Leak-plugging and optimising

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Summary

- The government proposes a more moderate fiscal deficit of 2.40% of GDP for FY2027, while its bullish growth outlook reflects confidence in its ability to optimise public spending.
- Stronger revenue growth underpins the lower deficit target, while further mobilisation of off-budget resources may help contain on-budget expenditure.
- Limited incentives to rein in government financing capacity could add to fiscal risks, highlighting Bank Indonesia's role in containing the government's interest burden.

- President Prabowo Subianto delivered its State of the Nation address on Friday last week, announcing the 2027 state budget proposal (RAPBN) and ten "transformative steps" for the year ahead over two sessions. The RAPBN 2027 announcement is largely a calm event, as some major initiatives marketed as part of the "transformation" programmes (such as the mineral exchange) have been communicated. Also contributing to the relative state of calm is the government's adherence to the fiscal rules, as evidenced by the proposes 2.40% deficit target for FY 2027 (2.68% for FY 2026).
- **While the 2027 RAPBN posture appears less expansive, this does not mean that the government has put the brakes on its pursuit for higher growth**. Building on the strong momentum in H1 2026, the government has set a 6.0% YoY real GDP growth target for 2027, a noticeable increase from the official 5.4% YoY target for 2026, as stipulated in UU 17/2025 on APBN 2026. This "higher growth, lower deficit" target echo the current administration's confidence in optimising state expenditures while still delivering robust growth – a worthy objective, although experience from the previous budget review process in H1 2025 points to the contrary.
- Beyond the overall theme of transformation, higher growth, and greater optimalisation, there is little to dissect from the government's proposal for next year's budget. The draft state budget bill (RUU APBN) has yet to be made available to the public, let alone its annexes and other accompanying documents. With that said, the State of the Nation address still provides important insights into the government's outlook for 2027, which is increasingly crucial given the public sector's growing influence on the economy.

Revenue: Plugging the leakage

- Judging by the ten initiatives announced by the President on Friday, one might argue that increasing non-tax revenue is front and centre in the government's strategy to fund its "transformative" policies. Indeed, the address emphasised the need to secure Indonesia's economic assets ("*plugging the leakage*" as put by the President), building on initiatives already underway, including the creation of an exchange for minerals and other strategic commodities, the establishment of the Indonesia Financial Centre (IFC), and BP Danantara's continued efforts to optimise SOE assets.
- The Minister of Finance has also previously remarked that some part of SOE dividends should be returned to the state as revenue[1], revealing the urgency to increase the government's coffer without placing excessive reliance on taxation.

"While initiatives have been made to strengthen non-tax revenue, the government may continue to rely on tax to increase its revenue in 2027"

- However, the rhetoric does not appear to be fully reflected in the numbers ***(see Chart 1)***. The government is indeed confident that it can raise state revenues by 6.79% YoY to Rp 3,426 Tn in FY 2027, but **virtually all of this increase is expected to come from higher tax and excise receipts (+10.5% YoY to Rp 2,908 Tn)**. Meanwhile, non-tax revenue is projected to decline by 10.2% YoY to around Rp 518 Tn, despite the introduction of the revenue-raising initiatives mentioned earlier.
- The gap between the government's rhetoric – particularly its push for a mineral and strategic commodities exchange – and the projected 10.2% YoY decline in non-tax revenue offers an interesting insight. First, **the government appears to recognise the risk of lower demand for Indonesian commodities following the full implementation of the mineral exchange initiative**, as traders may not readily shift from established global benchmarks to Indonesia-based reference prices.
- Lower domestic production amid slowing global manufacturing activity further highlights the risk of declining mineral and commodity trade, limiting the revenue-generating potential of Indonesia's new mineral exchange initiatives.
- **The expectation of subdued commodity prices is consistent with the government's assumption of relatively low oil prices (USD 75/bl) in FY 2027**, revealing an outlook in which the global economy operates with lower volatility and at a slower pace next year. It is understandable, then, that the government may continue to pin its hope on stronger domestic activity to strengthen tax revenue and fill the public coffers in 2027.
- At first glance, the tax revenue target may not appear particularly ambitious, with the 10.5% YoY growth target for FY 2027 noticeably lower than this year's 18.6% YoY revenue growth outlook.

