

Macro Note

Indonesia: 2026 Fiscal Posture - Leveraging for Growth

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- In the latest revised budget 2026 under the new leadership of Finance Minister Sadewa, the Indonesian government targets 5.4% GDP growth in 2026, supported by stable inflation (2.5%) and exchange rate assumptions (IDR16,500 per USD), signaling resilience amid global uncertainty. Fiscal 2026 deficit is now expected to be slightly wider at 2.68% of GDP vs 2.48% as announced by President Prabowo previously under the former Finance Minister Mulyani. Budget 2026 focuses on national priorities such as education, healthcare, MSMEs, and defense spending.
- Tax revenue is now projected to grow by more than 8%, driven by system improvements and tax on trade although major tax rates remain unchanged. The government reaffirmed that SOE dividends are redirected to strategic investments via Danantara.
- A notable shift towards fiscal centralization is evident, with regional transfers declining by IDR227tn to IDR693tn, though it was increased by IDR43tn from the earlier 2026 budget estimate.
- New debt issuance of ~IDR782tn will be dominated by bonds, supported by lower interest rates and burden-sharing with Bank Indonesia (BI). Investment will continue for priority sectors, with PT SMI and Danantara expected to mobilize strategic capital.
- Beyond budget 2026, the most pertinent issue is on the possibility to raise budget deficit above its statutory threshold of 3% as it is deemed irrelevant in today's more challenging global, regional, and domestic economic environment. The Parliament is said to discuss such matters early next year.

A more expansionary fiscal policy as a leverage for growth

The Indonesian government enters 2026 with a confident economic outlook, reflected in its projected GDP growth of 5.40% (see [Indonesia: Stronger Economic Growth in 2Q on Steady Private Consumption](#)), as stated in the 2026 State Budget (APBN), signaling continued confidence amid global uncertainties. Inflation is expected to remain within BI's target range of 3.5% \pm 1%, while the rupiah is forecast to stay relatively stable at IDR16,500 per USD. In his Financial Note address, President Prabowo emphasized that Indonesia's economy will remain robust and deliver impressive growth despite external headwinds.

This optimism is anchored in a fiscal framework designed to support the Asta Cita vision, focusing on short- to medium-term strategies across key sectors: healthcare, education, energy, MSMEs, defense, and trade. To advance this agenda, Indonesia's newly appointed Minister of Finance, Purbaya Yudhi Sadewa, has introduced more expansionary fiscal policies designed to achieve 8% GDP growth while ensuring equitable development outcomes. It rests on three foundational pillars: (a)

sustaining high economic growth, (b) broadening the distribution of development benefits, and (c) maintaining dynamic national stability.

The 2026 APBN is designed with high flexibility to adapt to economic uncertainties while focusing on domestic-driven growth. The revised budget targets a deficit of 2.68% of GDP (still below the statutory ceiling of 3%, vs 2.48% as announced by President Prabowo previously under the former Finance Minister Mulyani), equivalent to IDR689tn. Revenue and expenditure are projected at IDR3,154tn and IDR3,843tn respectively.

On the revenue side, the government aims to foster a conducive investment climate without burdening taxpayers. Expenditures are directed toward long-term productivity enhancements through human capital development. However, a notable shift towards fiscal centralization is evident, with regional transfers declining by IDR227tn to IDR693tn, though it was increased by IDR43tn from the earlier 2026 budget estimate. This implies that local governments must continue to remain creative in seeking alternative revenue sources, but some of the major financing would now fall under national government expenses, e.g. the development and maintenance of tolls and roads connecting inter- and intra-province deemed nationally strategic. Meanwhile, financing strategies will include “creative financing” to anchor prudent fiscal policies but now taking on more role as growth-booster functions.

