Off the budget and onto other sources

26 May 2025

Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Barra Kukuh Mamia
barra_mamia@bca.co.id

Scan for the link to our report depository

Summary

- The apparent disconnect between the ambitious GPD growth and the deficit target in 2026 highlight the government's higher reliance on off-the-budget financing to support its growth models.
- Dividends from SOEs, foreign participation in government-sponsored projects, and potential lending from state-owned banks will be key in filling the off-the-budget pool of funds.
- Unlike outside investments, further reliance on domestic liquidity may crowd out capital from other sectors that remain in need of capital support.

- The Indonesian financial market has been moving from strength to strength in the past week. Both the domestic stock and sovereign bond (SBN) markets combined to attract around USD 734.94 Mn in foreign capital inflows, as foreign investors recorded net buy to the tune of USD 108.3 Mn while the SBN market is responsible for the rest. A sharp appreciation in the Rupiah's value has also been reported in the past week, as the USDIDR rate is now only a touchstone away from its early-year level of IDR 16,102/USD.
- US President Trump's ebbing tariff threats have some role in explaining the situation. True to his escalate-to-deescalate tactic, President Trump has agreed to delay his threat of a 50% raise tariffs on EU-made goods until 9 July 2025 (previously 1 June 2025), citing Brussels' readiness to advance trade talks with the US. This positive development in US-EU trade talks extended the rally in European hard currencies, pulling the USD index (DXY) 1.38% lower over the week and lifting most Asian currencies along the way.
- Apart from King Dollar's waning strength, emerging signs of improvement in Indonesia's macroeconomic condition also have some-thing to do with the strengthened confidence in the Indonesian market. As noted in last week's reports, Indonesia's current account (CA) position still managed to improve in Q1-2025 despite widespread tariff uncertainty, while Bank Indonesia has also taken steps to ease domestic liquidity pressures (cutting the BI rate by another 25 bps and further loosening macroprudential policies) to help stabilise lending growth.
- On top of that, the more targeted electricity discount programme recently announced by the government also has the potential to jolt the domestic demand condition, as the 50% discount on electricity prices may boost disposable income among Indonesia's massive aspiring middle-class and low-income population.

Limited budget, limited scope

- The expected boost from the upcoming electricity discount programme may be relatively modest compared to two pieces of fiscal-related good news that emerged in recent weeks. The first one is the Finance Minister's announcement that the ministry is unlocking IDR 86.6 Tn in previously frozen ministry and agency budgets, signalling improved fiscal realisation for the remainder of the year that should translate into a healthier liquidity flow to the private sector.
- Second, the government has also revealed its fiscal deficit target for 2026, aiming to keep the budget deficit within a prudent range of 2.48-2.53% of GDP ***(see Chart 1)***. **The proposed fiscal deficit target and macroeconomic assumptions for the next fiscal year help ease concerns over a potential loosening of fiscal discipline**, a worry given the current administration's spending patterns and ambitious growth targets.
- **How the government plans to achieve its 5.2-5.8% GDP growth target in 2026 comes as no surprise; the National Nutrition Agency (Badan Gizi Nasional, BGN) is set to receive a hefty 86.84% budget increase**, bringing its allocation to IDR 217.86 Tn next year – far outpacing other ministries and agencies. To put some context, the Ministry of Defence comes in a distant second, with a proposed budget of IDR 167.4 Tn in 2026 (+20.2% compared to the post-efficiency 2025 budget). This sizable budget, of course, reflects more than just the ongoing military hardware procurement, as the military also plays a key role in supporting the national food security programme and the free nutritious meal initiative (MBG).
- **The food security programme and the MBG initiative are not the only flagship policy agendas the government is eager to advance.** The industrial downstream agenda remains a priority, while the government also continues to promote the residential construction programme to address the housing backlog and revert the increasingly informal labour market. **However, judging by the proposed 2026 budget posture, the government appears to have fallen short in allocating the fiscal space needed to fully support these initiatives within its books.**

> ***"The government seems to be concentrating on food-related programmes, leaving its other flagship programmes to be financed by another"***

- Given the weak GDP growth in Q1-2025, keeping the fiscal deficit target steady at 2.53 % of GDP suggests that the government did not expect to benefit from much expansion in its fiscal room in the upcoming year. The government may even be compelled to revise its 2026 spending plan downward, especially if this year's problem with suboptimal tax revenue performance lingers to the next year ***(see Chart 2)***.

