INDONESIA ECONOMIC PROSPECTS

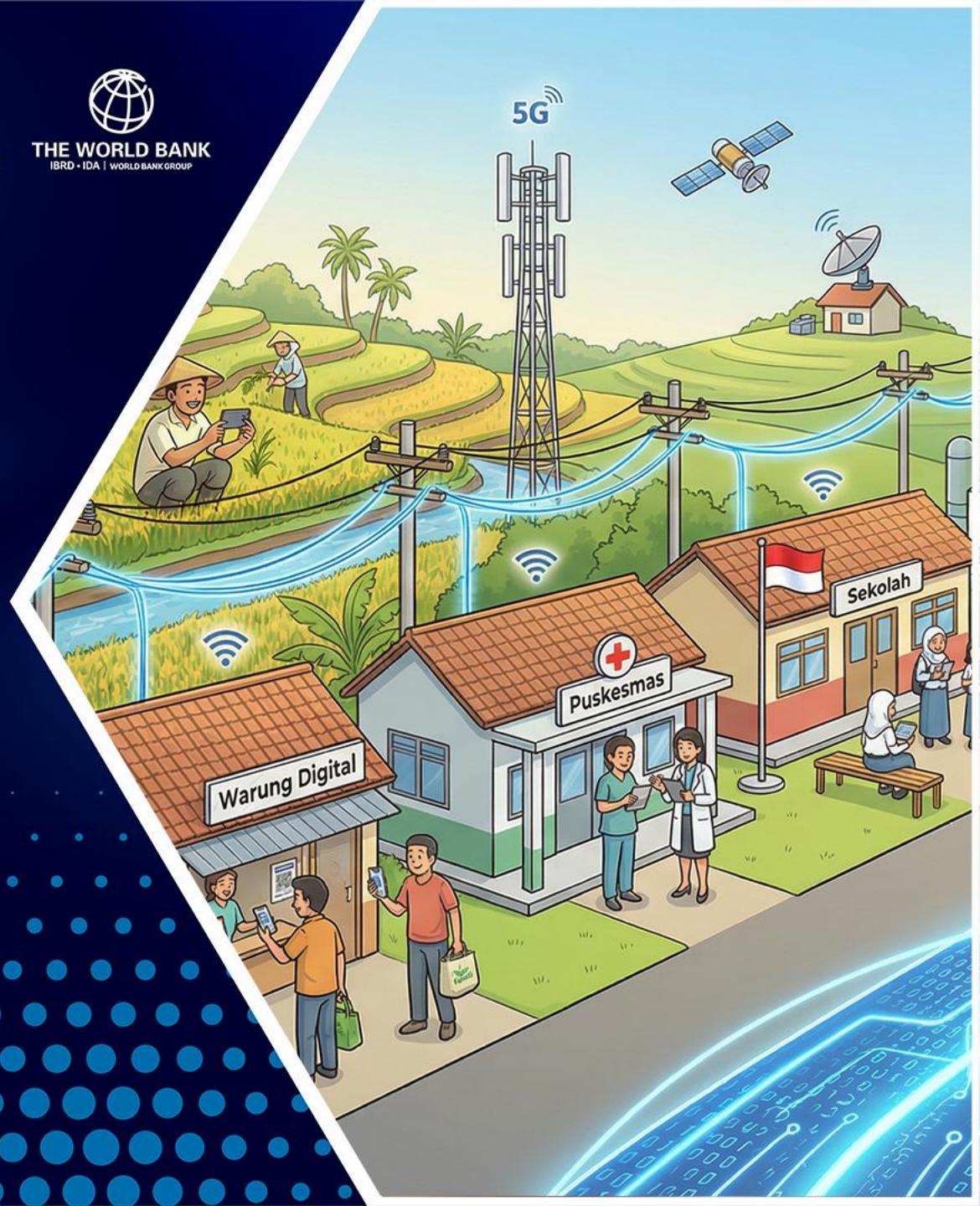
IEP

Australian Government

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

Indonesia Economic Prospects
December 2025

Economic Update and Outlook

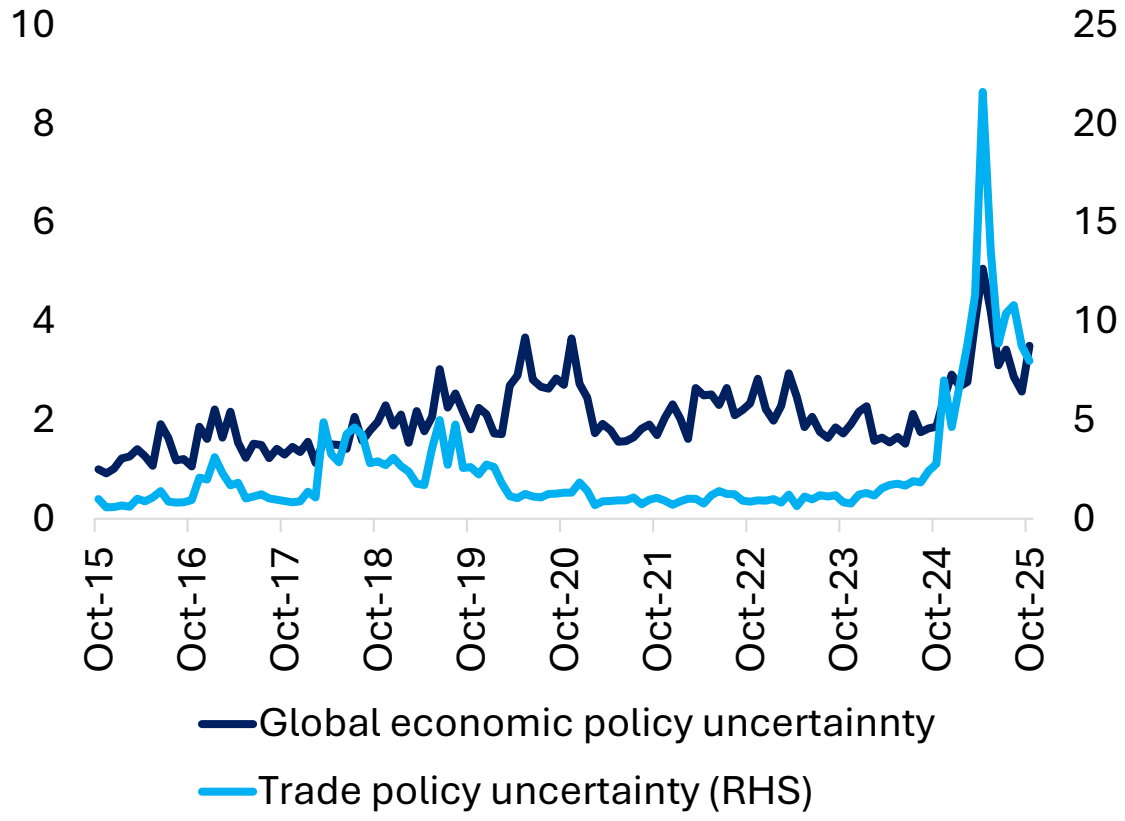


Download the report at
www.worldbank.org/iep

During a period of heightened uncertainty, Indonesia continues to demonstrate resilience

