

Bigger targets require more daring tools

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Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Victor George Petrus Matindas
victor_matindas@bca.co.id



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Summary

- The Indonesian government continue to set a high target for growth in 2027, assuming a more benign global macroeconomic conditions.
- However, challenges continue to persist as fiscal expenditures continue to outpace revenue in 2026, adding to the many imbalances that hitherto pressurised the Rupiah.
- Difficulties in increasing the tax ratio in the short term may have compel the government to use unconventional fiscal strategies.

- There is an adage saying that no news is good news. This appears particularly true for the global financial market over the past week. News flow surrounding the Iran war has dwindled, with the US government continuing negotiations with its Iranian counterpart to (hopefully) reopen the Strait of Hormuz and unfurl the damage the still-ongoing war cause on the global energy supply chain.
- What has resulted, then, is a sharp decline in dated Brent prices (-5.6% WTD to USD 97.7/bl for July 2026 deliver). While oil prices have a habit of galloping higher at the slightest hint of bellicosity, the 6.6 bps WTD decline in the benchmark UST yield (to 4.56% at the time of writing) highlights the market's growing confidence in a peace deal, which would be

instrumental in putting the global volatility and inflation genie back in the bottle.

- It is against this global macroeconomic context that the Indonesian government announced its macroeconomic framework (*Kerangka Ekonomi Makro, KEM*) and fiscal policy guidelines (*Pokok-Pokok Kebijakan Fiskal, PPKF*) last week, kicking off the process that will lead to the formulation of the state budget (APBN) for the next fiscal year. While the KEM-PPKF announcement had tended to be a low-key, technical event in previous years, interests over Indonesia's policy directions have turned popular attention toward this year's announcement, especially with the President opting to announce the figures (and more) himself.

Planning for sunshine while sheltering from the storm

- As expected, the government continue to set a high target for itself, with real GDP growth is expected to accelerate to 5.8-6.5% YoY while inflation remains stable within Bank Indonesia's 1.5-3.5% inflation targeting corridor in 2027 (*see Table 1*). **The government's lofty ambition seems to be rooted on the expectation that energy-driven volatility will be wiped clean**

from the global economy entering the next year (as indicated by the USD 70-95/bl Indonesia crude oil price assumption), which is not a far-fetched assumption given the ongoing negotiation between the US and Iran.

- The government also expects global financial markets to be more benign in the coming year, which should help keep the benchmark SBN yield

manageable within the 6.5-7.3% range in 2027 (compared to the 6.9% target in 2026). The only surprise, perhaps, came from the relatively modest exchange rate assumption (IDR 16,800-17,500/USD in 2027, vs. the IDR 16,500/USD target in 2026), reflecting a realistic view of the challenges that have thus far kept the Rupiah under pressure.

- Indeed, the Rupiah continues to face strenuous pressure, with the currency now trading near the 17,845/USD psychological level again despite BI’s recent “bazooka” rate hike. As we have argued, the problems facing the Rupiah do not lie in how BI’s policy postures compares with that of other central banks (whether BI is ahead of or behind the curve).
- **The historic USD 9.1 Bn balance of payment deficits in Q1-2026 shows that the economy is indeed suffering from triple deficits (balance of payments, saving-investment gap, and fiscal deficits),** creating a cascading effect on the currency’s stability as outward payments (due to narrowing trade surplus and dividend payments) and portfolio outflows (due to worsening sentiment) worsen the economy’s external balance. Therefore, efforts to stabilise the Rupiah may need to start with correcting this imbalance, with market attention appears to be especially directed towards the fiscal posture.
- Unfortunately, there is a long list of questions the government needs to answer to reassure the market. The government may have announced that the primary balance had swung back into surplus in April 2026, citing robust economic growth and improvements in Coretax implementation as the drivers behind the solid 13.3% YoY growth in revenue (13.7% YoY for tax revenue). However, further investigation into the

“The Rupiah continue to trade against the USD near the pre-rate hike level as the currency continues to suffer from fiscal and other imbalances”

expenditure side of the budget does not leave much to be cheerful about (*see Chart 1*), as the **370.3% surge in subsidy and compensation spending (to IDR 223.1 Tn in April 2026) help expenditure growth to continue outpacing revenue growth.**

