Choosing a fiscal path amidst the fog of war

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Summary

- Oil prices corrected below USD 100/bl after President Trump hinted at a ceasefire, although prices may remain above pre-war levels given elevated volatility and risk premiums.
- Oil prices trading in the USD 70–90/bl range may reflect a more optimal condition for the global oil market. However, these elevated prices may still pose a threat to Indonesia's fiscal space.
- The government may look to mobilise off-the-budget instruments to share part of its fiscal burden, as adjusting spending commitments would negatively affect domestic demand.

- Geopolitical rift continued to define the global macroeconomic landscape in the past week, with uncertainties rise to a dizzying height as the 2026 Iran war twist and turn. Recently, Iran's Assembly of Experts has chosen Mojtaba Khamenei to succeed him as the next Supreme Leader, setting back the US war aims given the new Supreme Leader's hardline stance on Iran's nuclear policy. Iran's steadfastness seems to have force the US government to abandon their maximalist demand, with markets now pricing a 64% chance that the ceasefire will be reached by the end of May 2026 (up from 57% on Monday).
- President Trump's hint of ending his military operation in Iran sent the global oil market into a 180-degree turn, with oil prices receding below USD 90/bl after soaring to USD 115.9/bl earlier in the day. Even so, **oil traders and buyers are still pricing in higher oil prices in the futures market compared with pre-war levels *(see Chart 1)***, given the expected prolonged supply chain disruptions following the closure of the Strait of Hormuz.
- **The global oil market, then, may continue to trade with a substantial risk premium, which could keep prices in the USD 70–90/bl range throughout the year**, according to analysts' consensus. In hindsight, this price range is rather optimal for energy producers, especially the US. Such a price range would make it economically viable for US shale producers to bring additional supply into the market, potentially allowing them to gain market share as elevated risks in the Strait of Hormuz continue to put a lid on Gulf oil deliveries.
- Higher investment in the energy sector, coupled with a potentially stronger trade balance due to the higher fuel exports, may help strengthen President Trump's position ahead of the mid-term elections. This is crucial for the US Republican Party, which has seen the odds of retaining Senate leadership in 2026 sliding significantly amidst the Iran turmoil.
- **The expected lukewarm oil prices also help to stabilise short-term inflation outlook in the US**, which has been driving market volatility for much part of the year ***(see Chart 2)***. The returning risk-

on sentiment thus provides a lift for risk assets, as highlighted by broad-based rally in Asian currencies and assets as the market opens this morning. Most importantly for us, the declining market volatility also lowers the pressure on the Rupiah, putting some distance between the currency and the 17,000/USD psychological level that should allow Bank Indonesia to tune down its market interventions and conserve the FX reserves position

Mobilising money at the problem

- Like the Rupiah, the wider domestic financial market is not left behind in the Middle East de-escalation party, with the JCI index recovers above 7,400 as the market opens on Tuesday (+1.01% daily change). More encouragingly, foreign investors seem to also play their part in the recovery rally, potentially allowing BI to slow walk SRBI issuance or other liquidity absorption operations if the trend continues.
- However, this doesn't mean that Indonesia's financial market is out of the woods. First, US military policy (like the overall outlook for US policy under the Trump presidency) is prone to rapid and dramatic changes, meaning that global volatility (and with it, pressure on the Rupiah and Indonesian assets) could suddenly return. The potential episodic stress in global volatility highlights the need for BI to be more flexible with its exchange rate stabilisation policy, as the FX reserves position may need to be kept ample to deter speculators in periods ahead.

"While the expected USD 70-90/bl price range in 2026 could put the oil market in an optimal level, the price range may still pose a threat to Indonesia's fiscal space"

- Second, even if an episodic spike in global market volatility can be avoided, **the present situation is hardly accommodative for the Indonesian market and economy**. Foreign investors' worsening sentiment toward Indonesia's investability partly stems from concerns over fiscal management, fearing that heavy spending commitments may hamstring the government's ability to respond to external volatility. Despite the government's many assurances, some foreign investors continue to cite loosening fiscal discipline as a concern, especially now that the futures market curve places oil prices above the USD 70/bl assumption used in the state budget throughout the year.
- The ongoing threat to the government's fiscal space may play some part in explaining BI's extra effort to avoid the USDIDR exchange rate from sliding above the so-called 17,000/USD psychological level. Indeed, a further currency depreciation will greatly intensify the burden higher oil prices will add to the government's spending commitment, which – at current exchange rate and oil price levels – may easily push Indonesia's fiscal deficit past the 3.0% of GDP legal limit according to the government's own sensitivity analysis.
- While BI may play a crucial role in helping to balance the budget, how the government will steady its spending amid the global energy price shock remains open to question, especially as fiscal expenditures growth continue to outpace revenue ***(see Chart 3)***. Given its focus on household consumption, the government is yet to signal their intention to introduce new taxes to offset the expected increase in expenditures, although **the recent adjustment in export excise**

tariffs and the ongoing uptrend in commodity prices may help to boost non-tax revenue.

