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Indonesia: Fiscal risk monitor #3 – The fiscal deficit widened further in March

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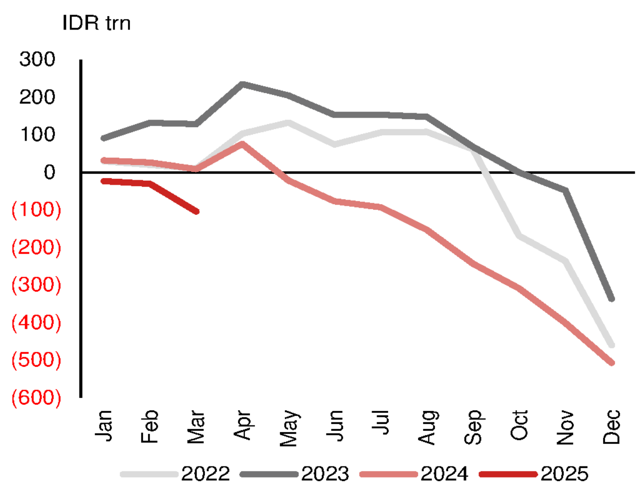
Finance Minister Sri Mulyani reported that the budget deficit reached IDR104.2trn in Q1 (Figure 1), suggesting that in March the deficit widened sharply to IDR73.0trn from IDR23.5trn in January and IDR7.8trn in February. The deficits in January/February were already unusual (the government has had surpluses during this period in the last few years), reflecting the significant weakness in revenue collection, as we have argued before (see *Asia Insights - Indonesia: Fiscal risk monitor #2 – Transparency concerns likely increasing*, 20 March 2025).

In March, the significant widening was driven by both still-weak revenue growth and a rebound in spending:

- Total revenue growth remained weak at -9.3% y-o-y in March from -20.9% in January/February (Figure 2), driven by a deterioration in non-tax revenue growth of -48.7%. Encouragingly, tax revenue growth improved to 12.1% from -25.0% (based on our calculation using the latest available historical monthly fiscal data), which provided an offset and, in our view, was partly supported by the submission deadline of individual income tax returns on 31 March that was extended until early April.
- Expenditure growth rebounded to 14.5% y-o-y in March from -7.0% in January/February. The pickup was driven by growth in transfers to regions of 42.0% y-o-y in March, from 1.4% in January/February (Figure 3). Central government spending growth also rebounded to 7.3% from -11.7%, though the detailed breakdown has yet to be released.

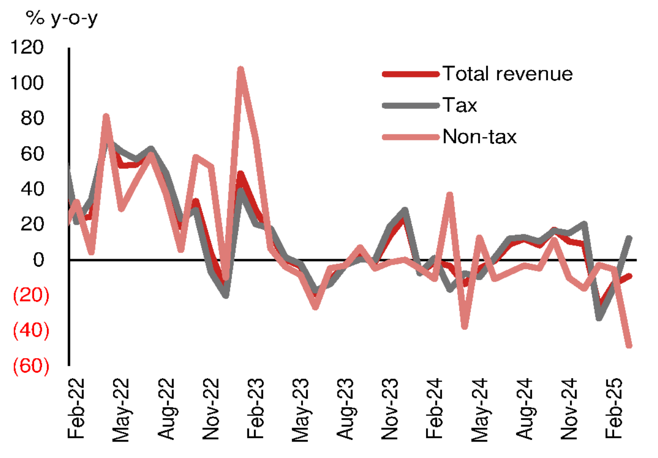
For Q1 overall, total fiscal revenues reached IDR516.1trn, or just 17.2% of the MOF's target, while total expenditures reached IDR620.3trn, which is 17.1% of the MOF's target. We calculate that excluding interest payments, central government expenditure growth dropped to -7.1% y-o-y in Q1, which would have some implications for Q1 GDP growth (more below).

