2026 Economic Trends: What Businesses Needs to Know

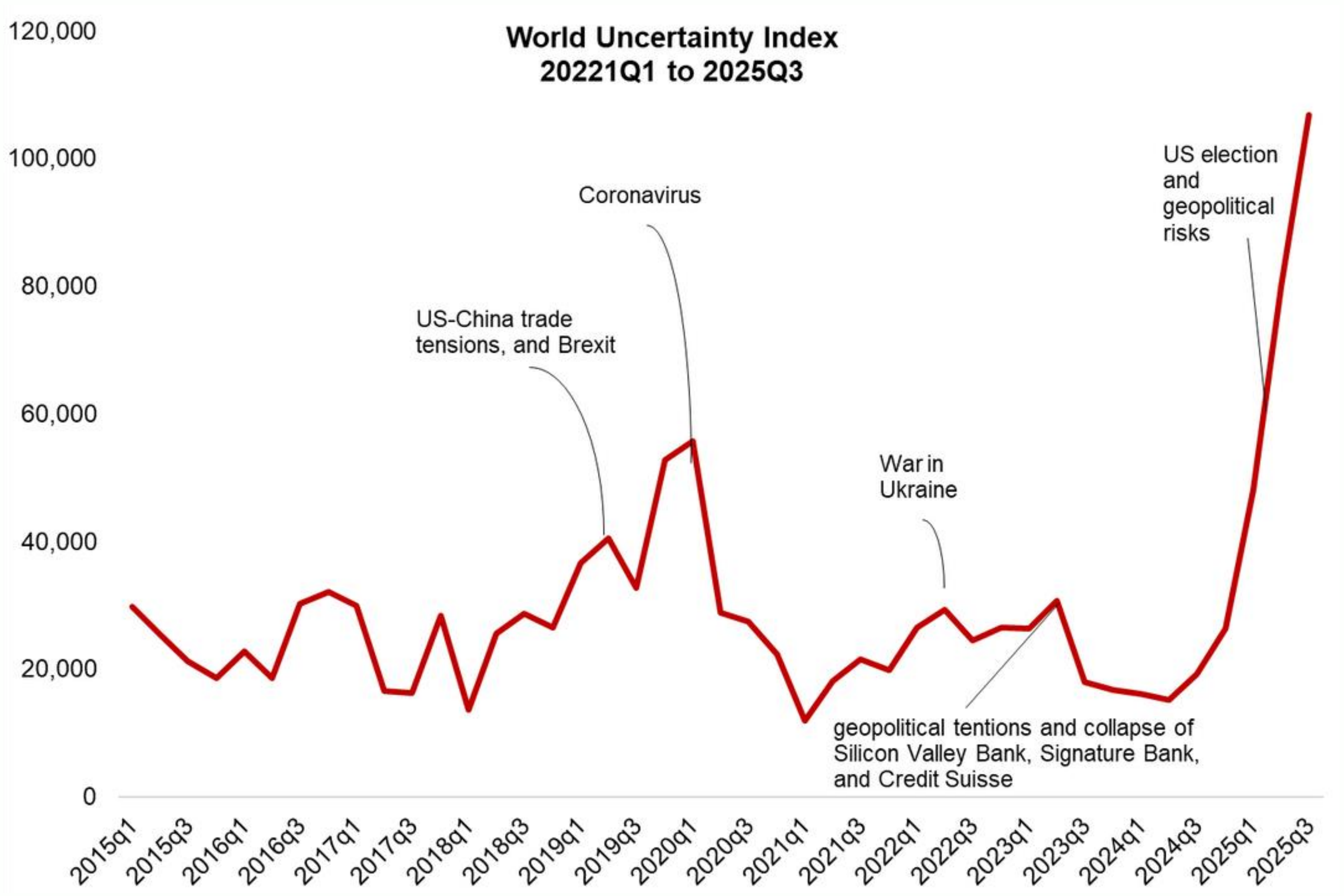
Ibrahim Kholilul Rohman
Head of IFG Progress/Lecturer at Universitas Indonesia

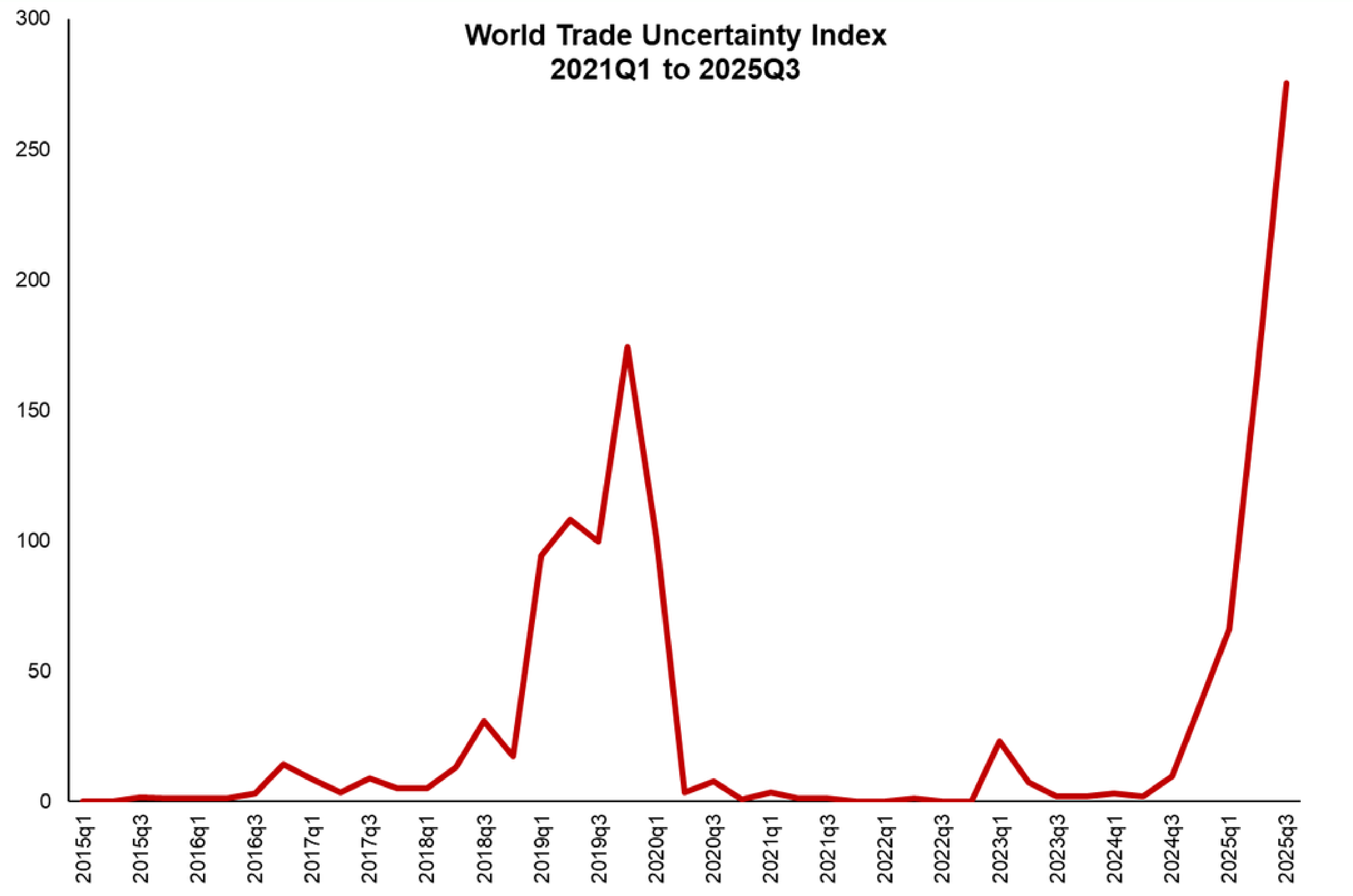
Desember 2025

The opinion expressed is those of the authors and do not reflect the official opinion of IFG and Danantara Indonesia

