

SNAPSHOT

HIGHLIGHTS FOR THIS WEEK:

- **Economy:** The 2026 budget tightens fiscal space through spending reallocation and lower regional deficits while globally, pervasive "Sell America" lifts capital flow volatility and FX risk.
- **Energy:** Indonesia plans to cut 2026 coal production target to stabilize prices but may pose risks to producers.
- **Regulatory:** Centralized export proceeds may boost FX liquidity but pressures exporters' cash flow, with new mandate for Minister of Finance to manage recomposition between rupiah and foreign currencies.
- **Politics & Governance:** The Chromebook procurement case raises governance scrutiny while upcoming challenge against IKN Law reopens legal uncertainty over Indonesia's capital relocation.

ECONOMY

FISCAL DISCIPLINE SETS THE STAGE FOR 2026 STATE BUDGET AND EXPENDITURE

The government is **reviewing 2026 state budget and expenditure (APBN)** spending by reallocating non-urgent ministerial/agency expenditures into special Output Details (RO) within the Budget Implementation List (DIPA) without reducing budget ceilings, **generating initial efficiency around IDR60 trillion**. In conjunction, the **maximum regional budget (APBD) deficit for 2026 is set at 2.50% of regional revenue**, with a **cumulative deficit cap of 0.11% of GDP**.

Such measures may be expected to restrain government spending throughout the year, inhibiting regional transfer funds. Government contractors may expect **slowdown in government projects** and increased competition in auctions or biddings for strategic projects. With the spending tap tightened, the 2026 fiscal year is set to ease the country's deficit alongside lowering debt for improved macroeconomic stability amid uncertain global dynamics.

TRUMP'S PRESSURE ON THE FED TRIGGERS "SELL AMERICA" SENTIMENT

"Sell America" sentiment is emerging on the market at the heels of incumbent US President's intensified pressure on the Federal Reserve. Recent investigation launched on the Chair of the Federal Reserve over historical renovation has raised concerns over the central bank's **precarious independence in setting monetary policies**. The conflict has weighed heavily on the US dollar, pushing US government bond yields for sale, and shifting investor's interest towards gold as a safe-haven assets.

The ongoing investigation has **lowered the appeal of US assets**, prompting investors to pivot towards non US-based assets. For Indonesia, the sale of US assets offers **opportunity to attract investors seeking to diversify their asset portfolio**. To leverage this opportunity, the country's Central Bank may seek to project greater degree of certainty in its monetary policies to attract greater capital inflows amidst rising global volatility.

ENERGY

LOWER COAL PRODUCTION IN 2026 TARGET ADJUSTED PRICES

The government plans to cut national coal production target to **approximately 600 million tons in 2026**. The move is expected to **calibrate falling coal prices**, which have come under pressure due to global oversupply.

The cutdown is implemented via **RKAB revisions**, adjusting for **increased realized production in 2025** while **maintaining domestic supply**. However, this will significantly alter production targets for businesses, underscoring the need for **transparency** and **regulatory support** in the upcoming 2026 RKAB for the industry to remain resilient.



REGULATORY

CENTRALIZED NATURAL RESOURCE EXPORT PROCEEDS : STRENGTHENING LIQUIDITY OR EXERTING CASH FLOW PRESSURES?

The government has revised **Government Regulation No.8/2025** by requiring **100% of natural resource export proceeds (DHE SDA) to be placed in state-owned banks for 12 months** to strengthen banking liquidity and foreign exchange market volatility. To incentivize exporters, the government has prepared competitive foreign currency interest rates, the issuance of domestic foreign-currency government bonds, and relaxation of DHE conversion into rupiah to 50%.