SOE to fill the gap?

- It is worth noting that the government has more than a decade of experience in identifying and utilising below-the-line financing to advance its infrastructure development and broader industrialisation agenda. **Whether through asset revaluation à la 2016 or direct assignments to participate in specific projects, the SOE sector has played a pivotal role in providing the funding necessary to support the government's policy priorities outside the formal budget process.** The SOE sector's role as a below-the-line financier of the government may become increasingly important now and in years beyond, especially as SOEs' dividend payments are now directed outside of the public sector's coffers and straight to the Danantara SWF.

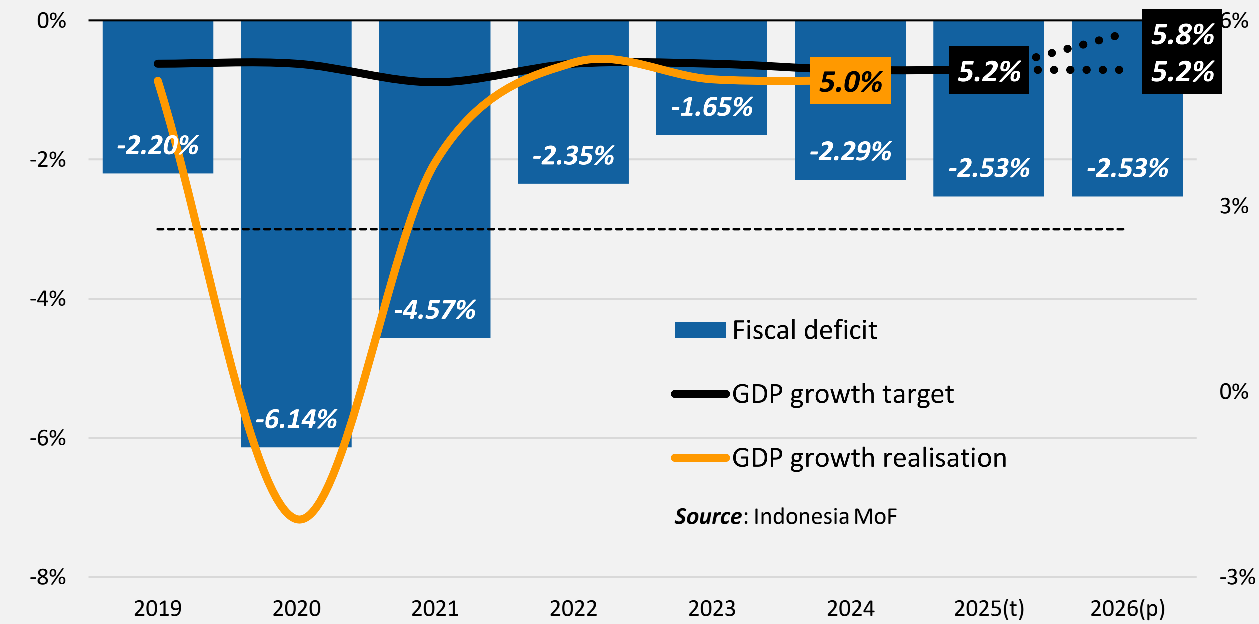
- Fortunately, the government (through Danantara) may expect sizable financial support from SOEs. Our net bank balance indicator shows a continued build-up of cash positions in the SOE sector by the end of Q1-2025 ***(see Chart 3)***, which appears to have translated into higher dividend payments. With the SOE sector's revenue performance remaining relatively stable in Q1-2025 ***(see Chart 4)***, this model may well continue into the upcoming year, providing Danantara funds needed to support the government's growth initiatives outside of the itemised programmes like the food security programme MBG.
- This SOE-generated below-the-line financing model is not flawless. For instance, the stable revenue performance of the SOE sector in Q1-2025 was driven almost entirely by the surge in gold prices. Strip out the gold-related SOEs, and revenue growth across the rest of the sector has already dipped below historical norms. Furthermore, some SOEs appear to have boosted their dividend payments by raising their payout ratios, potentially undermining their ability to reinvest earnings and effectively outsourcing their power to dictate investments to Danantara.
- The government's strategy to generate the much-needed below-the-line pool of funds is not limited to tapping SOE-generated liquidity through Danantara. In recent months, public officials have gone on several overseas tours, bringing back foreign investment commit-ments on government-sponsored projects – ranging from residential construction to agricultural sector expansion. Foreign participation may help reduce the fiscal and quasi-fiscal burden of mobilising the liquidity needed to support productive projects such as Agrinas – especially if the project proves viable enough to be further leveraged.
- Unfortunately, not all of the government's telegraphed below-the-line financing strategy will have a net positive impact on the liquidity condition. **For instance, directing state-owned banks to put up the finance for a particular project may be counter-productive, especially considering the ongoing banking sector-wide liquidity shortage.** Tampering the market-dictated capital distribution may also cut the liquidity lifeline to other sectors, such as the domestic corporate sector which remains in need of liquidity support.
- Indeed, the SOE sector is not alone in providing the means to support the government's growth agenda. The strong corporate CAPEX trend in Q1-2025 and the shift in FDI trend towards the secondary sector indicates the strong private support for the government's industrialisation policy, although investments remain limited to capital- and energy-intensive industries such as basic chemicals and base metals.
- Alas, as has been the case in past quarters, this pattern of industrialisation limited to capital-intensive sectors has yet to send Indonesia's growth momentum to a higher gear. The big task for the public sector, then, remains to drive a broader growth and industrialisation agenda on the one hand, and minding its tightening fiscal space on the other hand.