[1] https://nasional.kontan.co.id/news/pemerintah-minta-sebagian-dividen-bumn-kembali-ke-apbn-untuk-bantu-beban-utang

- However, some context is needed to properly gauge the tax revenue growth target for FY 2027. First, the low-base effect is important when comparing the two figures, as this year's seemingly exceptional tax growth is partly driven by the underwhelming tax performance recorded last year. Second, using the 0.91% of GDP deficit recorded in 7M2026, we can infer that the government's nominal GDP growth assumption for FY 2027 is around 7.85% YoY, below the 10.5% YoY tax growth target. What this implies, then, is that **the government is aiming to increase tax receipts faster than the economy itself is expected to expand, a feat that rarely occurs outside periods of commodity booms *(see Chart 2)***.
- The question, then, is ow the government plans to achieve this feat. Consistent with the "plug-ging the leakage" theme, the implementation of the core tax administration system (better known as Coretax) and further digitalisation of payment activities may help achieve this goal by unearthing taxable transactions that have previously escaped the authorities' reach. However**, concerns are beginning to emerge that greater tax scrutiny may discourage private economic activity**, highlighting a potential risk to private demand, even as the government continues to resist pressure to introduce new taxes.

"Increasing ability to mobilise off-budget spending may explain the government's confidence in reining in its on-budget expenses"

Spending: Out-of-pocket optimisation

- The downside risk to domestic aggregate demand could be aggravated by another decline in public sector demand, as implied by the government's less-expansive budget proposal for 2027 (3.93% increase in total expenditures to Rp 4,097.2 Tn). **The even more modest growth in expenditure allocated to the central govern-ment (3.60% YoY to Rp 3,362.2 Tn) is consistent with the central government's "budget optimisation" credo**, allowing one to argue against the narrative of increasingly centralised fiscal spending.
- However, it may be too soon to subscribe to this view. For one, much of the increase in regional transfers (5.47% YoY to Rp 735 Tn) is allotted to village funds, which will help villages service debt linked to their Red-and-White Cooperatives (KDMP). **The higher regional transfer, then, is largely distributed in support of central government programmes**, rather than addressing the funding gaps facing many regional governments ***(see Chart 3)***.
- This central government "budget optimisation" theme should be thoroughly investigated, considering the ambitious 6.0% growth target and the panoply of initiatives announced in last Friday's address (ranging from accelerating the development of the domestic EV motorcycle ecosystem to major investments in education and healthcare facilities).
- While the government may indeed be preparing to rein in its on-budget spending, **it is worth noting that the central government is becoming increasingly adept at mobilising off-budget resources to fund its flagship programmes**. For example, the funds used to kick-start the KDMP programme have largely

come from SOE lending, while APBN support is limited to helping villages service their debt (and training of local managers).

- Likewise, funding for many of the initiatives announced in last Friday's address may come from off-budget sources, either through private investment (as seen in the development of kitchens that form the backbone of the Free Nutritious Meals programme), or through assignments to special mission vehicles (SMVs) and other quasi-public institutions. Initiatives such as Danantara Development Management Fund (DDMF) and Indonesia Financial Centre (IFC) may support this off-budget spending model, as IFC may help to deepen the liquidity pool that will allow DDMF to leverage up.
- However, there are still risks to consider. For instance, DDMF could be eligible for capital injection from the government (PMN), given its mandate to support national strategic projects. Unlike the hard 3.0% of GDP cap on spending deficit, there is no similar ceiling on how much financing the government could raise, potentially opening the door to a faster accumulation of public debt.
- Meanwhile, there does not seem to be incentives for the government to rein in the increase in public debt. **Many government officials remain sanguine about Indonesia's debt stock, arguing that the 41.26% debt-to-GDP ratio remains low compared to other economies**. Higher debt, however, will eventually find its way into the budget, as the interest burden on public debt is ultimately borne by APBN. Fortunately, **Bank Indonesia's burden-sharing scheme, along with its active presence in the SBN market helps the government to control its lending rate *(see Chart 4)***, a role that the government may expect the central bank to continue playing in the upcoming year.