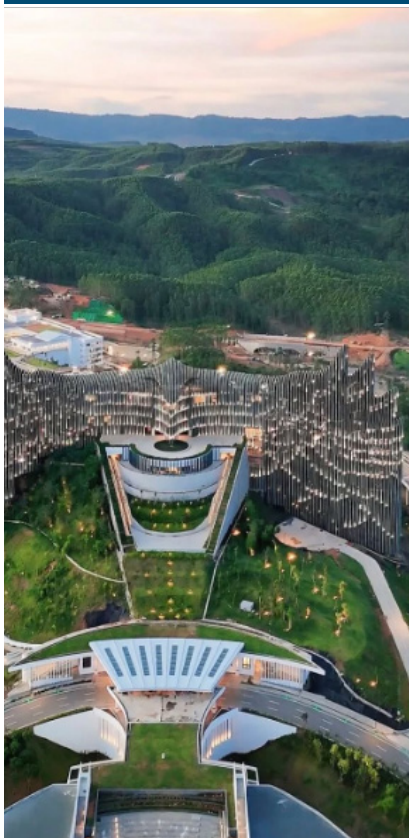
However, businesses may view this measure as potential disruption to cash flow and working capital, particularly for thin-margin exporters and those reliant on financing from private banks. Ultimately, the policy's effectiveness hinges on the credibility of these incentives and flexible implementation to balance **macroeconomic stability** with **export competitiveness**.

NEW MANDATE FOR RUPIAH AND FOREIGN CURRENCIES RECOMPOSITION

The **2026 State Budget Law (UU APBN)** grants new authority to the Minister of Finance, in their capacity as General Treasurer, to carry out **recomposition between rupiah and foreign currencies** as part of managing **budget surplus balance**. This authority confers the Minister to optimize state cash liquidity, mitigate exchange rate risks, and support fiscal sustainability amidst global uncertainty.

The Minister emphasized that such policy is internal between government accounts and not intended as exchange rate intervention in the foreign exchange market, thus differing from the Central Bank's mandate. While it does not directly impact exchange rate movements, clear fiscal-monetary coordination is needed to **avoid perceptions of overlapping policies in the market**, therefore preserving regulatory and operational certainty.

POLITICS & GOVERNANCE



CHROMEBOOK PROCUREMENT CASE SIGNALS URGENCY OF STATE SPENDING ACCOUNTABILITY

Ongoing investigation into alleged corruption for Chromebook laptops procurement has **proceeded to the evidentiary stage** after the Court rejected former Education and Culture Minister, Nadiem Makarim's objection. In its blogpost, **Google has clarified** that it did not act as a vendor, nor set prices, as well as not receiving project funds. The case highlights how state spending accountability has risen in urgency, particularly for governing procurement in strategic sectors. However, it is worth noting that **transparency and accountability** must be balanced with **broad investment opportunities for enhanced operational certainty**.

CHALLENGE AGAINST IKN LAW TESTS LEGAL CERTAINTY OF CAPITAL RELOCATION

Law No. 03/2022 on the Nusantara Capital City (IKN) has been challenged before the Constitutional Court, for allegedly lacking binding legal force. The petitioner posits that the Law may negate the existence of a capital city, thus requesting the Court to **affirm that Jakarta remains the national capital city** until a law explicitly, simultaneously, and operationally designates a replacement capital. The lawsuit tests the legal certainty of IKN Law, with the incomplete transition **potentially triggering lower investor confidence** due to regulatory uncertainty.

Source(s): APBI-ICMA, Bisnis.com, Bloomberg Technoz, CNBC, DDTC News, Katadata, Kompas.com, Liputan 6, MSN, Tirta ID

List of abbreviations: FX (Foreign Exchange); IKN (Ibu Kota Nusantara); APBN (Anggaran Pendapatan dan Belanja Negara); RO (Rincian Output); DIPA (Daftar Isian Pelaksanaan Anggaran); APBD (Anggaran Pendapatan dan Belanja Daerah); GDP (Gross Domestic Product); US (United States); RKAB (Rencana Kerja dan Anggaran Biaya/Work and Budget Plan); DHE SDA (Devisa Hasil Ekspor Sumber Daya Alam); UU (Undang-Undang);

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