NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

SEPTEMBER 2024

Indonesia State Budget

MARKET INTELLIGENCE REPORT

Summary

- Indonesia's proposed 2025 State Budget assumes an inflation rate of around 2.5 percent and targets a GDP growth rate of 5.2 percent.

- The budget accommodates President-elect Prabowo Subianto's key election promises, including the free nutritious meal programme allocated under education, and security-related programmes (food security and self-sufficiency, and the country's military modernisation).

- It also includes the continuation of outgoing President Joko Widodo's policies and projects, most notably the move to the new capital city and various social protection programmes.

- With the global economy appearing to be stagnant, domestic demand will be Indonesia's mainstay in supporting the economy. Indonesia is expected to continue to strive for increasing export-oriented and high value-added products, supported by competitive fiscal incentives, while maintaining fiscal sustainability.

Report

We report on Indonesia’s proposed 2025 state budget. The state expenditure indicates the key priority areas of interest to the Indonesian Government and the incoming Administration which may provide opportunities for mutually beneficial business and G2G partnerships and collaboration.

Macroeconomic assumptions and fiscal design

Indonesia has set the inflation target at around 2.5 percent and the economic growth target at 5.2 percent for next year (slightly higher than the current year’s projection of 5.1 percent). The budget was devised based on several macroeconomic assumptions:

- the rupiah exchange rate is estimated to trade at around Rp16,100 per US dollar, higher than the previous projection of Rp15,300–15,900 per US dollar;
- the yield on 10-year government bonds is estimated at 7.1 percent, which is still within the agreed range of 6.9–7.2 percent; and
- the estimated Indonesian Crude Price of US$82 per barrel and projected liftings of oil at 600,000 barrels per day and natural gas at 1.005 billion barrels of oil equivalent per day.

One of the highlights of the budget is the widening fiscal deficit for 2025. The 2025 budget deficit was set at 2.53 percent of GDP (slightly higher than the 2.29 percent set in 2024); however, this is still below the 3 percent budget deficit ceiling. The debt level is expected to increase to 50 percent, below the maximum debt-to-GDP ratio of 60 percent of GDP limit stipulated under the state financing law.

The 2025 budget was jointly developed by outgoing President Joko Widodo's (Jokowi) Administration and President-elect Prabowo Subianto's economic team, which will assume office in October. Indonesia’s Finance Minister noted that the 2025 budget is a transitional budget, and the figures for the incoming Administration's programmes are adjustable.

Budget allocation by priority sectors and flagship programmes

In his final State of the Nation Address, President Jokowi noted that the 2025 State Budget was tailored to maintain "Stability, Inclusivity, and Sustainability", in order to improve welfare and equality through inclusive and sustainable economic growth. The budget outlines state expenditures of Rp3,613.1 trillion (NZ$361.31 billion) (around 9 percent increase from the 2024 forecast), including Rp2,693.2 trillion (NZ$269.32 billion) for central government spending and Rp919.9 trillion (NZ$91.99 billion) for regional transfers.

The education sector accounts for 20 percent of the budget allocation, allowing for President-elect Prabowo's free nutritious meal programme cost of Rp71 trillion (NZ$7.1 billion) to be drawn from the Ministry of Education, Culture, Research and Technology's budget. The National Nutrition Agency, headed by Dadan Hindayana, and reporting directly to the President, was set up on 19 August. The programme is expected to be implemented in phases from 2 January 2025 and the target of nutritional fulfilment is aimed at students, children under five years old, pregnant women, and breastfeeding mothers.

The infrastructure development budget is expected to include the continuation of Jokowi's policies and projects, most notably the development of the new capital city in Nusantara, and various social protection programmes.

The budget allocation for some of the priority sectors are outlined in the table below:

Sector (Percentage of budget allocation)	**2025 Budget (Rp Trillion)**	**Percentage change from 2024**	**Priority for 2025**
Education (20.1)	722.6 (NZ$72.3 billion)	↑ 8.7	• Improve public access to education. • Provide educational facilities and infrastructure. • Provide better education access for underprivileged students. • Provide nutritious food to students.