"Despite the already-high interest burden, relatively low debt stock and BI's active presence in the SBN market lower the incentive for the government to rein in its debt"

Chart 1

Transformation takes time

The government launched multiple incentives to increase its non-tax revenue, but most of the funds to support its programmes in 2027 may still come from tax

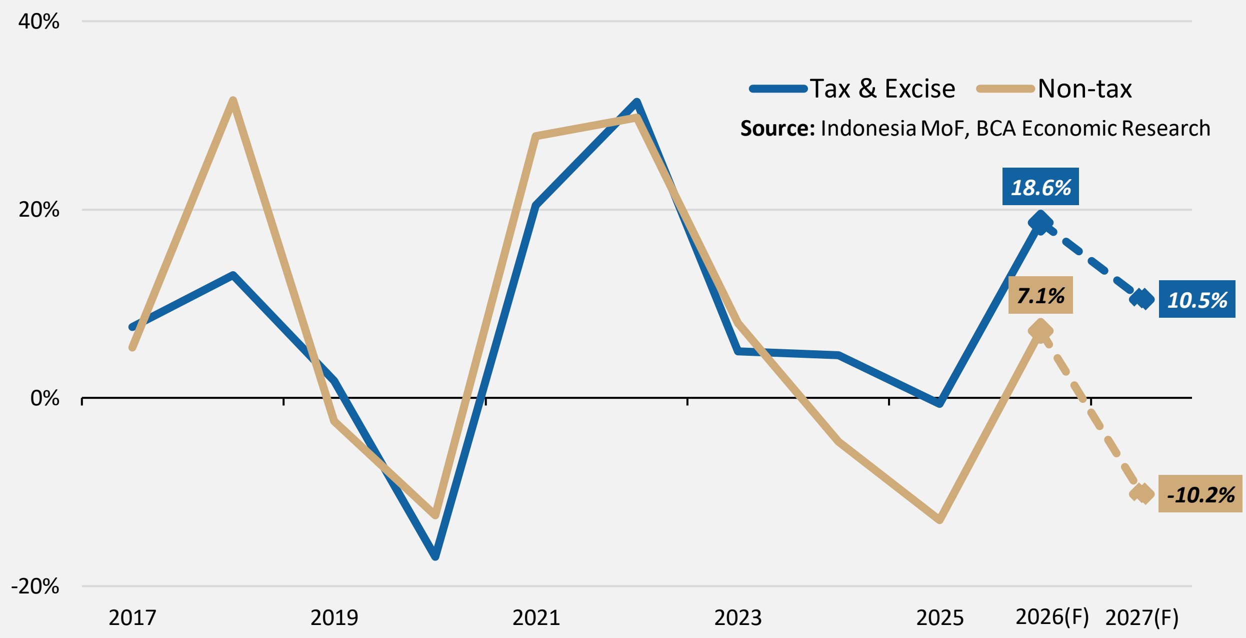


Chart 2

Swimming against the tide

Indonesia fiscal revenue rarely outpaces the nominal GDP growth outside of commodity boom periods, a trend which the government will try to break in 2027

