

## Indonesia

### Stepping up fuel related measures

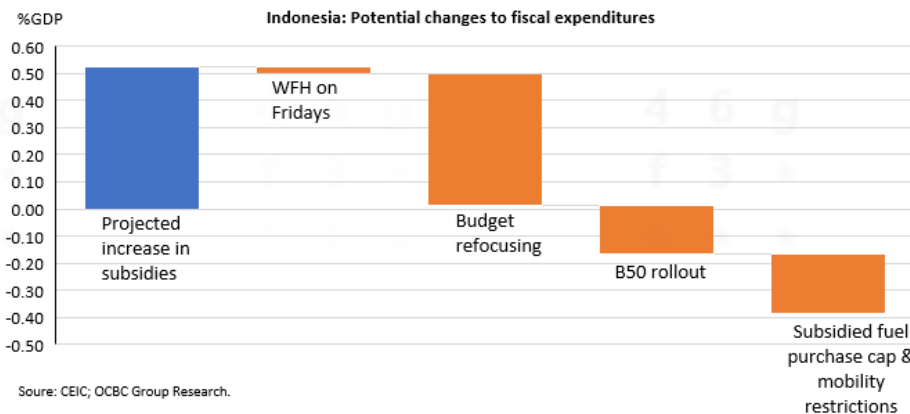
- The authorities announced fuel efficiency measures in the wake of the continued situation in the Middle East. The efficacy of these measures remains to be seen.
- Notwithstanding, our baseline remains for the government to keep the 2026 fiscal deficit target below 3% of GDP (OCBC: 2.9%).
- Bank Indonesia (BI) remains vigilant of external pressures. We expect BI to remain on hold for the rest of the year while closely watching IDR moves. We do not rule out tighter monetary policy settings should inflationary or external current pressures become more apparent.

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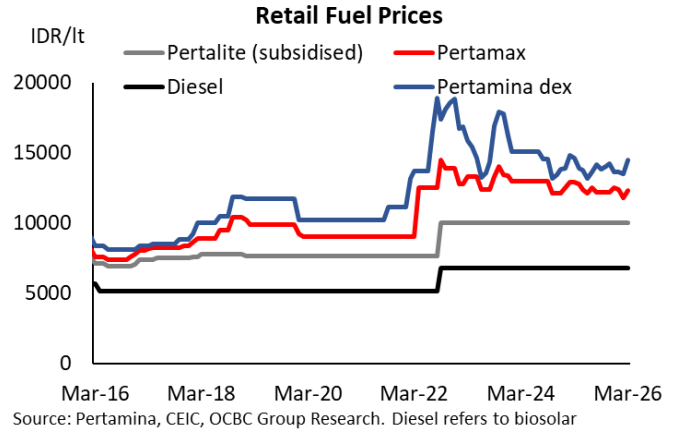
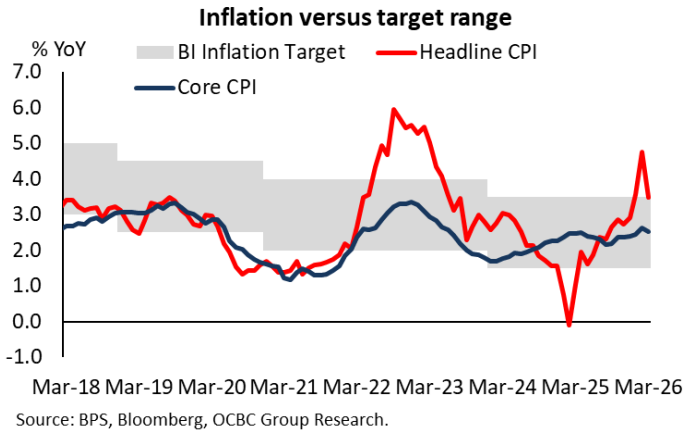
The authorities announced fuel efficiency measures in the wake of the continued situation in the Middle East. We estimate that if global oil prices average USD100/barrel, the fuel subsidy bill will increase by 0.5-0.6% of GDP. The government announced various measures to cutback on fuel consumption as well as streamline budget efficiencies, which are expected to save IDR243.3trn (0.9% of GDP).

These measures include instituting a mandatory Friday work-from-home policy for all central and regional employees, with exemptions for essential sectors such as healthcare, security, and logistics. This measure is projected to yield IDR6.2trn (0.02% of GDP) in fuel savings for the state budget. The government will also undertake a budget refocusing exercise, reducing spending on ceremonial activities, non-operational outlays, and official travel, which is projected to save IDR130.2trn (0.5% of GDP). The rollout of a 50% biodiesel blend (B50) for subsidized diesel from 1 July 2026 is expected to reduce fossil fuel import dependency and save approximately IDR48trn (0.2% of GDP). The authorities will also limit subsidized fuel purchases at 50 liters per vehicle per day, with exemptions for public transportation; this will be effective on 1 April 2026 while official mobility is being sharply curtailed, with domestic official travel and overseas travel reduced by 50% and 70%, respectively. Moreover, there will be a 50% reduction in the usage of official vehicles, except for electric vehicles (EVs).



