



# Indonesia's Fiscal Crossroads: From Liquidity to Real Growth

*Muhammad Haziq Bin Jani and Baginda Muda Bangsa*



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### KEY TAKEAWAYS

- Indonesia's appointment of Purbaya Yudhi Sadewa as finance minister marks a shift towards more active fiscal management, focused on credit injections, tighter spending oversight and quick-win interventions.
- The success of this shift depends less on the scale of stimulus, and more on overcoming structural bottlenecks such as weak consumer demand, bureaucratic inertia and inefficiencies in firm formation and capital use.
- While Purbaya has promised speed and discipline, sustained growth will hinge on execution – ensuring that fiscal tools are not only disbursed but translated into job-rich, high-impact outcomes across sectors.

### COMMENTARY

Indonesia's recent [appointment](#) of Purbaya Yudhi Sadewa as finance minister marks more than a routine cabinet reshuffle – it signals a shift in the country's fiscal orientation. Taking over from Sri Mulyani Indrawati, whose tenure was defined by fiscal discipline and global investor confidence, Purbaya inherits not just a powerful institution but a politically sensitive mandate too.

Purbaya's appointment came amid public frustration over Indonesia's post-pandemic economic sluggishness. A June 2025 [World Bank report](#) noted that GDP growth had eased to 4.9% in the first quarter, with investment weakening and household consumption flatlining, particularly among middle-income groups. While official figures later reported a [rebound](#) to 5.12% in the second quarter, economists and business groups questioned whether this reflected ground-level realities, citing rising layoffs,

declining purchasing power and shrinking foreign investment. In late August, [protests](#) over lawmakers' allowances escalated into nationwide unrest, reflecting discontent that had been building amid rising food prices, joblessness and weak economic growth. The incident came to symbolise a wider disconnect between official narratives and the lived experience of many Indonesians.

## **A Fiscal Turning Point**

Early statements from Purbaya signal a clear pivot: where his predecessor emphasised restraint, he now speaks of unleashing growth through strategic spending, liquidity injections and stronger state involvement in the economy. In his first weeks on the job, he oversaw the [shift](#) of about US\$12 billion in idle government funds from the central bank to state-owned commercial banks, a move aimed at stimulating credit growth. While Purbaya has [assured](#) investors that he will respect the 3% ceiling on the government's budget deficit, he has also [described](#) such limits as "arbitrary", signalling that fiscal flexibility may be on the table if economic conditions demand it.

Purbaya also [affirmed](#) support for President Prabowo Subianto's signature initiatives – including *Makan Bergizi Gratis* (Free Nutritious Meals or MBG) and subsidised housing – while tightening oversight to ensure public funds deliver impact. He [announced](#) a "quick-win" fiscal plan comprising five steps: an estimated US\$979 million stimulus package, enforcement against 200 major tax evaders, enhanced coordination with law enforcement agencies, IT system fixes, and a crackdown on illicit cigarette sales. There was [speculation](#) that Bank Indonesia had sold 11 tonnes of gold reserves in July 2025 to finance fiscal measures, but the central bank has since officially [clarified](#) that no such sale took place. Official data on reserves show that gold holdings and overall reserves remained stable, with foreign exchange reserves standing at [US\\$152 billion](#) – sufficient to cover more than six months of imports.

The overall goal is to boost state revenue and job creation without raising tax rates or borrowing more but by reallocating idle funds, improving tax compliance and accelerating budget execution to ensure faster economic returns. In late September, Purbaya launched [spot audits](#) across 20 provinces to ensure the free meals programme was achieving its intended outcomes. He also [warned](#) that ministries failing to spend their budgets efficiently would see those funds reallocated to flagship welfare programmes – a move aimed at preventing waste and reinforcing discipline across the bureaucracy. Still, can these measures deliver lasting fiscal space and public trust without breaching Indonesia's legal deficit ceiling or overpromising what efficient spending alone can achieve?

