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Transition of Fiscal Approaches: From Direct Ball to Positioning Football

Senior Economist	Fikri C Permana
Research Associate	Khairunnisa N. Syahfiraputri
Research Intern	Azzahra K. Nasution

Indonesia's fiscal strategy in 2025 marks a notable shift from a shock-absorber approach—focused on short-term demand stabilization and likened to a direct play football style—towards a more pro-cyclical stance, emphasizing liquidity-driven development and job creation through a structured, or positioning football strategy.

This transition coincides with the leadership change at the Ministry of Finance, from Sri Mulyani to Purbaya Yudhi Sadewa, highlighting a reorientation of fiscal priorities. The move is viewed positively as it demonstrates the government's capability to strengthen economic growth prospects. Additional liquidity measures and fiscal stimuli in the remainder of 2025 are expected to reduce concerns over the crowding-out effect, while also easing fears of capital flight triggered by lower government bond yields following BI's rate cuts and their transmission into the fixed income market.

Nonetheless, risks persist. The pro-cyclical push, though promising for accelerating growth and employment, also raises fiscal vulnerabilities. A widening budget deficit and concerns over debt sustainability will test the government's ability to deliver on its new strategy. Moreover, improvements in the labor market, investment activity, and household purchasing power will take time to materialize, underscoring the need for careful execution and monitoring.

1H25: *Direct Ball*

In the 1Q25, fiscal policy leaned more toward defense than offense. Public spending functioned as a stabilizer rather than an accelerator, cushioning households against weakening demand without generating fresh momentum. Three flagship measures characterized this approach:

- Rice Assistance Program: 10 kilograms of rice were distributed to around 16 mn households.
- PPh 21 Tax Subsidy (Ditanggung Pemerintah): Directly reduced tax obligations for employees, effectively raising take-home pay but at the cost of reduced government revenue.
- Electricity Tariff Discounts: A 50% discount reached over 71 mn customers in January.

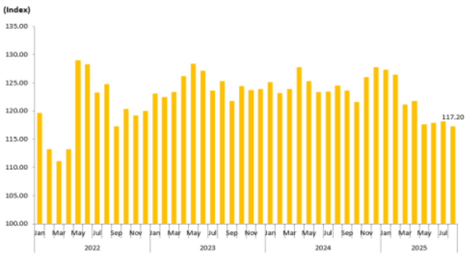
These interventions softened the immediate impact of slowing household purchasing power but fell short of reversing the broader economic deceleration. GDP growth in 1Q25 slowed to 4.87% YoY, down from 5.11% YoY in the same quarter of 2024. Household consumption growth also eased to 4.89% YoY, underscoring that a defensive fiscal stance could only delay, not prevent, the downturn.

By the 2Q25, the government shifted gears toward a more aggressive fiscal play. Support measures were both broader and deeper, including:

- Continued electricity subsidies.
- Expanded cash transfers, including a IDR200,000/month "Kartu Sembako" program for 18.3 mn families.
- Transport subsidies and a IDR300,000 wage subsidy (BSU) for 17.3 mn workers.

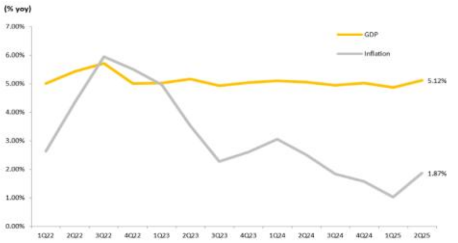
These measures reflected a "direct play" approach—stimulus funneled straight to household consumption, designed to immediately ease pressure on purchasing power.