- At the same time, spending on goods and services as well as capital expenditures also continues to accelerate (130% MoM and 43.3% MoM, respectively), highlighting the government’s continued support for its flagship programmes. While further acceleration in these expenditures may not help strengthen market conviction, there are still some positives that can be drawn from the government’s continued commitment to such spending.
 - For instance, government programmes are increasingly relied upon for labour absorption, especially amid the downtrend in the corporate CAPEX cycle. Moreover, **the negative correlation between public spending and import growth appears to strengthen in recent times (see Chart 2),** indicating the high local content in the government’s procurement processes, although the same standard needs to also be applied to quasi-public institutions.
- **The government, then, may continue to see fiscal expansion as *sine qua non* to higher GDP growth,** especially with some in the private sector choosing to sit on the backseat. The government also continue to benefit from cheap financing in its effort to bankroll Indonesia’s GDP growth, as highlighted by the lagging interest expenses (13.4% YoY in April 2026, vs. 34.3% YoY for overall expenditure growth).
- However, we should remain careful in reading into Indonesia’s seemingly stable yields and

reined-in interest expenditures. **Whereas the sovereign bond market often acts as a feedback mechanism against the sitting administration’s fiscal plans (such as what happened in the UK under the short-lived Truss premiership), BI’s active intervention in the SBN market distorts this feedback loop (see Chart 3),** allowing the government to double down on its spending plan.

- Be that as it may, **it is fair to assume that the government may not rely on these workarounds over the long term, and efforts must eventually be made to strengthen Indonesia’s revenue base.** Alas, this effort may blow back against the government’s emphasis on stronger growth, as the household sector requires continued fiscal support to maintain consumption, while placing the fiscal burden on the manufacturing sector may worsen labour market imbalances.
- As such, the burden of contributing more to the fiscal coffers seems to have been directed towards the export-oriented extractive sector, although the government is similarly wary of

adjusting the export levy to extract more revenue. The government has instead decided to centralise exports under a new SOE, aiming to identify and eradicate illicit trade activities that should have contributed to the government’s coffers in the first place.

- However, while the logic and narrative are sound, the targeted illicit activities appear to have dwindled significantly in recent times, as tighter oversight brings businesses into line (see Chart 4). Meanwhile, most analysts have been wary of another layer of rent-seeking eating into companies’ margins under the new centralised export mechanism, which helps explain the recent foreign outflows from commodity stocks following the KEM-PPKF announcement. The government have indeed created a powerful tool, now it is time to observe whether the added benefit (compared to more conventional methods, such as customs reform) will outweigh the cost.