Global uncertainty is still elevated

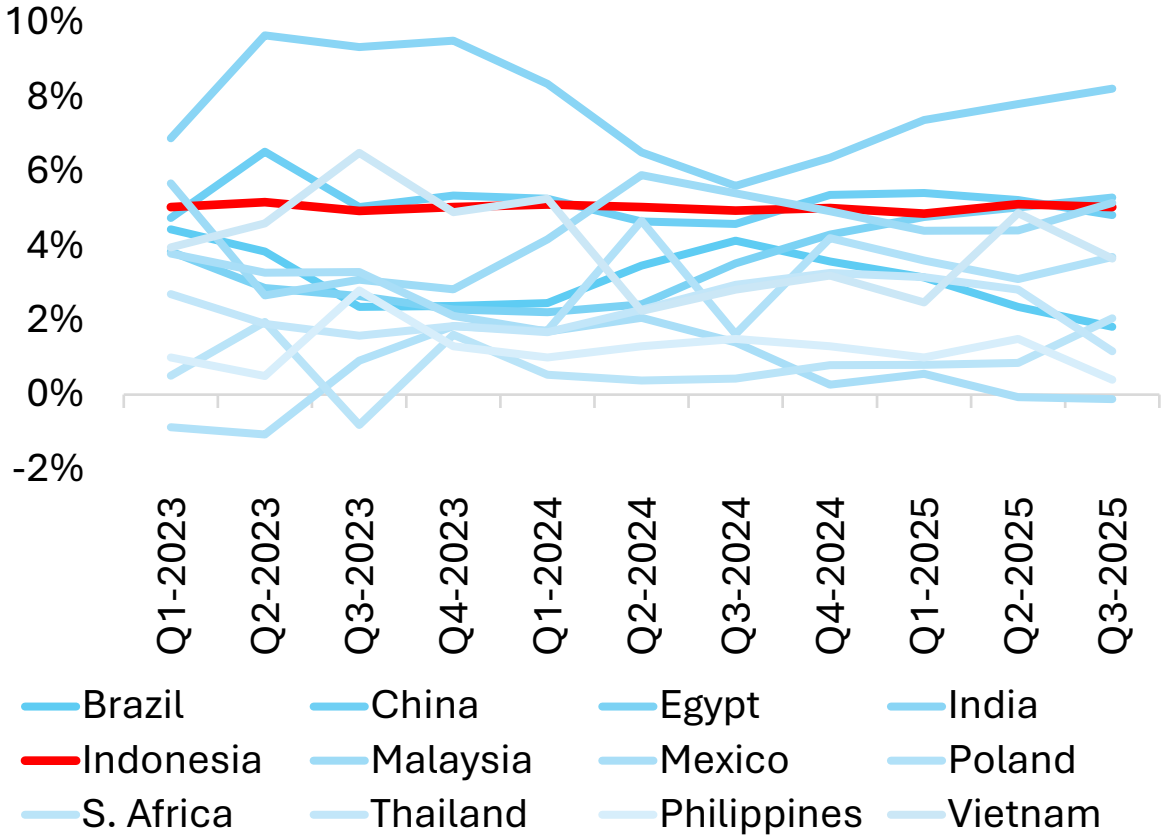
(index of worldwide uncertainty, 2015=1)



Source: https://www.policyuncertainty.com/trade_cimpr.html

Indonesia's growth has remained stable

(annual growth in real GDP)

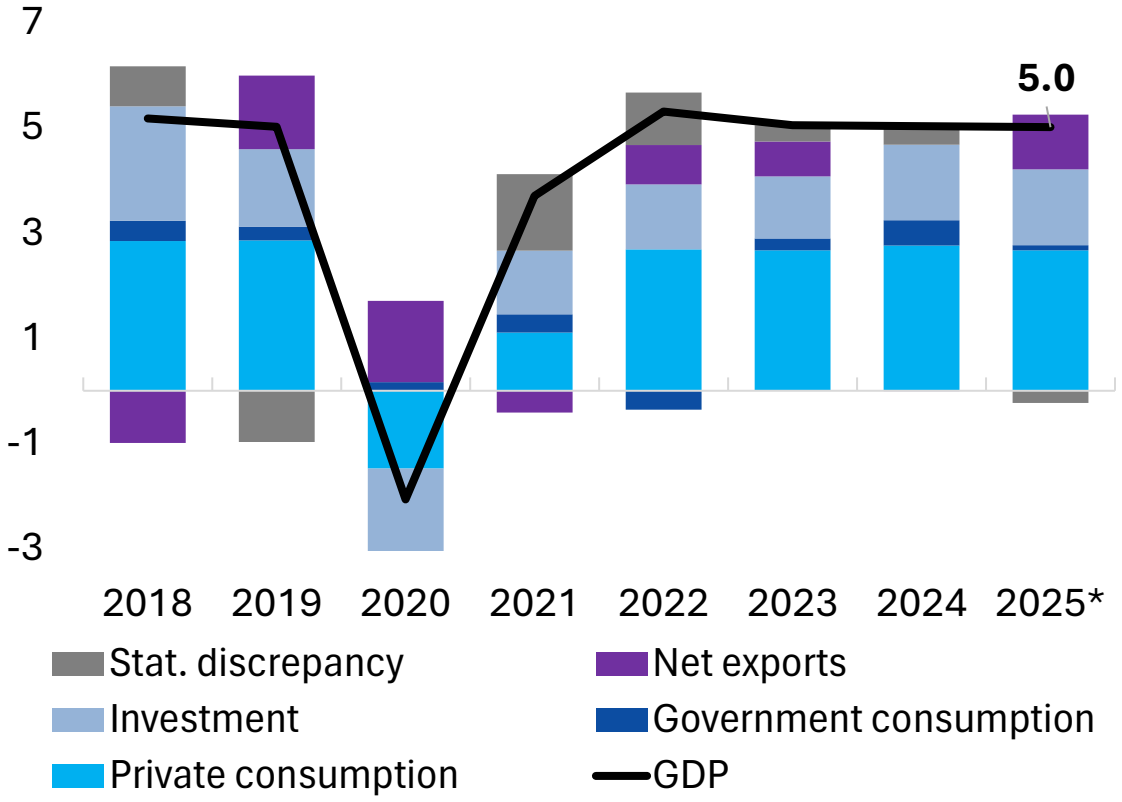


Source: Haver, WB Staff calculations.

