

27 May 2025

### Macroeconomics Indicator

	2023	2024	2025F
GDP growth (%YoY)	5.05	5.03	5.02
Inflation (%YoY)	2.61	1.57	1.97
BI rate (% Year-end)	6.00	6.00	5.00
Rp/US\$ (Average)	15,244	15,853	16,571
CA deficit (% of GDP)	-0.1	-0.6	-1.5
Fiscal deficit (% of GDP)	1.65	2.3	2.8

## KEM-PPKF FY26F: growth optimism in the middle of fiscal prudence

- The government set economic growth assumption at c.5.2-5.8% for FY26, an optimistic figure vs. ours/IMF projection at c.5.1%/c.4.7%.
- The projection for fiscal deficit in FY26 was modest at c.2.5% of GDP. Revenue target was expected to be lower vs. FY25 from lower non-tax.
- Overall, we think government projects that stimulate job creation are essential to support stronger growth in FY26.

### Optimistic economic growth assumption in FY26

The Ministry of Finance (MoF) has established its macroeconomic framework and the fiscal policy principle (KEM-PPKF) for the FY26F state budget. We see the MoF's economic growth target at c.5.2-5.8% to be optimistic relative to ours/IMF projection at c.5.1%/c.4.7%. This is due to: 1) uncertainty on global trade outlook which may reduce net exports contribution; and 2) modest fiscal deficit projection of c.2.5% of GDP (similar to FY25) which we think might not be suffice to stimulate higher growth. Moreover, Rupiah assumption of Rp16,500–16,900 (Rp16,000 in FY25 APBN) indicates MoF's cautious stance over prolonged global uncertainty.

### Lower state revenue target in FY26F

The government set lower revenue target at c.+11.7-12.2% of GDP in FY26 (c.+12.4% of GDP in FY25), signalling a relatively limited fiscal space for next year. The lower target was sourced primarily from lower non-tax revenue assumption at c.+1.6-1.8% of GDP (c.+2.1% of GDP in FY25) along with stable tax revenue of c.+10.1-10.4% of GDP (c.+10.2% of GDP in FY25, see fig. 3). We view this assumption to be reasonable, due to: 1) the reallocation of SoE dividend revenue towards Danantara (at c.Rp85tr or c.+0.4% of GDP); 2) expected contracting commodity prices by -2.4% (IMF); 3) low oil prices assumption of US\$60-80/barrel.

### Conservative state expenditure in FY26F

The government set lower ceiling for state expenditure at c.+14.2-14.8% of GDP in FY26 (c.+14.9% of GDP in FY25), an indication of conservative (austerity) approach amid expected lower revenue. The MoF highlighted education to be one of the priority sectors with higher education budget by c.+0.4-5.1% yoy to Rp727-761tr (Rp724.3tr in FY25). Most of this will be directed towards the free nutritious meal program (MBG) with the allocated budget of Rp217.8tr (up 27.3% from Rp171tr in FY25, see fig.4). Furthermore, spending for the health sector was set relatively unchanged at Rp181–228tr (Rp218.5tr in FY25). Last but not least, unlike previous years, the infrastructure and social aid budget were left unchanged. No details nor information were mentioned on the infrastructure and social aid budget.

### High multiplier effect projects are necessary to create job supply

We believe the fiscal deficit target at c.2.5% of GDP in FY26F points to the government's stance of stable economic growth to keep the government's debt to GDP ratio at c.39.8% in FY26 (c.39.4% in FY25). However, considering the optimistic growth target, we think it is essential for the government to prioritize high-multiplier projects to maximize the job supply creation. Key programs that fit these criteria are free nutritious meal, three million housing initiative, and other infrastructure related projects, which are expected to accelerate or begin groundbreaking in FY26 (see fig. 8).

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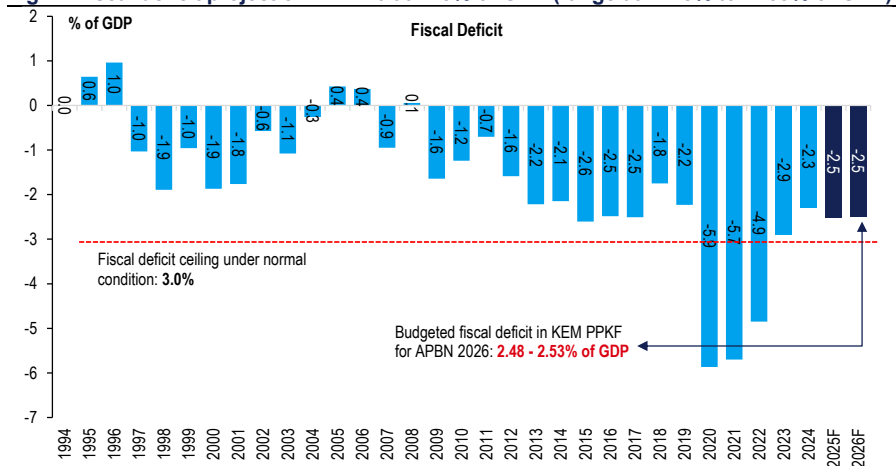
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**Fig. 1: Fiscal deficit projection in FY26 at -2.5% of GDP (range at -2.48% to -2.53% of GDP)**