> ***"Continuous reliance on domestically-sourced funds may crowd out liquidity from more productive sectors that are still in need of capital"***

Chart 1

Keeping it tight

The government remains optimistic that it could shift the growth momentum to a higher gear while keeping a prudent fiscal room in 2026



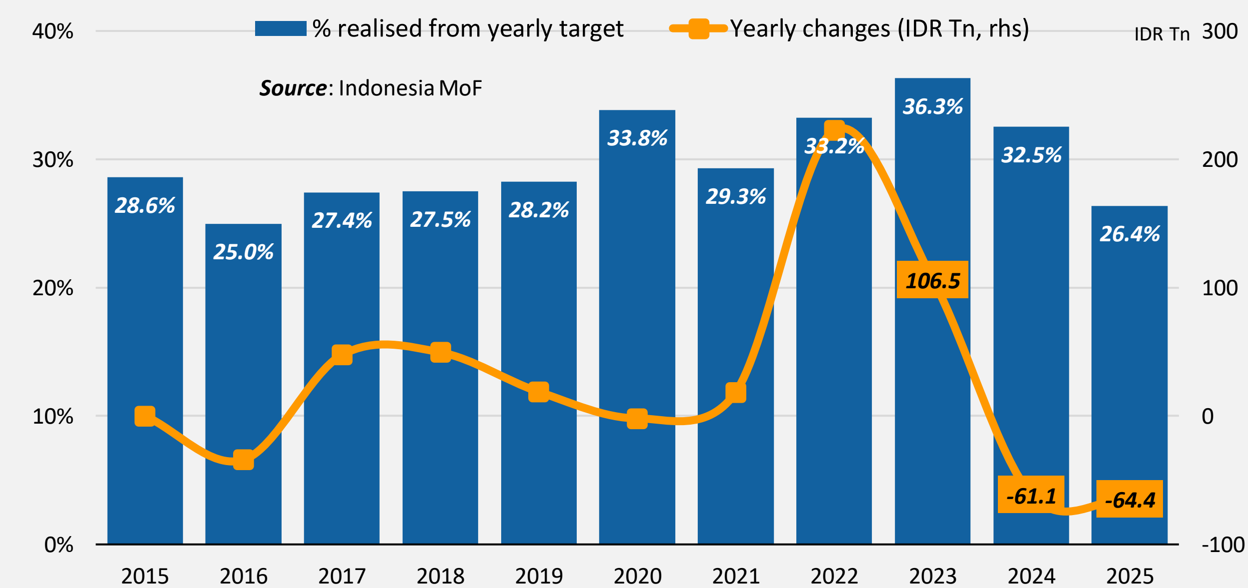
Source: Indonesia MoF

Chart 2

A tough start