Steady growth was driven by investment and commodities exports

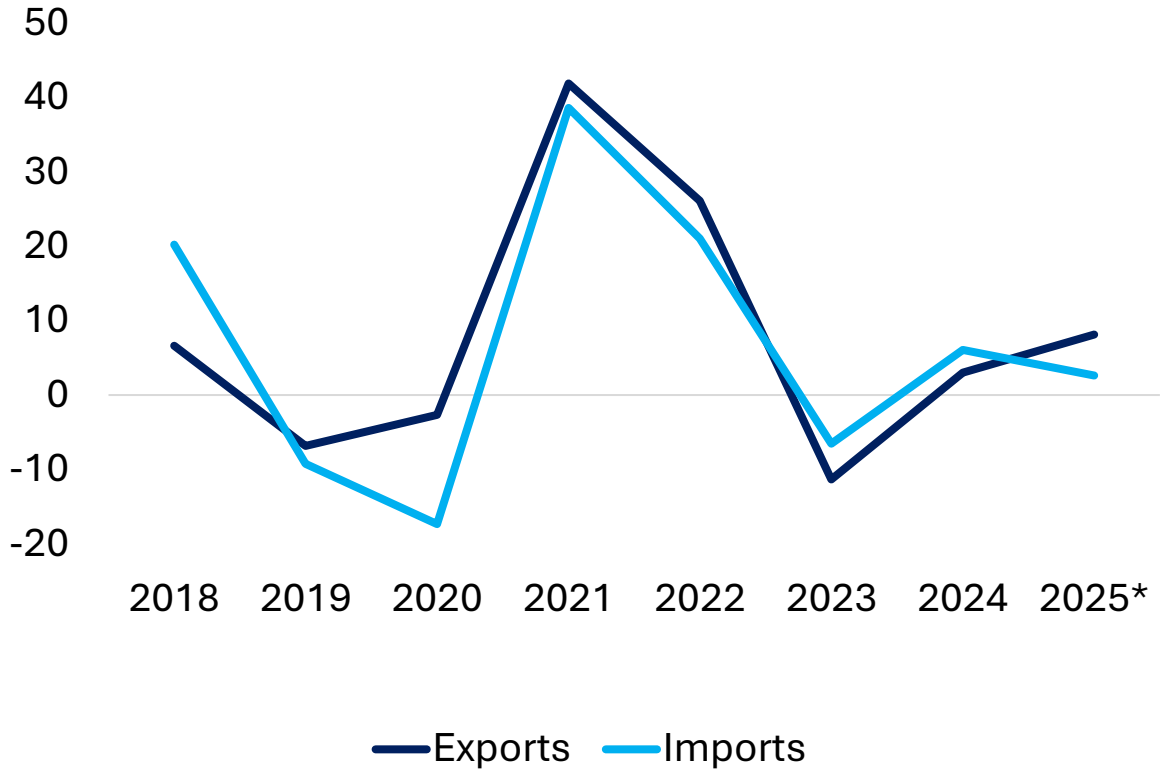
Public and private consumption contributed less

(percentage point contribution to growth)



...but was offset by a strengthening of net exports

(exports & imports growth, percent)

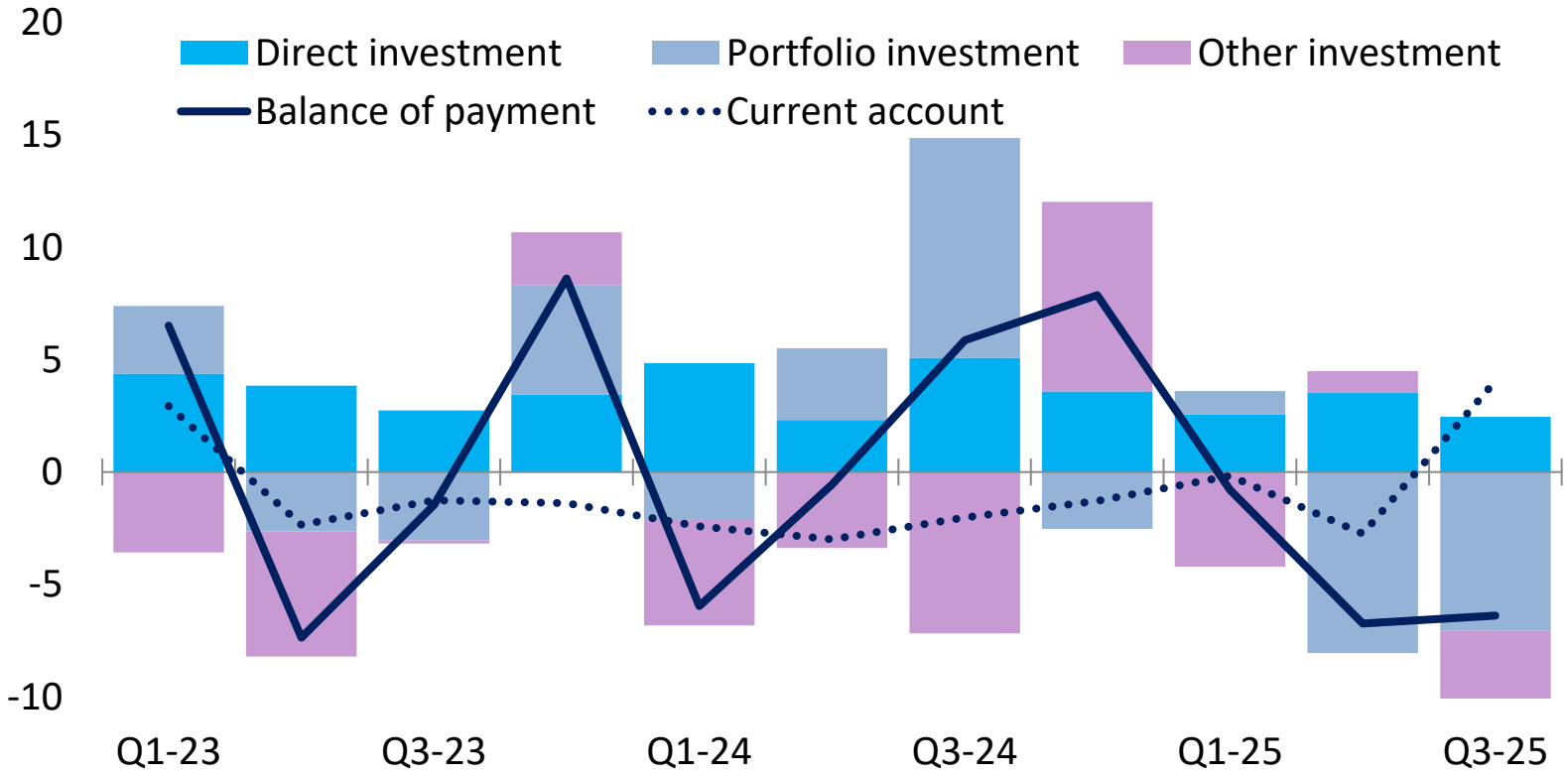


Source: BPS, CEIC, World Bank staff calculations.
Note: 2025* is three quarters in 2025.