Fig.1 Indonesia's Consumer Confidence Index



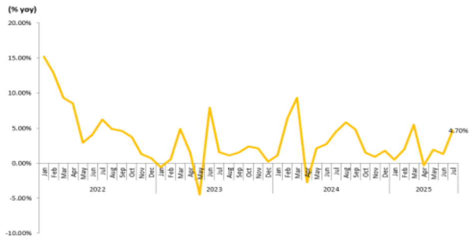
Source: Bank Indonesia (2025)

Fig.2 Indonesia's GDP Growth and Inflation Rate



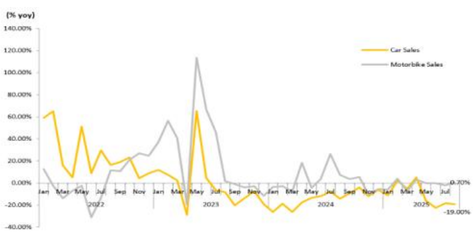
Source: Bank Indonesia (2025)

Fig.3 Indonesia's Retail Sales



Source: Bank Indonesia (2025)

Fig.4 Indonesia's Car & Motorcycle Sales



Sources: AISI and Gaikindo (2025)

Beyond short-term cushioning, the government also laid the groundwork for structural improvements. A flagship initiative was the Free Nutritious Meal (MBG) Program, with a IDR71 tn allocation under the 2025 state budget (APBN). The program aimed not only to combat malnutrition but also to create multiplier effects across local economies.

However, the MBG's progress remained slow. By Aug '25, only IDR10.3 tn had been disbursed, reaching just 20.5 mn people beneficiaries—well below the target of 82.9 mn people. This gap highlighted implementation challenges that risked undermining the program's intended impact.

Despite the fiscal push, the impact on household sentiment was muted. By end-Jun '25, the Consumer Confidence Index (CCI) stood at 117.8 or -5.5 points lower compared with the same period last year. Retail sales told a similar story, falling to 231.9 by Jun '25, a drop of -16.4 points compared to Mar '25.

Several key leading indicators further reinforced the picture of weak household demand in the 1H25:

- Motorcycle sales slipped -0.3% YoY by Jun '25,
- Car wholesales plunged -12.3% YoY in the same period, and

the S&P Global Manufacturing PMI remained in contraction territory throughout 2Q25, closing at 46.1 in Jun '25.

These figures suggest that the direct fiscal stimulus failed to translate into stronger private sector demand and investment activity, although macroeconomic aggregates told a different story. Indonesia's GDP expanded by 5.12% YoY in 2Q25, while inflation stayed comfortably at the lower end of Bank Indonesia's target range, at 1.87%. Yet, beneath these headline numbers, stress remained visible among lower-income households, where consumption pressures persisted despite substantial fiscal injections.

2H25: Transition From *Direct Play* to *Strategic Positioning*

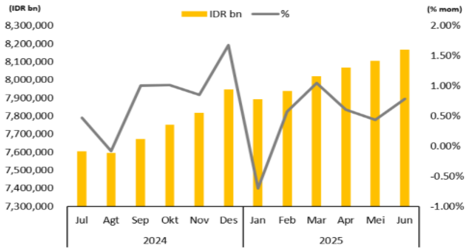
The appointment of Purbaya Yudhi Sadewa as Minister of Finance marked a turning point. Fiscal interventions shifted from demand-side cushioning toward structural measures that strengthen the supply side and regional economies.

One of Purbaya's earliest moves was to transfer the government's idle cash balance (SILPA) from Bank Indonesia to five state-owned banks, amounting to IDR200 tn. While this maneuver was notable, it came amid a banking system already awash with unused liquidity. As of August 2025, undisbursed loans stood at IDR2,372.11 tn, equivalent to 22.71% of the total available credit ceiling.

However, credit demand remained muted, growing at just 7.92% YoY by Jun '25. The banking sector's ample liquidity further underscored this imbalance. The loan-to-deposit ratio (LDR) of commercial banks dropped to 85.65%—its lowest since Jul '24—while the liquid asset ratio climbed to 13.33%, the highest since late 2023. These indicators revealed that banks had the capacity to lend, but businesses and households remained hesitant to borrow.

Then, although the policy aimed to stimulate credit, it carried inherent risks. **Excess liquidity without productive channeling could heighten moral hazard or worsen bad loan exposure.** By Jul '25, non-performing loans (NPLs) remained relatively low at 2.28% (gross) and 0.86% (net), but policymakers remained cautious, aware that overextended credit could undermine financial stability.

Fig.5 Indonesia's Credit Growth



Source: OJK (2025)

Crucially, the government's fund placement was not interest-free. Instead, banks were required to bear a cost of funds equal to 80.476% of the prevailing BI rate, translating into 3.82% at that time. The policy was designed to lower lending rates and spur credit expansion.

