Improving fiscal conditions, despite some scars

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Summary

- Fiscal spending realisation has improved following the shock in H1 2025, primarily driven by the sizable acceleration in social spending.
- Rather than a shift in fiscal strategy, the sharp deceleration in capital expenditures may indicate scarring effects from the earlier budget review process.
- Improving household demand has translated into stronger VAT receipts, helping to sustain the fiscal coffers amid the continued slowdown in income tax collections.

- Sentiments surrounding the US economy and financial markets have remained in flux throughout the past week, as investors are still forming a consensus ahead of the last FOMC meeting of the year in December. On the financial market front, the race for safety remains the theme despite the recent announcement of the higher-than-expected AI-related companies' revenue growth in Q3-2025, pushing both the benchmark US equity index and UST yield lower.
- On the real sector front, the first non-farm payroll release since the end of the US federal government shutdown appears to validate the Fed's narrative of a still-robust US economy. However, a closer look reveals that job gains in September are hardly balanced, with state and local governments expanding their workforce, while the private sector shed another 18k jobs in September 2025. Continued weakness in the US private sector may explain why senior members of the FOMC, such as New York Fed President John Williams, have remarked that the Fed still has scope for a rate cut in the near future – comments that may curb the DXY index' upward momentum.
- Despite this, Asian financial markets may continue to face pressure in the periods ahead. Hard Asian currencies such as the JPY continued to weaken over the past week, as the spike in JGB yields following PM Takaichi's USD 136 Bn stimulus package may complicate the Bank of Japan's policy normalisation campaign. Fortunately, the same fate has yet to befall the Indonesian financial market, as evident from the 0.19% WTD appreciation in the Rupiah's value.

(Partially) getting back on track

- Unlike other Asian economies, Indonesia's macroeconomic data seems to be improving in Q4-2025, which may explain the returning foreign appetite for Indonesian equities in recent months. For instance, our internal big data shows a noticeable 4.0% YoY improvement in consumer transactions, while business revenue also spikes higher after H2-2025.

- As we have often argued, the normalising pace of the government's fiscal realisation plays a central part in improving the domestic aggregate demand condition, as structural issues in household income growth mean that the lower percentile of consumers will require some measure of state support to maintain their consumption basket. **Fortunately, the recent state budget update indicates that the government has been successful in bringing its spending realisation closer to the trend observed in previous years *(see Chart 1)***, despite the significant slowdown amid the budget optimisation process throughout H1-2025.
- Building on this improvement, **the government appears to be optimising its fiscal expenditures in a way that provides a more direct effect on household income and purchasing power**, as indicated by the significantly faster realisation of social assistance and personnel spending ***(see Chart 2)***. As we know, the government has rolled out at least four stimulus packages throughout this year. This approach is appropriate given the lingering issues with household income growth, particularly with lower-income households, whose consumption may remain sensitive to shifts in government spending.
- The swift social assistance and personnel spending realisation is hardly surprising, given the sitting administration's preference for social spending and human capital investments. On the one hand, the considerable lag in capital expenditure realisation may simply reflect the current administration's differing fiscal preferences compared with its predecessor, which was known for its infrastructure-heavy capital spending.
- On the other hand, the continued lag in capital expenditure realisation may reveal a bleaker picture. After all, shifting fiscal preference is already evident in the sharp cut of state budget allotted to capital spending, meaning that **the continued lag in capital expenditure realisation suggests that scarring effects from the earlier budget consolidation may not yet have been entirely avoided**.

"Rather than shifting fiscal preferences, the lagging capital spending realisation may reveal scarring effects due to the earlier budget efficiency process"

- The much-slower execution of capital spending signals complexities in restarting projects following the budget freeze in much of H1 2025, possibly reflecting the long procurement process commonly associated with the public sector's projects or residual risk aversion following the budget optimisation process. This divergence between current expenditures and capital outlays underscores that, despite progress in overall fiscal normalisation, the investment component of the budget may remain constrained and continues to bear the imprint of the earlier adjustment phase.
- **More crucially, the government appears to be struggling to bring its fiscal revenue realisation back on track, indicating further signs of scarring effects from the early-year slowdown.** As of October 2025, fiscal revenue realisation stands at only 70.3% of the target set in this year's state budget (-5.97% YoY on a

nominal basis), significantly slower than in any other post-pandemic year.