Fiscal Structure 2015 – 2026 (APBN Plan)

Source: Indonesia's Ministry of Finance, UOB Global Economics & Market Research

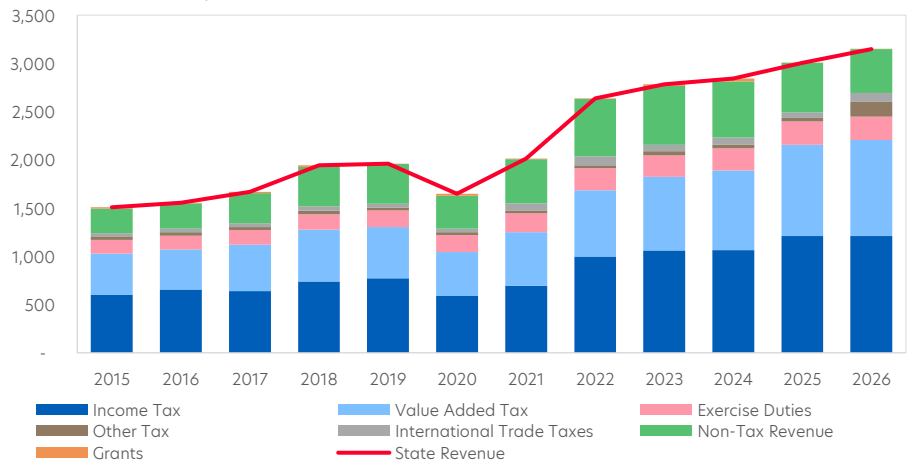
In IDR tn, otherwise stated	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025		2026	
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Target	Act. Aug	Budget	R. Budget
A. State Revenue	1,508	1,556	1,666	1,944	1,961	1,648	2,011	2,636	2,784	2,842	3,005	1,639	3,148	3,154
I. Domestic Revenue	1,496	1,547	1,655	1,928	1,955	1,629	2,006	2,630	2,767	2,812	3,005	1,637	3,147	3,153
1. Tax Revenue	1,240	1,285	1,344	1,519	1,546	1,285	1,548	2,035	2,154	2,233	2,491	1,330	2,692	2,694
a. Domestic Tax Revenue	1,205	1,249	1,304	1,473	1,505	1,248	1,474	1,944	2,090	2,159	2,434		2,600	
b. International Trade Taxes	35	35	39	46	41	37	74	91	64	74	57		92	
2. Non-Tax Revenue	256	262	311	409	409	344	458	596	613	580	514	307	455	459
a. Natural Resources	101	65	111	181	155	97	149	269	254	229	218		237	
b. Profit Transfers From SOE's	38	37	44	45	81	66	30	41	82	86	90		2	
c. Other Non Tax Revenues	82	118	109	129	125	111	153	196	180	164	128		118	
d. Revenue from Public Service Institution	35	42	47	55	49	69	126	90	96	100	78		98	
e. Surplus Bank Indonesia	-	-	-	-	-	456	-	-	-	-	-		-	
II. Grants	12	9	12	16	6	19	5	6	17	30	1	2	1	1
B. State Expenditure	1,808	1,864	2,007	2,213	2,309	2,595	2,786	3,096	3,121	3,350	3,621	1,960	3,786	3,843
I. Central Government Expenditure	1,183	1,154	1,265	1,455	1,496	1,833	2,001	2,280	2,240	2,487	2,701	1,389	3,136	3,150
II. Regional Transfer	623	710	742	758	813	763	786	816	881	864	920	572	650	693
C. Primary Balance	(142)	(126)	(124)	(111)	(73)	(634)	(432)	742	103	(19)	(63)	22	39	(90)
D. Surplus/Deficit	(298)	(308)	(341)	(269)	(349)	(948)	(775)	(460)	(337)	(508)	(616)	(322)	(639)	(689)
Surplus/Deficit (in % to GDP)	2.59	2.49	2.51	1.82	2.20	6.14	4.57	2.35	1.61	2.30	2.78	1.35	2.48	2.68
E. Financing	323	335	367	306	402	1,193	872	591	357	555	616	426	639	689