On 15 September 2025, the government introduced its flagship "8+4+5" fiscal package, valued at IDR16.23 tn. Unlike previous stimulus programs, this package blended short-term relief with long-term structural transformation, marking a genuine transition from demand cushioning toward supply-side empowerment and job creation.

Pillar I: Eight Acceleration Programs

These measures provided rapid relief while creating jobs. Key initiatives included:

- Paid internship programs for 20,000 graduates,
- Expansion of rice aid to 18.3 million families,
- Extended PPh 21 tax subsidies for 552,000 workers in the hospitality sector,
- Discounts on BPJS social security contributions for informal workers,
- Subsidized mortgages through BPJS Ketenagakerjaan,
- Cash-for-work schemes and housing programs.

Pillar II: Four Extended Programs

Fiscal incentives were extended through FY2026, including:

- 0.5% final income tax for MSMEs,
- Continued tax subsidies for tourism and labor-intensive industries,
- Social security premium discounts for informal workers.

On 22 September 2025, the government, led by the Coordinating Minister for the Economy and the Minister of Finance, **unveiled additional stimulus measures to bolster household consumption and productivity**:

- Cooking oil assistance: two liters per month in October and November for 18.3 mn beneficiary families,
- VAT-borne-by-government (PPN DTP) incentives for airfares and selected transport services during peak holiday seasons (Christmas and New Year),
- A nationwide "Online Shopping Day" (Harbolnas) in December, extended to a full week to encourage digital commerce and boost consumer spending.

Fiscal Challenges Remain Substantial

While Indonesia's fiscal approach in 2025 has been instrumental in supporting economic momentum, significant challenges remain on the horizon. Stronger government spending has provided cushioning for households and investment stimulus, but this expansion comes at the cost of widening deficits. The state budget (APBN) has begun to show signs of strain, and the trajectory of fiscal sustainability is becoming a critical topic as the government prepares for the 2026 State Budget Plan (RAPBN).

By the end of Aug '25, the state budget recorded a deficit of IDR321.6 tn, equivalent to 1.35% of GDP. This figure is already more than double the deficit recorded in the same period of 2024, when the shortfall was only IDR153.4 tn, or 0.69% of GDP.

This sharp increase highlights two pressing realities:

- The government has leaned heavily on fiscal measures to counter economic headwinds,
- The fiscal buffer is narrowing more quickly than in previous years, raising concerns about sustainability.

Table.1 APBN Realization

Description (IDR trillion)	1H24 Perpres 206/2024	Realization as of August 31	% Presidential Regulation 2026/2024	Growth (%)	1H25 Outlook (Quarterly	Realization as of August 31	% Outlook (Quarterly Report)	Growth (%)
A. GOVERNMENT REVENUE	**2.802,5**	**1.777,3**	**63,4**	**(2,5)**	**2.865,5**	**1.638,7**	**57,2**	**(7,8)**
I. Tax Revenue	2.218,4	1.379,8	62,2	(2,7)	2.387,3	1.330,4	55,7	(3,6)
a. Tax Collections	1.921,9	1.196,5	62,3	(4,0)	2.076,9	1.135,4	54,7	(5,1)
b. Customs and Excise	296,5	183,2	61,8	6,8	310,4	194,9	62,8	6,4
II. Non-Tax Revenue	549,1	384,1	69,9	(4,7)	477,2	306,8	64,3	(20,1)
B. STATE EXPENDITURE	**3.343,5**	**1.930,7**	**57,7**	**15,3**	**3.527,5**	**1.960,3**	**55,6**	**1,5**
I. Central Government Expenditure	2.485,9	1.368,6	55,1	16,9	2.663,4	1.388,8	52,1	1,5
a. Ministries/Agencies Expenditure	1.090,8	703,3	64,5	20,9	1.275,6	686,0	53,8	(2,5)
b. Non-Ministries/Agencies Expenditu	1.395,1	665.2	47,7	12,9	1.387,8	702,8	50,6	5,6
II. Transfers to Regions	857,6	562,1	65,5	11,6	864,1	571,5	66,1	1,7
C. PRIMARY BALANCE	**(43,7)**	**162,1**	**(370,9)**	**(61,6)**	**(109,9)**	**22,0**	**(20,0)**	**(86,4)**
D. SURPLUS/DEFICIT	**(541,0)**	**(153,4)**	**28,4**	**(204,0)**	**(662,0)**	**(321,6)**	**48,6**	**109,6**
% of GDP	(2,37)	(0,69)			(2,78)	(1,35)		
E. BUDGET FINANCING	**541,0**	**295,0**	**54,5**	**83,1**	**662,0**	**425,7**	**64,3**	**44,3**