- **Like others, stagnating household income also lies at the heart of the government's revenue problem, as reflected in the sharp 12.8% YoY drop in personal income tax receipts as of 10M 2025.** This trend mirrors the declining demand for labour in the domestic corporate sector, where job creation has increasingly been skewed towards lower-paying industries ***(see Chart 3)***. A continued cooldown in labour demand within the domestic corporate sector, or formal employment more broadly, may further erode the government's fiscal capacity, potentially keeping household income growth on its anaemic trajectory, which will translate to higher public demand for spending on social assistance.

- The weaker demand for labour also reflects the challenging conditions facing the domestic business sector, as indicated by the further deterioration in corporate income tax receipts (-9.6% YoY as of 10M 2025, compared with -9.4% YoY in the previous month). Even so, the latest state budget update offers a glimmer of hope: **the acceleration in VAT receipts, albeit still at a negative 10.3% YoY, strengthens our confidence in a broad-based recovery in household consumption.**

- Given the sizable share of VAT receipts in total tax revenue (averaging 36.5% since 2021), the ongoing improvement in household consumption, and the corresponding pickup in VAT collection, may play an outsized role in bringing fiscal revenue closer to target. **An improving fiscal revenue outlook should translate positively to the government's fiscal credibility, given that Indonesia's deficit cap regulation means that the government's capacity to spend is complementary to its ability to tax.** Equally important is the impact of an improved fiscal outlook on foreign investors' sentiment toward the SBN market, which should help keep SBN yields sustainably low.

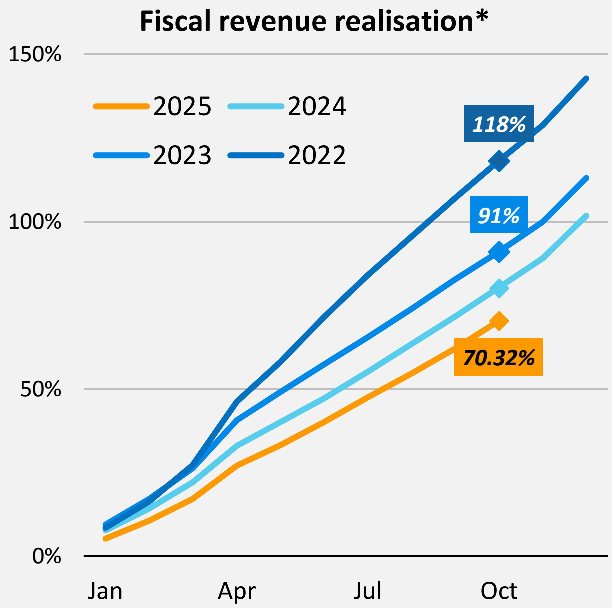
- Lower bond yields, of course, may also imply a relatively higher return on real-sector investments. This matters because funds from social assistance and stimulus that hitherto flow into households' pockets will ultimately trickle up to the business sector, which will then decide whether to deploy the absorbed liquidity into real investment or park it in financial assets. In other words, firms will determine whether these funds will channel through the economic pipeline in a way that eventually generates additional revenue for the government, which will depend on whether the government can communicate a consistent policy outlook.

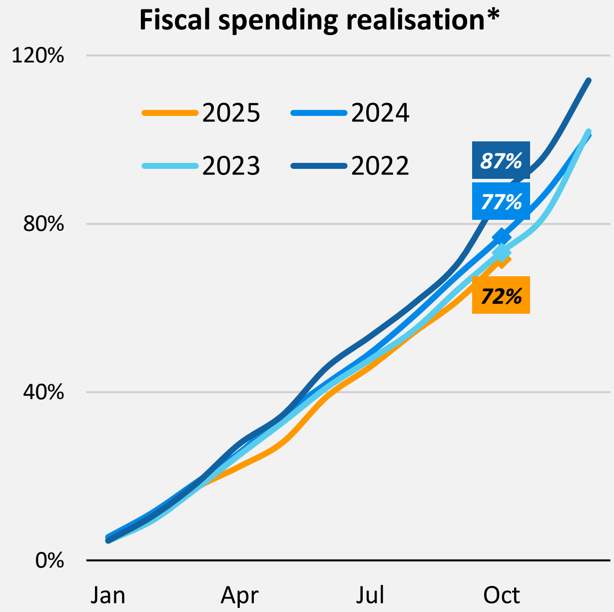
> ***"The accelerating VAT receipts emboldened our optimism for a broad-based household consumption growth"***

Chart 1

Improvements on the spending front

The government has been successful in recovering its spending realisation relative to previous years. Alas, lagging revenue remains a concern especially for investors.