## **Structural Bottlenecks Impeding Growth**

The question now is whether this new course of policies can truly reignite Indonesia's growth engine. Some economists argue that the problem is not liquidity, but rising economic uncertainty and weak household confidence. Data from the [Financial Services Authority](#) (OJK) as of July 2025 shows that the loan-to-deposit ratio (LDR) stood at 86.54% – a relatively healthy figure – yet credit growth had slowed to just 7.03% year-on-year, lower than the previous year. This suggests that while funds were available within the banking system, lending appetite and borrower bankability remained constrained. Many firms, particularly in the [small and medium-sized](#)

[enterprise \(SME\) segment](#), face [difficulties](#) meeting formal lending requirements due to weak financial records, insufficient collateral or [limited integration](#) into scalable value chains, reducing their ability to absorb new capital, even when it is made available.

Indonesia's [Purchasing Managers' Index](#) (PMI) for the manufacturing sector recorded contractionary readings for four consecutive months between April and July 2025 – a sign that producers were responding to weakening demand. These indicators suggest that the impact of the government's US\$12 billion liquidity injection may be limited. Its effectiveness will ultimately hinge not on headline announcements but on whether firms find viable reasons to borrow, invest and expand.

While the outcomes remain uncertain, the scale of the government's credit injection raises concerns about potential systemic risks, particularly around [moral hazard](#). The 1998 financial crisis offers a cautionary tale of how weak regulatory discipline can exacerbate instability. Although today's banking regulations and supervisory mechanisms are far more robust, the risk of complacency persists. Mitigating this will require the government to ensure that expanded credit flows only into eligible, productive and well-governed projects.

If the goal is to achieve quality, job-rich growth, Indonesia must address the structural factors that contribute to its high-cost economy. In 2023, Indonesia's [Incremental Capital Output Ratio](#) (ICOR) stood at approximately 6.3 – significantly higher than its regional peers such as Malaysia, Vietnam and Thailand. This indicates that more capital is required to generate each unit of economic output, reflecting inefficiencies across the economy. Core contributors include high logistics costs, bureaucratic red tape and inconsistent regulatory enforcement, all of which raise the cost of doing business.

According to the [World Bank's Business Ready 2024 report](#), it takes 43 days to register a new domestic firm in Indonesia, compared to 28 in Vietnam and 15 in Singapore; foreign firms face even steeper hurdles at 65 days and with total registration costs amounting to 147% of gross national income (GNI) per capita. The most comparable recent data for Malaysia (2020) recorded [17 days](#) and 11.1%. The [Emerging Asia Manufacturing Index 2024](#) – which benchmarks competitiveness across Asia's top emerging manufacturing hubs including China, India and Southeast Asia – ranked Indonesia fifth out of eight and sixth for business environment, citing high minimum capital requirements for foreign investors, infrastructural problems including among the highest water costs and slowest internet speeds, and weak scores in freight costs and tax efficiency. These eight countries represent Indonesia's key rivals in the global manufacturing landscape. Left unaddressed, these bottlenecks will continue to drag down productivity and investment returns, blunting the impact of any fiscal or monetary stimulus.

## **Delivering Speed with Control**

Changing the finance minister alone will not determine the strength or sustainability of Indonesia's growth. The real test lies in whether ministries and agencies can translate fiscal allocations into well-executed, high-impact programmes. As finance minister, Purbaya must ensure that public spending aligns with national priorities and supports a predictable fiscal environment that encourages private investment.



The real test lies in whether ministries and agencies can translate fiscal allocations into well-executed, high-impact programmes that drive sustainable growth. *Image Source: Pexels.*

To this end, he has [announced](#) plans to visit major ministries with low budget absorption, warning that unspent funds will be reallocated to programmes ready to deliver direct benefits to the public. He has also set up a dedicated “Acceleration Team” to review and fast-track budget implementation, signalling that his focus is not only on disbursing funds but also on ensuring they translate into concrete outcomes.

Whatever Purbaya’s economic philosophy – “[Sumitronomics](#)”, as he terms it, or otherwise – success hinges on execution. The finance minister’s role is not just to inject funds but to calibrate spending, build trust and signal discipline. Indonesia’s economic future will depend on getting that balance right.

***Muhammad Haziq Bin Jani*** is Senior Analyst in the Indonesia Programme at the S. Rajaratnam School of International Studies (RSIS). ***Baginda Muda Bangsa*** is Political Economy Analyst at Laboratorium Indonesia 2045 (LAB 45).

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