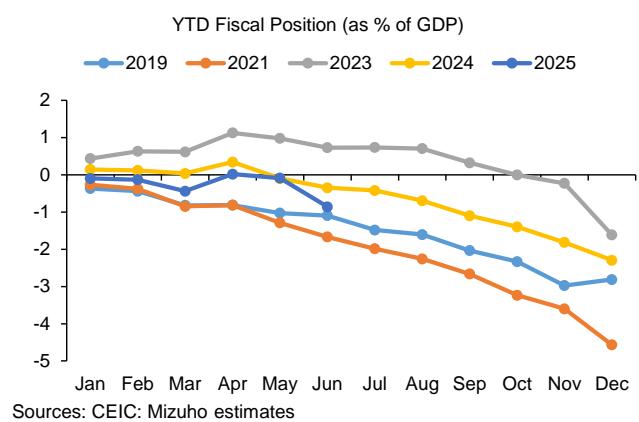
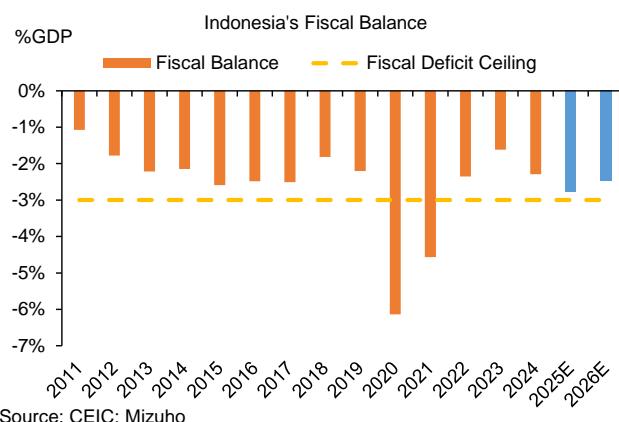


## Indonesia Budget 2026: Overreach & Overpromises

### In a nutshell:

- Indonesia is targeting a budget deficit of 2.48% in 2026, from 2.78% in 2025.
- The 2026 Budget deficit target presents modest risk of fiscal slippages given ambitious GDP growth target at 5.4% and optimistic revenue targets which implies that collections may fall short.
- While expenditure estimates appear reasonable, budget allocation is worrying insofar as it suggests a diversion of significant funds from regional transfers to other priorities (e.g. free meal programmes, defence and social protection), which could compromise the delivery of goods/services for localities.
- Should cooperatives be intended to fill the void, our concern is that a slightly improved fiscal standing comes at the expense of heightened financial stability risks.
- President Prabowo further vowed to reduce budget deficit to 0% by 2028 – an unattainable goal in our view, given dearth of significant revenue-side measures for the next few years; while cost-cutting of this magnitude would be debilitating for the economy.
- Notwithstanding the fiscal concerns, we think that the Budget presents mild upside price pressures and ought to support domestic household spending.



- On 15 August 2025, President Prabowo delivered the 2026 Budget. **Budget deficit was targeted at IDR638.8tn, or 2.48% of GDP (from 2.78% of GDP in 2025)**, the lower end of the 2.48-2.53% range in the Macroeconomic Framework and Fiscal Policy Principles (MFFPP) published earlier in May. (Note: Finance Minister Indrawati had revised 2025 budget deficit forecast from 2.53% to 2.78% in July)
- Prabowo listed eight top priorities, including i) food security, ii) energy security, iii) free nutritious meals programme (MBG), iv) education, v) healthcare, vi) people's economy & village cooperatives, vii) defence and viii) investment acceleration.

## 2026 Fiscal Assessment: Of Slippages and Allocation Worries

- We think there are **modest fiscal slippages risk for the 2026 target**, but above and beyond, **we are more concerned over the current allocation of funds**.
- First, the growth target of 5.4% for 2026 is ambitious in our view, given that external headwinds on US trade

antagonism are likely to persist into next year, and increasing downside risks on domestic consumption amid reports of households reining back spending. We estimate a 4.9% GDP growth in 2026 and would represent fiscal deficit at ~2.50% given the same budget set-up.