- Another solution is to adjust the spending commitment to reflect the higher costs. The Minister of Finance has previously floated the idea of recovering some fiscal space by reviewing the budget earmarked for the free nutritious meals programme, but the programme's twin role as an outlet for job absorption and human capital investments means the proposed strategy may not be popular. At the same time, some government officials have hinted that a subsidised fuel price adjustment is an option, although the ongoing uptrend in inflationary pressures means that the current administration may only consider this measure as a last resort.
- **The government's preferred strategy, it seems, is to mobilise off-the-budget economic instruments to solve its funding puzzle**. As precedent suggests, SOEs may be relied upon to shoulder part of the government's investment agenda or fiscal burden, although appointed SOEs may still require solid financial backing to do so ***(see Chart 4)***. The recent decision to place another Rp 100 Tn of government cash in SOE banks highlights this strategic preference, helping to sustain liquidity conditions within the domestic banking sector and, thus, allowing banks to extend loans to SOEs and other strategic institutions.
- Alas, this strategy is not without long-term risks. Allowing SOEs to leverage up over time may threaten their balance sheets, potentially impairing their ability to finance CAPEX. At the same time, **higher interest rates resulting from SOE-driven acceleration in loan growth may crowd out the private sector**, potentially making domestic economic growth increasingly reliant on the public sector in the periods ahead. In the near term, however, the risk-reward calculus of mobilising SOEs to help shoulder the government's spending commitments appears favourable, especially if private-sector loan demand remains comparatively soft.

Chart 1

Snapped out of a (con)tango

War risk premium sends oil prices significantly higher in the spot market, while oil prices remain relatively stable in the futures market despite some appreciation.

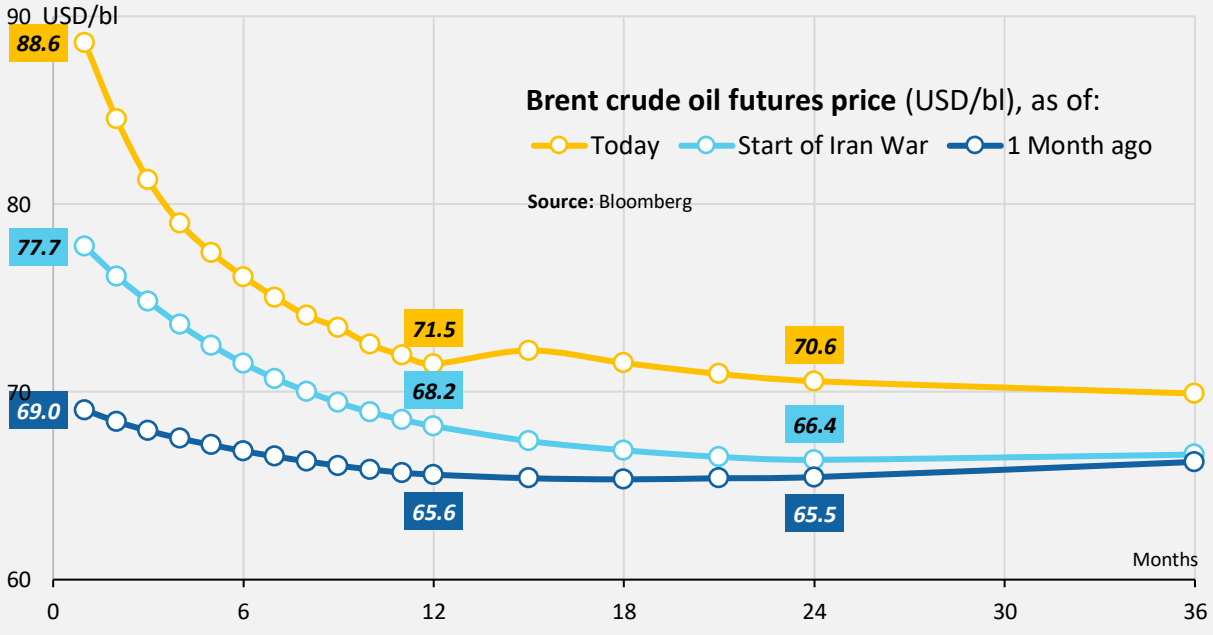


Chart 2

All eyes on inflation

Market volatility in 2026 has been primarily driven by rising short-term inflation expectations amidst the heightened geopolitical tensions.

