INDONESIA

Table 1	2023
Population, million	281.7
GDP, current US$ billion	1371.2
GDP per capita, current US$	4866.7
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	20.3
Upper middle-income poverty rate ($6.85)[a]	60.5
Gini index[a]	37.9
School enrollment, primary (% gross)[b]	100.6
Life expectancy at birth, years[b]	67.6
Total GHG emissions (mtCO2e)	1537.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Indonesia's growth remains resilient, supported by domestic demand and the services sector. Prudent macroeconomic policies have enabled the country to build buffers, navigate multiple global shocks, and accelerate poverty reduction. However, productivity growth is falling, limiting wage growth and middle-class financial security. Implementing competitiveness enhancing reforms and strengthening social safety nets are key to reversing the declining productivity cycle, expanding economic security, and boosting growth potential.

Key conditions and challenges

Indonesia has successfully navigated the macroeconomic fallout of a series of global shocks. Growth remains resilient. Yet, the economy is still 6.9 percent smaller than if it had grown at pre-pandemic rate. This gap reflects scarring effects on investments, labor inputs, and productivity. It is consistent with labor market outcomes, which shows a recovery in labor force participation and employment but a deterioration in job quality, with growth concentrated in low-wage informal jobs especially in the services sector.

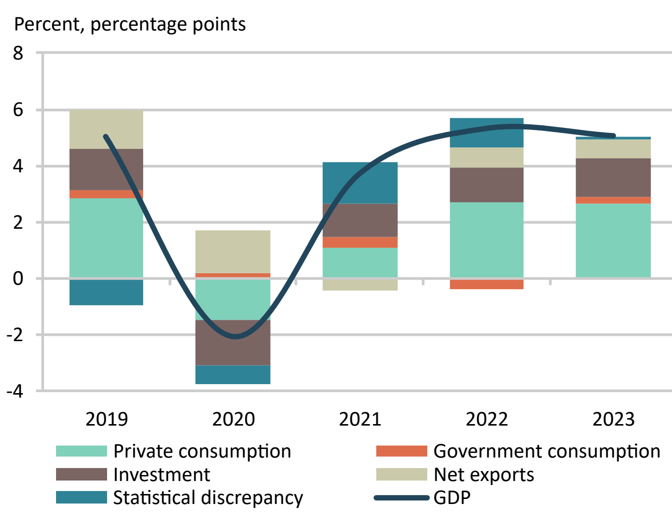
Inflation is on a declining trend and inflation expectations are anchored within the Bank Indonesia target band. However adverse climate conditions and geopolitical tensions have raised prices for basic foods, energy, and transport, prompting price stabilization measures and food aid programs to ease the impact on the poor. Despite food price inflation trending below global averages, disparities exist, with the poorest districts facing higher price pressures due to geographic and logistic factors, as well as policy impacts.

Indonesia is entering a new political and economic cycle. A new President and Parliament were elected in February 2024 with campaign promises to increase social spending and tax collections. On the economy, the end of the commodity cycle boom and high global interest rates present strong headwinds and limit macro policy space. The small twin deficits, low public debt, adequate foreign reserves, and stable external financing constitute though robust buffers to manage downside risks. The challenge is to sustain macroeconomic fundamentals to deliver faster, greener, and more inclusive growth. This requires combining the robust macroeconomic policy framework with structural reforms that boost efficiency, competitiveness, and productivity growth. This includes implementing complex flagship laws: the jobs creation, the tax harmonization, and the financial sector omnibus.

Recent developments

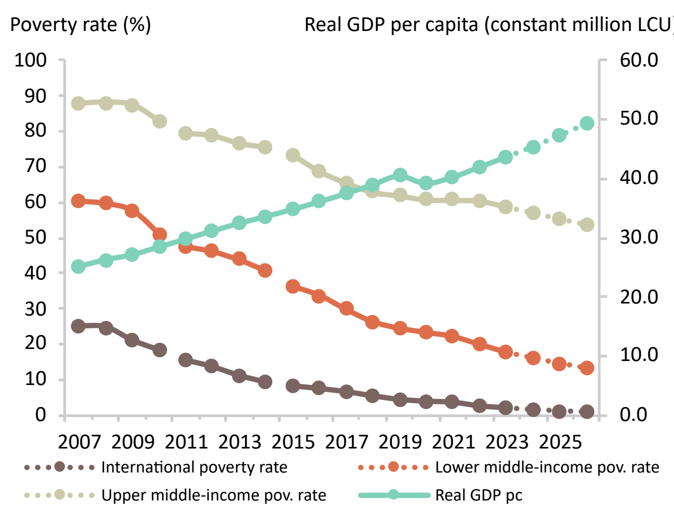
After a post-pandemic high of 5.3 percent in 2022, GDP growth normalized to 5 percent in 2023. Fifty three percent of GDP growth came from private consumption as consumer confidence remained high, buoyed by declining inflation. Budget execution delays rendered government consumption sluggish, while global uncertainty and declining commodity prices affected international trade and softened commodity windfalls throughout the year. Net export contribution to growth remained steady at 0.7 ppts, with a shift in composition as exports strongly decelerated and imports declined. Private investment accounted for 26 percent of GDP, one of the highest in East Asia. Meanwhile, services, particularly in wholesale and retail trade, transportation, tourism, and communication sectors, drove 54 percent of economic activity growth. Manufacturing also contributed a solid 19 percent.