The current account improved, but was more than offset by portfolio outflows

Portfolio outflows continued to weigh on the overall balance of payment

(USD billion)

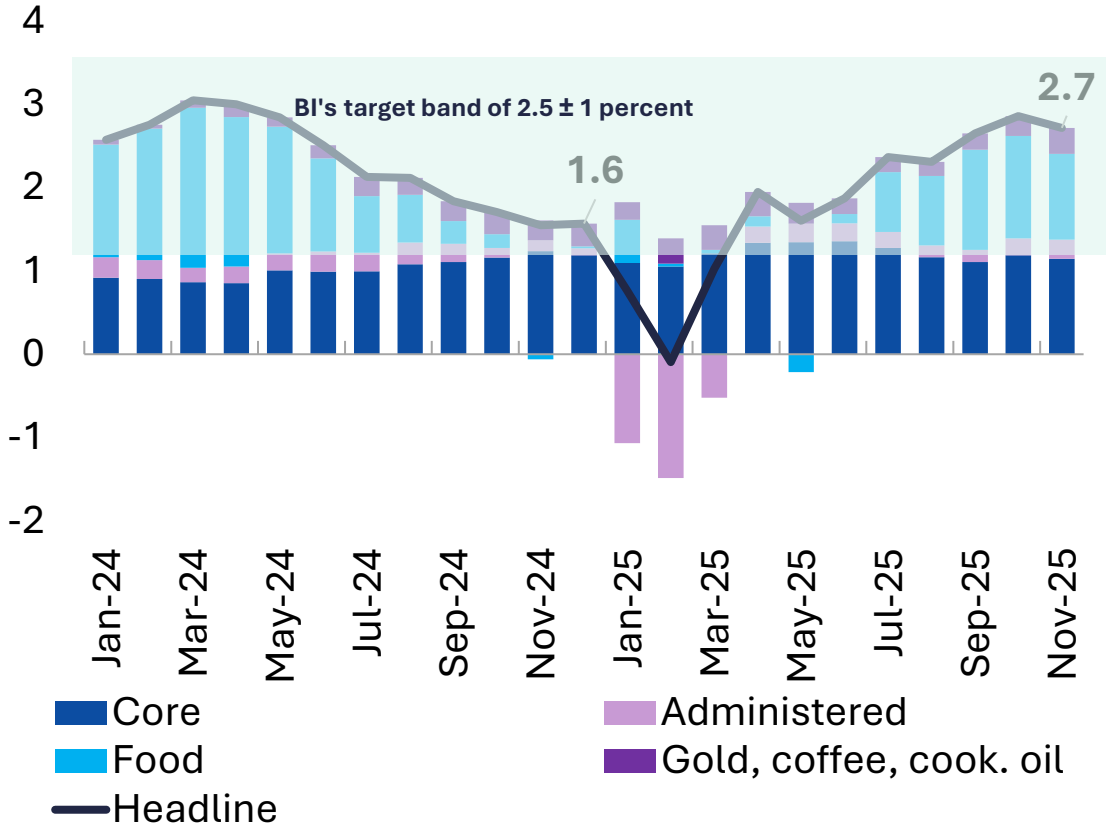


Source: BPS, BI, CEIC, World Bank staff calculations.

As the anchored inflation environment led BI to lower interest rates

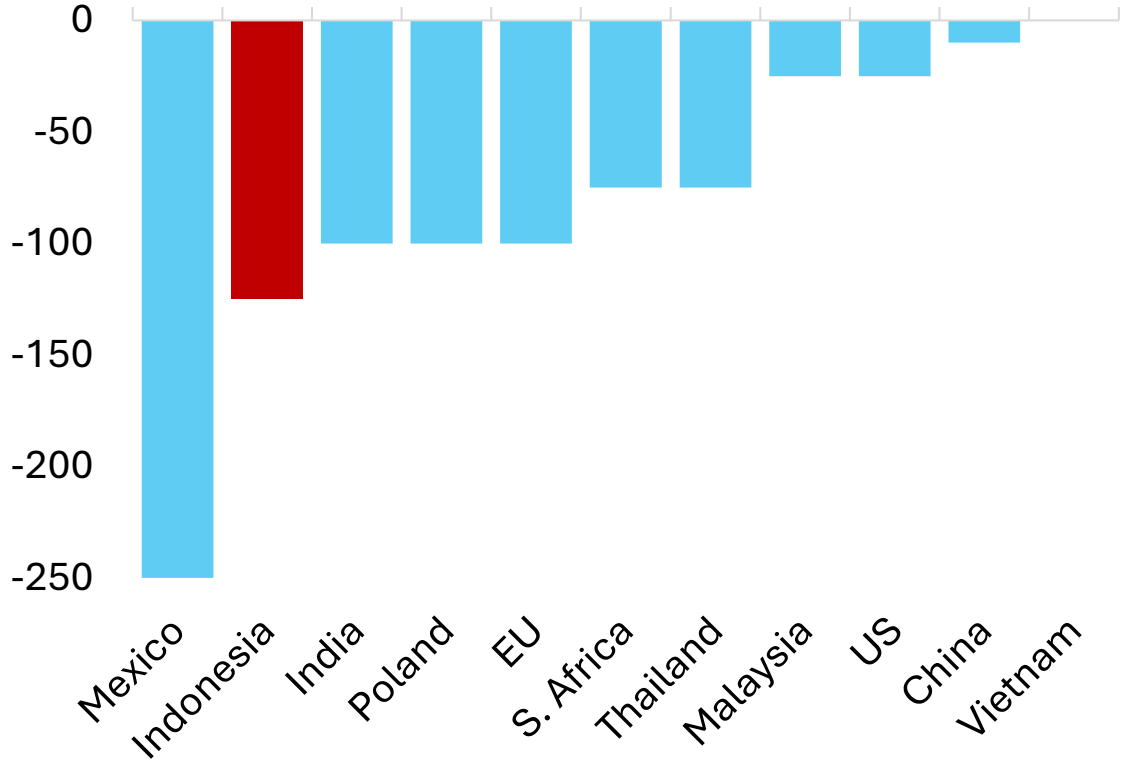
Inflation rose due to rallying food and commodity prices

(percentage point contribution to growth)



Indonesia saw amongst the largest interest rates cuts

(basis points change in policy rate in 2025)