- **Second, revenue target of IDR 3,147.7tn is optimistic.** This revenue target represents a ~9.8% increase from 2025 revised projections and is considerably higher compared to historical growth rates ('16-'19 average: 6.9%; '23-'24 average: 3.9%). Note that in the revised 2025 projections, revenue collections are expected to reach only 95.4% of the original IDR 3,005.1tn target due to dismal collections. FinMin Indrawati had attributed the inability to meet the 2025 target to the government's decision to cancel the planned increase in the VAT from 11% to 12% and broader economic pressures, particularly in the commodity sector.
- Furthermore, **FinMin Indrawati said Indonesia will not introduce any new tax in 2026 to support its tax revenue target and the government will instead rely on internal reforms to increase revenue.**
- **Third, while Budget expenditures appear reasonable, the Budget allocation do not impart much confidence.** Budget at IDR3,786.5tn is 7.3% higher than the latest estimate for 2025 spending. While higher compared to historical averages ('16-'19 average: 6.4%; '23-'24 average: 4.1%), we think the growth rate is justifiable by higher spending needs.
- However, **Budget 2026 is allocating IDR335tn (~1.3% of GDP) on Prabowo's flagship free meals programme**, up from an estimate of 0.7% of GDP this year, and even higher than a prior estimate of ~1.0% in May. Reports of allegations of missed payments and incidents of food poisoning related to the free meals programme hint at operational challenges of managing such a country wide programme.
- **The fiscal space for the expanded free meals programme also appears to come at the expense of regional transfers.** The Budget reveals a ~25% drop in cash transfers to provincial and local governments from IDR864tn to IDR650tn (~0.8% of GDP). It is unclear how local programmes can be run given such steep cuts, or what local programmes would be removed.
- One plausible case is that the government may be envisioning that **this void due to reduced government spending be filled up by the community cooperatives** (under the "Red and White Cooperative" programme). These cooperatives, who can borrow cheap loans through state-owned banks, are intended to provide easier access to staple food, logistics, fertilisers, and financial services. A total of 80,000 cooperatives has been established with each able to borrow as much as IDR3bn from state banks<sup>1</sup>. This would potentially place collective lending at more than IDR240tn.
- **If indeed the case, this is especially worrying as the transfer of essential goods/services provision from the public to the private sector veil the actual expenditures.** Illustratively, the reduced expenditure of ~IDR214tn (~0.8% of GDP) would mean that Indonesia would have exceeded its 3% budget ceiling had these expenditures be on the government's balance sheet. In addition, there is now an added financial stability dimension, as state banks may face heightened credit risks 2-3 years down the road.

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<sup>1</sup> See "Indonesia: Cooperatives, Credit and Costs" in [Mizuho Daily \(24 July 2025\)](#) for our previously analysis.

Table 1. Revised Fiscal Posture 2025 vs 2026 (IDRtn)

	2025			2026
	APBN	Outlook	RAPBN	
<b>National Income and Grant</b>	3,005.1	2,865.5	3,147.7	
<b>Tax Revenue</b>	2,490.9	2,387.3	2,692.0	
<b>Non-Tax State Revenue</b>	513.6	477.2	455.0	
<b>Grants</b>	0.6	1.0	0.7	
<b>State Spending</b>	3,621.3	3,527.5	3,786.5	
<b>Central Government Spending</b>	2,701.4	2,663.4	3,136.5	
<b>Transfer to Region</b>	919.9	864.1	650.0	
<b>Budget Deficit</b>	(616.2)	(662.0)	(638.8)	
<b>Budget Deficit (as % of GDP)</b>	(2.53)	(2.78)	(2.48)	

Source: Ministry of Finance, Mizuho

## Medium-Term Fiscal Outlook: Overpromises

- At the Budget event, **Prabowo further stated that he aimed to reduce the budget deficit to 0% by 2027, or 2028**. This contrasts against a more modest fiscal consolidation process set out in the MFFPP, as set out in Table 2 below. Following Prabowo's comments, FinMin Indrawati said her ministry would assess the feasibility of this goal.
- How Prabowo intends to achieve this zero-target is the key question. One possible clue is dividends from SOEs. Notably, Prabowo had stated in his speech that "assets owned by Indonesia through SOEs are valued at more than US\$1,000tn. Ideally, these SOEs should contribute at least US\$50bn to the state. With US\$50bn, our State Budget would not be in deficit." It is unclear what the timeline to obtain US\$50bn (~IDR814bn) is, but we are very sceptical that it would be anytime soon, unless the government requires a much higher payout ratio from SOEs, which may potentially impede business calculus (e.g. less funds for SOE's own investments). For illustration, in 2024, SOEs delivered IDR88.4tn (~US\$5.3bn) to the state.
- Else, in the dearth of significant measures to boost revenue in the next few years, while cost-cutting of this magnitude would be debilitating for the economy, **this zero-deficit goal will in all likelihood not be achieved**.
- In fact, as we have argued previously in May<sup>2</sup>, we already have reservations that Indonesia can achieve the much more modest fiscal consolidation trajectory through 2029 as set out in the MFFPP, on the following grounds:
  - Substantial jump in tax revenues from ~10% of GDP in recent years to 11-15% in 2029 without significant tax reform plans
  - Accompanying increase in expenditures from ~15% in recent years to 15-19% in 2029 alongside steeper decreases in regional transfers
  - Lofty growth assumptions (on track towards 8% goal in 2029) raises questions on how the upward shift to growth will be delivered given that the trajectory likely requires structural shifts, while objectives such as preserving purchasing power, accelerating structural economic reforms (e.g. natural resource downstreaming, human capital development) appear similar to past goals absent further details.
  - Danantara's role in encouraging acceleration of productive investments remains a question.