Broad-based revenue strategy in 2026 to meet expenditure needs

Government revenue in 2026 is projected to grow by more than 8% as compared to the 2025 target, primarily driven by tax receipts—especially from “other taxes”. Following public demonstrations in Aug, the government reaffirmed its commitment not to raise major taxes in 2026, keeping income tax, VAT, and luxury goods tax relatively unchanged. To compensate, the government will optimize tax collection mechanisms. Of the IDR148tn increase, ~80% will be sourced from system enhancements, stamp duty transactions, PBB-P3 objects, and commodity price gains. Income tax – the largest contributor to state revenue – may benefit from improvements to the core tax system. Indonesia may also embark on exports diversification strategy in light of reciprocal US tariffs through boosting exports to alternative export destinations such as Central Asia and Africa. Commodity-related revenue is also expected to be beefed up from major down-streaming initiatives aimed to further enhance revenue due to their high value-added potential.

Breakdown of Government Revenue – Historical Data 2015 to 2026 (APBN Plan) (in IDR tn)

Source: Indonesia's Ministry of Finance, UOB Global Economics & Market Research

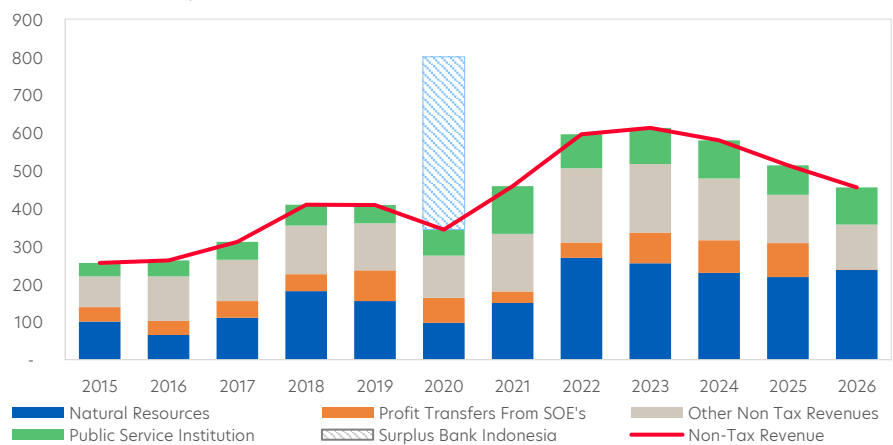


Note: data 2025 using target, 2026 using budget

On non-tax revenue, the government has revised down its expectations for SOE dividends, projecting a decline of ~IDR88tn from the 2025 target. This reflects a strategic shift towards improving SOE performance and efficiency. Dividend proceeds are expected to be re-channeled back to Danantara to support its ongoing strategic investments. The burden-sharing scheme between BI and the Ministry of Finance may be revived, similar to 2020, to address economic shocks. However, its design and urgency must be carefully evaluated to preserve fiscal-monetary synergy. Looking ahead, the government may pursue alternative strategies to boost revenue, including (a) expanding the tax base and (b) leveraging trade. A potential VAT increase by 1ppt, previously postponed in early 2025, remains under consideration as another avenue to raise revenue.

Breakdown of Government Non-Tax Revenue 2015 – 2026 (APBN Plan) (in IDR tn)

Source: Indonesia's Ministry of Finance, UOB Global Economics & Market Research



Note: data 2025 using target, 2026 using budget

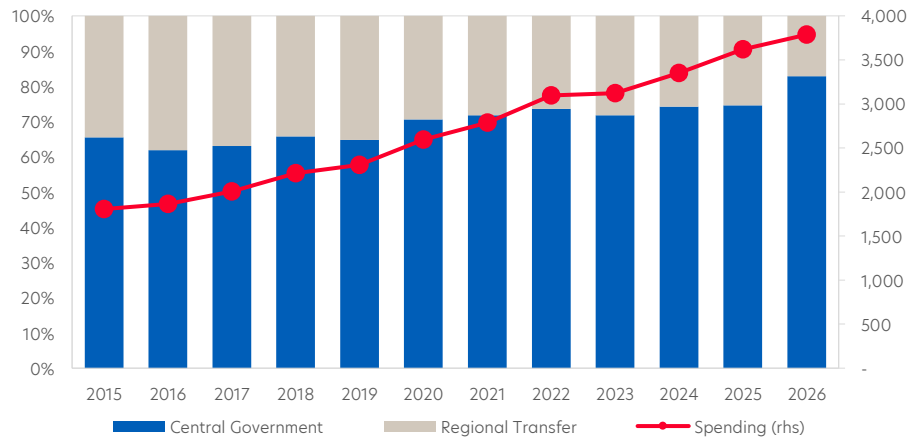
Expenditure 2026: Gearing-up for national priority