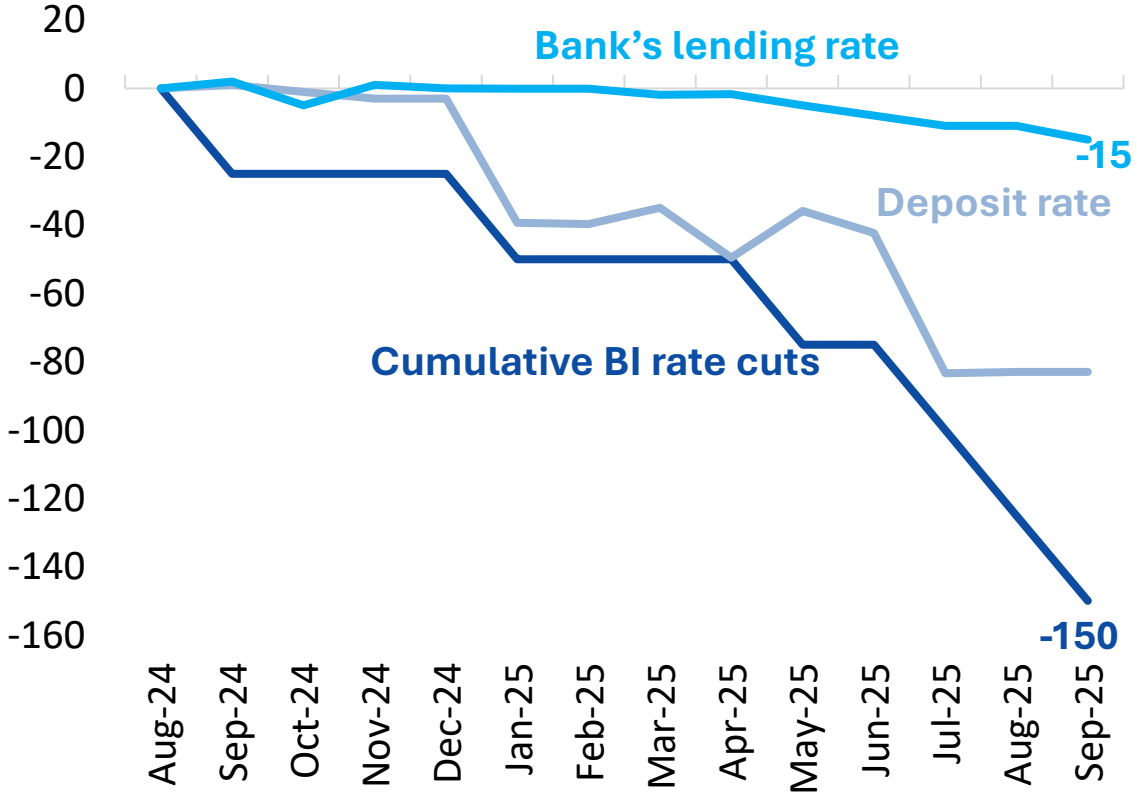


Source: BPS, BI, CEIC, World Bank staff calculations.
Note: Selection of emerging market and advanced economy countries with starting interest rates not greater than 10 percent.

Limited pass through of lower interest rates has little effect on credit growth

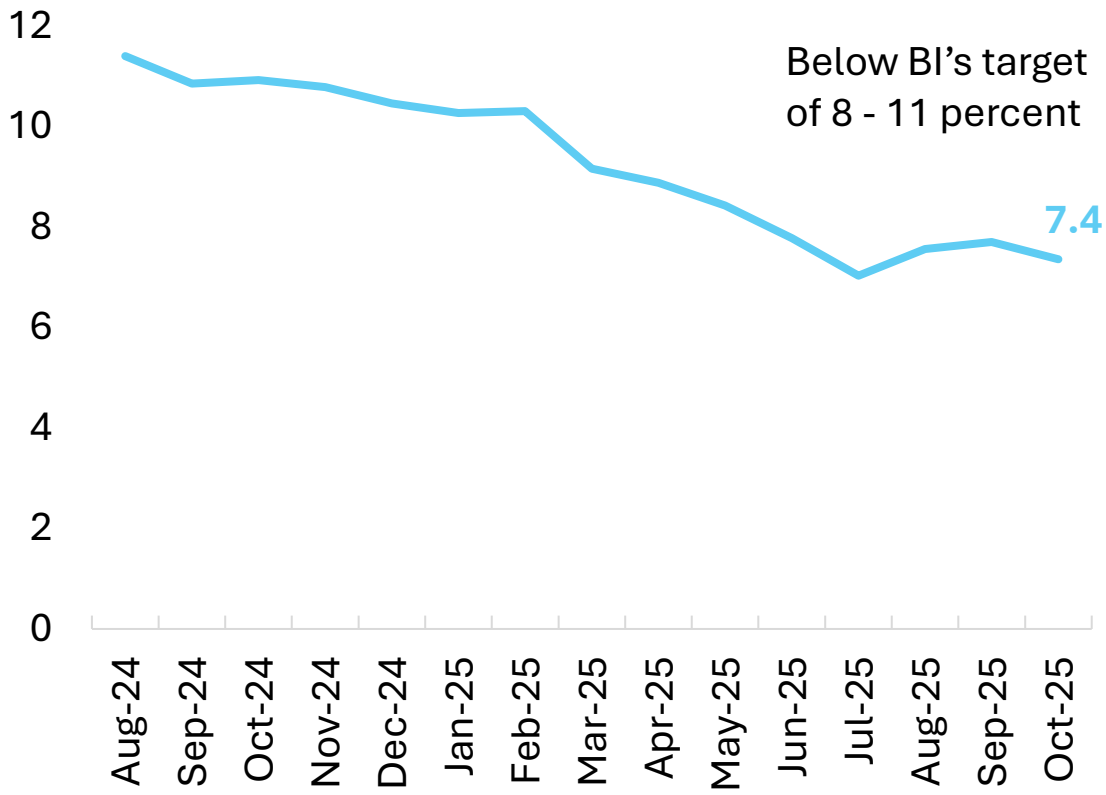
Lending rates have been slow to adjust to low BI rate

(basis points)



And credit growth has responded only sluggishly

(growth, percent)

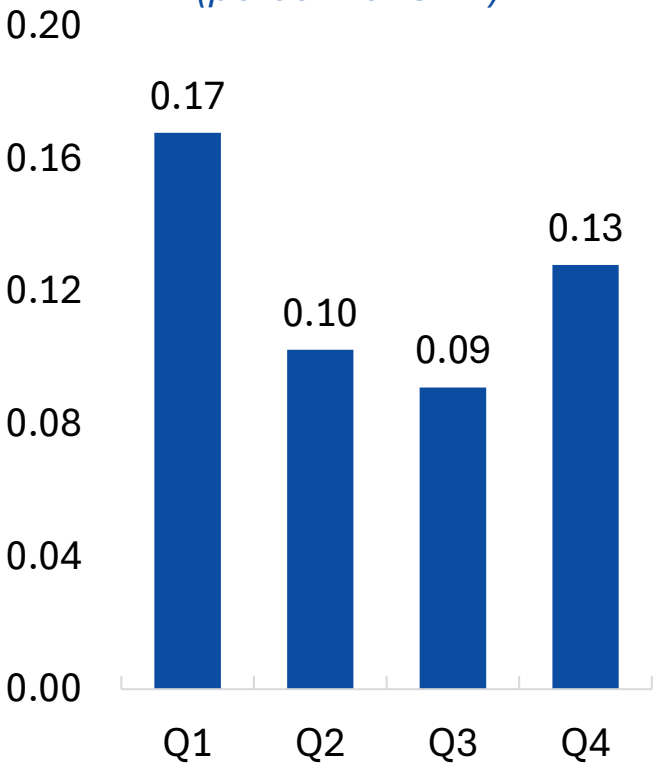


Source: BI, OJK, World Bank staff calculations.