FIGURE 1 Indonesia / Real GDP growth and contributions to real GDP growth



Sources: National Statistics Agency and World Bank.

FIGURE 2 Indonesia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

Headline inflation moderated to an average of 3.7 percent in 2023, as the base effect from the 2022 fuel price hike was absorbed. The trend continued in 2024. Inflation recorded 2.8 percent (year-on-year) in February despite intensifying food price pressures. Core inflation also trended downward, signaling a potential widening of the output gap.

The recovery in private consumption, rising employment, and wage growth led to a decline in the poverty rate from 20.3 percent in 2022 to 18.1 percent in 2023, measured at the international lower-middle-income countries (LMIC) poverty line. Using the national line, poverty decreased from 9.5 to 9.4 percent. However, the labor market recovery remains incomplete, with a larger share of jobs concentrated in the informal sector, reaching 59.3 percent of employment in 2023, up 3.4 ppts from 2019.

After two years of surpluses, the current account shifted in 2023 to a small deficit of 0.1 percent of GDP due to worsening terms of trade. With policy rates among the highest in East Asia, tight monetary policy and stable macroeconomic conditions softened portfolio flow volatility. Meanwhile, FDI dropped but remained the largest source of external financing. Foreign currency reserves stayed adequate, covering 6 months of imports.

Despite the late acceleration in public spending, the fiscal deficit fell from 2.4 percent of GDP in 2022 to 1.7 percent in 2023, mainly due to overperforming tax revenue, more prominently VAT, while expenditures were slightly below the budget target. Interest payments reached 2.1 percent of GDP, in line with rising financing costs. Public debt declined to 39 percent of GDP, with the majority of the stock in domestic currency (71.7 percent) and maturities above one year (87.6 percent), reducing currency and rollover risks.

Outlook

GDP growth is projected to average 5 percent in 2024-26, reflecting softer terms of trade and a normalization towards trend growth. Inflation is forecast to ease to a 2.9 percent average and remain within BI's revised target band of 2.5±1 percent. Challenges to the external position are expected to intensify. The current account deficit will gradually expand to 1.4 percent of GDP by 2026, as lower commodity prices and soft global growth hamper exports.

By 2025, growth is expected to lift over 8 million people above the international LMIC poverty line. Improving the effectiveness of existing social safety net programs could substantially reduce poverty further, while social assistance will help limit the disproportionate impact of recent food price hikes on vulnerable households and support the government's inclusive growth targets.

The fiscal deficit is projected to average 2.3 percent in 2024-26. Revenues to GDP are expected to pick up as the effects of tax reforms materialize, while non-tax revenues are expected to ease in line with lower commodity prices. Spending is expected to remain tight in 2024 but gradually return to pre-pandemic levels. A potential fiscal expansion could take place as the new administration starts implementing its priority programs in 2025.

The outlook is subject to downside risks. High-interest rates could weigh on borrowing costs and tighten access to external financing. Geopolitical uncertainty and climate change related shocks could disrupt global value chains and induce a sharper decline in terms of trade, resulting possibly in lower revenues and a tighter fiscal position. Domestically, the economic program of the new administration, which takes office in October, will have important implications for medium-term growth and resilience.

TABLE 2 Indonesia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.7	5.3	5.0	4.9	5.0	5.0
Private consumption	2.0	5.0	4.9	4.9	5.0	5.0
Government consumption	4.3	-4.5	2.9	4.8	3.5	3.5
Gross fixed capital investment	3.8	3.9	4.4	4.5	5.4	6.0
Exports, goods and services	18.0	16.2	1.3	4.1	4.0	3.5
Imports, goods and services	24.9	15.0	-1.6	2.1	3.0	3.5
Real GDP growth, at constant factor prices	3.3	4.9	5.1	4.9	5.0	5.0
Agriculture	1.9	2.3	1.3	3.7	3.0	3.0
Industry	3.4	4.1	5.0	4.1	4.1	4.1
Services	3.5	6.5	6.1	5.9	6.3	6.2
Inflation (consumer price index)	1.6	4.1	3.7	3.0	2.9	2.9
Current account balance (% of GDP)	0.3	1.0	-0.1	-0.7	-1.2	-1.4
Net foreign direct investment inflow (% of GDP)	1.5	1.4	1.1	1.3	1.4	1.5
Fiscal balance (% of GDP)	-4.6	-2.4	-1.7	-2.2	-2.3	-2.3
Revenues (% of GDP)	11.8	13.5	13.3	12.9	13.1	13.2
Debt (% of GDP)	40.7	39.5	39.0	38.4	38.0	37.3
Primary balance (% of GDP)	-2.5	-0.4	0.4	-0.2	-0.3	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.6	2.5	1.9	1.5	1.2	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	22.4	20.3	18.1	16.3	14.7	13.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	60.7	60.5	58.9	57.0	55.2	53.5
GHG emissions growth (mtCO2e)	1.1	0.9	2.1	2.1	1.7	1.2
Energy related GHG emissions (% of total)	37.5	37.6	38.1	38.5	38.8	39.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2011-SUSENAS and 2023-SUSENAS. Actual data: 2023. Forecasts are from 2024 to 2026.
b/ Projection using annualized elasticity (2011-2023) with pass-through = 1 based on GDP per capita in constant LCU.