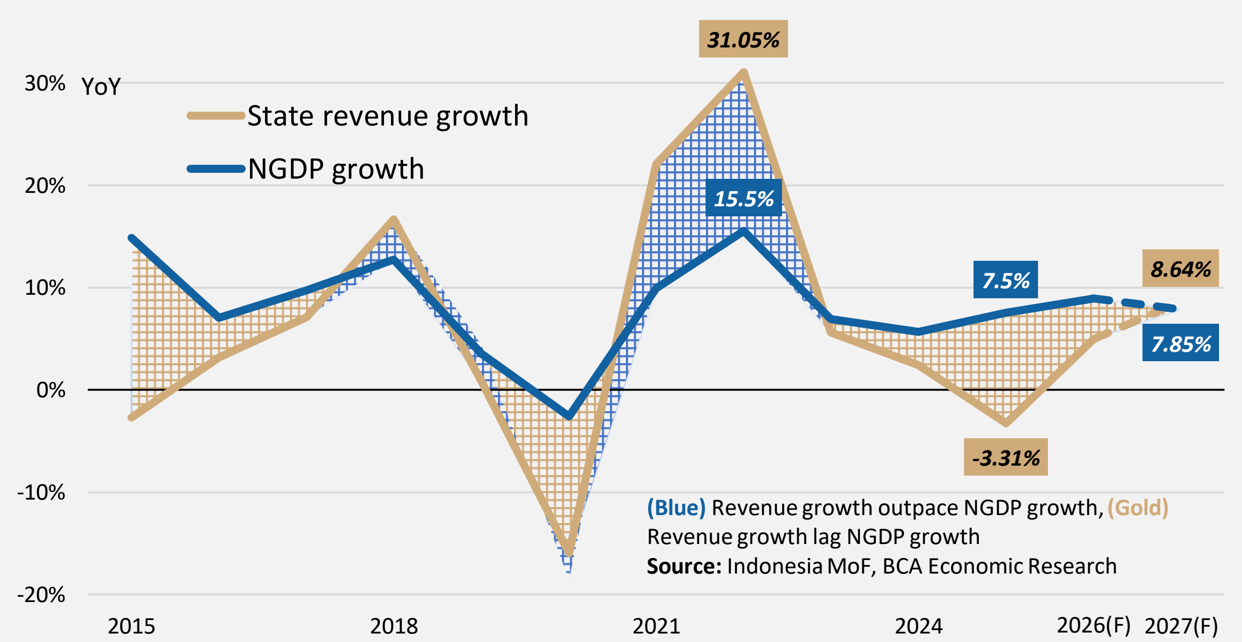
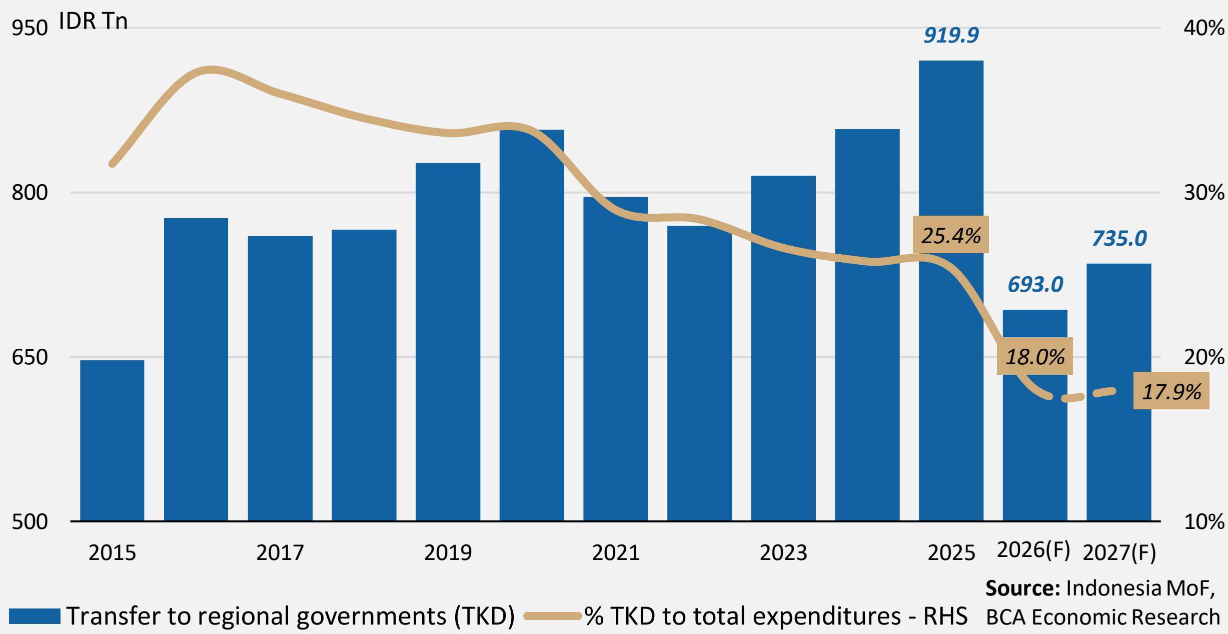


Chart 3

More of less

The central government is set to allocate more funds to regional governments, but state expenditures may remain dominated by central government's programmes