Fiscal policy supports domestic demand through stimulus packages, but effectiveness is constrained by weak revenue

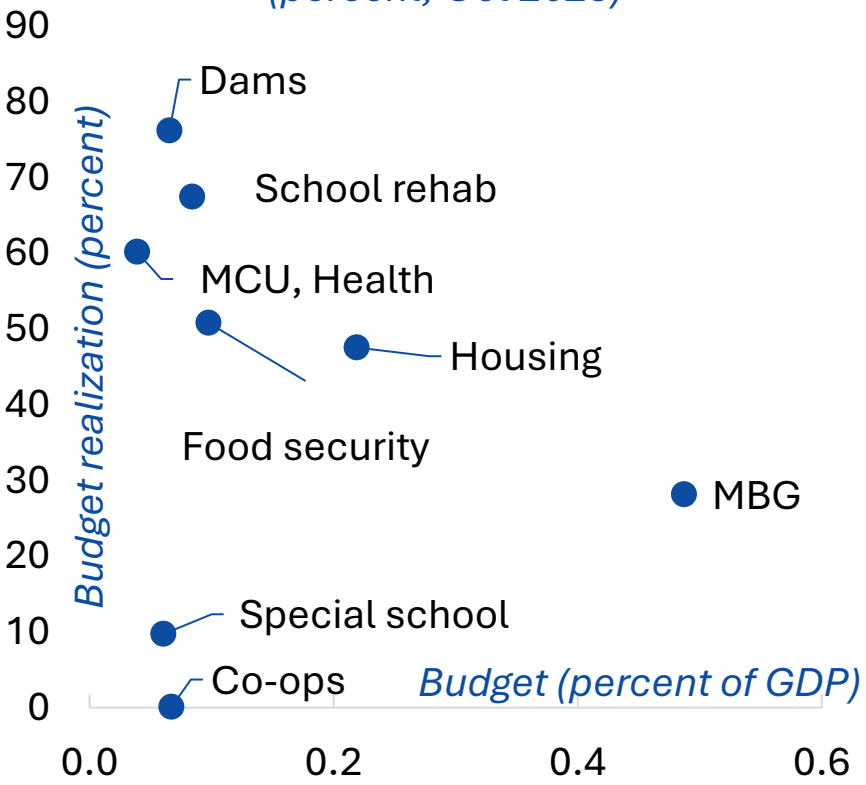
Quarterly stimulus packages of 0.5% GDP to support demand…

(percent of GDP)



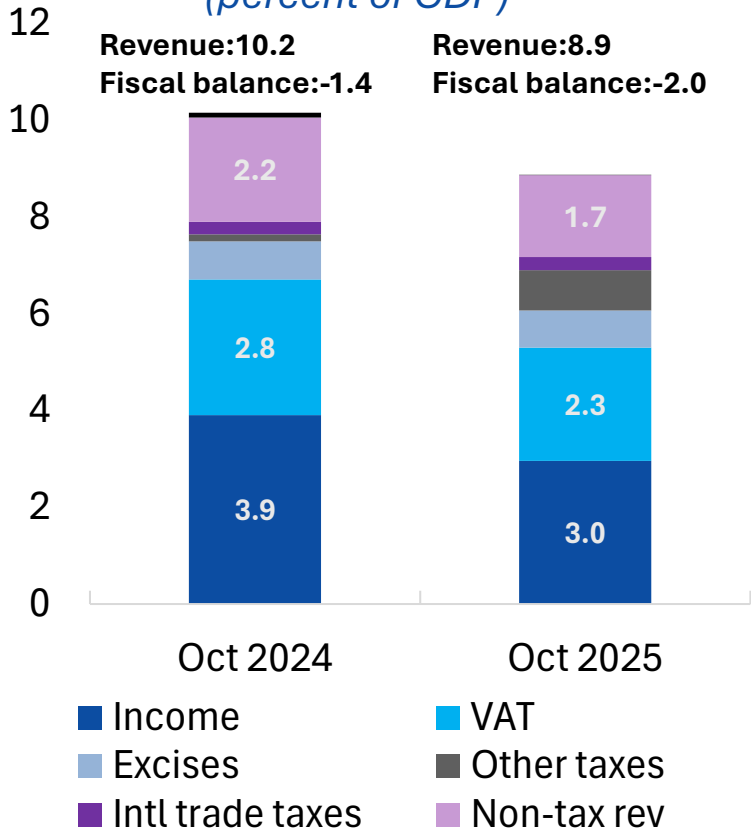
…possible due to underspending in some priority programs

(percent, Oct 2025)



The fiscal deficit widened amid weaker revenue collection

(percent of GDP)

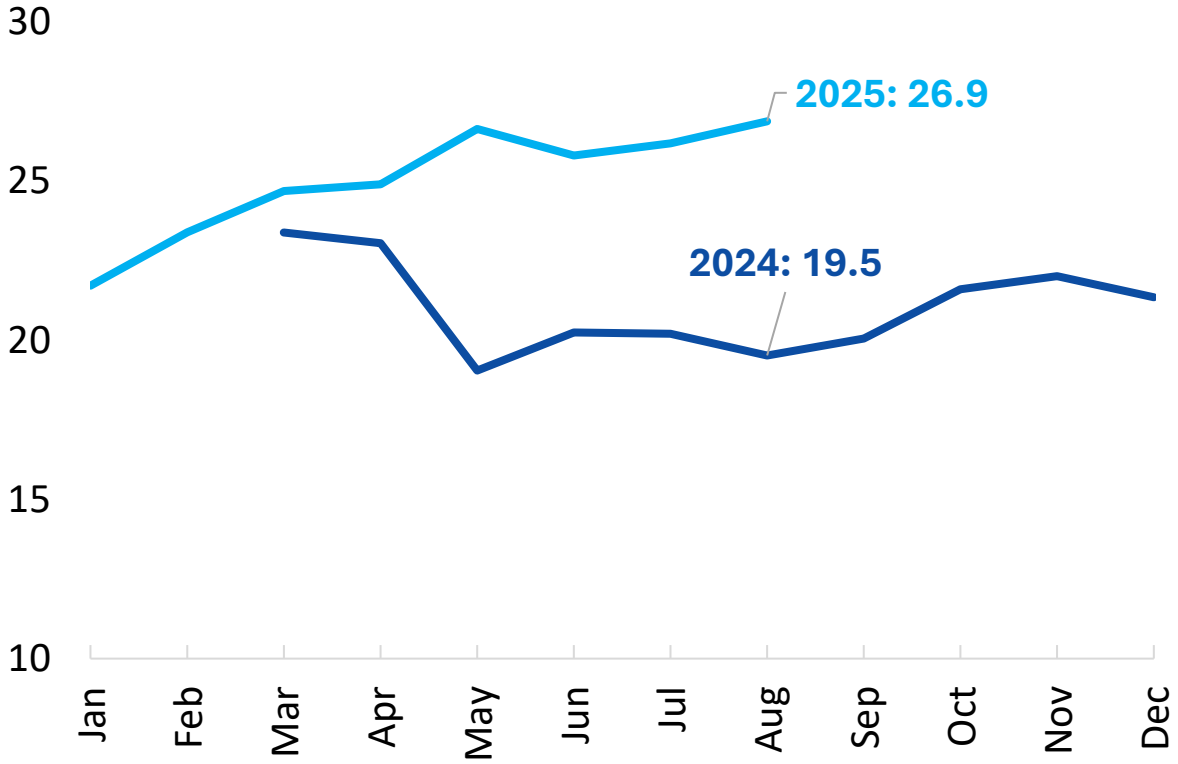


Source: MoF, CMEA, CEIC, World Bank staff calculations.

