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Testing the Assumptions Behind Indonesia's 2027 Budget

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Indonesia's proposed 2027 state budget presents an ambitious but reassuring macroeconomic picture. Economic growth is expected to accelerate to 6 percent, inflation to remain at only 2.5 percent, the rupiah to average Rp17,500 per US dollar, and the fiscal deficit to decline to 2.4 percent of GDP. Government revenue, meanwhile, is targeted at Rp3,426 trillion, allowing spending to rise to Rp4,097 trillion. Table 1 shows some of the key assumptions of the 2027 budget.

Table 1. 2027 State Budget Key Assumptions

Indicator	RAPBN 2027	APBN 2026
Economic Growth (%)	6.0%	5.4%
Inflation (%)	2.5%	2.5%
10-Year Government Bond Yield (%)	6.9%	6.9%

Indicator	RAPBN 2027	APBN 2026
Exchange Rate (Rp/USD)	17,500	16,500
Indonesian Crude Price / ICP (USD/barrel)	75	70
Crude Oil Lifting (thousand barrels/day)	610	610
Natural Gas Lifting (thousand BOE/day)	954	984

Source: Ministry of Finance, Republic of Indonesia

Although none of these assumptions is implausible on its own, they collectively raise questions on whether they can all hold at the same time. For that to happen, Indonesia would need not only stronger demand and investment but a meaningful increase in the economy's productive capacity.

A Demanding Macroeconomic Mix

Macroeconomic assumptions do not operate independently. Growth, inflation, interest rates, the exchange rate, tax revenues, and the fiscal deficit are parts of the same system. Moving one variable away from its underlying equilibrium normally produces adjustments elsewhere. It matters even more because the 6 percent growth assumption is not only a macroeconomic forecast but also supports the budget's revenue and fiscal arithmetic.

Indonesia has repeatedly returned to growth of around 5 percent over the past decade. This five percent growth is not an immutable speed limit, but it is a reasonable starting point for thinking about the economy's current potential growth, the rate at which output can expand without creating sustained pressure on prices or the external balance.

The 2027 budget, however, assumes Indonesia can move significantly above this neighborhood while inflation remains within Bank Indonesia's 2.5 percent target. Although this is possible, they are demanding. At a stylized level, moving from roughly 5 percent growth and 3–4 percent inflation to 6 percent growth and 2.5 percent inflation implies that a larger share of economic demand must be met by real output rather than by higher prices.

That is ultimately an assumption about productive capacity. If demand rises faster than productive capacity, the pressure must appear somewhere. Inflation may rise. Higher demand may leak into imports, weakening the current account and putting pressure on the rupiah. Bank Indonesia may then need to keep interest rates higher to contain inflation and stabilize the currency. But higher rates, in turn, weaken consumption and private investment.

Imports can temporarily relieve domestic supply constraints, but they are not a complete solution. Unless matched by stronger exports or durable capital inflows, they shift part of the adjustment towards the external balance and the rupiah. The adjustment can, therefore, move between prices, the exchange rate, and interest rates, but it cannot simply disappear.

More Investment Is Not Enough

Higher investment can expand productive capacity. Danantara, foreign direct investment, and public investment may provide capital for factories, power plants, infrastructure, and industrial development. However, more investment does not automatically produce proportionately higher growth.

The government's own macroeconomic framework acknowledges that Indonesia's Incremental Capital Output Ratio (ICOR) remains around 5–6. While Indonesia already invests a relatively large share of GDP, converting additional capital into additional output remains relatively costly. The constraint is therefore not only how much capital can be mobilized, but how efficiently it is allocated and used.

This distinction matters for Danantara. Expanding financing capacity can increase investment, but raising potential growth requires better project selection, technology, competition, governance, and productivity. Otherwise, additional capital may lead to increased investment spending without a comparable increase in output.

There is also a timing problem. Financing can be mobilized relatively quickly, but new productive capacity cannot. Factories take time to build, workers need to acquire skills, and productivity improvements often take years to materialize. This creates a potentially awkward sequence. Public investment through the budget, Danantara, state-owned enterprises, and state banks can raise demand today, yet much of the additional supply may only arrive several years later.

If Bank Indonesia subsequently has to maintain higher interest rates to contain the resulting inflation or exchange-rate pressure, private investment may weaken precisely when Indonesia needs it to expand potential output. The policy intended to raise the economy's speed limit could therefore end up making that transition harder.

When Aspirations Enter the Fiscal Arithmetic

The problem would matter less if 6 percent were simply an aspirational growth target. But it is also an input into the fiscal arithmetic. The government has made clear that 2027 forms part of the path towards President Prabowo Subianto's ambition of achieving 8 percent growth by the end of his term. Faster growth expands the tax base, makes stronger revenue collection easier to achieve, and helps keep deficit and debt ratios comfortable.

This does not mean the 6 percent assumption was chosen simply to keep the deficit below the statutory 3 percent ceiling. The direct denominator effect is relatively small. Its more important role is on the revenue side. With faster growth, a sharp increase in tax collection looks more achievable. If growth instead remains closer to 5 percent, the same revenue target would require considerably stronger tax collection in a slower-growing economy.

Though raising Indonesia's low tax ratio through better compliance and a broader base is necessary, stronger revenue mobilization can also reduce household disposable income and corporate cash flow. Whether it ultimately supports growth depends on where the additional revenue comes from and how productively it is spent.

This is why it is important to distinguish between a policy target and a macroeconomic forecast. Prudent budgeting normally starts with underlying economic conditions, produces a realistic forecast, estimates revenue from that forecast, and then determines how much spending is affordable. The risk is reversing that sequence: starting from the growth path needed to reach 8 percent, using that path to support ambitious revenue assumptions, and then building expenditure plans around it.

If the Assumptions are Missed

The issue, therefore, is not whether any single RAPBN assumption is unrealistic. It is whether the economic system can deliver many favourable outcomes simultaneously: faster growth, low inflation, a relatively stable rupiah, manageable borrowing costs, substantially higher tax collection, and a declining fiscal deficit.

If it cannot, the likely outcome is not necessarily a fiscal crisis. A more plausible adjustment is less dramatic but potentially more persistent: growth remains around 5 percent, inflation and currency pressures are somewhat higher than assumed, interest rates stay elevated, revenue disappoints, and more financing is channelled through the government, Danantara, state-owned enterprises, and state banks.

While Indonesia could still look macroeconomically stable, the price may be higher public-sector leverage and less room for private investment. If public investment is not sufficiently more productive than the private investment it displaces, potential growth may fail to rise. The irony is that policies intended to move Indonesia beyond its 5 percent growth pattern could end up reinforcing it.

Therefore, testing the assumptions behind the 2027 budget comes down to one question: what has changed enough on the supply side to make 6 percent growth sustainable while inflation, the exchange rate, and financing costs remain well contained? Until that answer is clearer, the 2027 budget should be read not only as a fiscal plan, but also as a demanding test of whether Indonesia's underlying growth equilibrium has truly begun to change.

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