GLOBAL UPDATE

Global Uncertainty

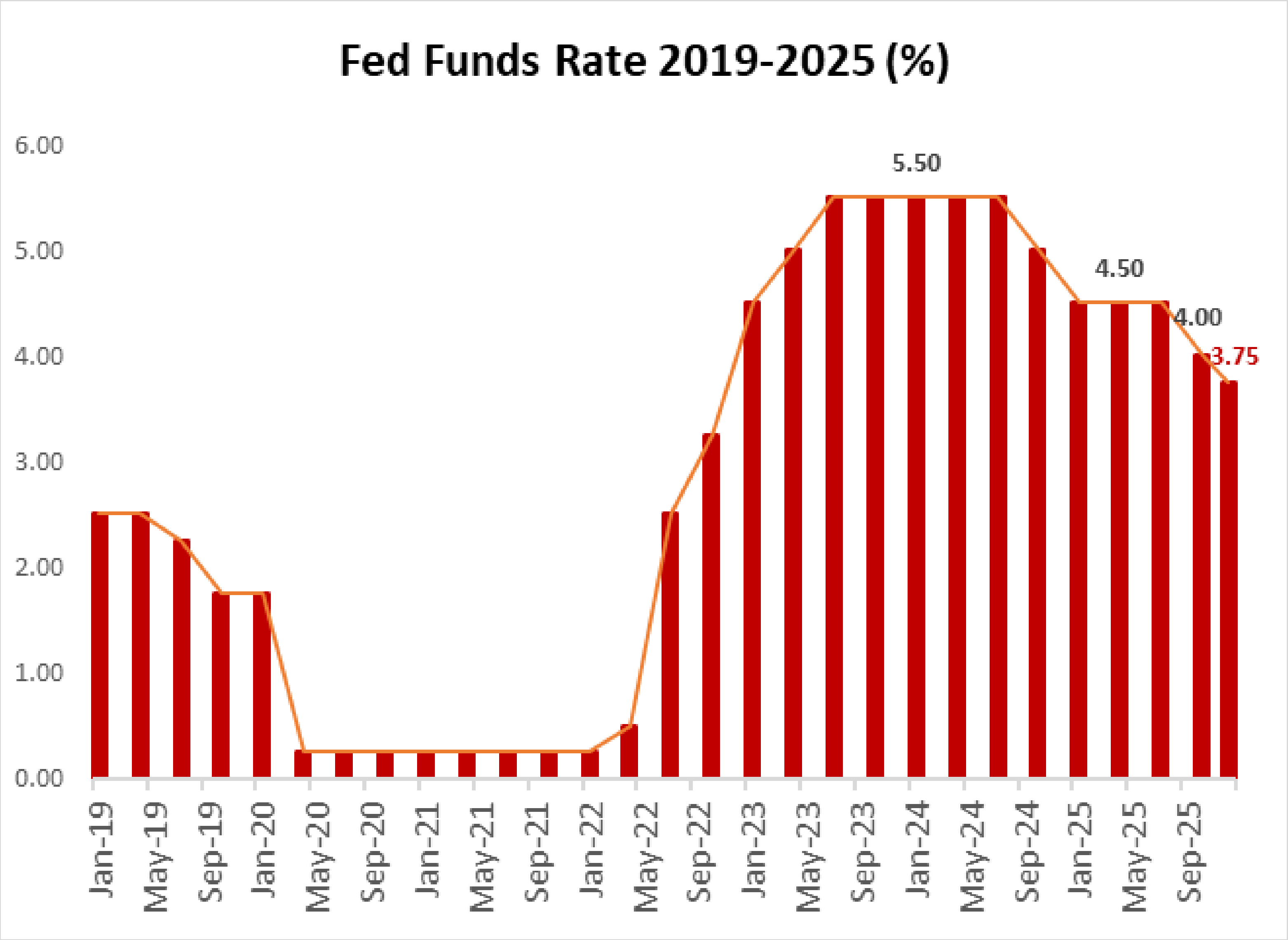


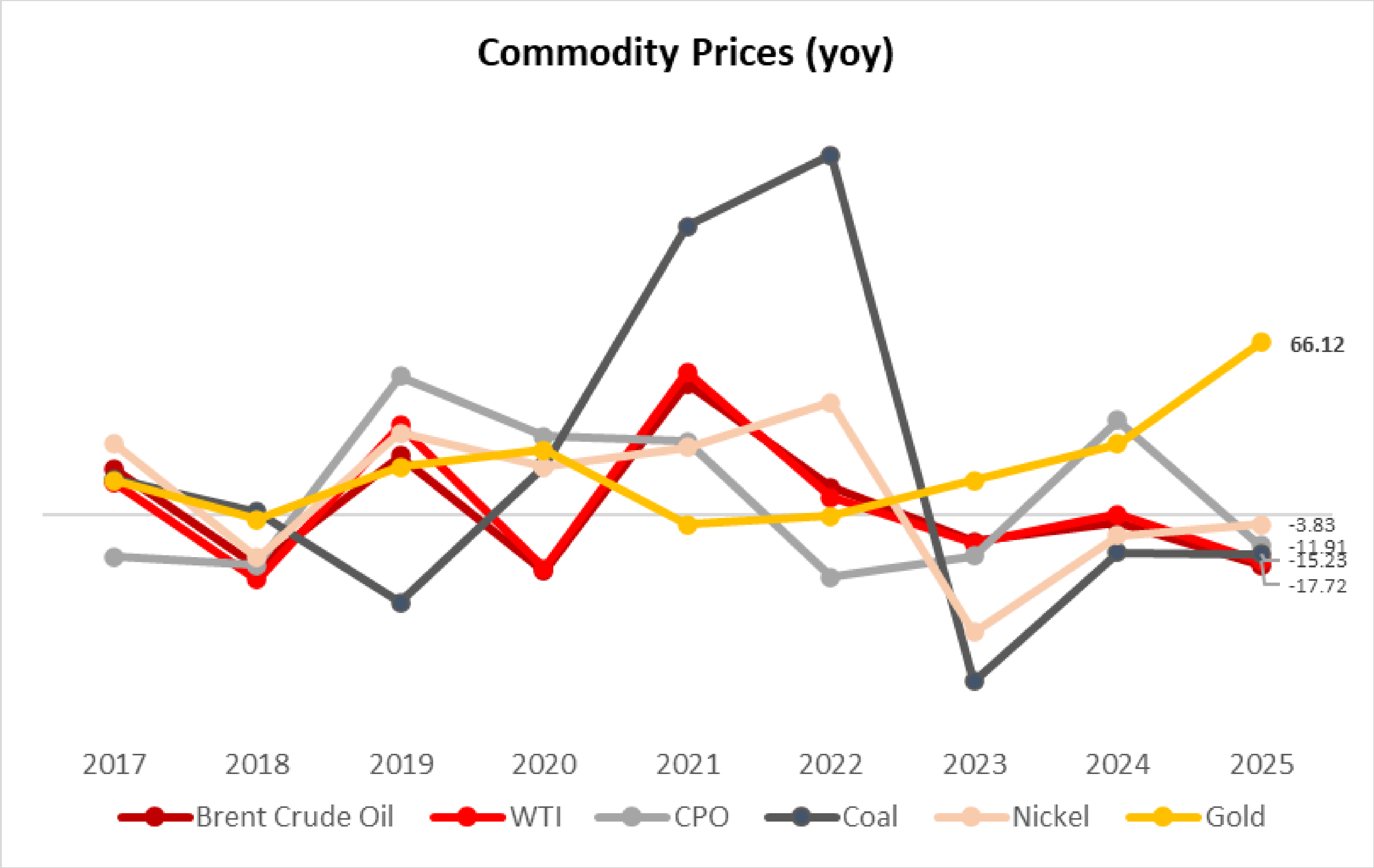


Source : WUI

- **Global uncertainty** is rising sharply again in 2025, approaching levels last seen during COVID-19 and major geopolitical shocks, indicating a renewed environment of macro and political instability rather than a post-pandemic normalization.
- **Trade uncertainty** is spiking even more dramatically than overall uncertainty, suggesting that policy fragmentation, protectionism, and trade related geopolitical tensions are now the dominant transmission channel of global risk into the real economy.