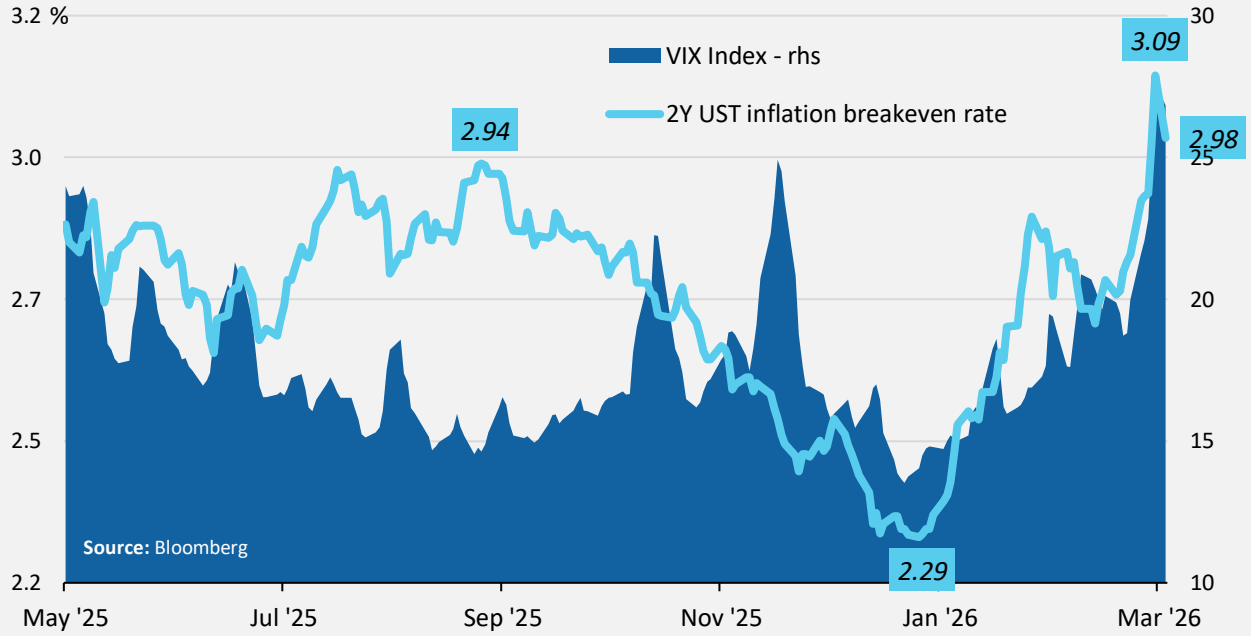


Chart 3

Hefty commitments

Efforts to stabilise domestic prices may require the government to rein in lower-multiplier spending, especially if revenue growth continue to lag expenditures