Sector (Percentage of budget allocation)	2025 Budget (Rp Trillion)	Percentage change from 2024	Priority for 2025
Social Protection (14.0)	722.6 (NZ$72.3 billion)	↑ 1.6	• Continue social protection programmes such as Family Hope (PKH), Basic Food Cards, and subsidy distribution by continuing efforts to improve the targeting of social protection programmes to reduce inclusion and exclusion errors. • Encourage convergence and complementarity of social protection programmes to target households around the poverty line. • Increase effectiveness of programme design and implementation. • Encourage acceleration of poverty elimination. • Strengthen lifelong social protection to anticipate the aging population including people with disabilities. • Encourage adaptive social protection schemes to anticipate the risk of crisis.
Infrastructure development (11.1)	400.3 (NZ$40.03 billion)	↓ 5.5	• Construction of irrigation networks and dams, integrated leading schools and school renovation, good quality hospitals, road network infrastructure, port and airport facilities, and railway connectivity to support downstreaming, regional roads that drive growth, and ports to support food distribution. • Equitable distribution of digital and technology infrastructure. • Provision of sanitary housing.
Defence and security (10.4)	372.3 (NZ$37.23 billion)	↓ 3.5	• National Armed Forces task implementation. • Soldier professionalism and welfare. • Defence policy and regulation. • Equipment and infrastructure • modernisation. • Defence resource development. • Defence research, industry, and higher education. • Management support.

Sector (Percentage of budget allocation)	2025 Budget (Rp Trillion)	Percentage change from 2024	Priority for 2025
Health (5.5)	197.8 (NZ$19.78 billion)	↑ 5.5	• Provide nutritious food for pregnant/breastfeeding mothers and toddlers. • Accelerate reduction of stunting in twelve priority provinces. • Increase effectiveness of the National Health Insurance programme. • Increase access, quality, and availability of primary and referral health service facilities and infrastructure. • Increase synergy between institutions in providing health facilities and infrastructure. • Increase the number, quality, and distribution of human resources. • Gradually strengthen the independence of the pharmaceutical industry.
Food Security (3.5)	124.4 (NZ$12.44 billion)	↓ 8.8	• Land intensification and extensification. • Provision of agricultural facilities and infrastructure (fertilisers, seeds, tools, and pesticides). • Construction of agricultural infrastructure, including dams and irrigation. • Improve agricultural product distribution chain. • Strengthen national food reserves and food barns. • Strengthen institutions, financing, and protection of agricultural businesses. • Strengthen aquaculture programmes.

Indonesia is expected to continue its spending on downstreaming policies. These include:

- Nickel downstreaming to other derivative industries (e.g. pipe components, burners, fuel tanks, and machine components);
- Development of advanced downstream products of crude palm oil, processing of fishery products, and downstreaming of seaweed products; and
- Increasing the competitiveness of downstreaming through the development of battery and electric vehicle industry ecosystems, accelerating the increase in the use of domestic products, and increasing the use of industrial technology.

The budget will also support policies directed at increasing investment competitiveness, through:

- improving the ease of doing business system and policies;
- improving effectiveness and efficiency of bureaucracy through innovation in the digitalisation of public services;
- compiling investment opportunity maps and improving the investment climate; and
- strengthening economic cooperation to increase and secure market access, maintaining the national interest related to renewable energy and the carbon economy ecosystem.

The 2025 state revenue is targeted to reach Rp2,996.9 trillion (NZ$299.69 billion), comprising tax revenue of Rp2,490.9 trillion (NZ$249.09 billion) and non-tax revenue of Rp505.4 trillion (NZ$50.54 billion).

Sustainable tax reform and improving the investment climate were noted as ways to achieve the revenue target.

Anticipating a rise in spending, the government is set to raise the value-added tax (VAT) to 12 percent (from 11 percent) starting next year. VAT now accounts for about 40 percent of total tax revenue, so the VAT increase should boost tax revenue, provided consumption can be maintained even with the inflationary impact of VAT’s rise.

Indonesia will maintain the diesel subsidy at Rp1,000 per litre, but reduce the volume of subsidised fuel, which includes kerosene and diesel, from 19.58 to 19.41 million kilolitres, aiming at ensuring a more targeted distribution of subsidies. Meanwhile, the volume of subsidised liquefied petroleum gas (LPG) for 2025 will be increased from 8.07 to 8.17 million tonnes.

Fiscal management is crucial to ensure political stability and the nation's long-term sustainability.Indonesia has maintained its economic growth at around 5 percent post-pandemic and has reduced budget deficits to below 3 percent. In the eyes of the global community, it will be important for Indonesia to continue to manage and sustain this fiscal discipline.

More info

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

To get email alerts when new reports are published, go to our subscription page.

To learn more about exporting to this market, New Zealand Trade & Enterprise's comprehensive market guides cover export regulations, business culture, market-entry strategies and more.

To contact the Export Helpdesk

email exports@mfat.net

call 0800 824 605

visit Tradebarriers.govt.nz