Global Risks towards 2026



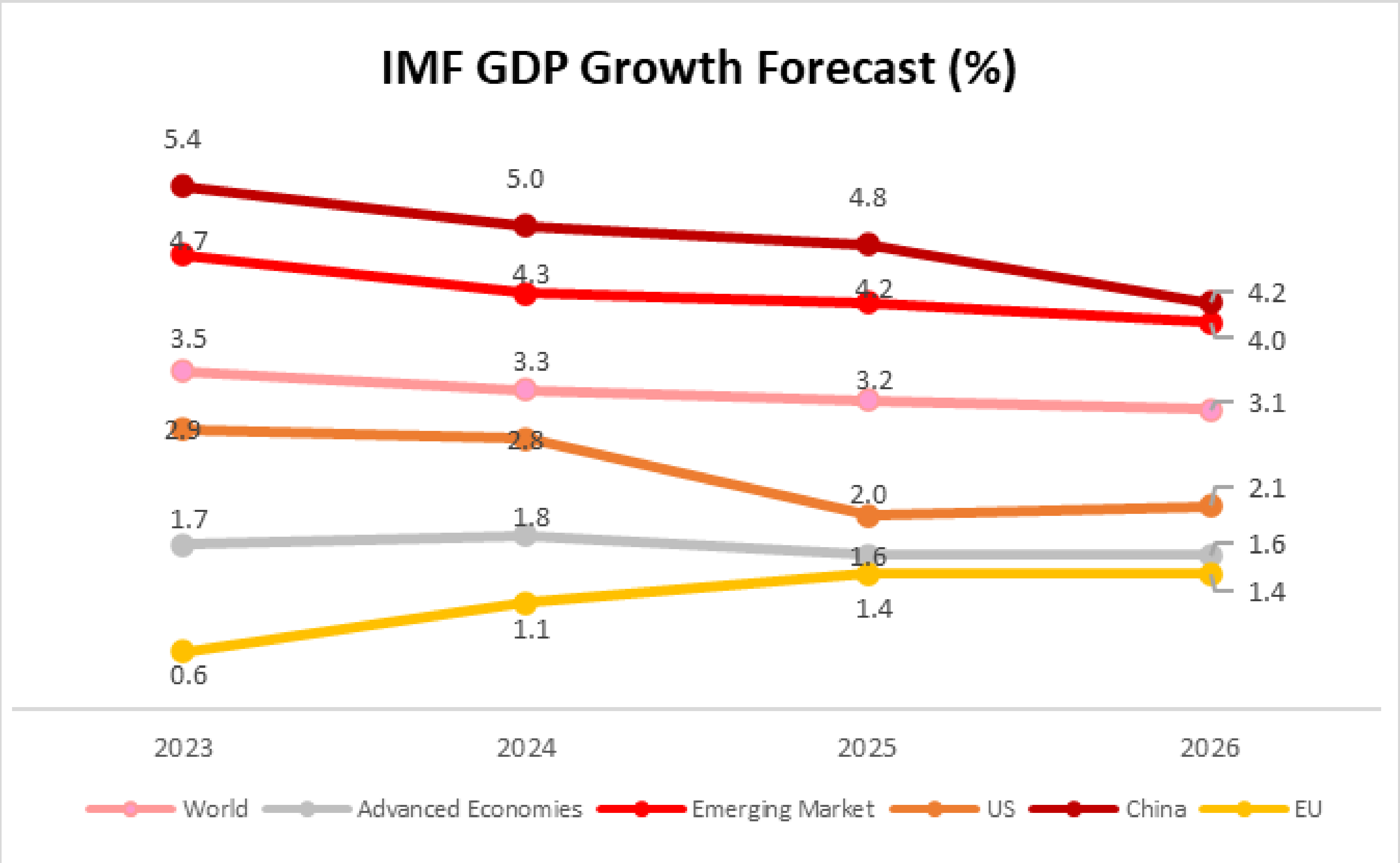


Source : Investing.com

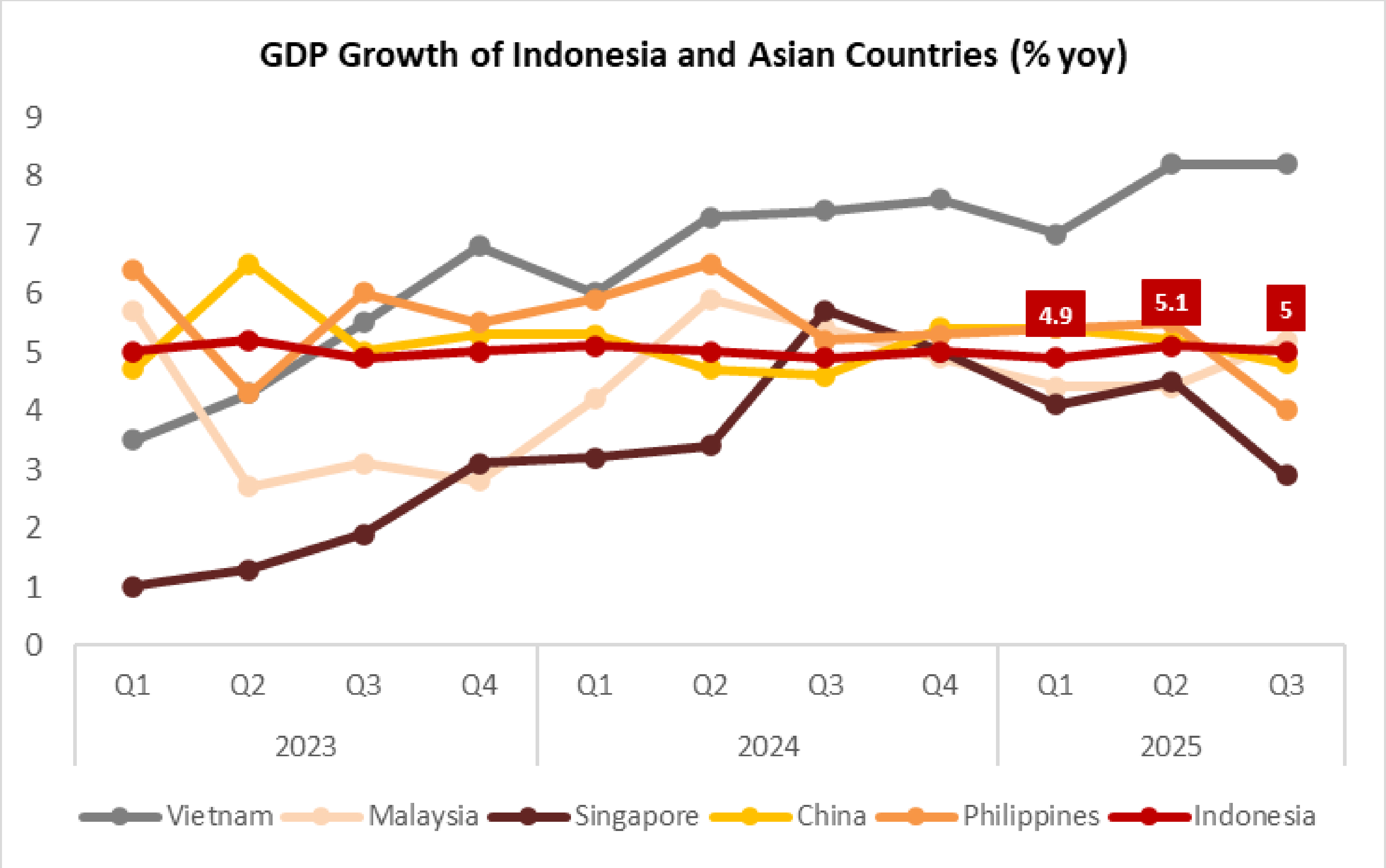
- **The Fed tightening cycle has clearly peaked and is gradually easing**, reducing global financial pressure but keeping borrowing costs structurally higher than the pre pandemic period.
- **Commodity price movements are increasingly fragmented**, with energy prices stabilizing, coal and base metals weakening, and gold rising strongly, signaling risk hedging behavior rather than a broad commodity supercycle.

Global Economy: Slower, More Fragmented

Danantara Indonesia IFG



Source : IMF



Source : CEIC

- **Global growth is moderating rather than collapsing**, with the IMF projecting gradual deceleration across advanced and emerging economies, indicating a soft landing baseline but limited upside momentum through 2026.
- **Indonesia stands out as relatively resilient within Asia**, maintaining growth around 5 percent and outperforming several peers, reflecting stronger domestic demand stability despite a weakening global cycle..