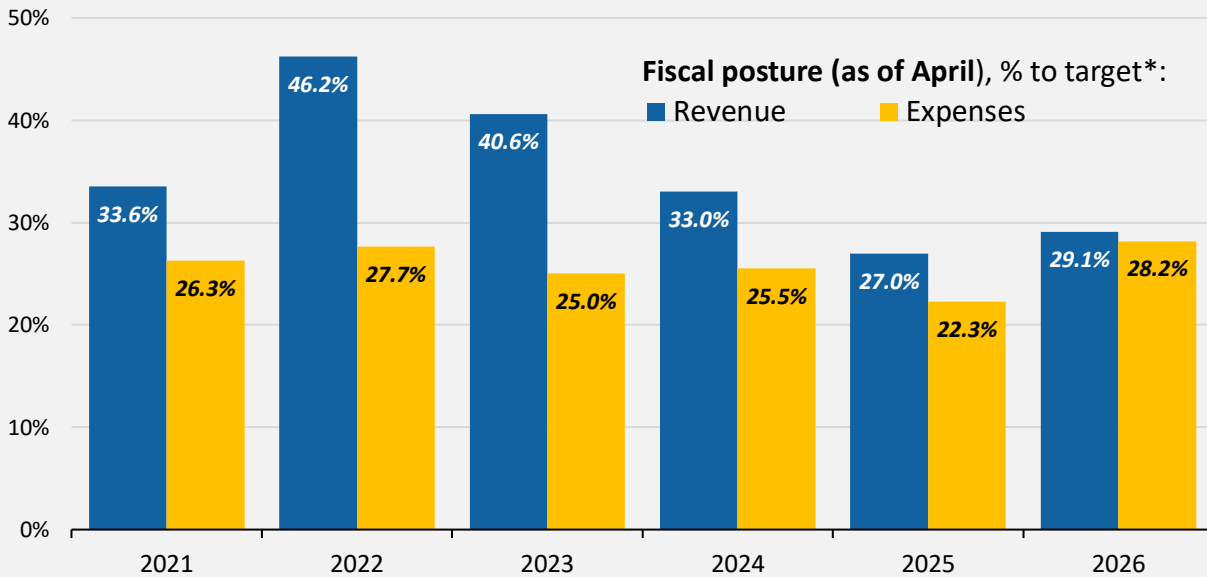
Table 1

	Macroeconomic assumptions						
	APBN						KEM-PPKF
	2021	2022	2023	2024	2025	2026	2027
Economic Growth (%)	5.0	5.2	5.3	5.2	5.2	5.4	5.8-6.5
Inflation Rate (%)	3.0	3.0	3.6	2.8	2.5	2.5	1.5-3.5
10-Year SBN Yield (%)	7.3	6.8	7.9	6.7	7.0	6.9	6.5-7.3
Exchange Rate (IDR/USD)	14,600	14,350	14,800	15,000	16,000	16,500	16,800-17,500
Indonesian Crude Price (USD/Bl)	45	63	90	82	82	70	70-95
Oil Lifting (Th bl/day)	705	703	660	635	605	610	602-615
Gas Lifting (Thousand BOE/day)	1007	1036	1050	1033	1005	984	934-977

Chart 1

Acceleration on all front

Indonesia's fiscal revenue noticeably improves in 2026, but expenses also accelerate as higher oil prices necessitates fiscal expansion



*As stated in the respective state budget law. Source: MoF

Chart 2

Domestic oriented

The negative correlation between imports and fiscal spending strengthens in recent times, highlighting the government's emphasis on domestic produce absorption.