Sources: MoF, Indo Premier

**Fig. 2: Submitted macroeconomic framework for the FY26 state budget**

Indicator	UU APBN	KEM-PPKF	Our view	Medium Term Macro Assumption		
	2025	2026		2027	2028	2029
Economic growth (%yoy)	5.2	5.2 - 5.8	Optimistic	5.3 - 6.1	5.6 - 7.0	5.8 - 8.0
Inflation (%yoy)	2.5	1.5 - 3.5	Achievable	1.5 - 3.5	1.5 - 3.5	1.5 - 3.5
10Y bond yield	7.0	6.6 - 7.2	Reasonable	6.3 - 7.3	6.0 - 7.0	6.0 - 7.0
Exchange rate (Rp/US\$)	16,000	16,500 - 16,900	Possible higher swing	15,700 - 16,900	15,700 - 16,900	15,700 - 16,900
Oil price (US\$/barrel)	82	60 - 80	Reasonable	60 - 80	60 - 80	60 - 80
Oil lifting (000barrel/day)	605	600 - 605	Reasonable	568 - 696	567 - 792	578 - 901
Gas lifting (000barrel)	1,005	953 - 1,017	Reasonable	904 - 1,118	1,023 - 1,345	1,110 - 1,539

Source: MoF, Indo Premier

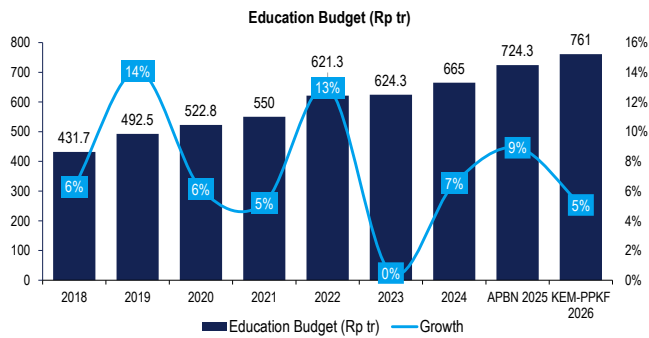
**Fig. 3: Submitted fiscal policy principles for the FY26 state budget**

Item	UU APBN	KEM-PPKF	Medium Term Fiscal Assumption		
	2025	2026	2027	2028	2029
<b>Revenue and Grant</b>	<b>12.36</b>	<b>11.71 - 12.22</b>	<b>11.70 - 13.21</b>	<b>12.12 - 14.94</b>	<b>12.86 - 16.76</b>
Tax Revenue	10.24	10.08 - 10.45	10.29 - 11.39	10.75 - 13.13	11.52 - 15.01
Non-Tax Revenue	2.11	1.63 - 1.76	1.40 - 1.81	1.36 - 1.81	1.33 - 1.76
Grant	0.002	0.002 - 0.003	0.002 - 0.003	0.002 - 0.003	0.002 - 0.003
<b>Expenditure</b>	<b>14.89</b>	<b>14.19 - 14.75</b>	<b>14.05 - 15.68</b>	<b>14.44 - 17.35</b>	<b>15.10 - 19.11</b>
Central Government Expenditure	11.11	11.41 - 11.86	11.29 - 12.88	11.70 - 14.59	12.38 - 16.37
Transfer to Region and Village Fund	3.78	2.78 - 2.89	2.76 - 2.80	2.74 - 2.76	2.72 - 2.74
Primary Balance	0.26	0.18 - 0.22	0.09 - 0.18	0.09 - 0.15	0.05 - 0.13
<b>Budget Deficit</b>	<b>2.53</b>	<b>2.48 - 2.53</b>	<b>2.35 - 2.47</b>	<b>2.32 - 2.41</b>	<b>2.24 - 2.35</b>
Debt Ratio	39.43	39.69 - 39.85	39.43 - 39.62	39.05 - 39.29	38.55 - 38.64

\*) numbers in red are negative value

Source: MoF, Indo Premier

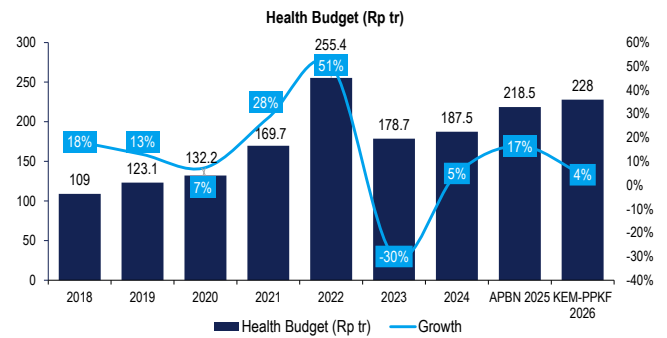
**Fig. 4: Education budget growth was relatively lower**



\*The KEM-PPKF figure was the upper-bound.

