49	-10.75
Central bank reserves ($ bn)*	154.5	156.1	-1.01

Prompt Indicators	Feb	Jan	Oct
Consumer confidence index (CCI)	126.4	127.2	121.1
Car sales (%YoY)	0.0	-11.3	-3.7
Motorcycle sales (%YoY)	0.0	-6.0	5.4

Manufacturing PMI	Feb	Jan	Chg (bps)
USA	52.7	51.2	150
Eurozone	47.6	46.6	100
Japan	49.0	48.7	30
China	50.8	50.1	70
Korea	49.9	50.3	-40
Indonesia	53.6	51.9	170

Source: Bloomberg, BI, BPS
Notes:
*Data from an earlier period
For changes in currency: **Black indicates appreciation against USD, **Red** otherwise
***For PMI, **>50** indicates economic expansion, **<50** otherwise

Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.6
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

Notes:
- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*

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