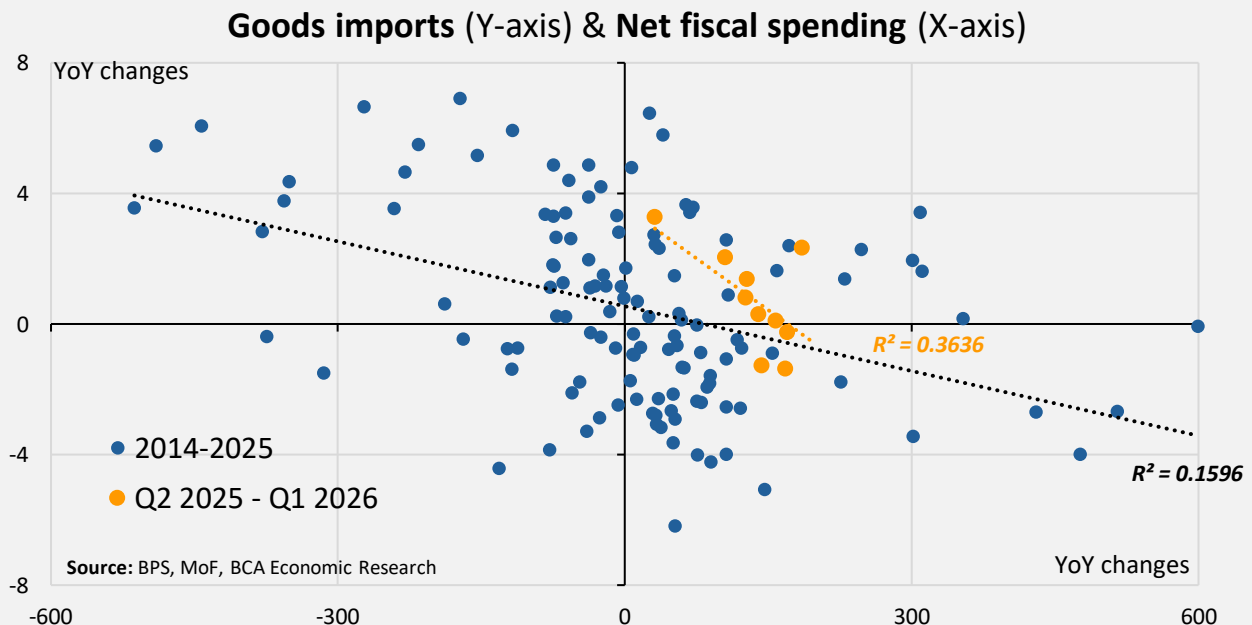


Chart 3

A friend to push naysayers away

BI's continued intervention in the SBN market keep the benchmark yield stable despite the recent hike, which help to maintain the government's interest bill

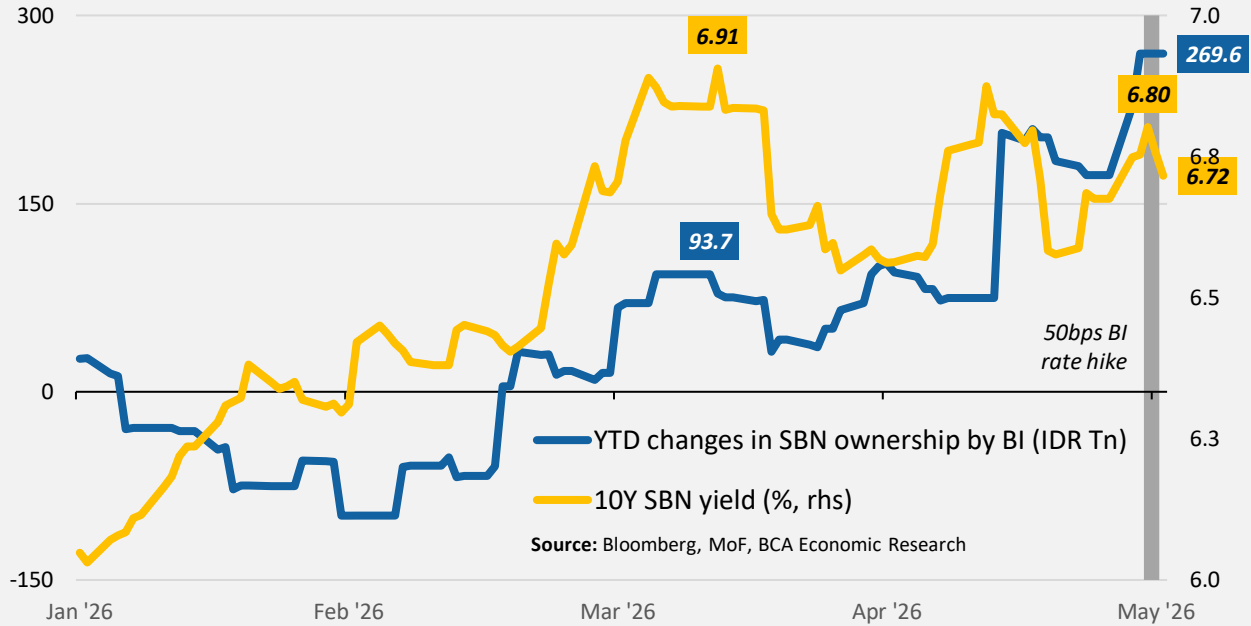
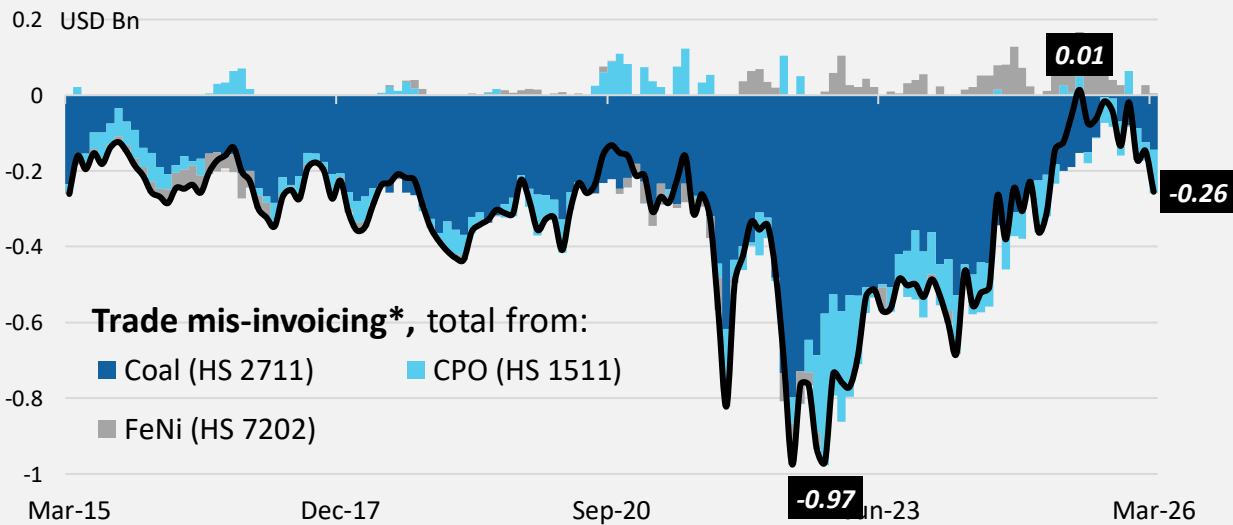