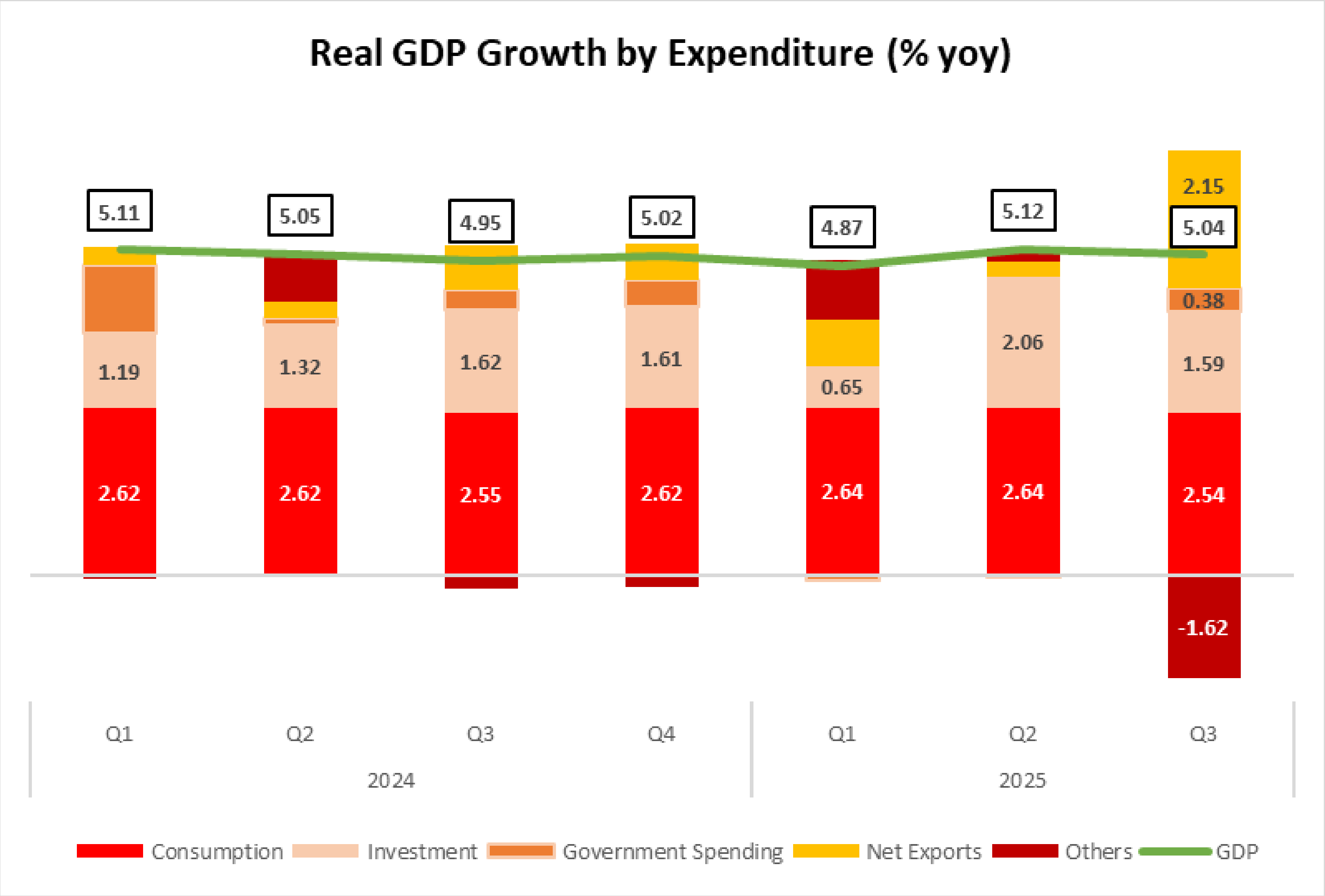
INDONESIA UPDATE

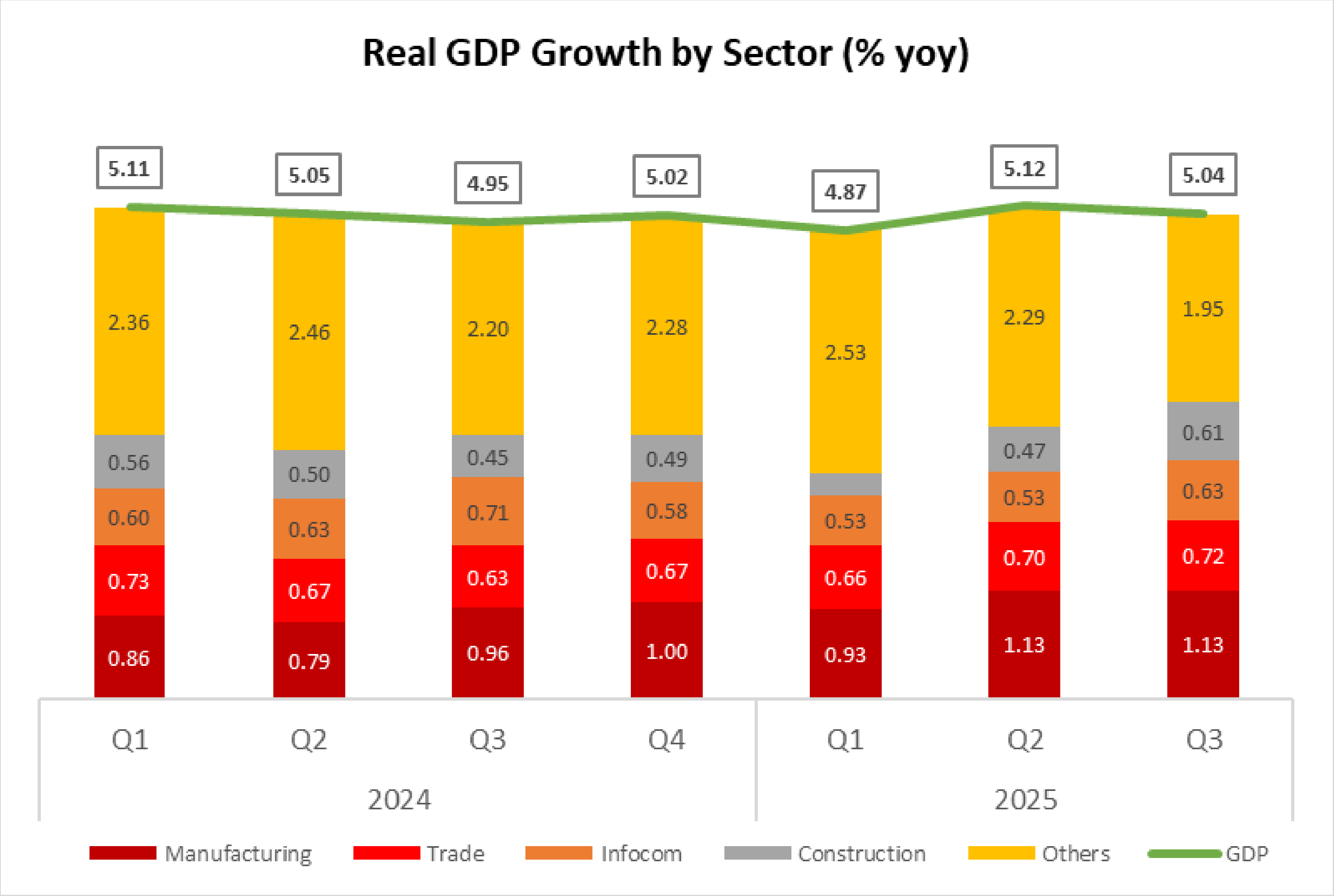
Indonesia's Quarterly GDP Growth

Source : BPS

- **The sharp contraction during the pandemic was followed by a rapid and decisive rebound**, indicating strong shock absorption capacity and effective macro and policy response rather than prolonged scarring.
- **Post recovery growth has stabilized at a consistent level**, suggesting Indonesia has entered a phase of steady expansion driven by domestic fundamentals rather than volatile, cycle driven swings.

Expenditure and Sector Drivers

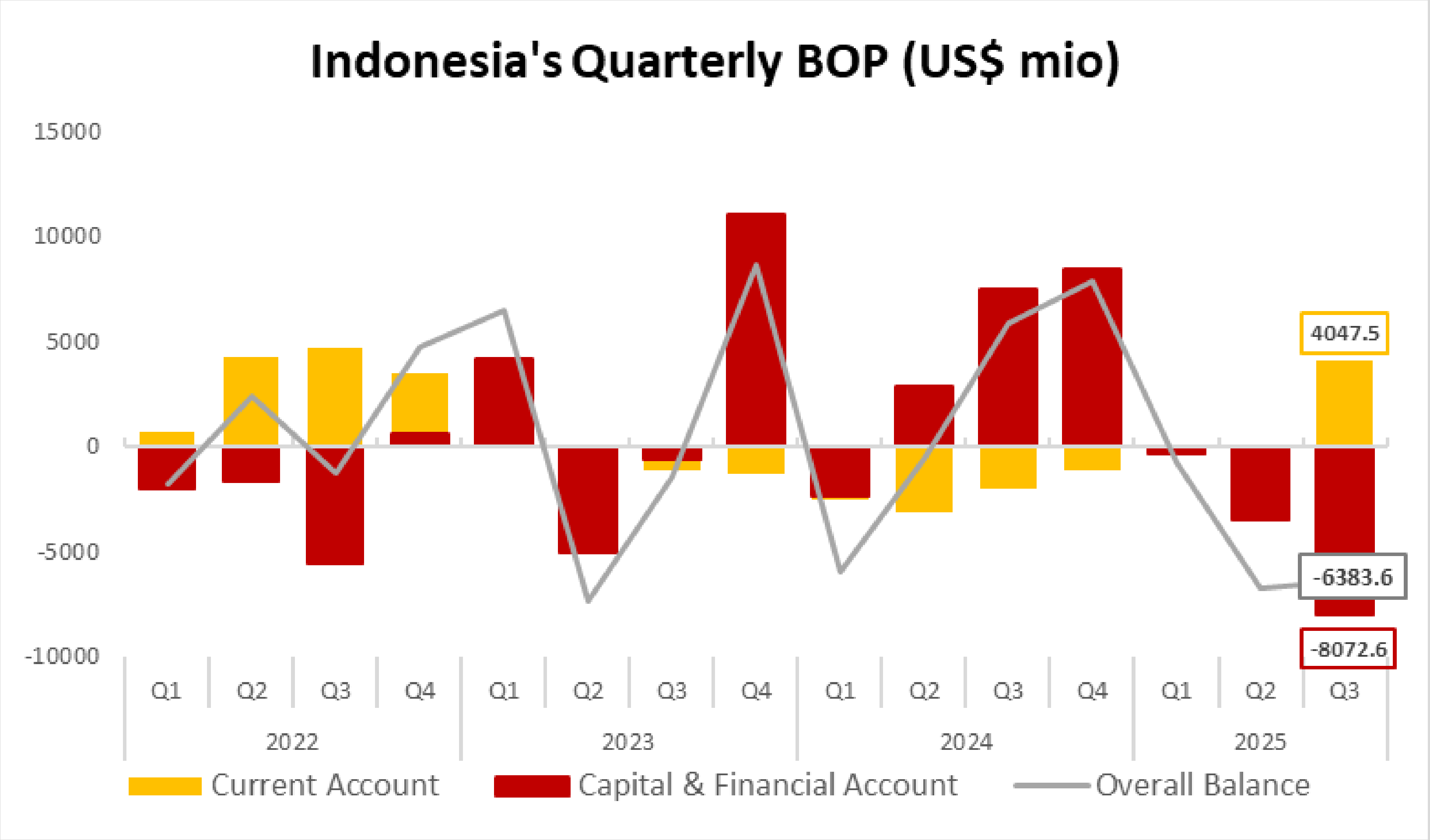


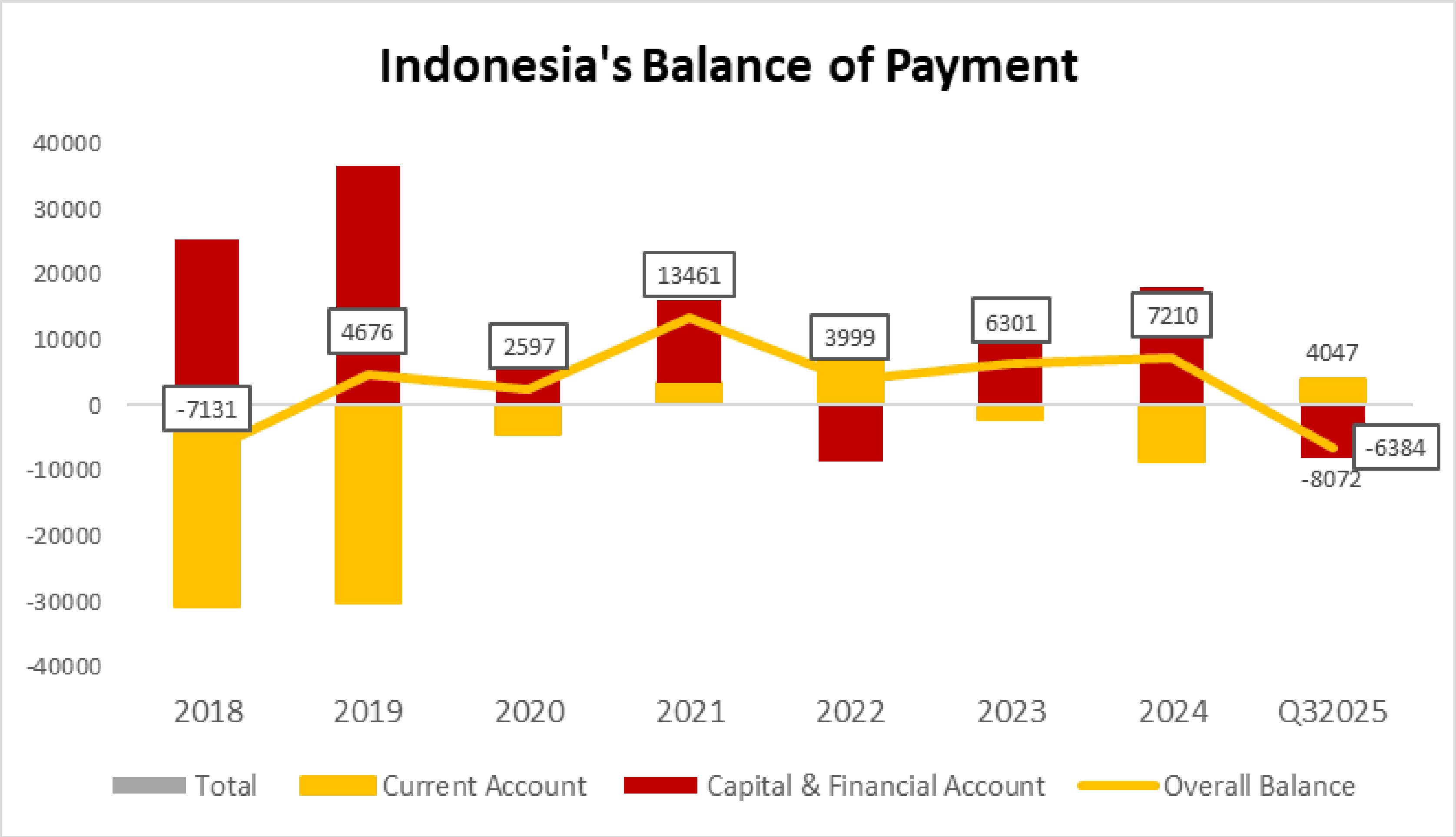


Source : BPS

- **Household consumption remains the dominant growth anchor**, stabilizing GDP around 5 percent even when net exports turn negative and fiscal impulses fluctuate.
- **Net exports have become a source of volatility rather than support**, reflecting weaker global demand and commodity normalization, which increases reliance on domestic demand.
- **Sectoral growth is increasingly led by services, trade, and construction**, while manufacturing growth is steady but no longer the sole engine, signaling a gradual rebalancing of Indonesia’s growth structure.