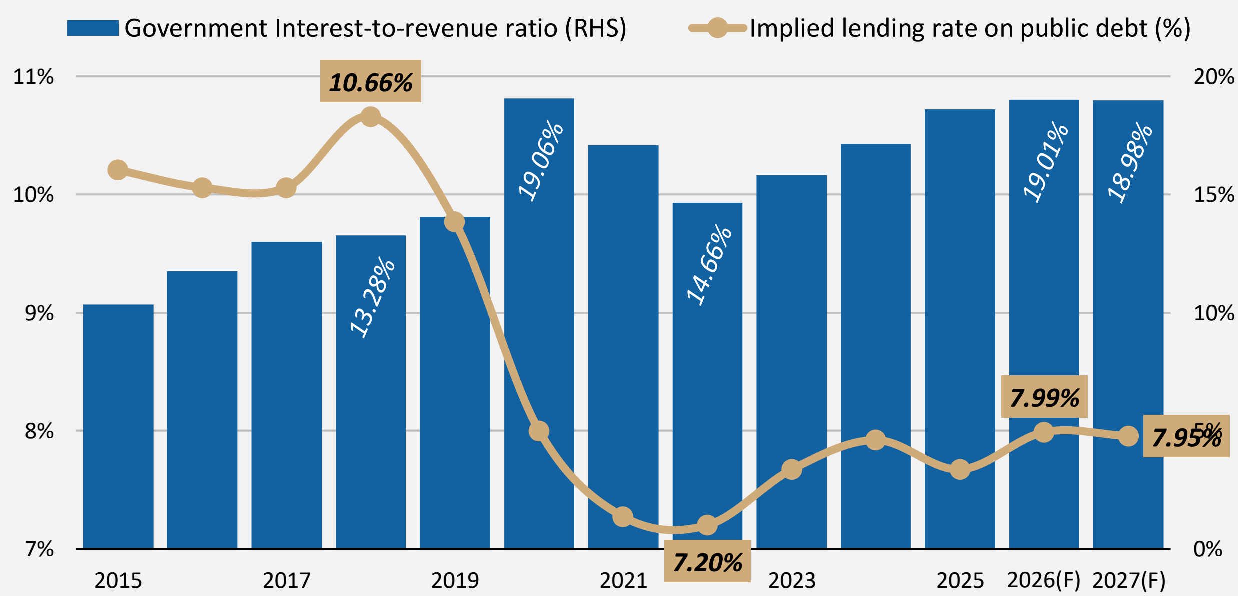


Source: Indonesia MoF, BCA Economic Research

Chart 4

No incentives to rein debt in

The government may expect its interest burden to remain controlled, lowering the incentives to rein in debt necessary to support off-budget spending



Source: Indonesia MoF, Bloomberg, BCA Economic Research

Macroeconomic assumptions

Budget Assumptions	2023		2024		2025	2026	2027
	Budget	Realisation	Budget	Realisation	Outlook	Proposed	Proposed
Growth (%, YoY)	5.1	5.1	5.1	5.0	5.0	5.4	6
Inflation (%, YoY)	3.1	2.6	2.7	1.6	2.6	2.5	2.5
Exchange Rate (IDR/USD)	15,100	15,255	16,000	15,847	16,800	16,500	17,500
10Y SBN Yield (%)	6.8	6.6	6.9	6.8	7.3	6.9	6.9
Indonesian Crude Price (USD/bl)	78	78	82	78	82	70	75
Crude oil lifting (Th bl/day)	614	606	592	580	597	610	610
Natural gas lifting (Th BoE/day)	985	1,006	990	1,017	980	984	954

State budget summary

Category (IDR Tn)	2023		2024		2025	2026	2027
	Budget	Realisation	Budget	Realisation	Realisation	Outlook	Proposed
Total Revenue	2,637.3	2,783.9	2,802.3	2,850.6	2,865.5	3,208.1	3,426.0
Tax revenue	2,118.4	2,154.2	2,309.9	2,231.8	2,387.3	2,631.4	2,908.0
Non-tax revenue	515.8	612.5	492.0	584.4	477.2	575.1	517.4
Total spending	3,117.2	3,121.2	3,325.1	3,359.8	3,527.5	3,942.4	4,097.2
Budget deficit (% GDP)	-2.27	-1.61	-2.29	-2,30	-2.92	-2.85	-2.40