Chart 4

Not that much of a problem anymore

Trade mis-invoicing remains a problem, but the severity has decline significantly as the government tighten scrutiny and compliance standards



*The sampled countries cover >80% of Indonesia's exports for each HS codes. Source: UN Comtrade, China customs, BPS

Economic Calendar				
		Actual	Previous	Forecast*
04 May 2026				
ID	S&P Global Manufacturing PMI	49.1	50.1	50.5
ID	Trade balance (Mar-26), USD Bn	3.32	1.28	4.2
ID	Inflation Rate YoY, %	2.42	3.48	3.0
05 May 2026				
ID	GDP Growth Rate YoY, %	5.61	5.39	5.6
US	Trade balance (Mar-26), USD Bn	-60.3	-57.8	-61.4
07 May 2026				
EA	Retail Sales YoY, %	1.2	1.3	1.1
08 May 2026				
ID	Foreign Exchange Reserves, USD Bn	146.2	148.2	-
ID	Property Price Indeks YoY, %	0.62	0.83	0.5
US	Non Farm Payrolls, th	115	185	95.0
09 May 2026				
CN	Trade balance, USD Bn	84.82	51.13	79.1
10 May 2026				
ID	Car Sales YoY, %	55.0	-13.8	-7.0
11 May 2026				
CN	Inflation Rate YoY, %	1.2	1	0.9
ID	Consumer Confidence	123.0	122.9	122
ID	Motorbike Sales YoY, %	28.1	-17.1	-
12 May 2026				
ID	Retail Sales YoY, %	3.4	6.5	6.8
US	Inflation Rate YoY, %	3.8	3.3	3.6
14 May 2026				
US	Retail Sales YoY, %	4.9	4.2	3.3
18 May 2026				
CN	Retail Sales YoY, %	0.2	1.7	2.2
20 May 2026				
ID	BI-Rate Decision, %	5.25	4.75	4.75
ID	Loan Growth YoY, %	9.98	9.49	9.7
22 May 2026				
ID	Current Account, (USD Bn)	-4.2	-2.5	-0.8
ID	M2 Money Supply YoY, %	9.2	9.7	9.9
28 May 2026				
US	PCE Price Index YoY, %		3.5	-