Balance of Payment

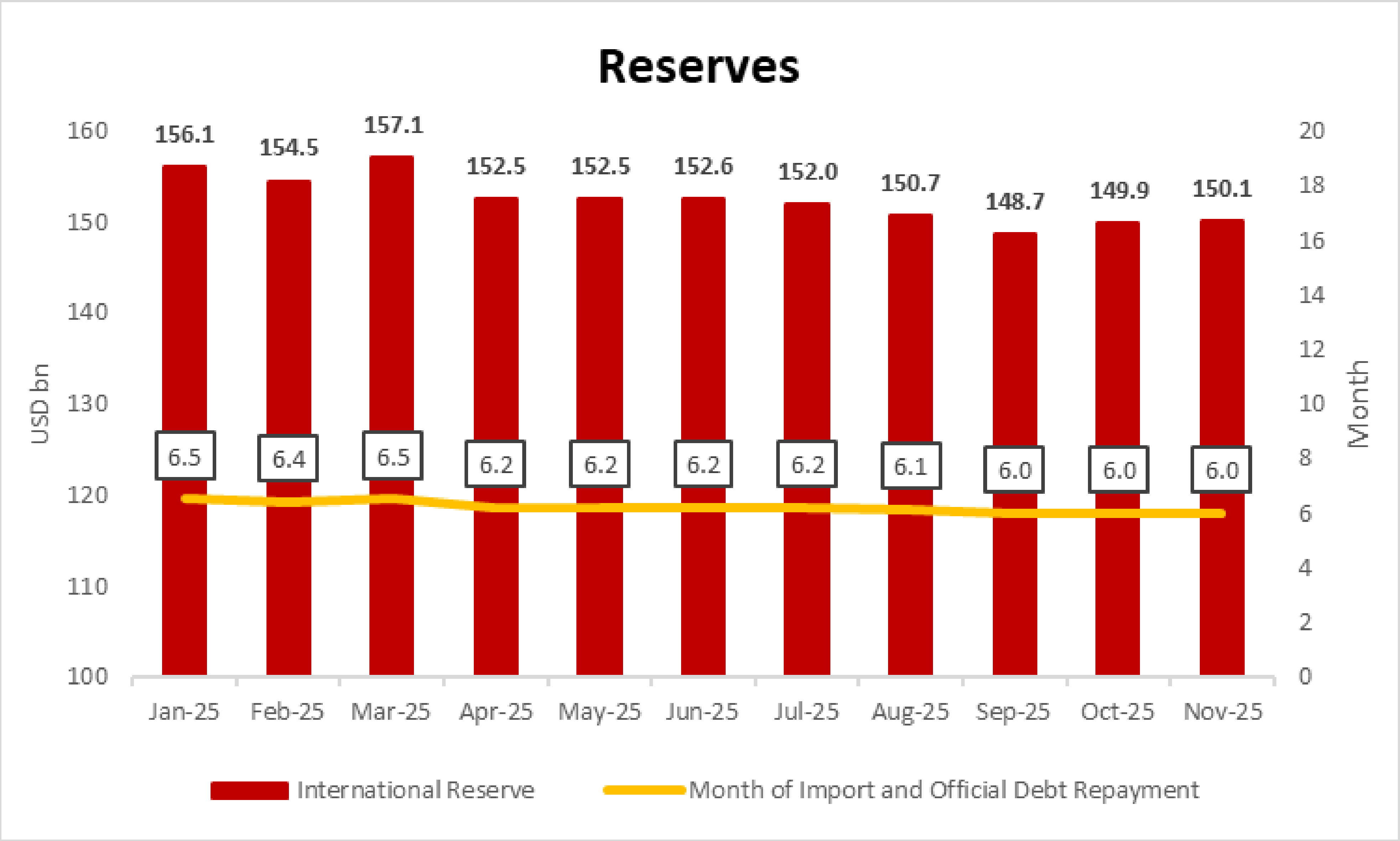




Source : Bank Indonesia

- **Indonesia’s external balance has shifted from surplus to pressure**, with the current account moving into deficit as commodity prices normalize and import demand recovers.
- **Capital and financial inflows remain the key stabilizer**, offsetting current account weakness and preventing sharper balance of payments deterioration.
- **Overall balance is becoming more sensitive to global financial conditions**, increasing vulnerability to capital flow reversals in a higher for longer interest rate environment.

Foreign Reserves



Source : Bank Indonesia

- **Foreign exchange reserves remain ample despite gradual erosion**, staying around USD 150 billion and well above conventional adequacy thresholds.
- **Import and debt coverage remains comfortable**, holding at around 6 months, indicating sufficient buffer against external shocks and short term liquidity pressures.
- **The declining trend signals rising external pressures**, consistent with current account deficits and FX intervention needs, though not yet at a level that threatens macro stability.

Indonesia Trade Balance Jan-Sep 2025

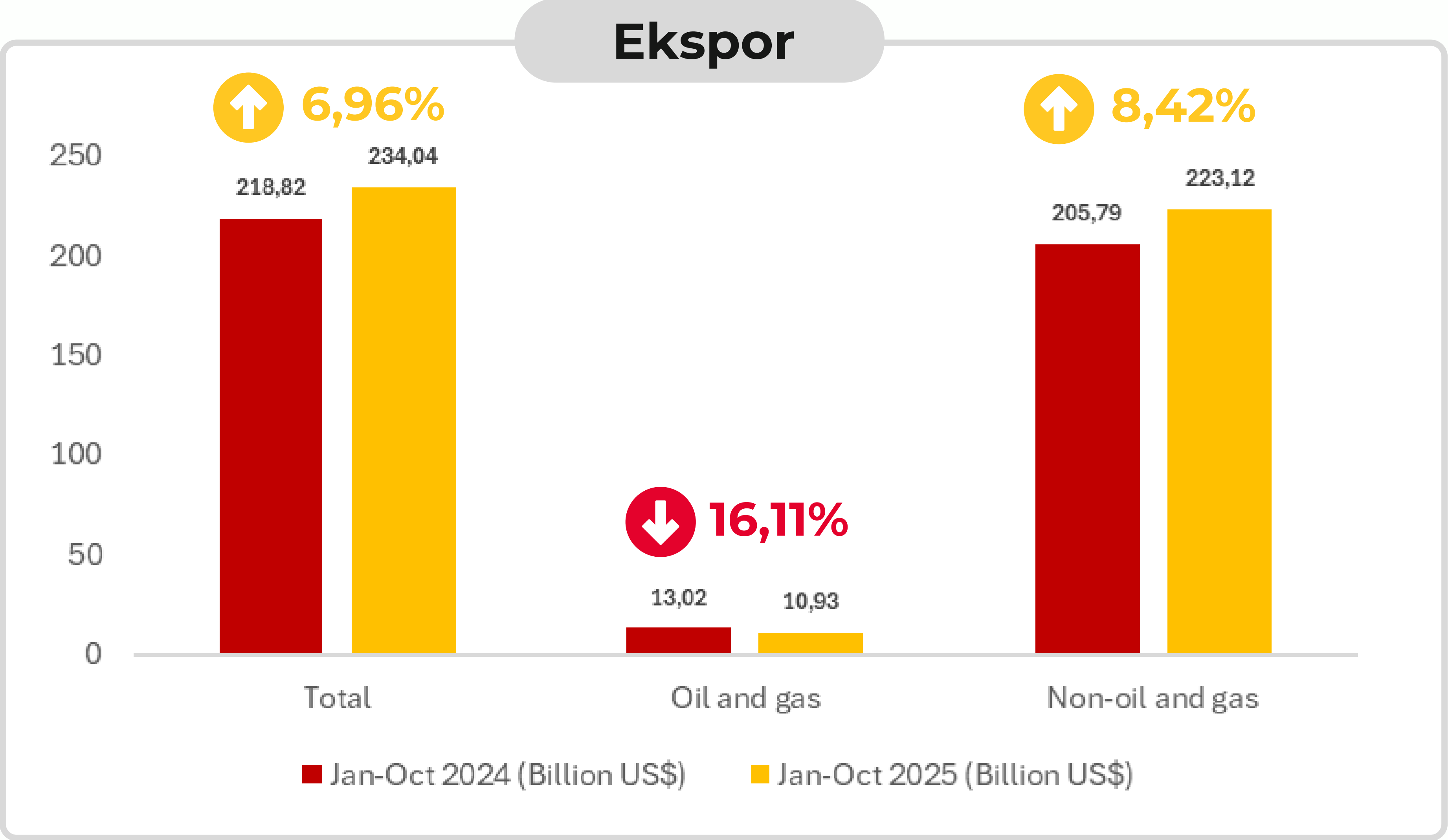
No	Description	Sept 2024 (USD Billion)	Agt 2025 (USD Billion)	Sept 2025 (USD Billion)	% Change (MoM)	% Change (YoY)	Jan-Sep 2024 (USD Billion)	Jan-Sep 2025 (USD Billion)	% Change (CtC)
	EXPORT	22,15	24,96	24,68	-1,14	11,41	194,01	209,80	8,14
I	Oil and gas	1,15	1,07	0,99	-7,31	-13,61	11,68	10,03	-14,09
	Non-Oil and Gas	21,00	23,89	23,68	-0,86	12,79	182,33	199,77	9,57
	IMPORT	18,97	19,48	20,34	4,42	7,17	171,82	176,32	2,62
II	Oil and gas	2,53	2,73	2,64	-3,48	4,29	26,74	23,75	-11,21
	Non-Oil and Gas	16,45	16,74	17,70	5,71	7,62	145,08	152,58	5,17
	TOTAL TRADE	41,12	44,44	45,01	1,30	9,46	365,83	386,13	5,55
III	Oil and gas	3,68	3,81	3,63	-4,56	-1,31	38,42	33,78	-12,08
	Non-Oil and Gas	37,45	40,63	41,38	1,84	10,52	327,41	352,35	7,62
	TRADE BALANCE	3,18	5,49	4,34	-20,95	36,48	22,18	33,48	50,94
IV	Oil and gas	-1,38	-1,66	-1,64	-1,20	18,84		-13,71	8,97
	Non-Oil and Gas	4,55	7,15	5,99	-16,22	31,65	37,25	47,20	26,71

