OCBC Group Research

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Indonesia

Mind the fiscal gap

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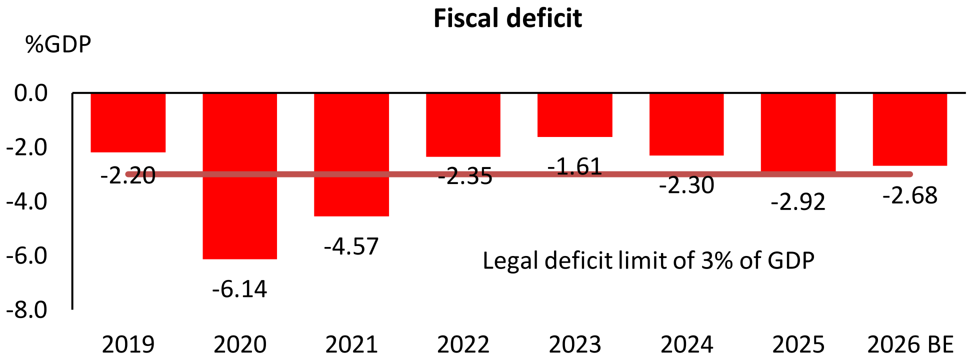
- The 2025 fiscal deficit widened to 2.92% of GDP from 2.30% in 2024, above the revised target of 2.78% of GDP. The weakness in revenue collections amid still higher expenditure needs lead to the widening of the deficit in 2025.

- For 2026, the fiscal deficit target is 2.68% of GDP. Achieving this fiscal deficit relies on higher revenue mobilisation amid still elevated expenditure outlays. We do not rule out the risk of fiscal slippage this year. We forecast a wider fiscal deficit of 2.8% of GDP.

- With the fiscal impulse expected to be contractionary to neutral, the onus to support growth will continue to fall to monetary policy. However, BI will need to be opportunistic in finding a sweet spot to cut rates this year given IDR depreciation pressures.

Fiscal deficit sharply in 2025 versus 2026

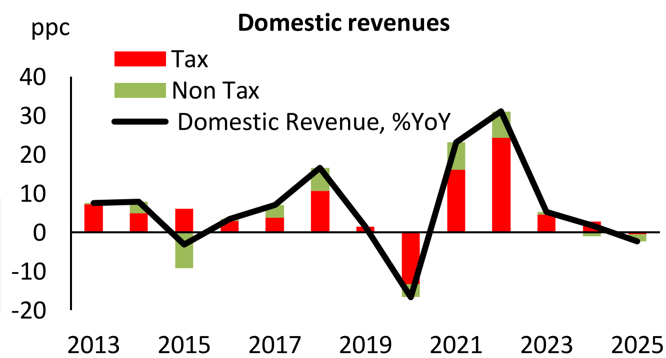
The fiscal deficit widened to 2.9% of GDP in 2025 from 2.30% of GDP in 2024. The fiscal deficit exceeded the government's target of 2.78% of GDP and close to the legal fiscal deficit of 3% of GDP. The wider deficit was driven by weaker revenue growth even as expenditures undershot the full year target. Both expenditure disbursements and revenue collections underachieved vis-à-vis the full year target.



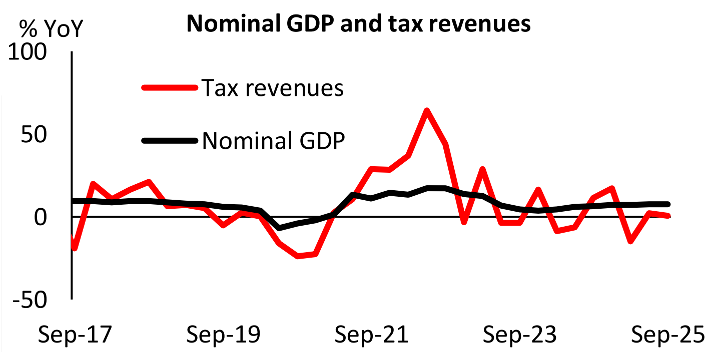
Source: CEIC, OCBC Group Research.

Revenue collections remained weak

The weakness in revenue growth was broad-based. Non-tax revenues dropped by 8.6% YoY in 2025 versus -4.8% in 2024. Lower commodity prices, namely crude oil, CPO, nickel and coal prices, weighed on non-tax revenue collections. Notwithstanding, non-tax revenue collections exceeded the government's target touching 111.9% of the outlook. By contrast, tax revenue collections fell short of the government's target achieving only 92.9% of the budgeted amount. Tax collections dropped by 0.6% YoY in 2025 from 3.6% in 2024. Gains in tax revenue collections fell short of nominal GDP growth for much of 2025, with some teething issues in newer tax administration measures weighing on collections at the start of 2025[1].