The weak tax collection performance in 2025 may compel the government to adjust its fiscal target in 2026, which may detrimentally impact the spending target.

Government tax revenue, per April

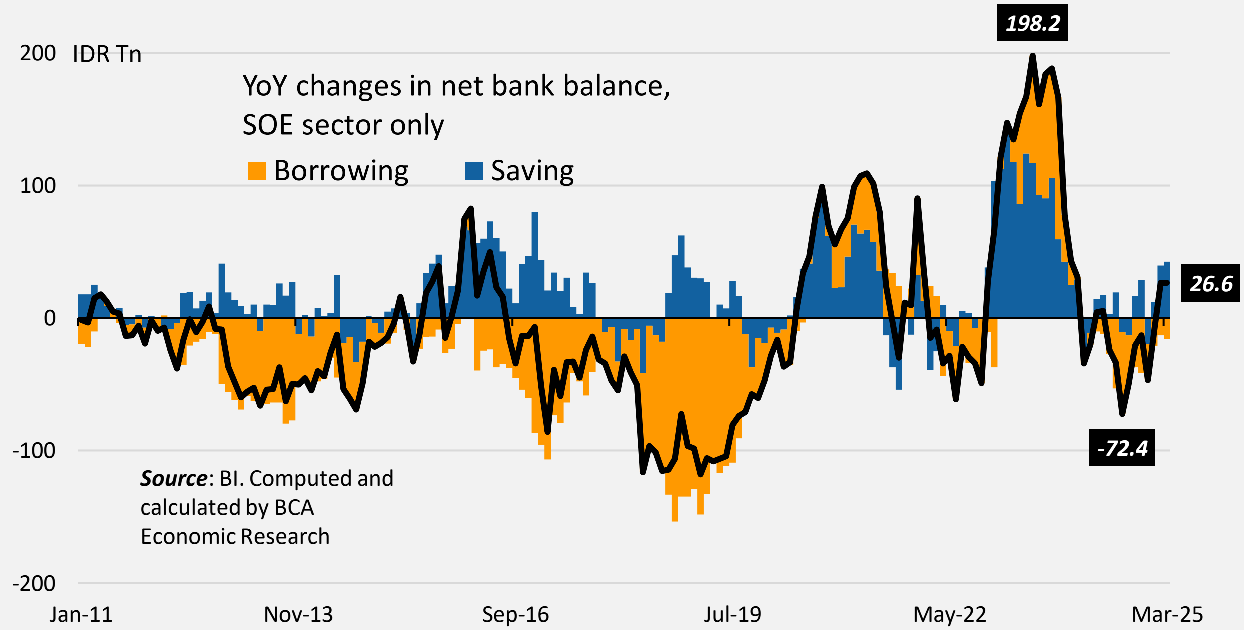


Source: Indonesia MoF

Chart 3

Conversing the dry powder for others

The SOE sector reduced its CAPEX spending over the past couple of quarters to build its cash coffers, allowing it to pay more in dividends that the government's new SWF may now use.