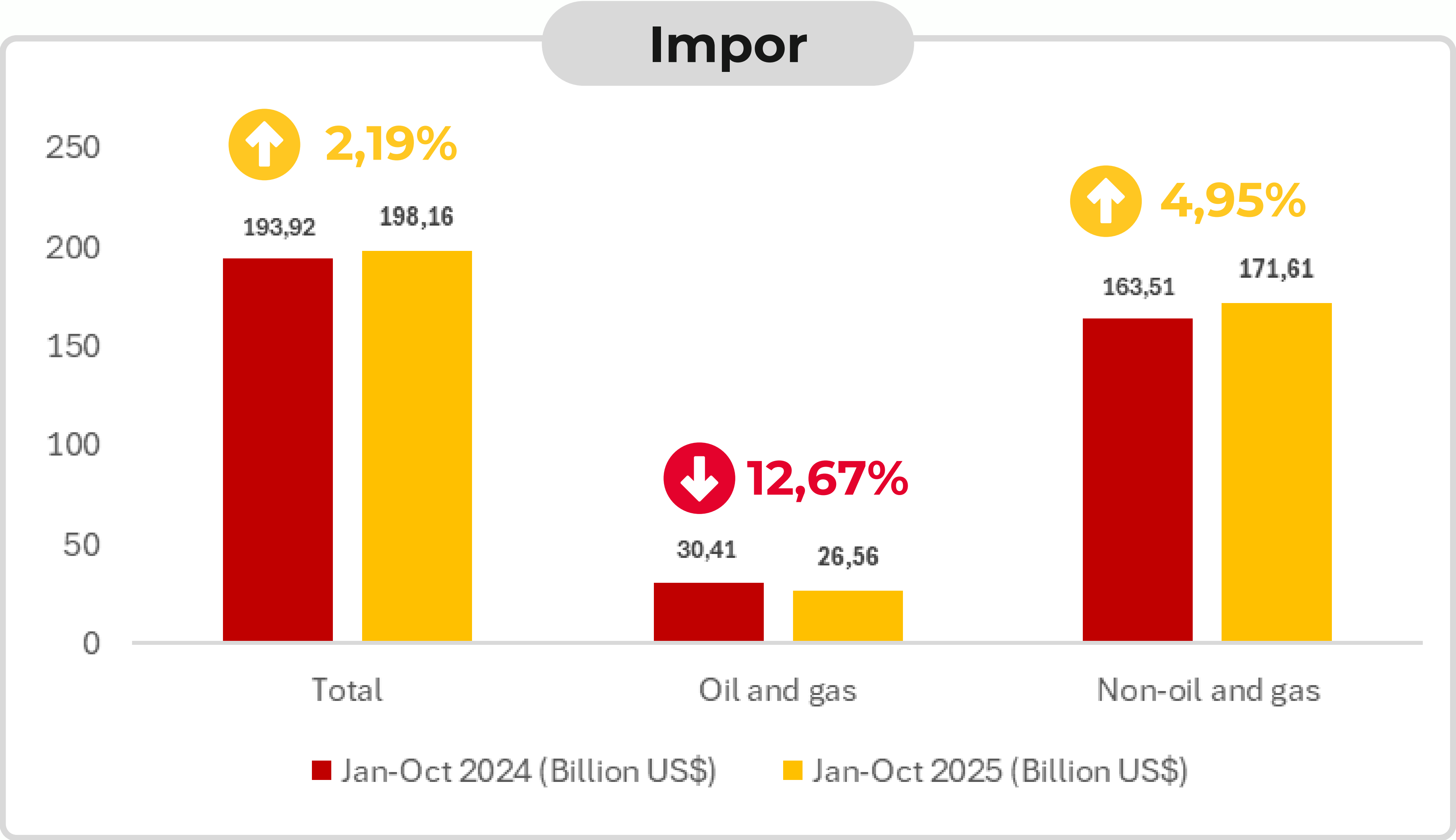
Source : BPS

- **Export growth remains positive but is losing momentum**, driven mainly by non oil and gas products, while oil and gas exports continue to contract both month to month and year on year.
- **Import growth is accelerating, especially non oil and gas imports**, reflecting stronger domestic demand and investment activity, but also narrowing the trade surplus.
- **The trade balance is still in surplus but increasingly volatile**, with a sharp month to month decline indicating rising pressure from imports despite solid cumulative gains in 2025.

Indonesia Trade Balance Jan-Oct 2025

Perkembangan Nilai Ekspor Impor Total, Migas, Non Migas (Miliar US$)