Source: CEIC, OCBC Group Research.



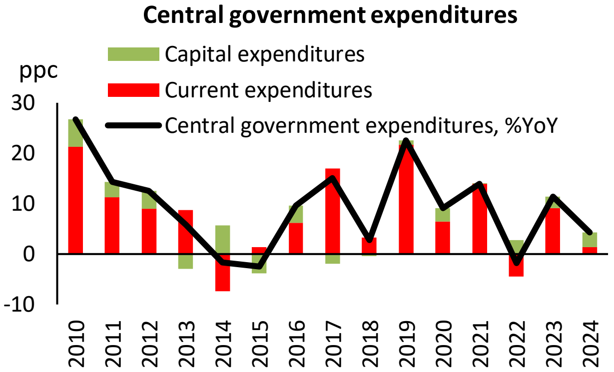
Source: BPS, MoF, CEIC, OCBC Group Research.

Expenditure disbursements improved in 2H25

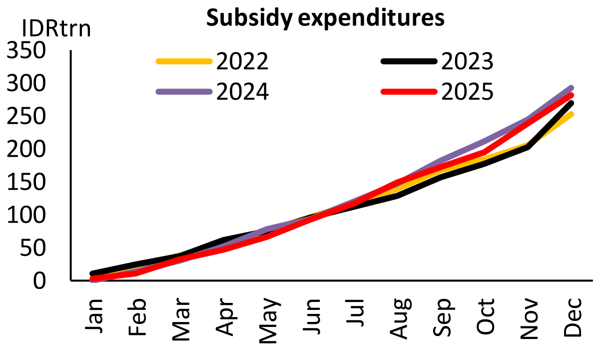
On the expenditure front, disbursements rose at a slower rate of 2.7% YoY in 2025 versus 7.6% in 2024, undershooting the government's full year target. Expenditures hit a disbursement rate of 97.8%. Within this, central government expenditures rose by 4.2% YoY versus 11.4% in 2024. The expenditure mix was positive in that capital expenditures growth

[1] Core tax

was strong at 20.3% YoY versus 17.3% in 2024, driving central government expenditures to a greater degree than current expenditures.

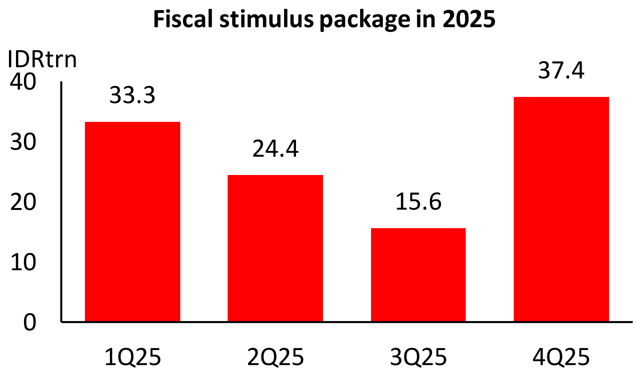


Source: CEIC, OCBC Group Research.

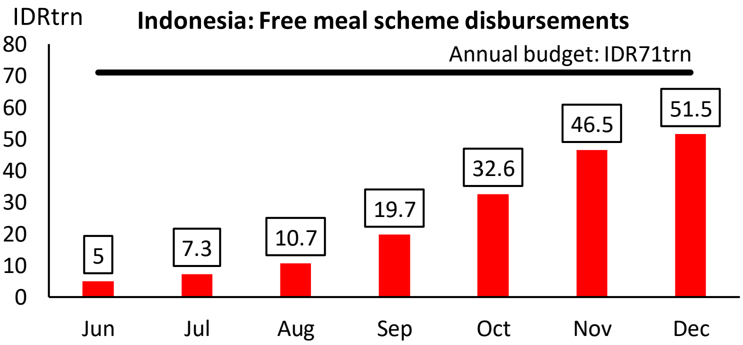


Note: September and November 2025 values are extrapolated.
Source: MoF, CEIC, OCBC Group Research.

Current expenditure growth slowed to 1.6%YoY versus 10.5% in 2024, by our estimates. This was likely driven mainly by subsidy spending, which dropped by 3.8%YoY in 2025 from 8.6% in 2024 reflecting lower global oil prices. Material spending growth slowed to 7.9%YoY from 20.9% in 2024 while social assistance expenditures were up 20.4% YoY versus -1.1% in 2024. The government announced stimulus packages worth IDR110.7trn (0.5% of GDP) in 2025.



Source: MoF, OCBC Group Research.



Note: Figures in the boxes are disbursement rates.
Source: MoF, OCBC Group Research.