Source: MoF, CEIC, Indo Premier

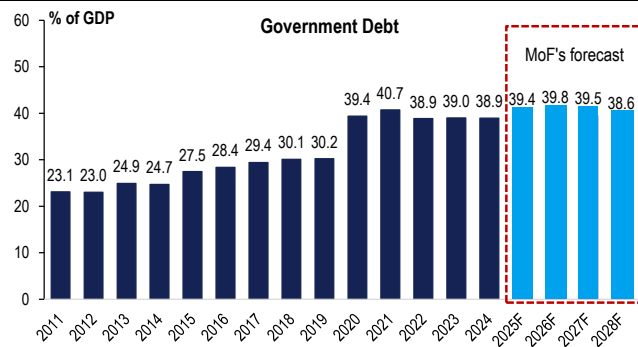
**Fig. 5: Along with the decreasing growth in health budget**



\*The KEM-PPKF figure was the upper-bound.

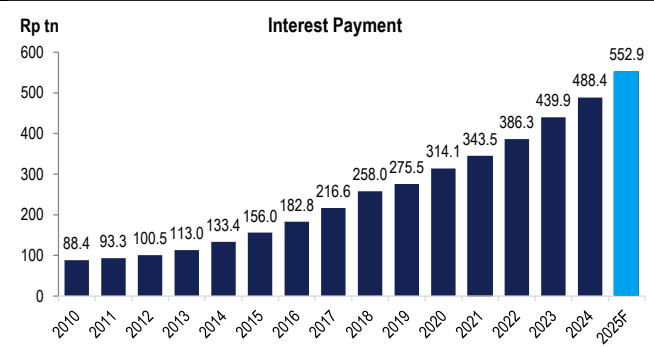
Source: MoF, CEIC, Indo Premier

**Fig. 6: Well managed government debt-to-GDP ratio**



Source: MoF, CEIC, Indo Premier

**Fig. 7: But interest payment on an increasing trajectory**



Source: MoF, CEIC, Indo Premier

**Fig. 8: Key government programs under Prabowo administration, some of which will continue until FY26**

Government Program	Details	Date
Bad debt write-offs for SMEs	The program write-offs bad credit for 67 thousands SMEs, with value up to Rp2.4tr.	05-Nov-24
Free nutritious meal program (MBG)	First launched on 6Jan25. Up until May25, the program budget realization is Rp3.0tr, distributed towards 3.9mn recipients. The overall budget for MBG is expected to increase from Rp711tr to be Rp1711tr by 4Q25.	06-Jan-25
Budget efficiency initiatives	Proposed Rp306.6tr state budget efficiency, with percentage ranging from 10-90% on operational and infrastructure category	22-Jan-25
Free health check-up program during birthday	Accommodated 4.3mn recipients in 9.346 health centre (Puskesmas). Realization reached Rp3.4tr in Apr25.	10-Feb-25
The extension of foreign exchange proceeds from exports (DHE)	Extending the proportion from 30% to 100% and the duration from 3 months to 12 months.	17-Feb-25
Establishment of Danantara and new SOEs Law	The creation of Indonesia's SWFs, "Danantara", with initial capital of Rp1000tr, along with the revision of SOEs Law that establish the new structure of SOEs (Operation and Investment Holding)	24-Feb-25
The establishment of national bullion bank	The creation of bullion bank within Pegadaian and Bank Syariah Indonesia	26-Feb-25
School renovations	Allocated Rp20tr to renovate schools, targeted at 22 thousand units. Official Inpres still waiting to be launched, now on groundbreaking phase.	Apr-25
Public school (sekolah rakyat) construction program	Planned to build 200 public school (sekolah rakyat) per year, targeted specifically for children from poor families, with 50% of them will be financed by state spending, budgeted at Rp30tr.	Apr-25
Merah Putih cooperative	Initiating the establishment of 70-80k Merah Putih Cooperative	TBD
3 million house per year construction program	No details has been disclosed yet. Qatar company Ooredoo Group stated to be interested to invest in the program.	TBD

Source: various, Indo Premier

## **ANALYSTS CERTIFICATION**

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