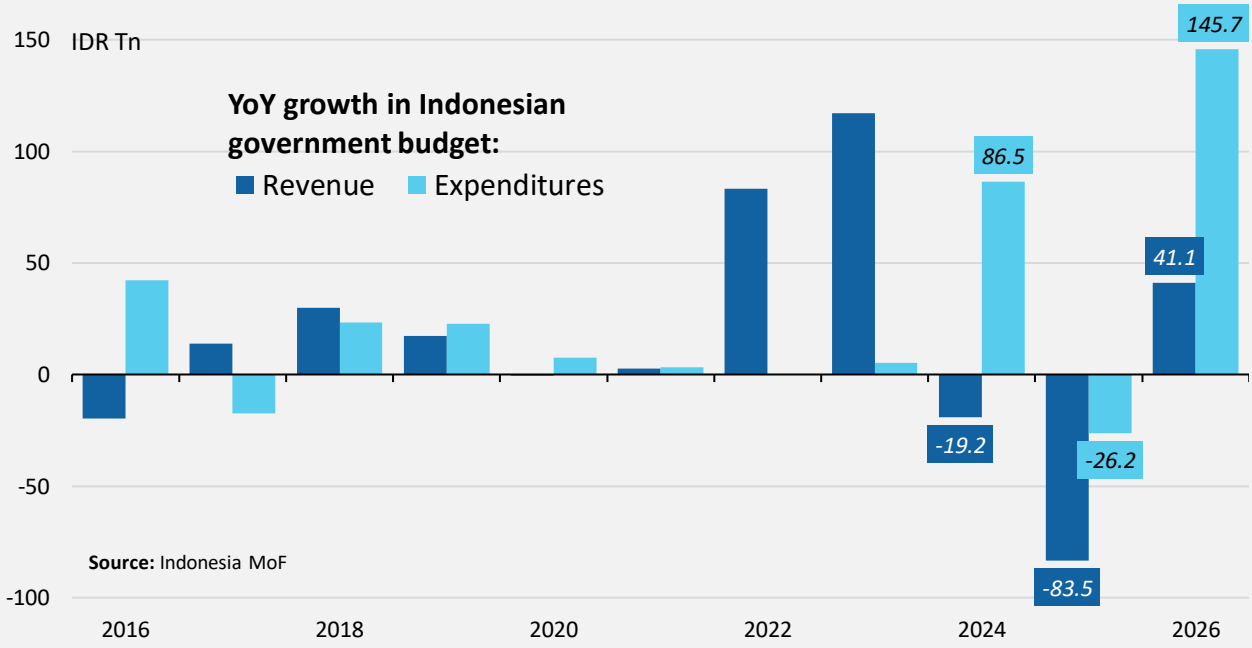
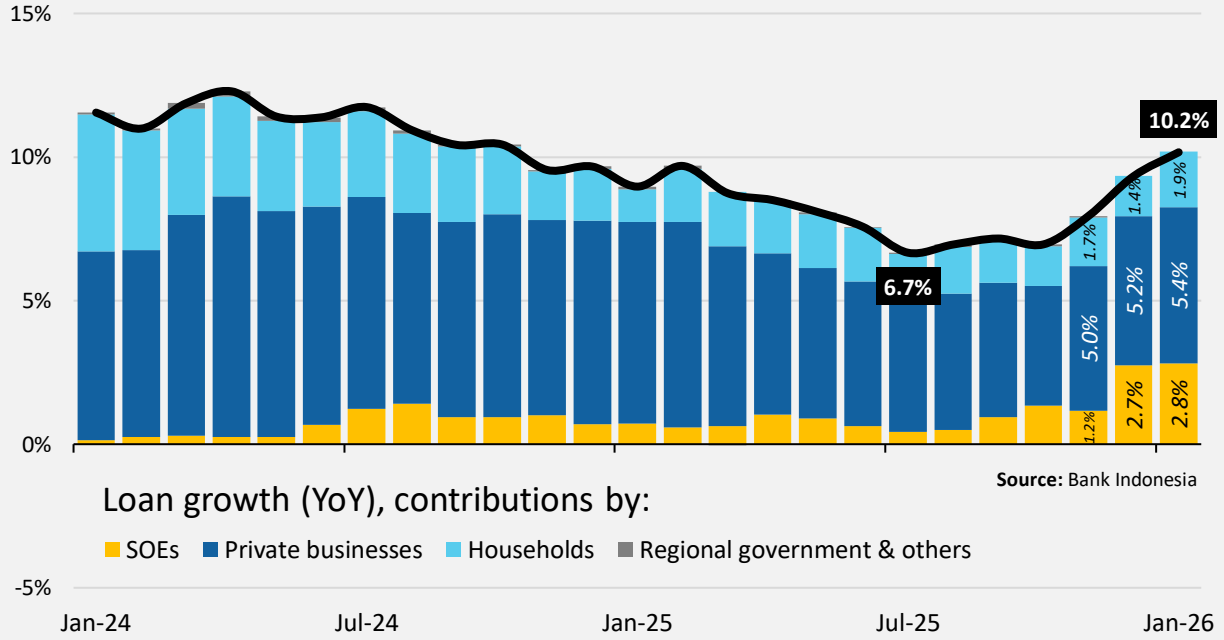


Chart 4

Total (financial) football

The government may look to mobilise energy or other SOEs to share some of its burden, which may result in increased demand for loans in the SOE sector