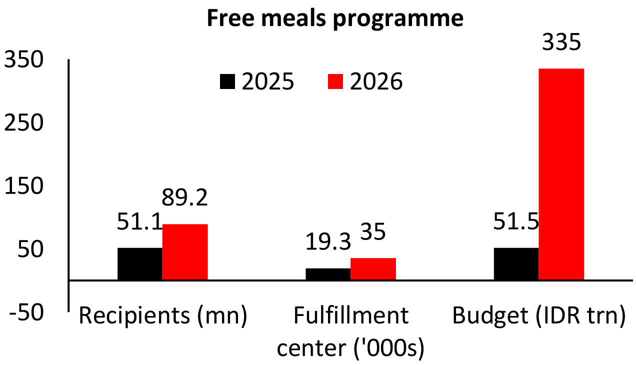
Transfers to regions fell by 1.7%YoY in 2025 from -2.0% in 2024. The disbursement rate stood at 98.3%. The drop in the transfers to region highlights the change in fiscal priorities adopted by the Prabowo administration. Expenditures are focused on central government spending supported by flagship schemes such as the free meals and free health checkup schemes. The disbursement rate for the free meal scheme reached 72.5% (IDR51.5trn of IDR71trn) while expenditure for the free health checkup stood at IDR2.1trn.

The deficit financing was lower than budgeted at IDR736.3trn versus the budgeted estimates of IDR772.9trn, i.e. 94.9% of target. In its official presentation, the MoF noted that debt financing is done carefully and measuredly to minimise costs and control risks. We expect public debt to GDP to be around 39.9% of GDP by end-2025, similar to 39.86% of GDP as of end-June 2025[2]. This is well below the legal limit of 60% of GDP.

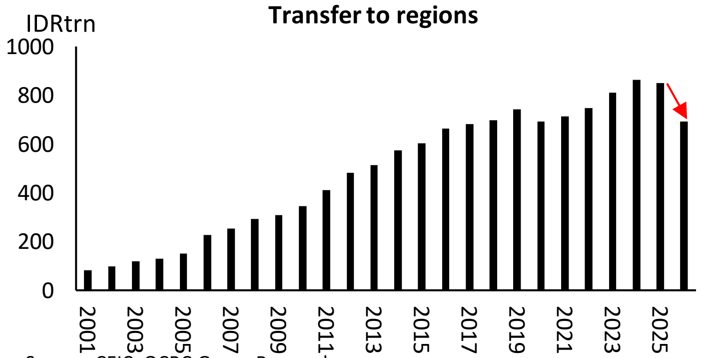
[2] Indonesia's debt ratio at 39.86 percent of GDP, still at safe level, Antara, 10 October 2025.

Challenges for Budget 2026

The expenditure focus for 2026 will likely remain on flagship schemes. Expenditures are projected to rise by 11.3% YoY in 2026, with central government expenditures projected to rise by 21% YoY and transfers to region expected to drop 18.4% YoY. The rise in central government expenditure underscores the focus on the flagship free meals scheme, which at last estimate is expected to rise to IDR335trn[3] (1.4% of GDP) in 2026, i.e. a whopping 550%YoY increase compared to the realisation of IDR51.5trn in 2025. Nutrition fulfilment centers (SPPG) are expected to rise to 35,000 from 19,343 in 2025. We expect the absorption rate for the scheme will likely improve in 2026 compared to 2025, however, we still see it as challenging to meet the full year 2026 forecast. We forecast overall expenditure growth to be less than budgeted at 6.4% YoY; this assumes that the cutbacks in transfers to regions are followed through.

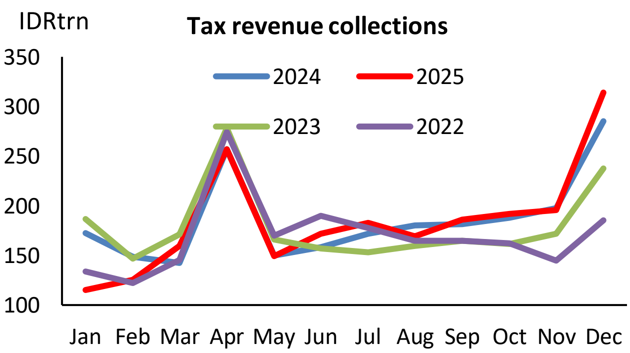


Source: MoF, CNBC, OCBC Group Research.