*Relative to the target as stated in each year's state budget laws. **Source:** Indonesia MoF

Chart 2

Giving it all for consumption

Significant acceleration in spending for social assistance and personnel highlights the government's all-out effort to sustain the domestic aggregate demand growth

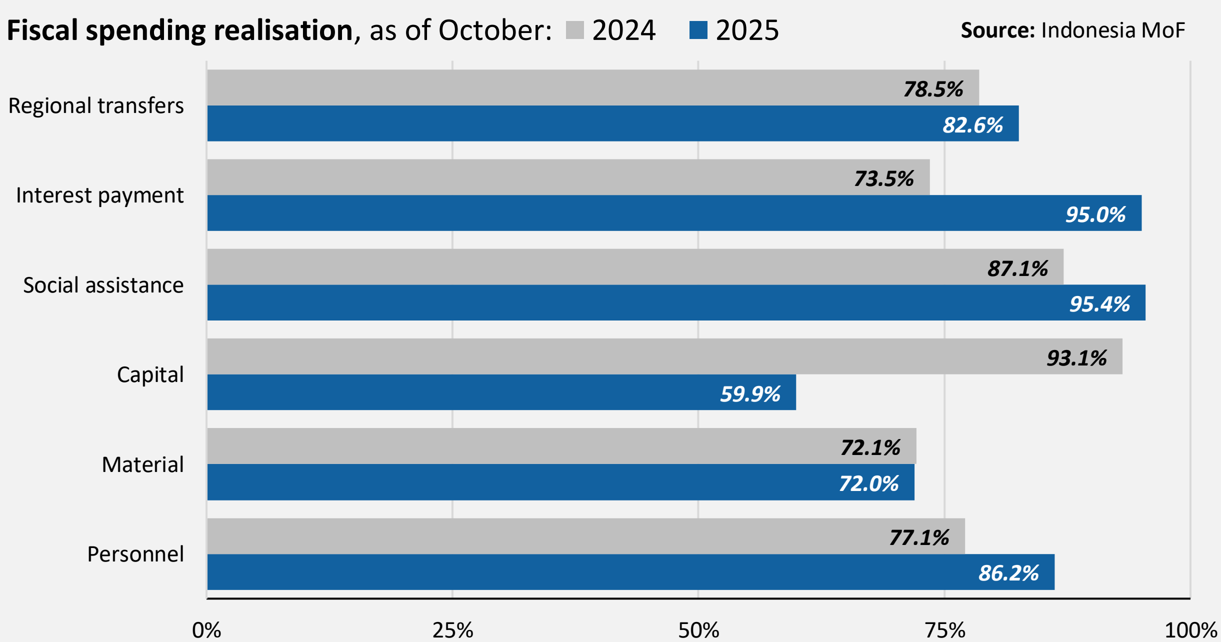


Chart 3

Fishing in a shallower pool of taxpayers

Lower demand for labour in the domestic corporate sector explains the sharp drop in personal income tax revenue