Source: Bank Indonesia

Economic Calendar

		Actual	Previous	Forecast*
02 March 2026				
ID	S&P Global Manufacturing PMI	53.8	52.6	52
ID	**Trade balance (Jan-25), USD Bn**	**0.95**	**2.52**	**2.7**
ID	**Inflation Rate YoY, %**	**4.76**	**3.55**	**4.0**
US	S&P Global Manufacturing PMI	51.6	52.4	51.2
05 March 2026				
EA	Retail Sales YoY, %	2	1.8	1.7
06 March 2026				
ID	**Foreign Exchange Reserves, USD Bn**	**151.9**	**154.6**	**-**
US	Non Farm Payrolls, th	-92	126	70.0
US	Retail Sales YoY (Jan-26), %	3.2	2.4	2.0
09 March 2026				
CN	Inflation Rate YoY, %	1.3	0.2	0.4
ID	Motorbike Sales YoY, %	1.0	3.1	-
ID	Consumer Confidence	125.2	127.0	128
10 March 2026				
CN	Trade balance, (Jan-Feb) USD Bn	213.62	114.11	1.6
ID	Retail Sales YoY, %	5.7	3.5	4.0
11 March 2026				
US	Inflation Rate YoY, %		2.4	-
12 March 2026				
US	Trade balance (Jan-26), USD Bn		-70.3	-
13 March 2026				
US	PCE Price Index YoY, %		2.9	-
ID	Car Sales YoY, %		7	-
16 March 2026				
CN	Retail Sales YoY, (Jan-Feb) %		0.9	-
17 March 2026				
ID	**BI-Rate Decision, %**		**4.75**	4.75
ID	Loan Growth YoY, %		9.96	-
19 March 2026				
US	**Fed Interest Rate Decision, %**		**3.75**	**3.75**
27 March 2026				
ID	M2 Money Supply YoY, %		10.0	-

*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	3.75	Dec-25	1.35
UK	3.75	Dec-25	0.75
EU	2.15	Jun-25	0.25
Japan	0.75	Dec-25	-0.75
China (lending)	2.00	Sep-24	3.05
Korea	2.50	May-25	0.50
India	5.25	Dec-25	2.50
Indonesia	4.75	Sep-25	-0.01

Money Mkt Rates	09-Mar	-1 mth	Chg (bps)
SPN (1Y)	5.12	4.65	47.5
SUN (10Y)	6.73	6.42	31.2
INDONIA (O/N, Rp)	4.21	3.88	33.2
JIBOR 1M (Rp)	5.03	5.03	0.0

Bank Rates (Rp)	Dec	Nov	Chg (bps)
Lending (WC)	8.08	8.24	-16.00
Deposit 1M	4.54	4.60	-6.00
Savings	0.70	0.67	3.00

Currency/USD	09-Mar	-1 mth	Chg (%)
UK Pound	0.744	0.735	-1.28
Euro	0.859	0.846	-1.52
Japanese Yen	157.7	157.2	-0.29
Chinese RMB	6.907	6.936	0.42
Indonesia Rupiah	16,945	16,866	-0.47

Capital Mkt	09-Mar	-1 mth	Chg (%)
JCI	7,337.4	7,935.3	-7.53
DJIA	47,740.8	50,115.7	-4.74
FTSE	10,249.5	10,369.8	-1.16
Nikkei 225	52,728.7	54,253.7	-2.81
Hang Seng	25,408.5	26,560.0	-4.34

Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)
Stock	3,864.0	4,021.0	-156.95
Govt. Bond	875.4	1,327.7	-452.36
Corp. Bond	5.1	5.2	-0.13

Trade & Commodities	09-Mar	-1 mth	Chg (%)
Baltic Dry Index	2,010.0	1,923.0	4.5
S&P GSCI Index	710.5	587.6	20.9
Oil (Brent, $/brl)	99.0	68.1	45.4
Coal ($/MT)	140.8	116.9	20.5
Gas ($/MMBtu)	3.25	4.37	-25.6
Gold ($/oz.)	5,138.5	4,964.4	3.5
Copper ($/MT)	12,886.8	12,923.1	-0.3
Nickel ($/MT)	17,265.6	16,879.6	2.3
CPO ($/MT)	1,110.5	1,040.3	6.7
Rubber ($/kg)	2.00	1.93	3.6

External Sector	Jan	Dec	Chg (%)
Export ($ bn)	22.16	26.35	-15.91
Import ($ bn)	21.20	23.83	-11.05
Trade bal. ($ bn)	0.95	2.51	-62.02
Central bank reserves ($ bn)*	154.6	156.5	-1.21

Prompt Indicators	Jan	Dec	Nov
Consumer confidence index (CCI)	127.0	123.5	124.0
Car sales (%YoY)	7.0	17.9	-1.0
Motorcycle sales (%YoY)	3.1	14.5	2.1

Manufacturing PMI	Feb	Jan	Chg (bps)
USA	51.6	52.4	-80
Eurozone	50.8	49.5	130
Japan	53.0	51.5	150
China	52.1	50.3	180
Korea	51.1	51.2	-10
Indonesia	53.8	52.6	120

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

	2020	2021	2022	2023	2024	2025	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.1	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5362
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	2.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	4.50
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	6.50
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	16,784
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	16,842
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	33.8
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-0.4

Notes:

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

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