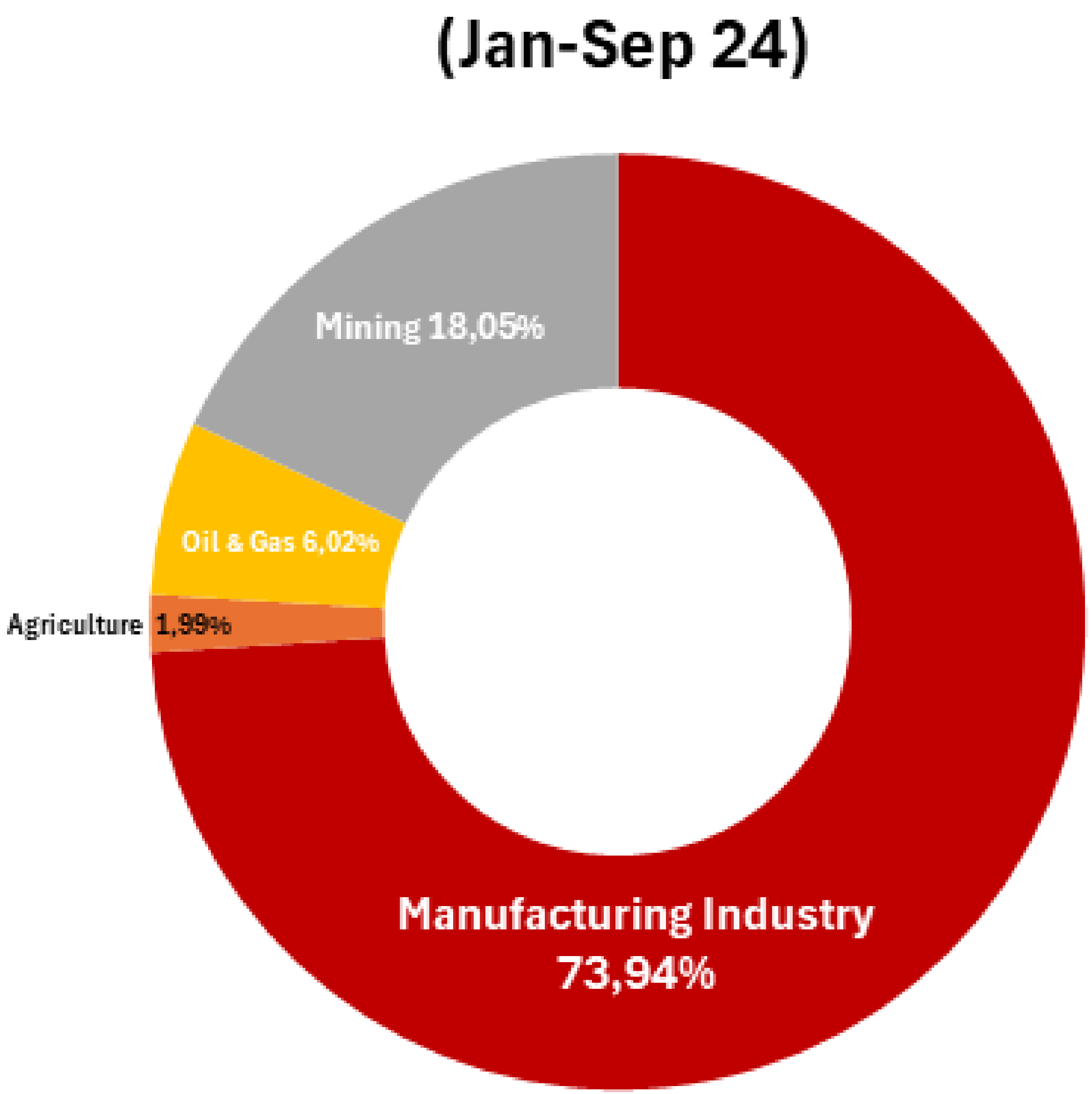


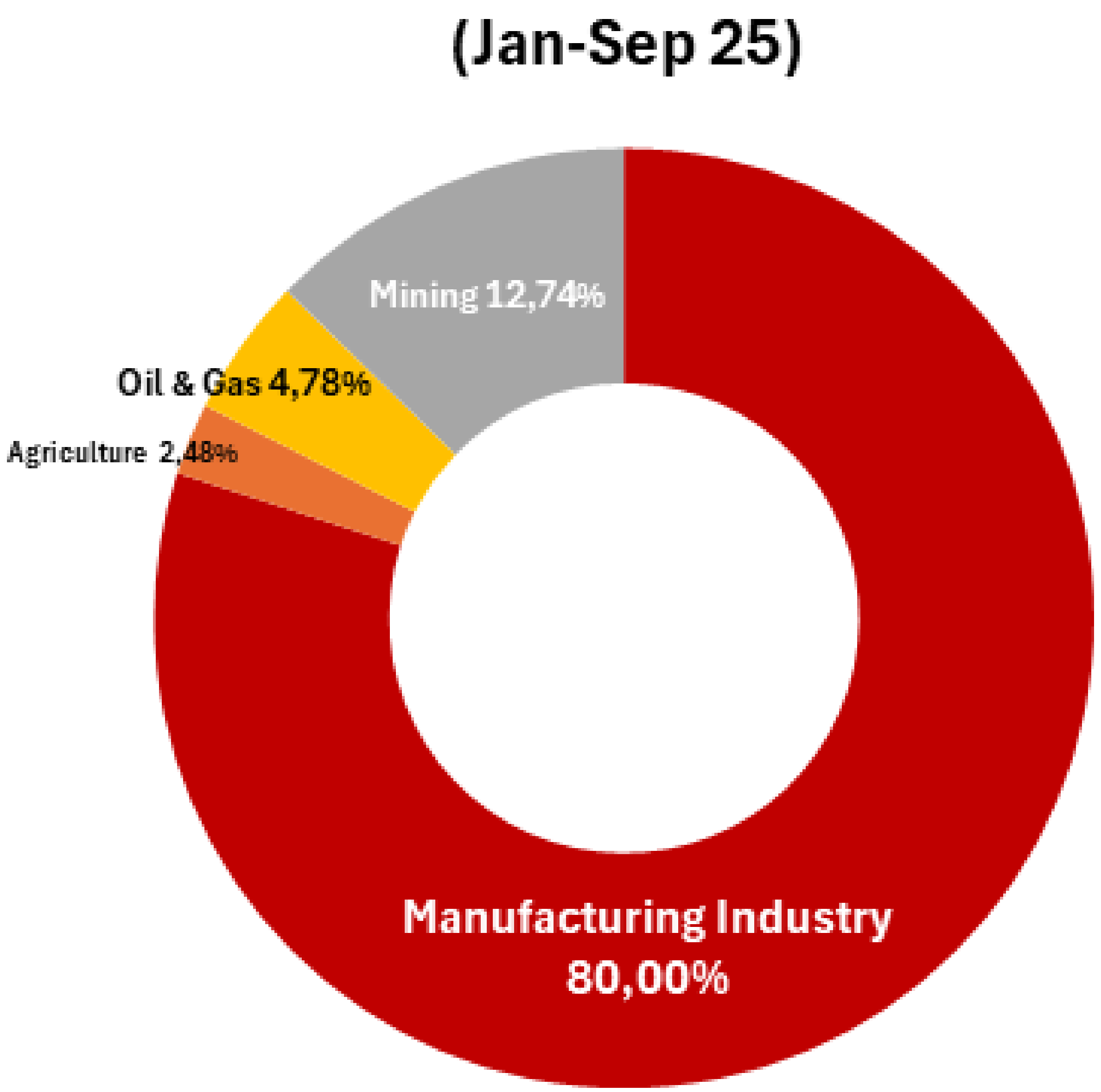


Source : BPS

- **Export growth is driven almost entirely by non oil and gas**, which rose strongly year on year, while oil and gas exports continue to contract and drag overall performance.
- **Imports are growing more moderately than exports**, led by non oil and gas imports, indicating domestic demand recovery without an excessive import surge.
- **The trade structure is becoming more resilient but less commodity driven**, with non oil and gas increasingly anchoring both exports and imports, reducing dependence on volatile energy cycles.