*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 (%)	Trade & Commodities	22-May	-1 mth	Chg (%)
US	3.75	Dec-25	-0.05	Baltic Dry Index	2,991.0	2,640.0	13.3
UK	3.75	Dec-25	0.95	S&P GSCI Index	731.7	705.2	3.8
EU	2.15	Jun-25	-0.85	Oil (Brent, \$/brl)	103.5	98.5	5.1
Japan	0.75	Dec-25	-0.65	Coal (\$/MT)	141.8	125.7	12.8
China (lending)	2.00	Sep-24	3.15	Gas (\$/MMBtu)	2.92	2.76	5.8
Korea	2.50	May-25	-0.10	Gold (\$/oz.)	4,509.4	4,720.0	-4.5
India	5.25	Dec-25	1.77	Copper (\$/MT)	13,614.8	13,163.8	3.4
Indonesia	5.25	May-26	2.83	Nickel (\$/MT)	18,718.6	18,020.5	3.9
				CPO (\$/MT)	1,118.7	1,135.5	-1.5
				Rubber (\$/kg)	2.24	2.08	7.7
Money Mkt Rates	22-May	-1 mth	Chg (bps)	External Sector	Mar	Feb	Chg (%)
SPN (1Y)	6.20	5.31	89.1	Export (\$ bn)	22.53	22.17	1.62
SUN (10Y)	6.72	6.57	14.4	Import (\$ bn)	19.21	20.89	-8.08
INDONIA (O/N, Rp)	5.21	4.09	111.6	Trade bal. (\$ bn)	3.32	1.27	160.82
JIBOR 1M (Rp)	5.03	5.03	0.0	Central bank reserves (\$ bn)*	148.2	151.9	-2.47
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Prompt Indicators	Apr	Mar	Feb
Lending (WC)	8.05	8.06	-1.00	Consumer confidence index (CCI)	123.0	122.9	125.2
Deposit 1M	4.47	4.46	1.00	Car sales (%YoY)	55.0	-13.8	12.3
Savings	0.68	0.69	-1.00	Motorcycle sales (%YoY)	28.1	-17.1	1.0
Currency/USD	22-May	-1 mth	Chg (%)	Manufacturing PMI	Apr	Mar	Chg (bps)
UK Pound	0.744	0.740	-0.56	USA	54.5	52.3	220
Euro	0.862	0.851	-1.20	Eurozone	52.2	51.6	60
Japanese Yen	159.2	159.4	0.12	Japan	55.1	51.6	350
Chinese RMB	6.796	6.827	0.44	China	52.2	50.8	140
Indonesia Rupiah	17,709	17,144	-3.19	Korea	53.6	52.6	100
				Indonesia	49.1	50.1	-100
Capital Mkt	22-May	-1 mth	Chg (%)				
JCI	6,162.0	7,559.4	-18.48				
DJIA	50,579.7	49,149.4	2.91				
FTSE	10,466.3	10,498.1	-0.30				
Nikkei 225	63,339.1	59,349.2	6.72				
Hang Seng	25,606.0	26,487.5	-3.33				
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)				
Stock	3,158.9	3,208.6	-49.72				
Govt. Bond	862.4	853.6	8.80				
Corp. Bond	5.8	6.2	-0.41				

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	8.0
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5457
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	3.3
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	5.75
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	6.76
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,392
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	17,607
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	25.0
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-0.9

Notes:

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

BCA Economic & Industry Research

David E. Sumual

Chief Economist

david_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Thierris Nora Kusuma

Economist / Analyst

thierris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

Jennifer Calysta Farrell

Economist / Analyst

jennifer_farrell@bca.co.id

+6221 2358 8000 Ext: 1082423

Agus Salim Hardjodinoto

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Nicholas Husni

Economist / Analyst

nicholas_husni@bca.co.id

+6221 2358 8000 Ext: 1079839

Arif Agung Wibowo

Economist / Analyst

arif_agung@bca.co.id

+6221 2358 8000 Ext: -

Victor George Petrus Matindas

Head of Banking Research and Analytics

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Elbert Timothy Lasiman

Economist / Analyst

Elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1007431

Samuel Theophilus Artha

Economist / Analyst

samuel_artha@bca.co.id

+6221 2358 8000 Ext: 1080373

PT Bank Central Asia Tbk

BCA Economic & Industry Research

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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