Government spending continues its upward trajectory, with a CAGR of 7.10% from 2015 to 2026. The 2026 spending is projected to increase by IDR222tn compared to the previous year, driven by a 16.60% rise in central government spending to IDR3,150tn and a 24.66% decline in regional spending to IDR693tn. This shift mirrors past fiscal responses (a) in 2020 during the COVID-19 pandemic, and (b) in 2024 to

support national priority programs (as expected to recur in 2025). Regional autonomy is anticipated to accelerate, with local governments seeking independent funding through asset management, local taxes, and service charges. To that extent, the Jakarta’s local government has a plan to issue “regional bonds” in order to exemplify this trend.

Government Expenditure based on Group 2015 – 2026 (APBN Plan) (in IDR tn)

Source: Indonesia’s Ministry of Finance, UOB Global Economics & Market Research

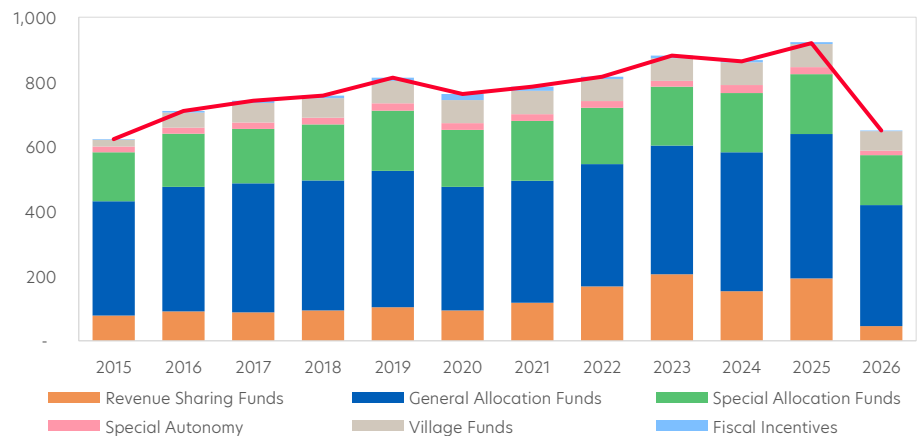


Note: data 2025 using target, 2026 using budget

Despite decentralization rhetoric, signs of fiscal centralization persist. On the details of pre-revised Budget 2026, General Allocation Funds (DAU) are set to decline by 16.3% to IDR374tn, while Special Allocation Funds (DAK) drop to IDR155tn. Revenue Sharing Funds (DBH) are also reduced from IDR192tn to IDR45tn, indicating a more centralized control over fiscal expenditure. This aligns with efforts to boost central revenue via “Other Taxes” notably Land & Building Tax and Natural Resource Commodity Tax that came predominantly from provinces.

Regional Transfer Breakdown 2015 – 2026 (APBN Plan) (in IDR tn)

Source: Indonesia’s Ministry of Finance, UOB Global Economics & Market Research



Note: data 2025 using target, 2026 using budget

Central government expenditure by function remains consistent with prior years. Key allocations include Economic Affairs, General Services, Education, and Defense—each exceeding 10% of total spending. Lower allocations are observed in Environment, Tourism, and Religious Affairs (less than 1%). These priorities reflect the

government's strategic focus on programs such as Free Nutritious Meals, Merah-Putih Cooperatives, Food Security, Defense, Flagship Schools, and Fishermen Villages. President Jokowi has outlined 10 Development Priorities, translated into actionable programs aimed at enhancing human capital and productivity. Notably, two initiatives stand out: (a) strengthening Danantara's role in managing productive assets and (b) sustaining down-streaming efforts.

