

Indonesia

Policy shifts

- There were a flurry of official announcements and updates this week from Indonesian authorities including the President and the central bank.
- The President announced that a state-owned enterprise under Danantara will be created to manage commodity exports. This will increase the role of the authorities in the trade of natural resources exports.
- The onus will, therefore, be on the authorities to ensure that private sector participants remain incentivised to generate wealth, bolster investments, and ultimately contribute to the potential growth.
- Meanwhile, Bank Indonesia (BI) amped up defence of the local currency (IDR) with a 50bp hike. We expect another cumulative 50bp in rate hikes this year, with the risk of more rather than less hikes.
- The fiscal deficit narrowed from January-April to 0.64% of GDP versus 0.93% of GDP in 1Q26. However, the details remain mixed with perceptions around fiscal slippage not abating. The government, however, remains committed to maintaining the fiscal deficit limit of 3% of GDP.

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Significant policy shifts

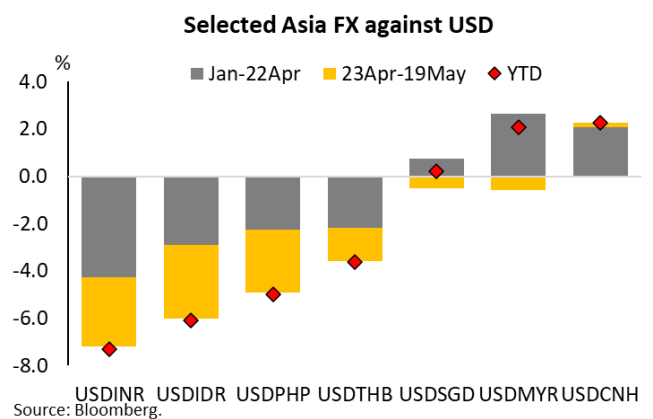
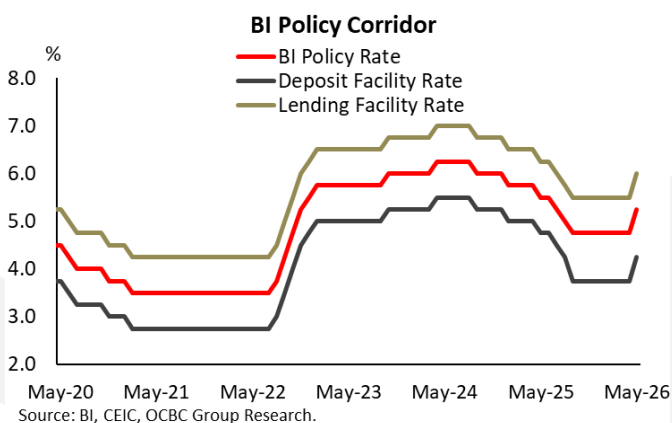
There were a flurry of official announcements and updates this week from Indonesian authorities including the President and the central bank. The President announced that a state-owned enterprise under Danantara will be created to manage certain commodity exports, while the Bank Indonesia (BI) amped up defence of the local currency (IDR) with a 50bp hike.

Investors and ratings agencies are closely watching the authorities' commitment to fiscal consolidation. The monthly fiscal data for April showed better non-tax revenue collections while expenditures were still high. As such, perceptions around fiscal slippage have not abated. Notwithstanding, for next year, President Prabowo announced a narrowing of the fiscal deficit to 1.80-2.40% of GDP from a budgeted -2.68% of GDP in 2026. This underscores the government's commitment to maintaining the fiscal deficit limit of 3% of GDP¹.

The announcements were met with mixed reactions across the key asset markets. The IDR strengthened in response to BI's 50bp rate hike, with spot USD/IDR rate closing at 17,605 on 20 May from an intra-day high of 17,760. By contrast, JCI closed 0.8% lower on the day, with 10-year IndoGB yields close to 6.8%.

BI's actions were decisive

Bank Indonesia (BI) delivered with decisive action of a 50bp hike at its 20 May meeting, surprising consensus and our expectations of a 25bp hike. The hike was directed at preventing a further backsliding in sentiment, which led to the IDR being one of the worst currency performers in the region versus USD after the INR over the past month. The policy corridor was also adjusted symmetrically - the deposit facility rate and lending facility rate were increased by 50bp to 4.25% and 6.00%, respectively.