<sup>2</sup> See "Indonesia Fiscal Outlook: Few Reassurances" in [Mizuho Daily \(23 May 2025\)](#)

Table 2. Realised Fiscal Posture and Medium-Term Fiscal Posture\*

	Realised Fiscal Posture (% of GDP)			Medium Term Fiscal Posture (% of GDP)				
	'16-'19 avg	2023	2024	2025	2026	2027	2028	2029
National Income and Grant	12.6	13.3	12.8	12.36	11.71-12.22	11.70-13.21	12.12-14.94	12.86-16.76
Tax Revenue	10.1	10.3	10.1	10.24	10.08-10.45	10.29-11.39	10.75-13.13	11.62-15.01
Non-Tax State Revenue	2.4	2.9	2.6	2.11	1.63-1.76	1.40-1.81	1.36-1.81	1.33-1.76
Grants	0.1	0.1	0.1	0.002	0.002-0.003	0.002-0.003	0.002-0.003	0.002-0.003
State Spending	14.8	14.9	15.1	14.89	14.19-14.75	14.05-15.68	14.44-17.35	15.10-19.11
Central Government Spending	9.5	10.7	11.2	11.11	11.41-11.86	11.29-12.88	11.70-14.59	12.38-16.37
Transfer to Region	4.9	3.9	3.9	3.78	2.78-2.89	2.76-2.80	2.74-2.76	2.72-2.74
Budget Deficit	(2.25)	(1.61)	(2.29)	(2.53)	(2.48)-(2.53)	(2.35)-(2.47)	(2.32)-(2.41)	(2.24)-(2.35)
Debt Ratio	29.43	38.98	39.21	39.43	39.69-39.85	39.43-39.62	39.05-39.29	38.55-38.64
	Realised Macro Indicators			Macroassumptions				
Economic Growth (%)	5.1	5.0	5.0	5.2	5.2-5.8	5.3-6.1	5.6-7.0	5.8-8.0
Inflation (%)	3.4	3.7	2.3	2.5	1.5-3.5	1.5-3.5	1.5-3.5	1.5-3.5
Exchange Rate (USDIDR)	13,769	15,237	15,855	16,000	16,500-16,900	15,700-16,900	15,700-16,900	15,700-16,900

\*As set out in Macroeconomic Framework and Fiscal Policy Principles published in May 2025

Source: Ministry of Finance, Mizuho

## Economic Growth: Support for Domestic Sector

- Notwithstanding the fiscal concerns, **the Budget measures are expected to support domestic consumption**, given Prabowo's rather people-centric policies (e.g. ensuring stable food prices, distribute subsidised fertilisers, improving teachers' welfare). Nonetheless, the domestic sector is unlikely to be able to lift Indonesia's growth to 5.4%. In fact, taking into account reports of a tepid job market and households holding back spending, the absence of any sharp downturn in consumption may be the best-case scenario.
- However, one potential concern on the Budget is on economic continuity following Prabowo taking over the helm after former-President Jokowi's term ended last year. **Prabowo's lack of mention of Nusantara at this speech, coupled with much lower Budget allocation towards the new capital, could potentially spark concerns about Indonesia's commitment towards the project, which was one of Jokowi's flagship projects.** FinMin Indrawati stated that the budget for the New Capital City (IKN) for 2026 stands at IDR6.3tn, which is less than half of the 2025's budget allocation of IDR13tn. For comparison, the realised expenditures for IKN for 2022, 2023, 2024 were Rp5.5tn, Rp27tn and Rp43.3tn, respectively.

## Inflation: Contained Inflationary Pressures

- Overall, we think that 2026 Budget should not impart material upside pressure to consumer prices.
- While Prabowo alluded to electricity subsidy rationalisation in his speech, the MFFPP had cited implementation challenges. In view of the various initiatives in the Budget to support domestic households, we are circumspect that there will be a political will to roll out such measures.
- Instead, upside inflation risks from the Budget are contained considering drive for food sufficiency, particularly on rice and corn.
- All in, Budget 2026 does not imbue on Indonesia's fiscal outlook. Instead, continued fiscal consolidation at face value possibly belie added financial stability risks to the economy in the medium term. Accordingly, we remain bearish on the IDR, although declines for 2025 could be backstopped amid a softer USD backdrop.

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