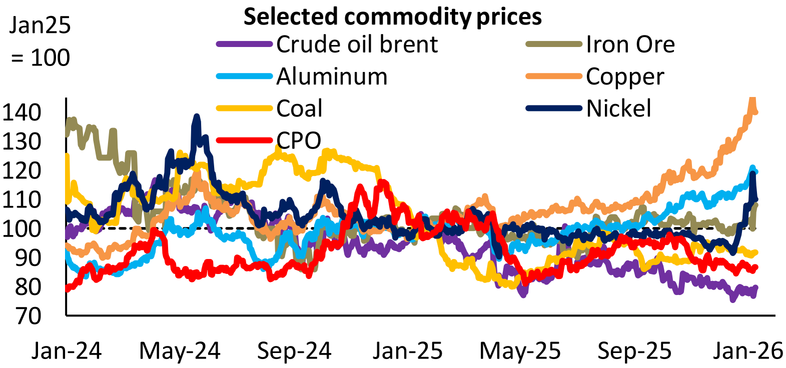


Source: CEIC, OCBC Group Research.

We see the revenue equation as more challenging for 2026 amid a relatively soft growth outlook. Budgeted revenues are forecasted to increase by 14.4%YoY in 2026, with tax revenues set to rise by 21.5% and non-tax revenues drop by 14%YoY versus -8.6% in 2024. Our forecast is that tax revenues, which have trailed nominal GDP growth in 2025, will remain lackluster. That said, there is a favourable base effect in play in 1Q26 after which we expect to see some moderation in tax revenue gains for the remainder of 2026. Fundamentally, we expect 2026 GDP growth to slow to 4.8%YoY versus 5.0% in 2025, weighing on nominal GDP growth prospects and in turn tax revenue collections.



Source: CEIC, OCBC Group Research.



Source: Bloomberg, OCBC Group Research.

[3] Bakal Habiskan Rp335 T di 2026, Ini Pesan Prabowo Soal MBG, CNBC Indonesia, 7 January 2026.

Meanwhile, non-tax revenues are budgeted to drop by 14% YoY. The recent rally in commodity prices – nickel, aluminum and copper – could bode well for non-tax revenue collections if sustained for the remainder for 2026. However, the CPO, coal and crude oil have rallied to a lesser extent or even remained stable capping the support for non-tax revenues. Notwithstanding, we forecast the contraction in non-tax revenues to be narrower than budgeted at -5.0%YoY.

The government's fiscal deficit target for 2026 remains 2.68% of GDP. However, based on our estimates, we expect some slippage and forecast a fiscal deficit of 2.8% of GDP. Finance Minister Purbaya Yudhi Sadewa noted that the fiscal deficit will not exceed the 3% GDP legal deficit limit. While public debt levels are still lower than regional peers and well below the legal limit of 60% of GDP, we see investors and market participants also focused on the government's adherence to the fiscal deficit limit which implicitly acts as a guardrail against fiscal excesses.

IDRtrn *(unless stated)*	2025			2026		% YoY	2025	2026	
	Outlook	Realised*	% of outlook	Budget estimates (BE)	OCBC estimates		Actual	BE	OCBC
Government Revenue and Grant	**2865.5**	**2756.3**	**96.2**	**3153.6**	**2947.8**		**-3.3**	**14.4**	**6.9**
Domestic Revenue	2864.5	2752.0	96.1	3152.9	2947.1		-2.3	14.6	7.1
Tax	2387.3	2217.9	92.9	2693.7	2439.7		-0.6	21.5	10.0
Non-Tax	477.2	534.1	111.9	459.2	507.4		-8.6	-14.0	-5.0
Grant	1.0	4.3	430.0	0.7	0.7		-87.5	-83.7	-83.7
Government Expenditure	**3527.5**	**3451.4**	**97.8**	**3842.7**	**3672.6**		**2.7**	**11.3**	**6.4**
Central Government	2663.4	2602.3	97.7	3149.7	2979.6		4.2	21.0	14.5
Transfer to regions	864.1	849.0	98.3	693.0	693.0		-1.7	-18.4	-18.4
Government Deficit or Surplus	**-662.0**	**-695.1**	**n.a**	**-689.2**	**-724.8**		**n.a**	**n.a**	**n.a.**
% GDP	-2.78	-2.92	n.a	-2.68	-2.8		n.a	n.a	n.a.

Note: *Unaudited figures. Source: MoF, CEIC, OCBC Group Research.

The onus is still on monetary policy to support growth

With the fiscal impulse neutral to mildly contractionary, the onus to support economic growth still falls to monetary policy. BI will need to be opportunistic in finding a sweet spot to cut rates this year. BI noted it will still look for room to lower the policy rate at its 17 December meeting. Our baseline is for BI to deliver a cumulative 50bp in rate cuts in the current easing cycle. However, we will continue to assess whether BI has the room to deliver these cuts, which will likely need to be spaced out throughout the year.

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