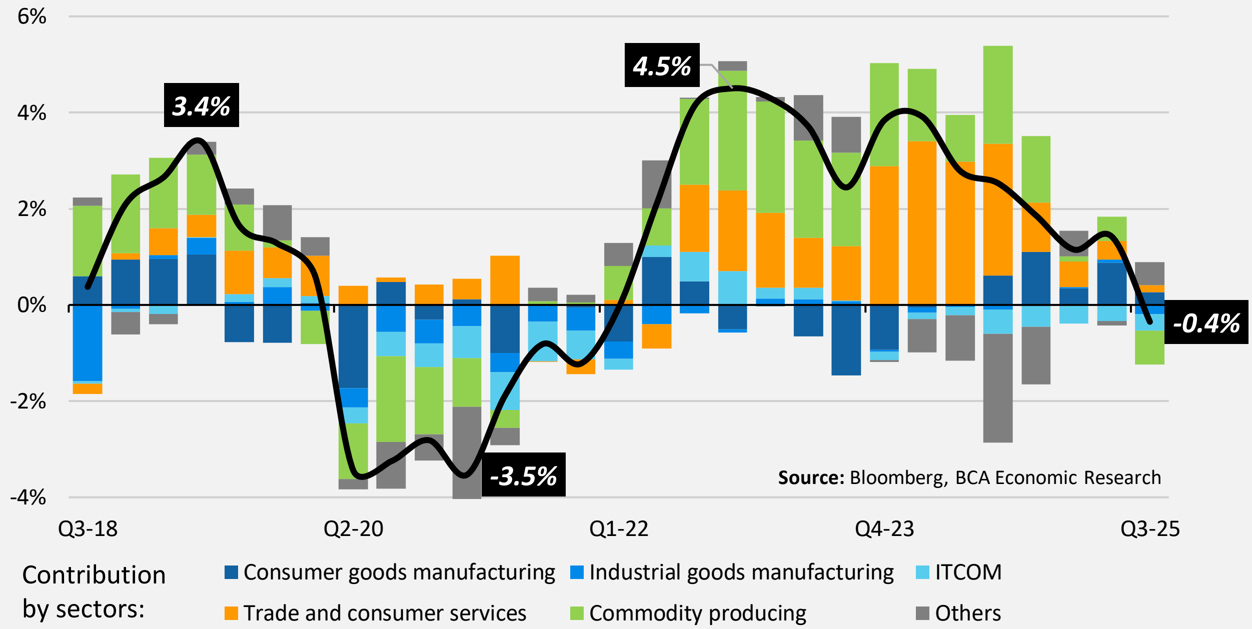
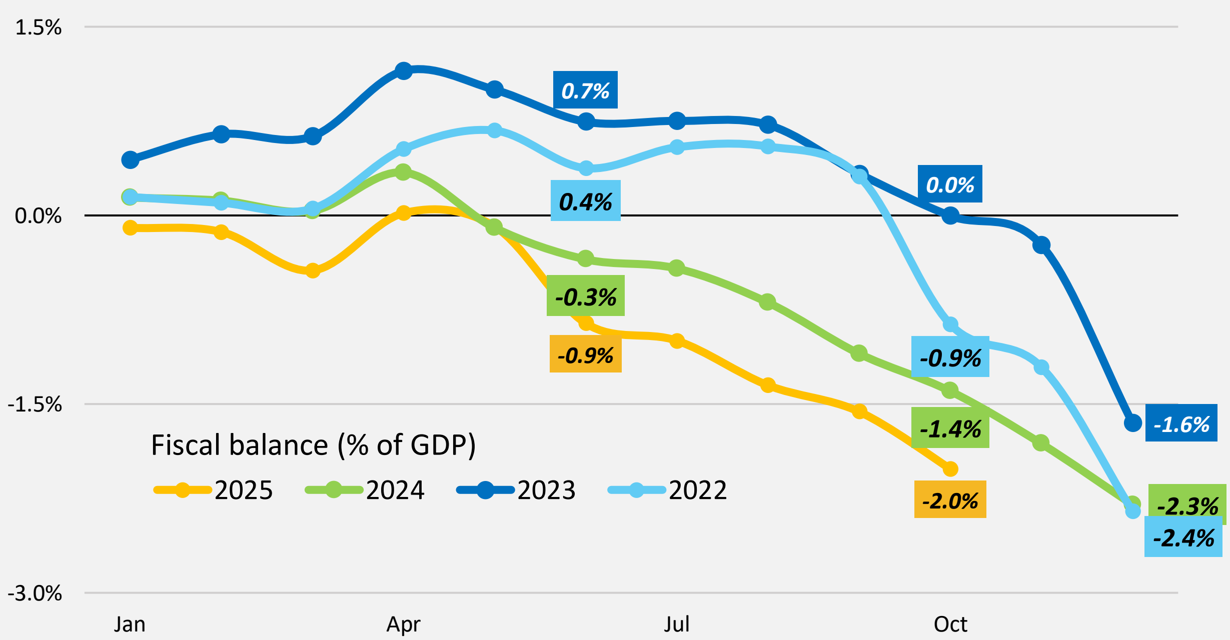


Chart 4

Getting closer to the -3% line

The seasonally higher spending in December means the government may need to curb spending if the fiscal revenue trend fails to gather more pace.