Source: MoF-RI (2025)

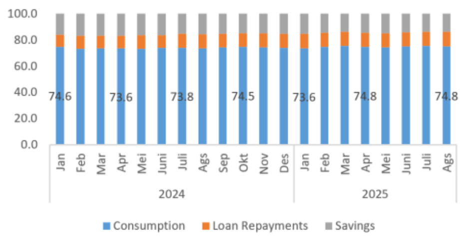
Meanwhile, parliament and the government have agreed to widen the fiscal deficit target in the 2026 State Budget Plan (RAPBN) from 2.48% to 2.68% of GDP. This adjustment reflects the growing need for stimulus, particularly in regional development and social programs, but it also underscores the limited space for maneuver.

Key elements of the 2026 plan include:

- Government revenue projected to increase slightly by IDR5.9 tn to IDR3,153.6 tn, driven mainly by non-tax revenue (PNBP),
- Government spending to rise more significantly by IDR56.2 tn to IDR3,842.7 tn, with the largest increase directed toward regional transfers (+IDR43 tn),
- Fiscal deficit to widen by IDR50.3 tn, reaching IDR689.1 tn, or 2.68 % of GDP.

Potential Impacts to Economic Growth

Fig.6 CCI's Respondent Expenditure Proportion Development

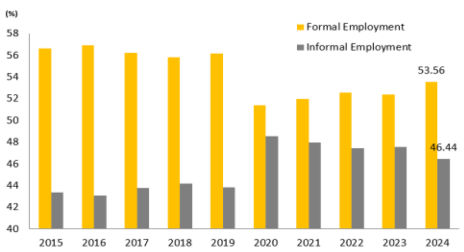


Source: Bank Indonesia (2025)

The government's all-out push through various economic stimulus programs, combined with Bank Indonesia's clear pro-growth stance, is expected to provide positive momentum for economic growth. However, challenges remain, particularly on the labor market side. **Pressures faced by households in securing stable employment continue to constrain purchasing power, limit investment capacity, and alter consumption patterns**, especially for durable goods. At the same time, industry responses on the supply side have yet to fully align with these shifts in demand. As a result, fiscal policy, acting as the "conductor" of economic activity, must work in harmony with other sectors to create a balanced and sustainable growth rhythm.

Many of the government's initiatives are rightly targeted at job creation, yet such policies require time to transmit their benefits throughout the economy. The effectiveness of these programs depends not only on their design but also on their execution. In practice, field-level implementation often faces obstacles such as bureaucratic inefficiencies, moral hazard, and adverse selection. These risks weaken the intended impact of fiscal measures, particularly in labor-intensive sectors where timely delivery is crucial. Moreover, with household consumption increasingly pressured, the share of discretionary spending within total expenditure continues to erode.

Fig.7 Formal Vs Informal Employment in Indonesia



Source: BPS (2025)

A key expectation is that these efforts will eventually translate into the expansion of formal employment—an area that has long been a concern. One of the more tangible fiscal measures is the recent issuance of Presidential Regulation (Perpres) No. 79/2025, which increases compensation for Indonesia's 4.4 mn civil servants (ASN).

This policy, however, will only take effect in October 2025. Given the broad geographic distribution of civil servants, their enhanced consumption power has the potential to boost aggregate demand nationwide, providing a much-needed lift. Nevertheless, because implementation occurs late in the year, the positive impacts on economic activity will only begin to materialize in the final quarter of 2025.

At the same time, structural challenges in the informal economy remain a significant drag on growth. Informal levies, opaque regulatory practices, and persistent barriers to doing business continue to weigh on enterprises, both small and large. Without deeper reforms to address these structural frictions, fiscal policies may fall short of their full potential in stimulating growth and building investor confidence.