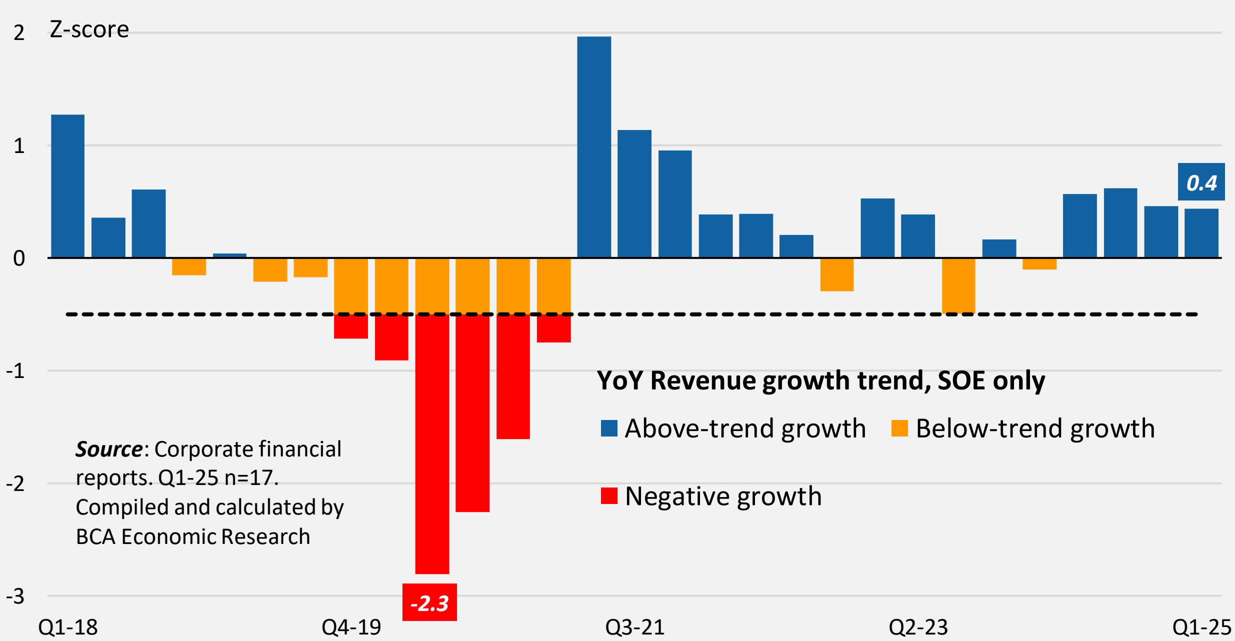


Source: BI. Computed and calculated by BCA Economic Research

Chart 4

Still-strong current under the line

SOEs' stable revenue performance may help to generate the funds necessary to support the government's financing needs



Source: Corporate financial reports. Q1-25 n=17. Compiled and calculated by BCA Economic Research

Economic Calendar

		Actual	Previous	Forecast*
05 May 2025				
ID	**GDP Growth Rate YoY, %**	**4.87**	**5.02**	**4.9**
06 May 2025				
US	Balance of Trade, USD Bn	-140.5	-123.2	-137.1
07 May 2025				
EA	Retail Sales YoY, %	1.5	1.9	1.9
ID	Property Price Index YoY, %	1.07	1.39	1.6
08 May 2025				
US	**Fed Interest Rate Decision, %**	**4.5**	**4.5**	**4.5**
ID	**Foreign Exchange Reserves, USD Bn**	**152.5**	**157.1**	-
ID	Motorbike Sales YoY, %	3	-7.2	-
09 May 2025				
CN	Balance of Trade, (Bn)	96.18	102.64	70.0
ID	Consumer Confidence	121.7	121.1	119.8
10 May 2025				
CN	Inflation Rate YoY, %	-0.1	-0.1	0.0
ID	Car Sales YoY, %	5.0	-5.1	-
13 May 2025				
US	Inflation Rate YoY, %	2.3	2.4	2.5
14 May 2025				
ID	Retail Sales YoY, %	5.5	2	3.3
15 May 2025				
US	Retail Sales YoY, %	5.2	5.2	1.1
16 May 2025				
EA	Balance of Trade, (Bn)	36.8	24.8	25
19 May 2025				
CN	Retail Sales YoY, %	5.1	5.9	5.6
21 May 2025				
ID	**Interest Rate Decision, %**	**5.5**	**5.75**	**5.75**
ID	Loan Growth YoY, %	8.88	9.16	9.0
22 May 2025				
ID	Current Account, (USD Bn)	-0.2	-1.1	-1.2
23 May 2025				
ID	M2 Money Supply YoY, %	5.2	6.1	-

