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This photo shows the entrance of Bank Indonesia in Jakarta on 16 September 2025. (Photo by BAY ISMOYO / AFP)

Different Sectors, Same Direction: Indonesia's Quiet Recentralisation

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Indonesia's revised financial omnibus law reflects a broader trend towards executive recentralisation, renewing concerns over institutional independence and accountability.

Indonesia's recent revision of the Development and Strengthening of Financial System (*Pengembangan dan Penguatan Sistem Keuangan*, P2SK) Law has attracted attention from the Indonesian public and market, and beyond, as it expands Bank Indonesia's (BI) mandate while increasing parliamentary oversight.

In June 2026, Indonesia's House of Representatives (DPR) passed the **revised PS2K Law**, a financial omnibus that **mandates BI** to support the country's growth and employment. The amended law grants the DPR expanded powers to evaluate the central bank's performance and obliges BI, along with the Deposit Insurance Corporation (LPS) and the Financial Services Authority (OJK), to follow parliament's recommendations.

The issue is not BI's independence per se: the new law's significance extends beyond monetary policy. This amendment represents a fundamental shift, with the central government reconsolidating authority through institutional control. Institutions previously entrusted to protect Indonesia's long-term stability are now increasingly expected to deliver short-term political objectives.

Alongside recent developments in fiscal decentralisation, sovereign wealth fund governance and data regulation, the revision points to a broader trend: the gradual concentration and reallocation of the central government's authority, or recentralisation. Recentralisation refers to the shifting of discretion, resources and oversight away from independent institutions and subnational governments towards the executive centre, without a matching expansion of accountability.

The concern is not whether the revision of the P2SK Law will damage the economy, but whether Indonesia is undergoing a broader recentralisation. In the late 1990s, *Reformasi* mandated that Indonesia's governance system should be built on a deliberate distribution of power across independent institutions, subnational governments and checks on executive authority. Recent developments in monetary policy, fiscal transfers, sovereign asset management and data governance — despite differing policy objectives — suggest that this system is being eroded. A careful reading over the past year reveals at least four developments that appear sector-specific, but when read together, point in the same direction.

First, the regional budget cuts make subnational governments vulnerable. The 2026 state budget **cut** 18 to 20 per cent of the Transfer to Regions and Village Funds (*Transfer ke Daerah dan Dana Desa*, TKD) from IDR848.52 trillion in 2025 to around IDR693 trillion, the deepest in 25 years of fiscal decentralisation. For subnational governments that depend on central transfers for 60 to 70 per cent of their revenue, this is **evidently** a structural shock to their capacity.

Second, the sovereign wealth fund Danantara, **launched** in February 2025, aims to consolidate the management of state assets valued at over USD900 billion, but raised

concerns about potentially poor governance. For example, Indonesia Corruption Watch **found** that 24 of 31 Danantara officials are "politically exposed" persons (meaning current or former holders of public office or people with significant political influence). In response, civil society groups **formed** Danantara Monitor, an independent monitoring platform, to push for openness on investment decisions and conflicts of interest.

Third, Indonesia's **Personal Data Protection (PDP) Law** came into effect in 2024, but as of July 2026, the implementing regulations **remain incomplete** and the PDP Agency (*Badan Perlindungan Data Pribadi*) mandated to enforce it **has not been established**. In its place, the government is **advancing** a "**One Data Bill**" that would, in theory, centralise and integrate data across ministries and agencies **for efficiency and policy precision**. In other words, an unfinished privacy regime is being overtaken by the ambitious centralisation of the data that the regime was designed to protect.

Finally, BI's expanded mandate must be seen in the context of the **appointment** of Thomas Djiwandono, President Prabowo Subianto's nephew, as its deputy governor in January 2026. This **raised questions** about the boundary between technocratic and political control, and possibly signals BI's loss of independence despite its expanded mandate. The stakes have sharpened since Governor Perry Warjiyo resigned abruptly on 25 July 2026; Djiwandono was now among three possible candidates to succeed Warjiyo. For now, however, the presidential palace has **announced** that it will nominate Destry Damayanti, Warjiyo's former deputy, to lead BI.

> **The consequences could extend far beyond Indonesia's financial markets: it will change the character of the state, from one that is still answerable to institutions and citizens, to one answerable only to itself.**

Individually, each of these policy decisions may be defensible. However, taken together, they reveal a state whose capacity to act is growing much faster than its accountability.

This does not mean Indonesia's institutions were functioning perfectly before the current administration took power: BI's independence did not make the rupiah immune from global shocks; subnational governments have long been **criticised** for the weak absorption of transfers and patchy service delivery; state-owned enterprises had **governance problems** before Danantara consolidated them; and the One Data Policy exposed **data weaknesses** during earlier crises.

Centralisation can be a reasonable response to genuinely fragmented, underperforming institutions, provided it is done at a manageable scale and pace. Concentrating discretion at the centre without accountability is dangerous, as it removes institutional independence and subnational authority. It can also produce fragility rather than resilience in the whole of government. President Prabowo's governing style relies on personal loyalty, family ties and authority built on proximity rather than on institutional mandates; it also lacks a self-correction mechanism if and when trust is misplaced.

Looking Ahead

These recent changes are anchored in law and are not temporary adjustments, which is what makes them consequential. What remains unknown is whether the accountability gap narrows or continues to widen. The indicators worth watching include whether BI's new mandate is exercised with visible independence from the presidential palace, whether Danantara publishes audited, disaggregated investment disclosures and whether subnational government budgets are restored.

In sum, the re-concentration of power at the executive risks weakening governance due to a lack of checks and balances. The consequences could extend far beyond Indonesia's financial markets: it will change the character of the state, from one that is still answerable to institutions and citizens, to one answerable only to itself.

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