In essence, while fiscal and monetary policies are clearly aligned in a pro-growth direction, **the sustainability of Indonesia's growth momentum will depend on how well structural bottlenecks are addressed and how quickly policy transmission can be realized**, especially in strengthening labor markets and household purchasing power.

Potential Impacts to SUN Yield

The Indonesian bond market is also currently undergoing an adjustment phase, shaped by the government's fiscal strategies and Bank Indonesia's monetary stance. Both policymakers share a common goal—strengthening pro-growth momentum through coordinated measures. **On one side, fiscal policies aim to stimulate demand and support job creation, while on the other, Bank Indonesia has adopted an accommodative approach to ensure liquidity remains ample.**

Recent developments show that this alignment has helped stabilize market sentiment, but the direct impact on SUN yields is still relatively limited. In theory, when liquidity injections are combined with fiscal expansion, bond yields—particularly at the longer end of the curve—should ease more significantly. However, structural challenges, including the pace of fiscal disbursement and persistent external uncertainties, have kept long-term yields more resistant to downward pressure.

Bank Indonesia's policy actions illustrate a firm commitment to growth. The central bank has implemented 4 x 25 bps notable rate cuts ytd, as of Sep '25, including asymmetric adjustments between its lending facility and deposit facility rates in BI RDG's September 2025 interest rate decision. Such measures are designed not only to lower borrowing costs but also to push liquidity into the broader financial system. In practice, though, the impact of these steps has been more visible in short-term instruments, where yields respond quickly to shifts in market liquidity.

The current divergence between short- and long-term yields underscores an important economic principle. Short-term SUN yields are more sensitive to immediate liquidity conditions, while long-term yields are influenced by expectations surrounding fiscal sustainability, economic growth, and inflation. Until fiscal execution shows stronger progress, particularly in infrastructure and social spending, the stickiness of long-tenor yields is likely to persist.

Looking forward, the yield on the 10-year SUN is projected to move within the range of 5.8%-6.2% by the end of 2025. This outlook assumes:

- Additional BI rate cuts of 25 basis points on two separate occasions by year-end,
- Gradual improvement in job creation and aggregate demand, particularly as ASN purchasing power becomes a more prominent factor starting in October, and
- Limited but persistent structural challenges that continue to temper the speed of fiscal transmission.

Table.2 The Government's Economic Stimulus Program in 2025

Approach	Quarter	Policy/Program	Objective
Direct Ball	1Q25	10 kg Rice Food Assistance	To support purchasing power and maintain food stability as a social cushion.
		PPh 21 DTP Tax Incentive	To reduce the tax burden for employees in labor-intensive industries (textiles, footwear, furniture) to support purchasing power.
		Electricity Tariff Discount	To provide relief for low-power household customers to maintain purchasing power.
		Seasonal Transportation Discount	To anticipate and facilitate the surge in public mobility during the Nyepi and Eid al-Fitr holidays.
	2Q25	Electricity Discount	To encourage an increase in household consumption as part of the economic acceleration strategy.
		Food and Social Assistance	Thickening of social assistance to maintain the purchasing power of vulnerable families and accelerate consumption.
		Transportation Discounts/Subsidies	To encourage public mobility and spending by leveraging the peak momentum of the school holidays.
		Wage Subsidy Assistance (BSU)	To provide direct cash assistance to workers to support purchasing power and encourage consumption.
Positioning	3Q25	IDR200 tn Liquidity Injection into Banking	To increase liquidity so that banks can lower credit interest rates, thereby encouraging business expansion and consumption.
		Full implementation of Free Nutritious Meal Program (MBG)	Long-term human capital investment and creating massive, stable demand for local food products to empower the grassroots economy.
		8 + 4 + 5 Economic Policy Package: 8 Acceleration Programs: • Paid Internship program • 10 kg Rice Food Assistance • Expansion of PPh 21 DTP & BPJS Ketenagakerjaan Premium Discount • Additional Service Benefits (MLT) of BPJS Ketenagakerjaan • Cash-for-Work Programs, Housing, and Regulation. 4 Continued Programs (until 2026): • Extension of 0.5% Final Income Tax (MSMEs) • PPh 21 DTP (Tourism & Labor-Intensive Industries) • JKK & JKM • Premium Discounts for non-wage workers (BPU). 5 Programs Focused on Labor Absorption: • The Red and White Village Cooperative (KDKMP) program • Replanting of Plantations • Red and White Fishing Village • Revitalization of Coastal Ponds, • Modernization of Fishing Vessels.	- Quick intervention to support purchasing power, create jobs, and reduce operational cost burdens. - To provide business certainty and a signal of policy stability for the business community for medium-term planning. - Structural intervention to modernize and increase productivity in the labor-intensive primary sectors (agriculture & fisheries).