*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	2.20
UK	4.25	May-25	0.75
EU	2.40	Apr-25	0.20
Japan	0.00	Jan-25	-3.10
China (lending)	2.00	Sep-24	4.45
Korea	2.75	Feb-25	0.65
India	6.00	Apr-25	2.84
Indonesia	5.50	May-25	3.55
Money Mkt Rates	**23-May**	**-1 mth**	**Chg (bps)**
SPN (1Y)	6.00	6.17	-17.0
SUN (10Y)	6.81	6.97	-16.0
INDONIA (O/N, Rp)	5.73	5.71	1.5
JIBOR 1M (Rp)	6.14	6.38	-23.7
Bank Rates (Rp)	**Feb**	**Jan**	**Chg (bps)**
Lending (WC)	8.67	8.62	5.00
Deposit 1M	5.02	4.87	15.00
Savings	0.68	0.68	0.00
Currency/USD	**23-May**	**-1 mth**	**Chg (%)**
UK Pound	0.739	0.750	1.54
Euro	0.880	0.876	-0.52
Japanese Yen	142.6	141.6	-0.69
Chinese RMB	7.181	7.307	1.76
Indonesia Rupiah	16,222	16,855	3.90
Capital Mkt	**23-May**	**-1 mth**	**Chg (%)**
JCI	7,214.2	6,538.3	10.34
DJIA	41,603.1	39,187.0	6.17
FTSE	8,718.0	8,328.6	4.68
Nikkei 225	37,160.5	34,220.6	8.59
Hang Seng	23,601.3	21,562.3	9.46
Foreign portfolio ownership (Rp Tn)	**Apr**	**Mar**	**Chg (Rp Tn)**
Stock	3,244.2	3,144.7	99.51
Govt. Bond	899.7	995.6	-95.98
Corp. Bond	5.1	5.2	-0.05

Trade & Commodities	23-May	-1 mth	Chg (%)
Baltic Dry Index	1,340.0	1,261.0	6.3
S&P GSCI Index	535.0	538.2	-0.6
Oil (Brent, $/brl)	64.8	67.4	-3.9
Coal ($/MT)	106.4	98.0	8.6
Gas ($/MMBtu)	2.92	3.10	-5.8
Gold ($/oz.)	3,357.5	3,380.6	-0.7
Copper ($/MT)	9,641.1	9,352.5	3.1
Nickel ($/MT)	15,405.7	15,474.5	-0.4
CPO ($/MT)	912.8	938.4	-2.7
Rubber ($/kg)	1.75	1.70	2.9
External Sector	**Mar**	**Feb**	**Chg (%)**
Export ($ bn)	23.25	21.94	5.95
Import ($ bn)	18.92	18.86	0.30
Trade bal. ($ bn)	4.33	3.08	40.56
Central bank reserves ($ bn)*	157.1	154.5	1.67
Prompt Indicators	**Apr**	**Mar**	**Feb**
Consumer confidence index (CCI)	121.7	121.1	126.4
Car sales (%YoY)	5.0	-5.1	2.2
Motorcycle sales (%YoY)	-3.0	-7.2	4.0
Manufacturing PMI	**Apr**	**Mar**	**Chg (bps)**
USA	50.2	50.2	0
Eurozone	49.0	48.6	40
Japan	48.7	48.4	30
China	50.4	51.2	-80
Korea	47.5	49.1	-160
Indonesia	46.7	52.4	-570

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	4.8
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	5.7
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	4996
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.1
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	7.68
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,943
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-1.0

Notes:

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

Economic, Banking & Industry Research Team

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Victor George Petrus Matindas
Head of Banking Research and Analytics
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Nicholas Husni
Economist / Analyst
nicholas_husni@bca.co.id
+6221 2358 8000 Ext: 1079839

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

Samuel Theophilus Artha
Economist / Analyst
samuel_artha@bca.co.id
+6221 2358 8000 Ext: 1080373

Barra Kukuh Mamia
Head of Macroeconomic Research
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group
20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000   Fax : (62-21) 2358-8343