The question for BI is whether it will deliver on further hikes. We expect so and are adding a cumulative 50bp hike to our policy rate profile. The risk is for more rather than less hikes considering that BI has room to raise the policy rate back to 6.25%, which has been the peak of hiking cycles over the past two decades. The key consideration will remain IDR moves given that the growth and inflation mix remain comfortable. BI expects growth of 4.9-5.7%, as macroprudential measures remain supportive of growth, with headline CPI at 1.5-3.5%

¹ The finance minister also affirmed support for local currency government bonds through government purchases in the secondary markets.

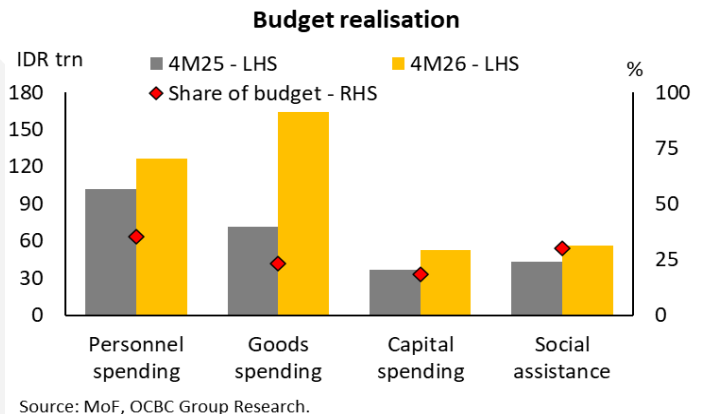
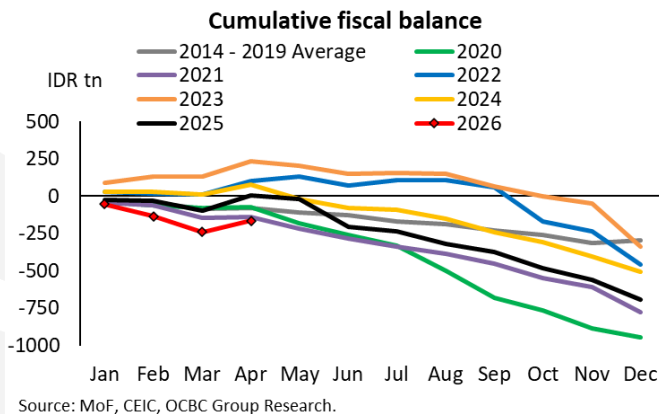
target range. With fuel subsidies in place, inflation pressures will likely remain in check, but the onus falls to the fiscal side of the equation.

Category	Key Measures
Strengthening the effectiveness of monetary policy implementation to preserve Rupiah exchange rate stability and maintain inflation in 2026 and 2027 within the 2.5%±1% target range by:	Intensify FX intervention via NDF (offshore), spot and DNDF (onshore) to stabilise Rupiah
	Align pro-market instrument rates with BI-Rate to attract foreign portfolio inflows
	Maintain primary money growth >10% to ensure ample liquidity, including measured SBN secondary market purchases
Strengthening accommodative macroprudential policy to enhance liquidity management flexibility and stimulate banking intermediation, including non-credit financing and non-TPF funding, while maintaining financial system stability by:	Ease RIM by expanding eligible corporate/sharia securities for calculation (effective 1 Jul 2026)
	Enhance KLM with additional incentives up to 0.5% of TPF (max 5.5%), effective 1 Aug 2026
	Strengthen lending support via PINISI through coordination with government and stakeholders
Strengthening foreign exchange market transaction policy	Lower threshold for FX cash purchases without underlying transactions to USD25,000/person/month (effective Jun 2026) to support Rupiah and deepen markets
Supervision & Coordination	Strengthen monitoring of banks and corporates with high USD demand in coordination with OJK

Source: Bank Indonesia, OCBC Group Research.