Fig. 1: Indonesia - Accumulated monthly fiscal deficit



Source: CEIC, MOF, Kontan, Nomura Global Economics

Fig. 2: Indonesia - Total, tax. and non-tax revenues



Source: MOF, CEIC, Nomura Global Economics

We maintain our fiscal deficit forecast of 2.9% of GDP for 2025, which close to the fiscal deficit ceiling of 3% and higher than the budgeted 2.5%, with the risks remaining skewed to the upside, in our view (i.e. the deficit widens further). The rebound in expenditure in March suggests government underspending due to the political transition is starting to be

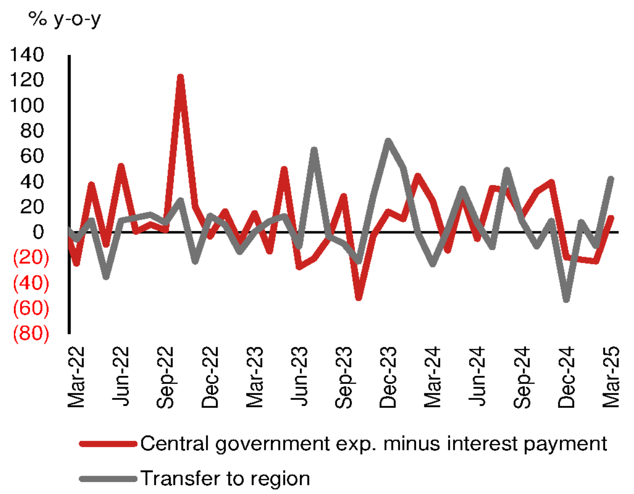
Production Complete: 2025-04-10 10:09 UTC corrected, in line with our expectations. The strong push by President Prabowo to implement his campaign programs will also likely accelerate expenditure growth as the year progresses, along with the drive to support domestic demand, which is softening, weighed on by weak local sentiment (see *Asia Insights - Indonesia: Postcard from Jakarta*, 3 March 2025).

At the same time, still-negative total revenue growth, as we have argued before, continues to suggest underperformance in total collections for the year due to weaker nominal GDP growth, as well as falling commodity prices, which have been further weighed on global trade tensions (see *Asia Insights - Asia: Shackled by Liberation Day tariffs*, 3 April 2025), and are a further drag on non-tax revenues. At the same, no new revenue-raising measures have been announced, while the MOF is mainly counting on tax administration efforts under the new Coretax system, which has been reportedly problematic since the start.

Taking into account the fiscal outturns in March, we estimate Q1 GDP growth is tracking a lower 4.8% y-o-y, lower than our baseline forecast of 4.9% (Figure 4). We continue to believe that weaker growth due to slow budget disbursements will be an unlikely acceptable outcome to President Prabowo, and the release of the Q1 GDP data (5 May) might encourage him to push further his spending programs and prompt a reversal of his proposed budget efficiency measures (which involves large budget cuts across key ministries and regional transfers). The decline in global oil prices will likely reduce the subsidy bill, but we think any savings would likely be reallocated to these priority programs as well.

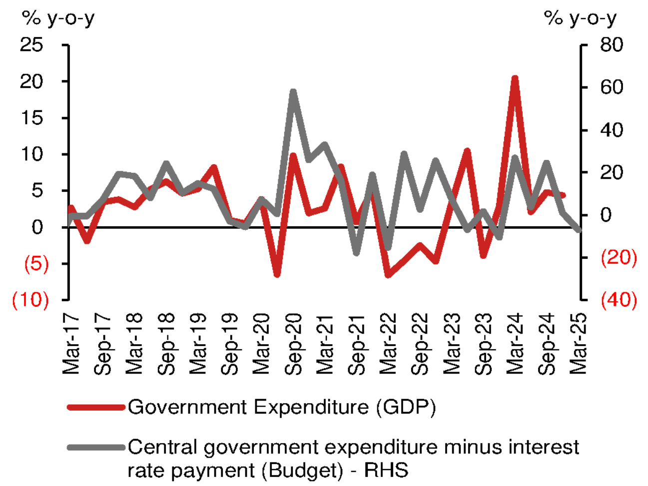
Overall, an acceleration of fiscal spending growth, while revenues continue to underperform will, in our view, likely put more pressure on the fiscal deficit, which was already comparatively large in Q1, as mentioned above.

Fig. 3: Indonesia - Monthly central government expenditure minus interest payment and transfer to region



Source: CEIC, MOF, Kontan, Nomura Global Economics

Fig. 4: Government expenditure growth - GDP accounts vs budget



Source: MOF, CEIC, Nomura Global Economics

Fiscal monitor series and other related reports:

1. *Asia Insights - Indonesia: Fiscal risk monitor #1 – Taking stock of new (unfunded) measures and their costs*, 20 February 2025.
2. *Asia Insights - Indonesia: Fiscal risk monitor #2 – Transparency concerns likely increasing*, 20 March 2025.
3. *Asia Insights - Indonesia: Postcard from Jakarta*, 3 March 2025.

Appendix A-1

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