Growth has reduced poverty, but economic insecurity among the middle-class households is increasing

More households identified themselves as poor

(subjective poverty, percent)

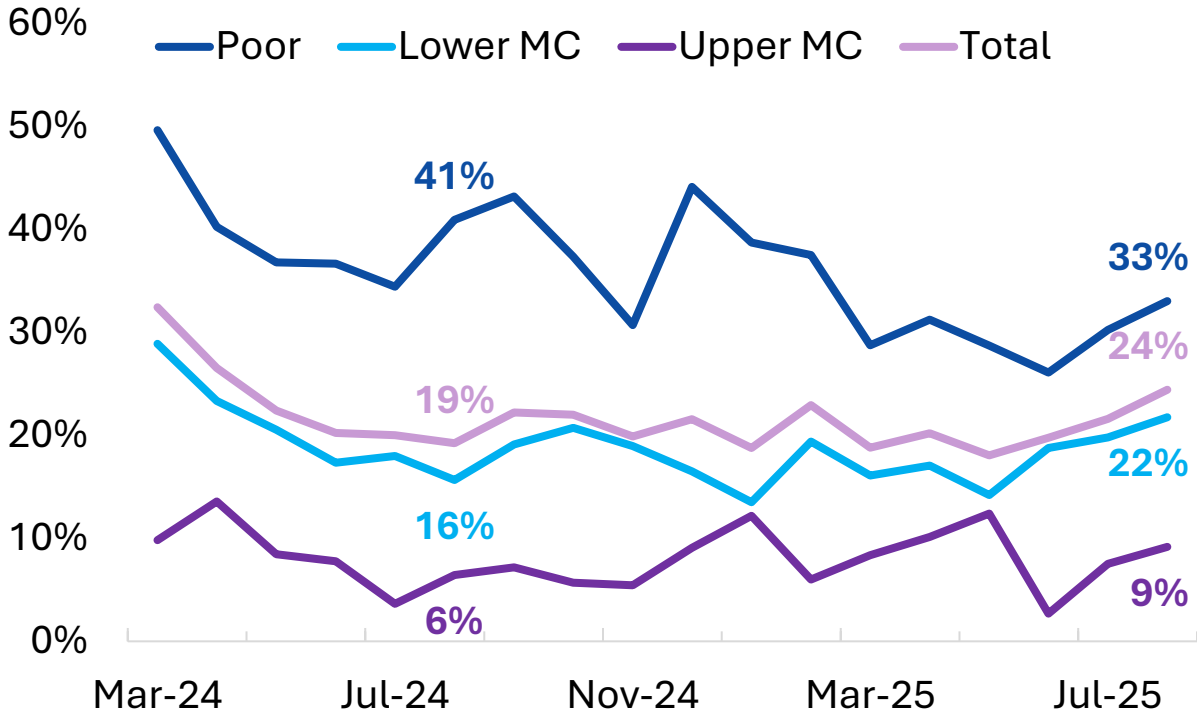


Q: How would you classify your household today?

Source: Listening to Indonesia Survey, as of August 2025.

Perceptions of worsening economic conditions increased

(percent of negative answers)



Q: Do you believe that the current economic conditions in the neighborhood where you live are good, or not?
Note: MC = middle-class.

Aligned with persistent downward pressure on more skilled segments of the labor market

Real wages declined between 2018-2024

↓ **1.1% annually**

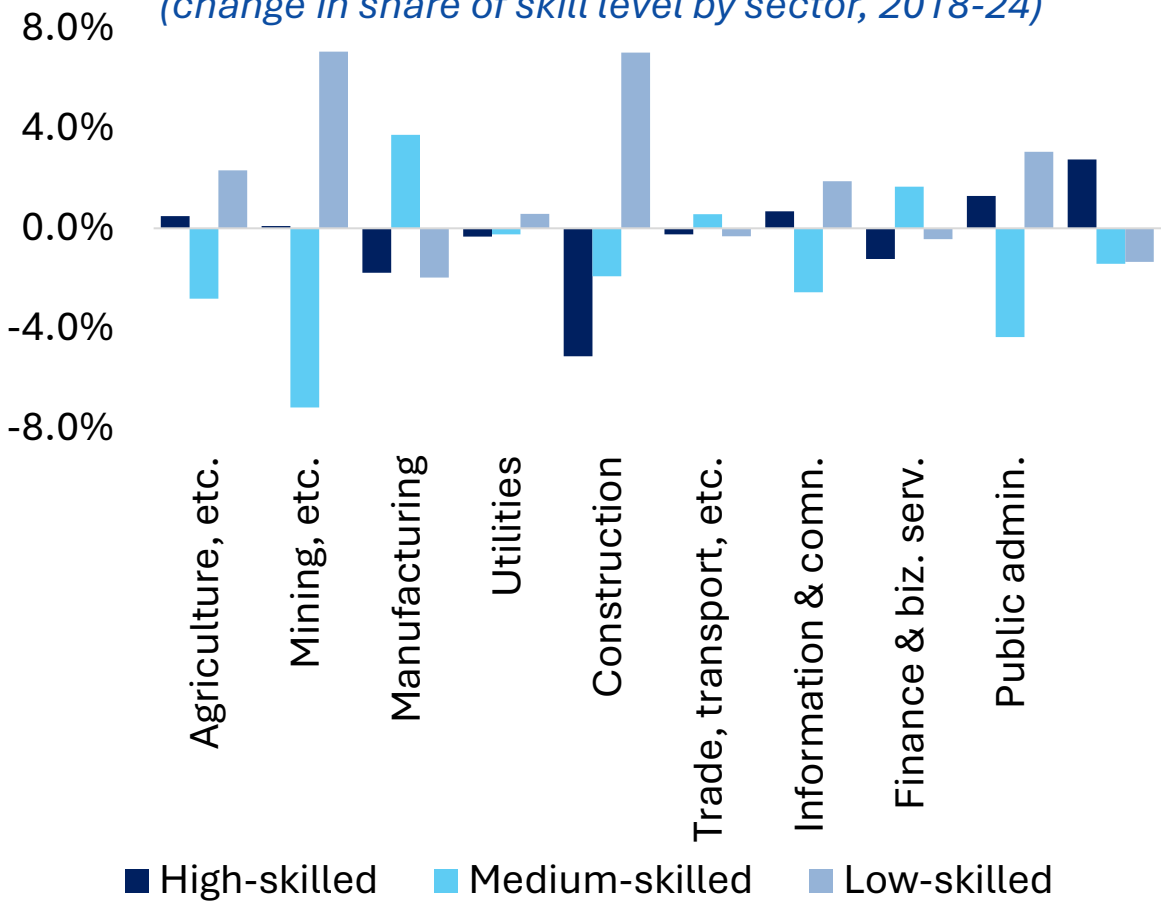
By skill levels:

- **High-skilled workers** ↓ **2.3%**
- **Middle-skilled workers** ↓ **1.1%**
- **Low-skilled workers** ↑ **0.3%**

Source: Sakernas, August 2018 and 2024, WB staff calculations.