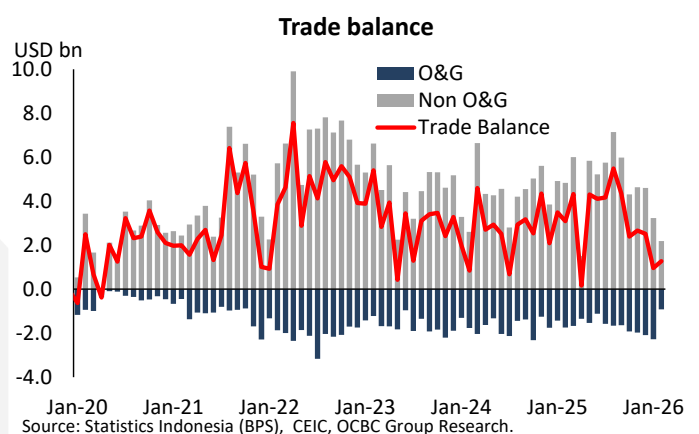
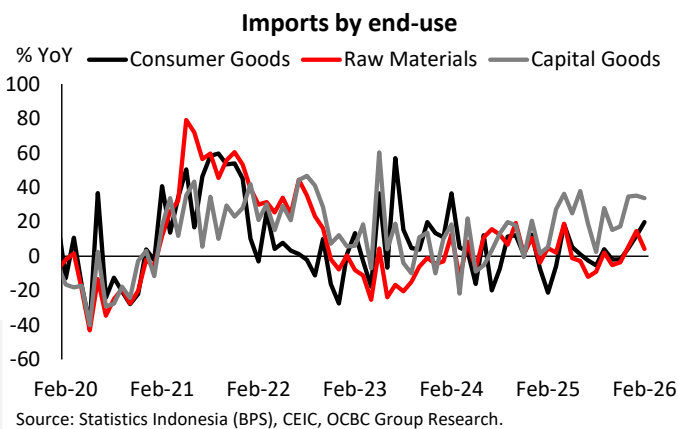
The efficacy of these measures remains to be seen considering volume quota limits tend to be harder to implement. Notwithstanding, our baseline remains for the government to keep the 2026 fiscal deficit target below 3% of GDP (OCBC: 2.9%). The longer the situation in the Middle East drags on, however, the deeper the fiscal vulnerabilities particularly if retail fuel prices remain unchanged.

Indeed, the March CPI print showed that headline inflation eased to 3.5% YoY from 4.8% in February largely as the base effects from the electricity price discount in January and February 2025 faded. The recent increase in global oil prices has not translated onto retail fuel prices, with subsidised prices unchanged through March. Food inflation has, however, remained sticky at 3.3% YoY in March versus 3.5% in February with core inflation easing marginally to 2.5% from 2.6% in February. Looking ahead, we maintain our average 2026 headline CPI forecast of 3.0% which is at the higher end of BI's 1.5-3.5% target range.



On the external front, the trade data for February was mixed. Export growth slowed to 1.0% YoY from 3.4% in January (Consensus: 4.4%; OCBC: 4.9%) reflecting slower non-oil and gas export growth of 1.3% YoY versus 4.4% in January with oil and gas export growth improving to -4.2% YoY versus -15.6% in January, albeit still contracting. Average export growth improved to 2.2% in January and February 2026 from 0.8% in 4Q25.

Import growth slowed to 10.8% YoY in February from 18.2% in January (Consensus: 10.4%; OCBC: 8.0%) reflecting a sharp drop in oil and gas imports (-30.4% YoY from 27.5% in January) while non-oil & gas import growth picked up to 18.2% from 16.7% in January. By end use, consumer and capital goods import growth remained solid at 19.8% YoY and 33.7% versus 11.8% and 35.2% in January, respectively while raw material import growth slowed to 4.2% from 14.7% in January.



The trade surplus widened to USD1.3bn in February from USD1.0bn in January, with the oil and gas deficit narrowing to USD0.9bn from USD2.3bn in January despite the non-oil and gas surplus narrowing to USD2.2bn from USD3.2bn in January. Looking ahead, we do expect some pressure on the trade balance on account of higher net petroleum imports. We expect current account deficit to widen to 1.6% of GDP in 2026 compared to -0.1% of GDP in 2025. Indonesia remains a net commodity exporter on account of coal, CPO and LNG exports but it is a net importer of petroleum.

Bank Indonesia (BI) remains vigilant of external pressures. We expect BI to remain on hold for the rest of the year while closely watching IDR moves. BI has introduced a number of mitigation measures over recent weeks including the rollout of FX repo via FX-denominated instruments such as SVBI and SUVBI, lowering the FX cash purchase limit to USD50,000 from USD100,000 per buyer per month, raising DNDF/forward (sell and swap B/S) transaction limits to USD10mn from USD5mn, and adjusted the threshold for supporting documents for outgoing FX fund transfers to USD50,000 from USD100,000 (see *OCBC Monthly Research Monitor (April 2026)*, 1 April 2026). We do not rule out tighter monetary policy settings should inflationary or external current pressures become more apparent.

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