Fiscal room to manoeuvre is constrained

Fiscal room to manoeuvre is constrained, as underscored by the fiscal deficit narrowing to 0.64% of GDP in April from 0.93% of GDP in March. The fiscal run-rate for 2026 narrowed to 2.6% of GDP from 3.7% at the end of 1Q26. Although revenue growth improved to 18.4% YoY in April, from 6.8% in March, it was mainly driven by non-tax revenue (57.0% YoY from 13.5%) while tax revenues (12.6% YoY versus 5.2%) improved to a lesser extent. Historically, non-tax revenues tend to improve with higher commodity prices but will be difficult to compensate for still subdued tax revenues, in our view.



The bigger sticking pointing is the still rising expenditure bill. Expenditure growth accelerated to 44.1% YoY in April, up from 18.0% in March. Within spending, subsidies rose 51.3% YoY in April, capital expenditure rebounded by 60.7%, social assistance surged 308.5%, and material spending increased 170.9%. The rise in subsidy spending will be key to

watch in the coming months – we estimate that the fuel subsidy bill could widen to 0.9% of GDP from a budgeted 0.4% of GDP in 2026 if oil prices average USD100/barrel.

Should retail fuel subsidies remain in place, expenditure cutbacks for other categories will likely be necessary to maintain the fiscal deficit below the 3% of GDP legal limit. Indeed, the government has reduced the allocation for the free nutritious meals programme from IDR335trn to IDR268trn, to improve spending efficiency rather than reduce programme coverage. The revised allocation, however, remains sizeable at ~1% of GDP. Finance Minister Purbaya Yudhi Sadewa said the government does not plan to revise the 2026 budget assumptions despite rupiah weakness, noting that earlier stress simulations had already incorporated oil prices reaching USD100/bbl and rupiah depreciation.²

For 2027, President Prabowo Subianto's budget framework provided an early signal of how the government intends to balance its growth ambitions with fiscal discipline. In his speech to parliament on 20 May, President Prabowo set the 2027 fiscal deficit target at 1.8-2.4% of GDP, still within the 3% of GDP legal ceiling. This is premised on a GDP growth assumption of 5.8-6.5%, higher than the 5.4% assumption in the 2026 Budget. Headline inflation is assumed at 1.5–3.5%, the 10-year government bond yield is set at 6.5–7.3%, compared to 6.9% budgeted for 2026, with USD/IDR at 16,800–17,500/USD (2026: 16,500). The government assumes the Indonesia Crude Price at USD70–95/bbl.

The details of the 2027 Budget will likely be forthcoming in the months ahead to better understand the authorities' estimates for expenditures, revenues and continued fiscal consolidation. The latter will ultimately depend on expenditures for the free meal scheme and fuel subsidies as well as measures to broaden the tax base.

Medium-term natural resources exports framework shifting

The medium-term structural framework continues to undergo significant changes. Following the creation of Danantara in February 2025, President Prabowo Subianto's latest regulation focuses on the governance of selected natural-resource exports focuses on coal, palm oil and ferroalloys. These accounted for ~23.3% of total 2025 exports. The exports of these commodities, under the new regulation, will be overseen by state firm PT Danantara Sumber Daya.

The transition period to export through this new entity is set at three months but can be extended to one year. Every three months there will be a review on the commodity list. Based on the president's remarks, the appointed SOE would function as the channel for export sales, while proceeds would be passed on to business operators as part of a marketing facility.

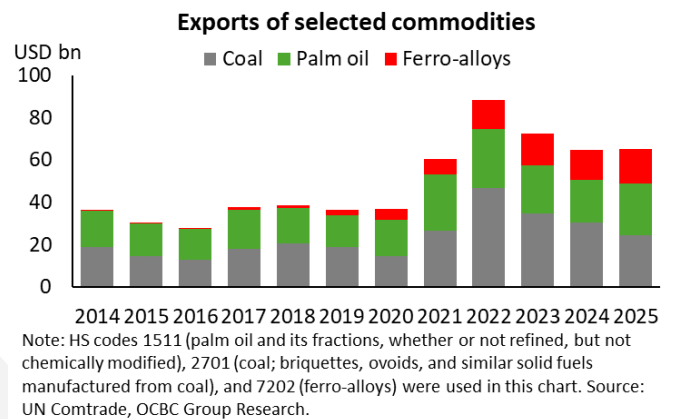
During the announcement of this regulation, President Prabowo cited concerns over under-invoicing, transfer pricing and the handling of foreign-exchange proceeds from exports, which he said had reduced the state's ability to fully capture the value of natural resources.