Economic Calendar

		Actual	Previous	Forecast*
03 August 2026				
ID	S&P Global Manufacturing PMI	50.2	46.9	47.4
ID	**Trade balance (Jun-26), USD Bn**	**-0.45**	**-1.61**	**-0.6**
ID	**Inflation Rate YoY, %**	**2.88**	**3.34**	**3.3**
04 August 2026				
US	Trade balance (Jun-26), USD Bn	-73.3	-77.6	-73.0
05 August 2026				
ID	**GDP Growth Rate YoY, %**	**5.29**	**5.61**	**5.3**
06 August 2026				
EA	Retail Sales YoY, %	0.7	1.9	0.9
07 August 2026				
CN	Trade balance, USD Bn	112.5	125.62	105.0
ID	**Foreign Exchange Reserves, USD Bn**	**145.3**	**145.6**	**-**
ID	Property Price Indeks YoY, %	0.69	0.62	0.8
US	Non Farm Payrolls, th	-23	20	79.0
09 August 2026				
CN	Inflation Rate YoY, %	0.5	1	0.9
10 August 2026				
ID	Consumer Confidence	116.8	117.8	116
ID	Motorbike Sales YoY, %	8.3	1.1	-
11 August 2026				
ID	Retail Sales YoY, %	-3	-3.9	1.8
ID	Car Sales YoY, %	33.3	32.9	-
12 August 2026				
US	Inflation Rate YoY, %	3.4	3.5	3.4
14 August 2026				
US	Retail Sales YoY, %	**5**	6.8	6.0
17 August 2026				
CN	Retail Sales YoY, %	0.6	1	1.5
19 August 2026				
ID	**BI-Rate Decision, %**		**5.75**	**6**
ID	Loan Growth YoY, %		12.67	-
21 August 2026				
ID	Current Account, (USD Bn)		-4.0	-1.8
ID	M2 Money Supply YoY, %		8.7	-

*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	0.35
UK	3.75	Dec-25	1.15
EU	2.40	Jun-26	-0.50
Japan	1.00	Jun-26	-0.70
China (lending)	2.00	Sep-24	3.85
Korea	2.75	Jul-26	-0.05
India	5.25	Dec-25	0.80
Indonesia	5.75	Jun-26	2.87

Money Mkt Rates	17-Aug	-1 mth	Chg (bps)
SPN (1Y)	7.15	7.50	-34.9
SUN (10Y)	7.11	7.23	-11.4
INDONIA (O/N, Rp)	6.12	6.14	-1.1
JIBOR 1M (Rp)	5.03	5.03	0.0

Bank Rates (Rp)	May	Apr	Chg (bps)
Lending (WC)	7.95	7.96	-1.00
Deposit 1M	4.52	4.48	4.00
Savings	0.68	0.68	0.00

Currency/USD	17-Aug	-1 mth	Chg (%)
UK Pound	0.738	0.743	0.68
Euro	0.864	0.874	1.23
Japanese Yen	159.5	162.4	1.84
Chinese RMB	6.741	6.776	0.53
Indonesia Rupiah	17,825	17,895	0.39

Capital Mkt	17-Aug	-1 mth	Chg (%)
JCI	6,401.9	6,175.5	3.67
DJIA	53,459.8	52,146.4	2.52
FTSE	10,720.3	10,600.4	1.13
Nikkei 225	69,220.3	64,141.1	7.92
Hang Seng	25,453.2	24,562.2	3.63

Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)
Stock	2,805.0	2,573.5	231.50
Govt. Bond	892.0	885.7	6.39
Corp. Bond	5.6	5.7	-0.08

Trade & Commodities	17-Aug	-1 mth	Chg (%)
Baltic Dry Index	2,878.0	2,752.0	4.6
S&P GSCI Index	698.2	673.9	3.6
Oil (Brent, $/brl)	90.9	88.1	3.1
Coal ($/MT)	139.2	137.6	1.2
Gas ($/MMBtu)	2.76	2.77	-0.4
Gold ($/oz.)	4,416.0	4,017.4	9.9
Copper ($/MT)	14,594.0	13,500.9	8.1
Nickel ($/MT)	16,628.9	16,766.9	-0.8
CPO ($/MT)	1,114.9	1,097.3	1.6
Rubber ($/kg)	2.26	2.17	4.1

External Sector	Jun	May	Chg (%)
Export ($ bn)	25.46	23.20	9.72
Import ($ bn)	25.91	24.81	4.41
Trade bal. ($ bn)	-0.45	-1.61	-72.02
Central bank reserves ($ bn)*	145.6	144.9	0.48

Prompt Indicators	Jun	May	Apr
Consumer confidence index (CCI)	117.8	120.9	123.0
Car sales (%YoY)	32.9	14.0	55.0
Motorcycle sales (%YoY)	1.1	-5.1	28.1

Manufacturing PMI	Jul	Jun	Chg (bps)
USA	53.9	53.9	0
Eurozone	51.9	51.4	50
Japan	54.5	54.8	-30
China	50.9	51.7	-80
Korea	53.1	52.1	100
Indonesia	50.2	46.9	330

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	9.0
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5128
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	4.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.25
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	8.01
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,600
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,171
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2

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

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