Economic Calendar

		Actual	Previous	Forecast*
03 November 2025				
ID	S&P Global Manufacturing PMI	51.2	50.4	50.6
ID	**Trade balance (Sep-25), USD Bn**	**4.34**	**5.49**	**5.2**
ID	**Inflation Rate YoY, %**	**2.86**	**2.65**	**2.7**
US	S&P Global Manufacturing PMI	52.5	52.0	52.2
05 November 2025				
ID	**GDP Growth Rate YoY, %**	**5.04**	**5.12**	**5.2**
06 November 2025				
EA	Retail Sales YoY, %	1	1.6	1.5
07 November 2025				
ID	Property Price Index YoY, %	0.84	0.90	0.7
CN	Trade balance, USD Bn	90.07	90.45	97.0
ID	**Foreign Exchange Reserves, USD Bn**	149.9	**148.7**	**-**
09 November 2025				
CN	Inflation Rate YoY, %	0.2	-0.3	0.0
ID	Motorbike Sales YoY, %	8.4	7.3	-
10 November 2025				
ID	Consumer Confidence	121.2	115.0	115.5
11 November 2025				
ID	Car Sales YoY, %	-4.4	-15.1	-
ID	Retail Sales YoY, %	3.7	3.5	3.2
14 November 2025				
CN	Retail Sales YoY, %	2.9	3	2.2
19 November 2025				
ID	**BI-Rate Decision, %**	**4.75**	**4.75**	**4.5**
ID	Loan Growth YoY, %	7.36	7.7	-
US	Trade balance (Aug), USD Bn	-59.6	-78.2	-63.0
20 November 2025				
ID	Current Account, (USD Bn)	4.0	-2.7	0.8
US	Non Farm Payrolls, th	119	-4	50.0
21 November 2025				
ID	M2 Money Supply YoY, %	7.7	8.0	-
26 November 2025				
US	PCE Price Index YoY, %		2.7	2.8

*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	4.00	Oct-25	1.00
UK	4.00	Aug-25	0.40
EU	2.15	Jun-25	0.05
Japan	0.50	Jan-25	-2.50
China (lending)	2.00	Sep-24	4.15
Korea	2.50	May-25	0.10
India	5.50	Jun-25	5.25
Indonesia	4.75	Sep-25	1.89

Money Mkt Rates	21-Nov	-1 mth	Chg (bps)
SPN (1Y)	4.58	4.69	-11.1
SUN (10Y)	6.17	5.94	22.9
INDONIA (O/N, Rp)	4.16	3.99	17.4
JIBOR 1M (Rp)	5.05	5.13	-8.2

Bank Rates (Rp)	Aug	Jul	Chg (bps)
Lending (WC)	8.55	8.61	-6.00
Deposit 1M	5.24	5.36	-12.00
Savings	0.70	0.68	2.00

Currency/USD	21-Nov	-1 mth	Chg (%)
UK Pound	0.763	0.748	-2.03
Euro	0.869	0.862	-0.75
Japanese Yen	156.4	151.9	-2.86
Chinese RMB	7.105	7.125	0.27
Indonesia Rupiah	16,700	16,590	-0.66

Capital Mkt	21-Nov	-1 mth	Chg (%)
JCI	8,414.4	8,238.1	2.14
DJIA	46,245.4	46,924.7	-1.45
FTSE	9,539.7	9,427.0	1.20
Nikkei 225	48,625.9	49,316.1	-1.40
Hang Seng	25,220.0	26,027.6	-3.10

Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)
Stock	3,823.5	3,846.5	-23.05
Govt. Bond	880.5	1,213.4	-332.89
Corp. Bond	4.1	4.1	-0.02

Trade & Commodities	21-Nov	-1 mth	Chg (%)
Baltic Dry Index	2,275.0	2,094.0	8.6
S&P GSCI Index	546.4	541.9	0.8
Oil (Brent, $/brl)	62.6	61.3	2.0
Coal ($/MT)	113.6	110.6	2.7
Gas ($/MMBtu)	4.13	3.27	26.3
Gold ($/oz.)	4,065.1	4,125.2	-1.5
Copper ($/MT)	10,778.6	10,593.3	1.7
Nickel ($/MT)	14,270.2	14,968.7	-4.7
CPO ($/MT)	981.7	1,054.9	-6.9
Rubber ($/kg)	1.76	1.76	0.0

External Sector	Sep	Aug	Chg (%)
Export ($ bn)	24.68	24.96	-1.14
Import ($ bn)	20.34	19.48	4.42
Trade bal. ($ bn)	4.34	5.49	-20.85
Central bank reserves ($ bn)*	148.7	150.7	-1.31

Prompt Indicators	Oct	Sep	Aug
Consumer confidence index (CCI)	121.2	115.0	117.2
Car sales (%YoY)	-4.4	-15.1	-19.0
Motorcycle sales (%YoY)	8.4	7.3	0.7

Manufacturing PMI	Oct	Sep	Chg (bps)
USA	52.5	52.0	50
Eurozone	50.0	49.8	20
Japan	48.2	48.6	-40
China	50.6	51.2	-60
Korea	49.4	50.7	-130
Indonesia	51.2	50.4	80

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	5.0
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5100
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.8
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.75
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.32
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,461
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625
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	-0.75

Notes:

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

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