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KB Valbury Sekuritas
Head Office

Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,
Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia
T. (021) 25098300
F. (021) 25098400

Branch Office

Jakarta – Sudirman
Sahid Sudirman Center 41st Floor Unit A-C
Jalan Jenderal Sudirman No. 86 Karet Tengsin,
Tanah Abang, Jakarta Pusat 10220
T. (021) 25098300/301

Jakarta - Kelapa Gading
Rukan Plaza Pasifik
Jl. Boulevard Barat Raya Blok A1 No. 10
Jakarta Utara 14240
T. (021) 29451577

Jakarta - Puri Indah
Rukan Grand Aries Niaga Blok E1 No. IV
Jl. Taman Aries, Kembangan
Jakarta Barat 11620
T. (021) 22542390

Jakarta – Pluit
Jl. Pluit Putra Raya No. 2
Jakarta Utara 14450
T. (021) 6692119

Bandung
Jl. Abdul Rivai No. 1A, Kel. Pasirkaliki,
Kec. Cicendo Bandung 40171
T. (022) 3003133

Malang
Jl. Pahlawan Trip No. 7
Malang 65112
T. (0341) 585888

Banjarmasin
Jl. Gatot Subroto No. 33
Banjarmasin 70235
T. (0511) 3265918

Pekanbaru
Jl. Tuanku Tambusai, Komplek CNN
Blok A No. 3 Pekanbaru 28291
T. (0761) 839393

Palembang
Komplek PTC Mall Blok I No. 7
Jl. R. Sukamto
Palembang 30114
T. (0711) 2005050

Surabaya
Pakuwon Center Lt 21
Jl. Embong Malang No.1
Surabaya 60261
T. (031) 21008080

Padang
Jl. Proklamasi No. 60A
Padang Timur 25121
T. (0751) 8688080

Yogyakarta
Jl. Magelang KM 5.5 No. 75
Yogyakarta 55000
T. (0274) 8099090

Semarang
Jl. Gajahmada 23A,
Kecamatan Semarang Tengah,
Kelurahan Kembang Sari 50241
T. (024) 40098080

Makassar
Komplek Ruko Citraland City Losari
Business Park, Blok B2 No. 09
Jl. Citraland Boulevard Makassar 90111
T. (0411) 6000818

Medan
Komplek Golden Trade Center
Jl. Jenderal Gatot Subroto No. 18-19
Medan 20112
T. (061) 50339090

Denpasar
Jl. Teuku Umar No. 177
Komplek Ibis Styles Hotel
Denpasar Bali 80114
T. (0361) 225229

Pontianak
Jl. Prof. M Yamin No. 14
Kotabaru, Pontianak Selatan
Kalimantan Barat 78116
T. (0561) 8069000

Investment Gallery

Jakarta
Citra Garden 6 Ruko Sixth
Avenue
Blok J.1 A/18, Cengkareng
Jakarta Barat 11820
T. (021) 52392181

Tangerang
Ruko Aniva Junction Blok D
No. 32
Gading Serpong, Tangerang,
Banten 15334
T. (021) 35293147

Semarang
Jl. Jati Raya No. D6,
Srondol Wetan,
Banyumanik,
Semarang 50263
T. (024) 8415195

Salatiga
Jl. Diponegoro
No. 68
Salatiga 50711
T. (0298)
313007

Solo
Jl. Ronggowarsito
No. 34
Surakarta 57118
T. (0271) 3199090

Jambi
Jl. Orang Kayo Hitam No. 48 B
Jambi Timur 36123
T. (0741) 3068533