Many sectors see signs of hollowing-out middle-skilled employment

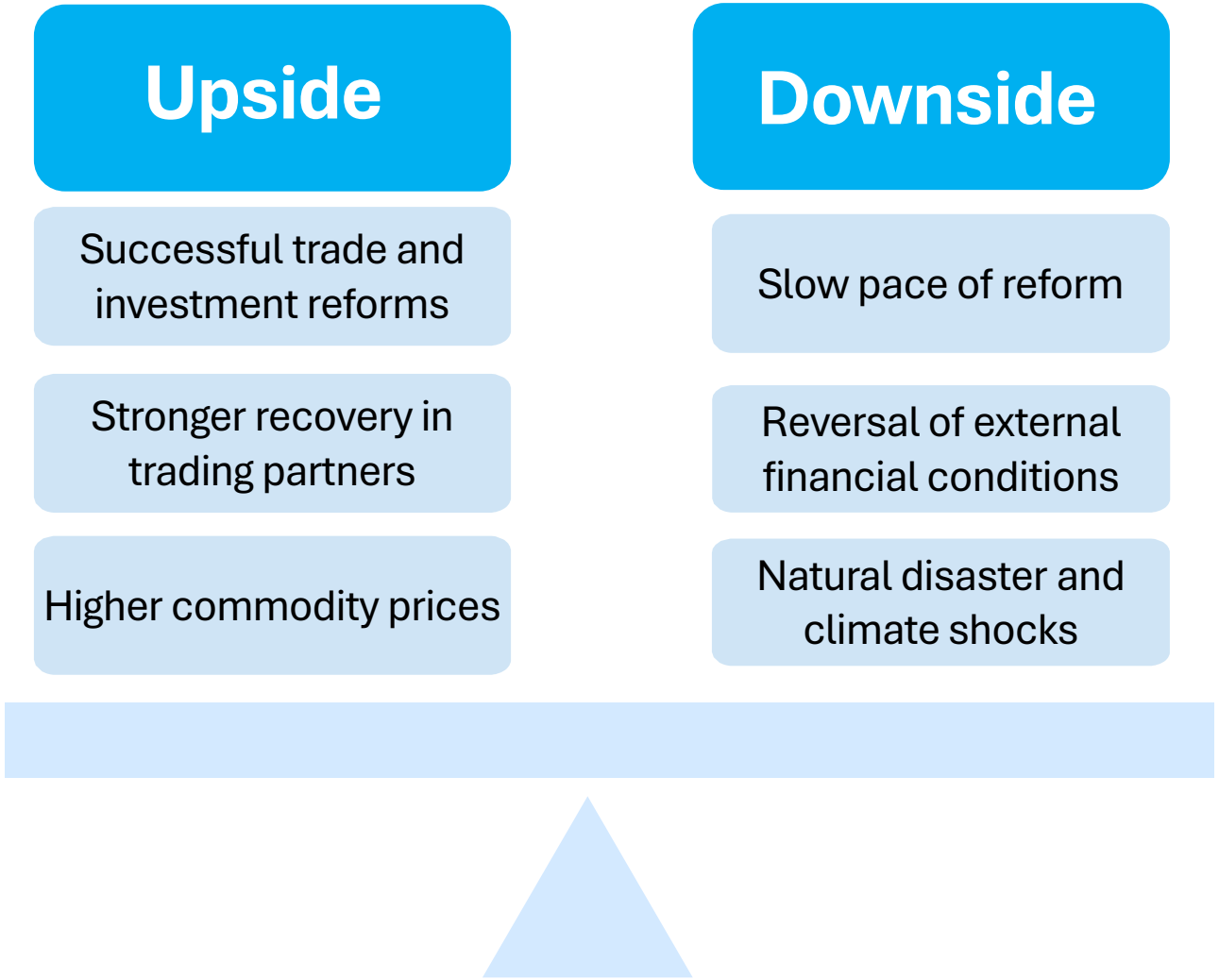
(change in share of skill level by sector, 2018-24)



Macroeconomic outlook for 2025 - 2027

Selected Macro Indicators	2024	2025	2026	2027
	Actual		Projection	
GDP and prices, percentage change				
Real GDP growth	5.0	5.0	5.0	5.2
CPI inflation, annual average	2.3	2.0	2.6	2.6
Fiscal and external, percent of GDP				
Fiscal balance	-2.3	-2.8	-2.8	-2.9
Central government debt	39.8	40.5	41.1	41.5
Current account balance	-0.6	-0.3	-1.1	-1.3
Net foreign direct investment	1.0	1.1	1.2	1.5

The outlook risks are broadly balanced



A calibrated policy package can address near-term pressures…

Boosting the demand for good jobs:

- Deregulation, competition, and pro-business policies to reverse declining productivity and mobilize private capital.

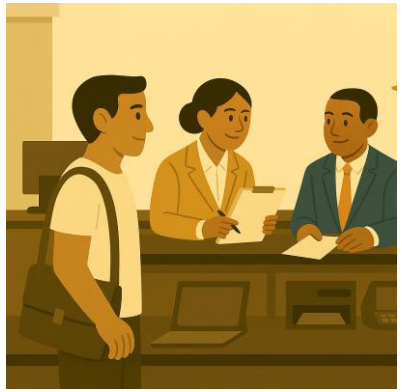
Raising capabilities to meet with opportunities:

- Strengthening LMIS (Labor Market Information System).
- Focus on skill programs to enable upwards mobility and flexibility to move between occupations in the labor market.

...while lifting medium-term prospects

Fiscal policy:

- Tax administration and digitalization can bring quick gains.
- Rightsizing the tax base through adjusted tax thresholds.
- Further tax compliance reforms can create fiscal space without affecting compliant taxpayers.



Financial sector:

- Well-designed, time-bound credit guarantees.
- Risk-sharing facilities can catalyze lending to viable MSMEs and tradable sectors.

Thank You

Indonesia Economic Prospects
December 2025

Download the report at
www.worldbank.org/iep

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

IEP | INDONESIA ECONOMIC PROSPECTS