Component of Central Government Expenditure by Function 2015 – 2026 (APBN Plan)

Source: Indonesia's Ministry of Finance, UOB Global Economics & Market Research

Central Government Expenditure by Function (in IDR tn)	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	Target	Budget
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
General Services	20%	24%	24%	26%	27%	29%	28%	40%	36%	36%	27%	25%
Defense	9%	9%	9%	7%	8%	7%	6%	7%	8%	8%	9%	11%
Public Order and Security	8%	10%	11%	10%	10%	8%	8%	8%	9%	9%	9%	8%
Economy	30%	25%	24%	26%	24%	22%	23%	19%	22%	22%	26%	26%
Environmental Protection	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%
Property and General Facility	3%	2%	2%	2%	2%	1%	2%	1%	2%	2%	1%	1%
Health	4%	5%	5%	4%	5%	6%	11%	5%	4%	4%	5%	5%
Tourism	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Religion	1%	1%	1%	1%	1%	1%	1%	0%	0%	1%	0%	0%
Education	12%	11%	11%	10%	10%	8%	8%	7%	8%	8%	11%	15%
Social Security	12%	12%	12%	12%	13%	16%	14%	12%	11%	10%	10%	9%

10 ID's Priority Program in Short-Mid Term

Source: Indonesia's Ministry of Finance, UOB Global Economics & Market Research

Priority Development 2026		Note
1	Food Security	IDR164.7tn
2	Energy Security	IDR402.4tn
3	Free Nutritious Meals	IDR335.0tn
4	Quality Education	IDR769.1tn
5	Quality Healthcare	IDR244.0tn
6	Village Development, Cooperatives, MSMEs	-
7	Defense Strengthening	-
8	Acceleration of Global Investment & Trade	-
9	Social Protection	-
10	Water Security	-

While a more expansionary fiscal stance may bring about multiplier effects, particularly through support for grassroots economic activities and strategic growth engines, we are of the view that policy effectiveness must be continuously evaluated. Beyond social assistance, spending on Goods and Capital equipment is also expected to generate significant economic impact.

Allocation of Central Government Expenditure 2015 – 2026 (APBN Plan)

Source: Indonesia's Ministry of Finance, UOB Global Economics & Market Research

Central Government Expenditure by Allocation (IDR tn)	Act	Act	Act	Act	Act	Act	Act	Act	Act	Act	Target	Budget
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Personnel Expenditure	16%	16%	16%	16%	16%	15%	14%	13%	13%	14%	14%	15%
Material Expenditure	13%	14%	15%	16%	14%	16%	19%	14%	14%	15%	13%	19%
Capital Expenditure	12%	9%	10%	8%	8%	7%	9%	8%	10%	11%	6%	7%
Subsidy	10%	9%	8%	10%	9%	8%	9%	8%	9%	9%	9%	8%
Others	6%	3%	3%	5%	6%	13%	9%	18%	12%	11%	17%	20%
Debt Repayment - Interest	9%	10%	11%	12%	12%	12%	12%	12%	14%	15%	15%	13%
Regional Transfer	34%	38%	37%	34%	35%	29%	28%	26%	28%	26%	25%	17%