² "Purbaya: Dampak Pelemahan Rupiah ke Subsidi BBM Relatif Kecil," *Kontan*, 19 May 2026; "Hitungan Purbaya: Rata-rata Harga Minyak US\$100/barel, Defisit APBN Masih 2,9% PDB," *Kontan*, 6 April 2026.

Setting up of PT Danantara Sumber Daya	
Aspect	Details
Transition period	3 months (extendable to year-end before full implementation)
Interim arrangement	Exporters continue normal trade; all transactions overseen by PT Danantara Sumber Daya
Managing entity	PT Danantara Sumber Daya (unit of Danantara Indonesia sovereign wealth fund)
Leadership	CEO: Luke Thomas Mahony (former director of Vale Indonesia)
Post-transition mechanism	Danantara Sumber Daya buys from domestic sellers and sells to foreign buyers at exchange-referenced prices
Implementation approach	Phased rollout; initial coverage includes palm oil, coal, and ferroalloys
Review mechanism	Commodity scope reviewed and potentially expanded every 3 months

Source: Reuters, OCBC Group Research.

Specifically, the President mentioned an estimated USD908bn in foregone revenue over the past 34 years, arguing that stronger export governance is needed to ensure that the value of strategic commodities is properly recorded. The final impact will depend on the implementing regulation, including the exact commodity coverage, the role of the appointed SOE, the pricing mechanism, the transfer of proceeds to exporters and the treatment of existing contracts.



Separately, the government also further tightened FX regulation requirements for commodity exporters. These regulations have been adjusted at regular intervals over the past few years in a bid to bolster onshore foreign currency liquidity, allow the authorities to better gauge exporter earnings from natural resources, bolster reserves and support the local currency. The latest adjustment is for all exporters of natural resources to keep their entire export revenues in state-owned banks from 1 June 2026. The minimum requirement periods for oil and gas exporters are 3 months while for non-gas exporters it is 12 months.

With this regulation, the role of the central government is clearly becoming more important in the trade of natural resources exports. The onus will, therefore, be on the authorities to ensure that private sector participants remain incentivised to generate wealth, bolster

investments and ultimately contribute to the potential growth. Ultimately, perceived risks of crowding out private sector investments will need to be mitigated with consistent dialogue and adjustments in policies to better suit the underlying objectives.

Effective Date	10-Jan-19	01-Aug-23	01-Mar-25	01-Jan-26	01-Jun-26
Repatriation requirements	Mandated exporters of natural-resource sectors (mining, plantations, forestry, and fishery) to repatriate forex export earnings to Indonesia.	Mandated exporters of natural-resources sector (mining, plantations, forestry, and fishery) to repatriate forex export earnings to Indonesia and keep 30% of its proceeds onshore for a minimum period of three months. The regulation will be applicable to export proceeds with a minimum of USD 250k or equivalent.	Mandated exporters of natural-resources sector (mining, plantations, forestry, and fishery) to repatriate 100% of their export earnings within Indonesia's financial system for at least one year, targeting exports valued at USD250k or more.	Exporters can convert only 50% of repatriated funds into IDR; remaining will stay in foreign currency (mostly USD).	Natural resources exporters are mandated to keep 100% of FX earnings in state-owned banks. Up to 50% of these earnings must be converted into IDR.
Mechanism	Export proceeds must be deposited in the Special Account no longer than three months after the filing of relevant customs export notification (Pemberitahuan Pabean Ekspor - PPE)	Export proceeds must be deposited in the Special Account no longer than three months after the filing of relevant customs export notification (Pemberitahuan Pabean Ekspor - PPE).	Exporters are allowed to use the retained funds for specific purposes, including converting to IDR at the same foreign exchange bank, payments in foreign currency for tax and non-tax state revenue.	The government will require many natural-resource companies to deposit their export earnings solely in state-owned banks.	The government is also expanding the exemption for DHE placement at non-SOE banks originating from trading partner countries that have trade cooperation agreements or MoUs with Indonesia.

Source: BI, Antara news, Kontan, Jakarta Globe, OCBC Group Research.

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