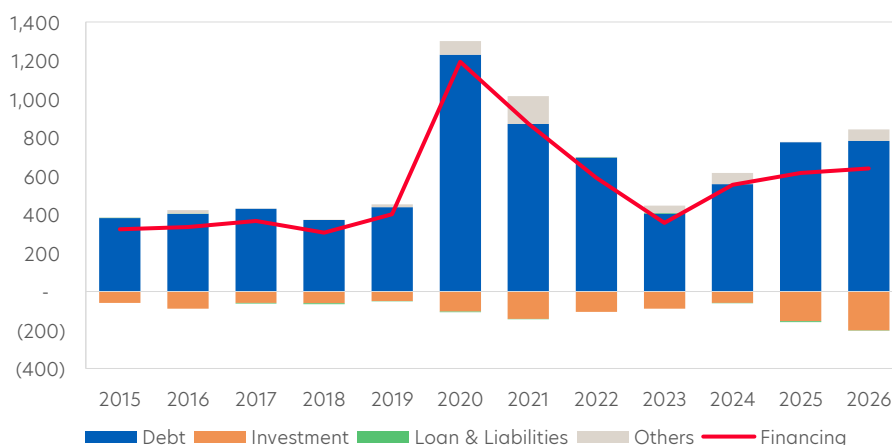
Higher borrowing to support growth

External fiscal financing in 2026 is projected to increase quite significantly by close to 12% to IDR689tn. The government plans to raise new debt totaling IDR782tn (for 2026 revised budget vs 2025's IDR776tn), primarily through government bonds. This approach is supported by a declining share of interest payments and a downward trend in interest rates (see [Indonesia: All hands on monetary deck to support growth](#)). Synergy between BI and the Ministry of Finance through burden-sharing mechanisms is expected to support strategic programs and economic growth. The authority is cognizant that bond issuance must be carefully managed to maintain market liquidity, avoid crowding out, and continue with financial deepening, on top of maintaining healthy credit and deposit growth within the banking sector.

President Prabowo expressed optimism that Indonesia's fiscal position will benefit the economy as a built-in stabilizer from 2026 onwards. The revised budget continues to be a testament of government's commitment to allocate more resources for education, housing, and other priority programs. The government also anticipates more return from investment to help shoulder the expenditure burden such as expecting IDR4tn in investment revenue from Special Mission Vehicle Indonesia (PT SMI) and with Danantara expected to play a strategic role in attracting high-impact investments and generating multiplier effects across the economy.

Financing Component 2015 - 2026 (APBN Plan) (in IDR tn)

Source: Indonesia's Ministry of Finance, UOB Global Economics & Market Research



Note: data 2025 using target, 2026 using budget

Optimizing Leverage for Growth: Fiscal strategy 2026 and beyond

Based on President Prabowo's address and the projected structure of the 2026 State Budget (APBN), we observe that the government remains committed to maintaining fiscal prudence while allowing more creative finances to make it more expansionary. One of the key strategies likely to be implemented is the optimization of Danantara's role, particularly in supporting strategic investments and contributing to government financing. In addition to Danantara, the government is expected to leverage the functions of PT SMI and utilize reserve funds to establish a fiscal buffer—an approach considered prudent given the potential for heightened uncertainty and volatility in financial markets throughout 2026. Furthermore, we anticipate that the government will seek to stimulate economic growth by expanding access for business sectors. This may include measures such as ensuring liquidity availability, streamlining regulations, maintaining relatively low interest rates, and improving regional affordability.

Finally, we now see baby steps that the government may consider raising the budget deficit above the constitutional threshold of 3% of GDP. Although the revised fiscal posture for the 2026 State Budget (APBN) has been approved, further adjustments to the deficit remain possible—provided they are supported by strong justification and reinforced with credible fiscal safeguards. Looking ahead, such flexibility could be deployed in future budgets as a corrective measure should fiscal pressures intensify in 2026. Beyond the possibility of adjusting the 3% deficit-cap, the government may also contemplate raising the statutory debt ceiling above 60% of GDP. While this could expand fiscal space, it needs to be strategically managed as such a move could heighten Indonesia’s vulnerability to external shocks, increase default risk, erode investor confidence, and disrupt domestic financial markets.

All in all, these new-found strategies of leveraging for growth through a more active and expansionary fiscal policy must be managed carefully in order to continually anchor economic stability while maneuvering external uncertainty and rely more on domestic-driven growth to achieve stronger, higher quality, and sustainable long-term economic growth for Indonesia.

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