Total Export Share Structure

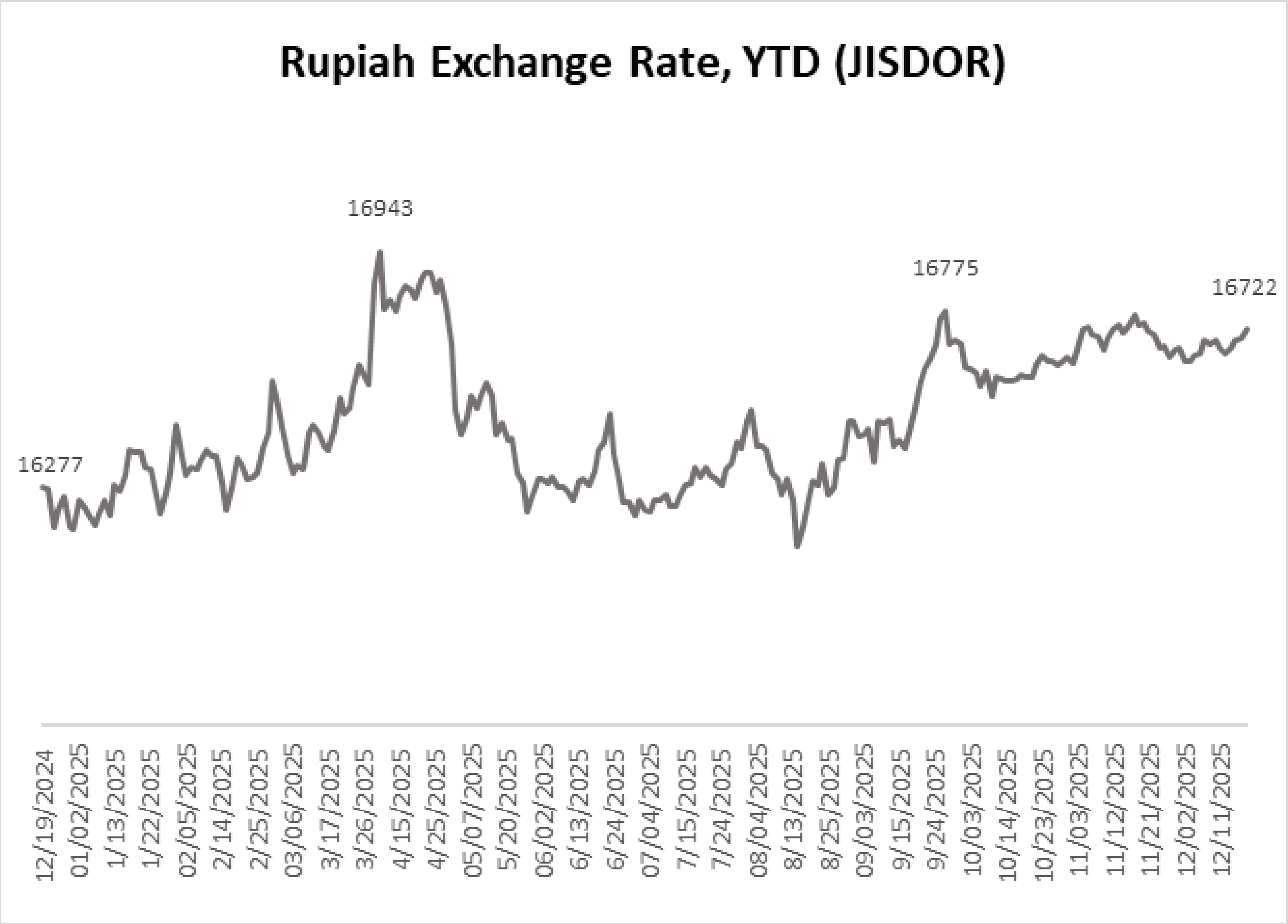


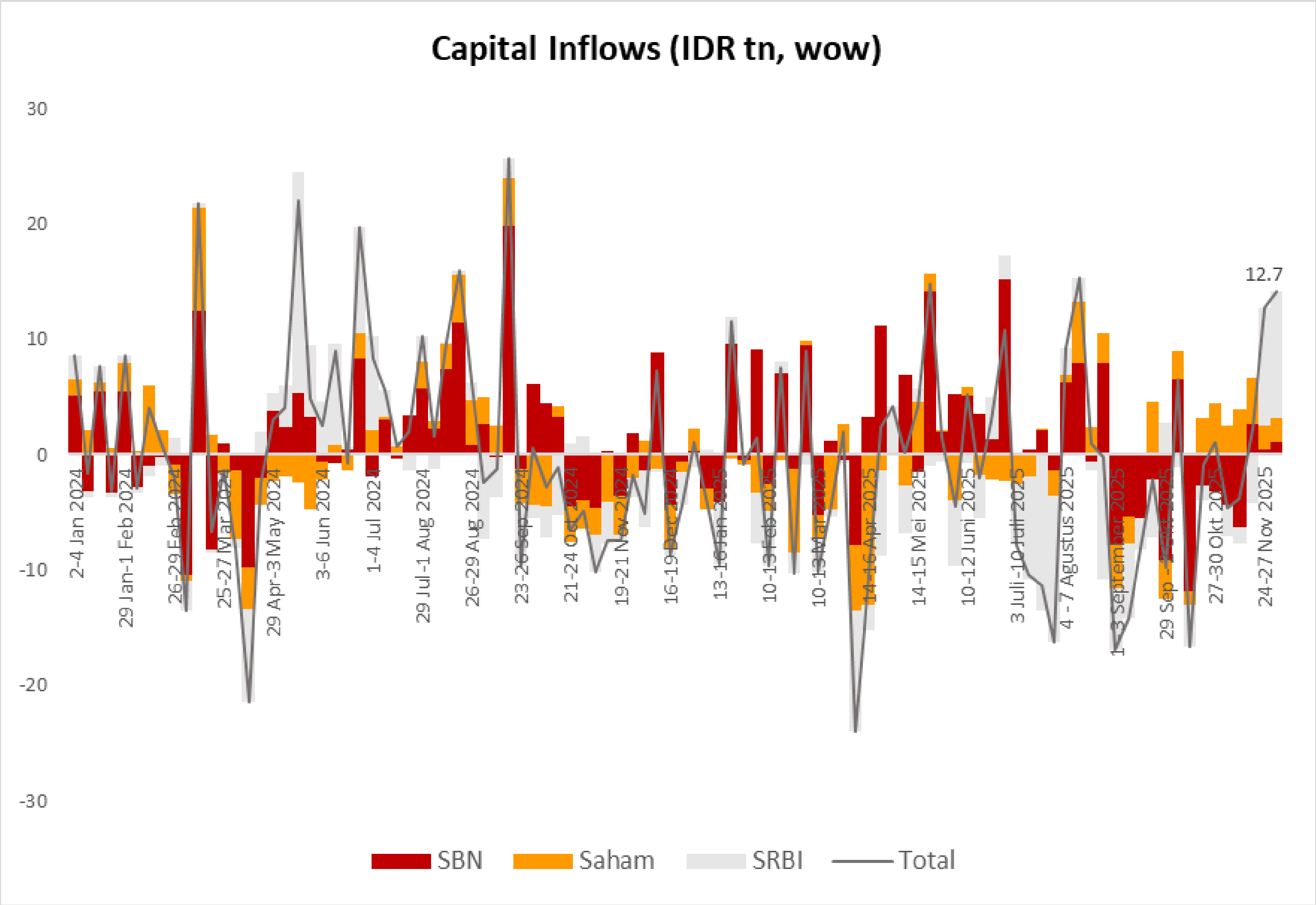


Source : BPS

- **Manufacturing has strengthened its dominance in exports**, rising from around 74 percent to 80 percent, confirming a shift toward more processed and value added products.
- **The share of mining and oil and gas has declined noticeably**, reflecting both price normalization and a gradual reduction in reliance on raw commodity exports.
- **Export composition is becoming structurally healthier**, with manufacturing crowding in while primary sectors play a smaller, more volatile role.

How Global Risks Affect Indonesia





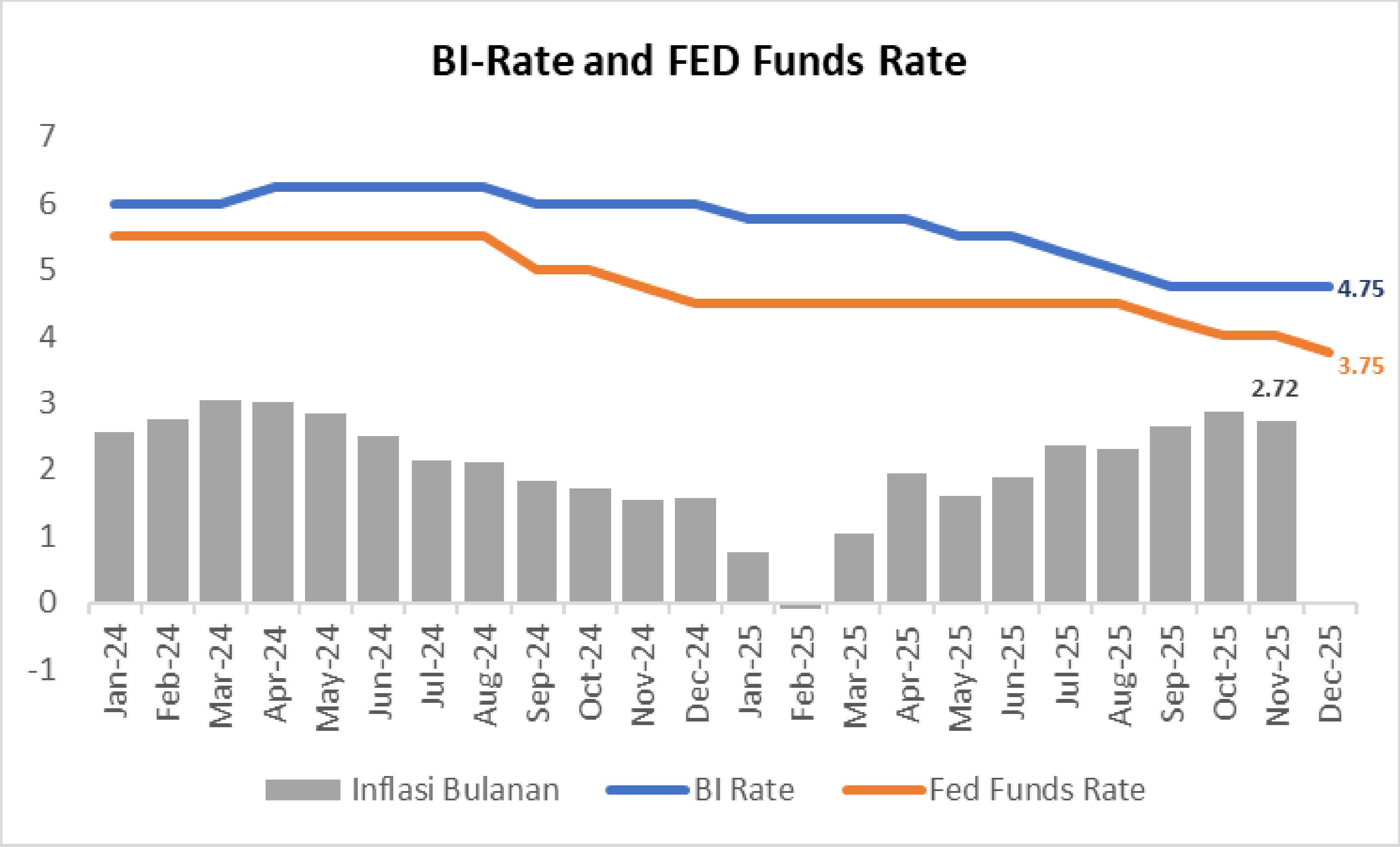
Source : Bank Indonesia

- **The rupiah remains under depreciation pressure year to date**, reflecting global risk aversion and a strong US dollar, but movements remain orderly rather than disorderly.
- **Capital flows are highly volatile week to week**, with frequent reversals across bonds, equities, and central bank instruments, indicating sensitivity to global financial conditions.
- **Recent inflows provide short term support**, but external stability still depends on sustained portfolio confidence amid higher for longer global interest rates.

MONETARY AND FISCAL SECTOR

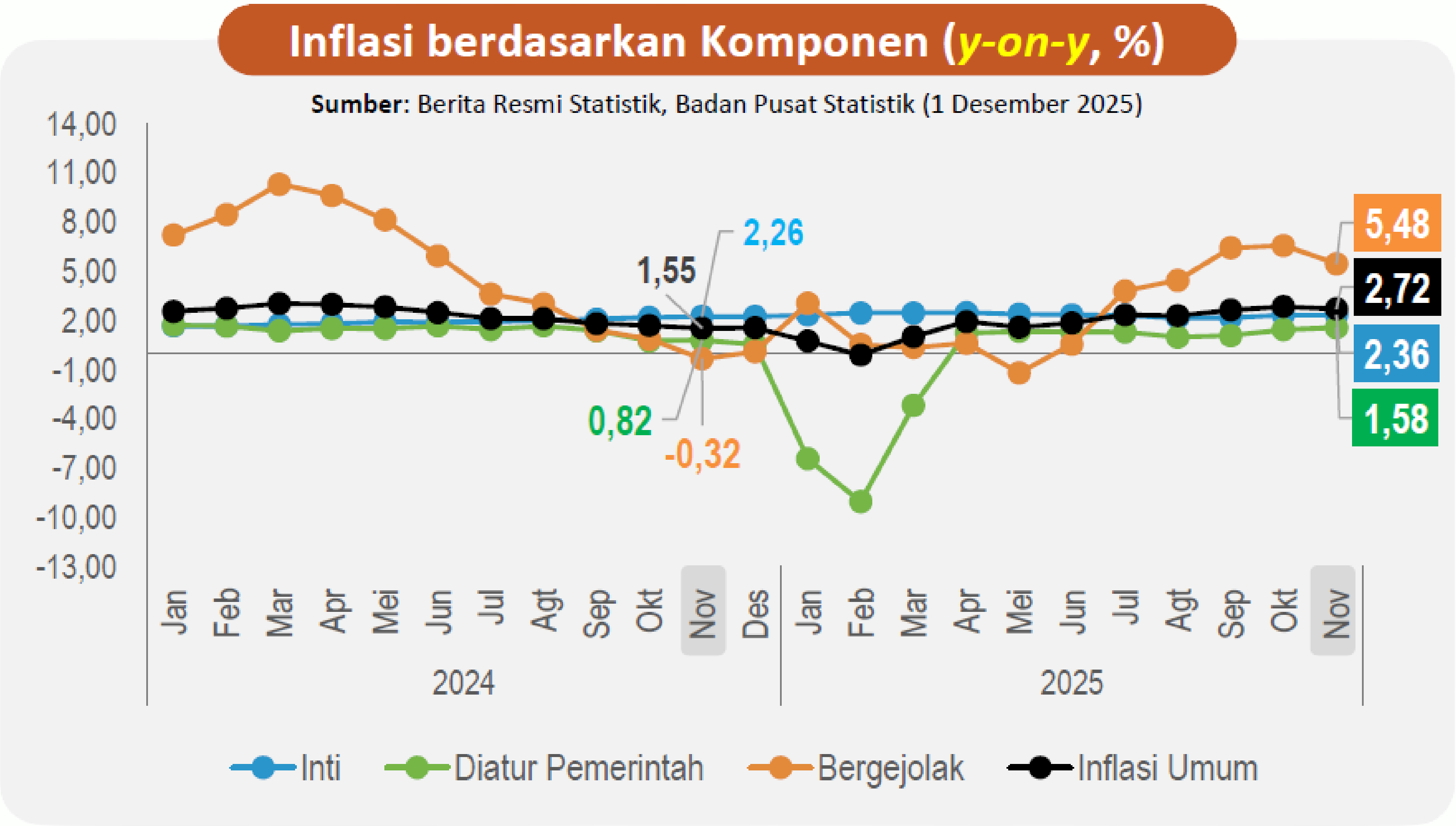
Monetary Policy: Prudent but Supportive

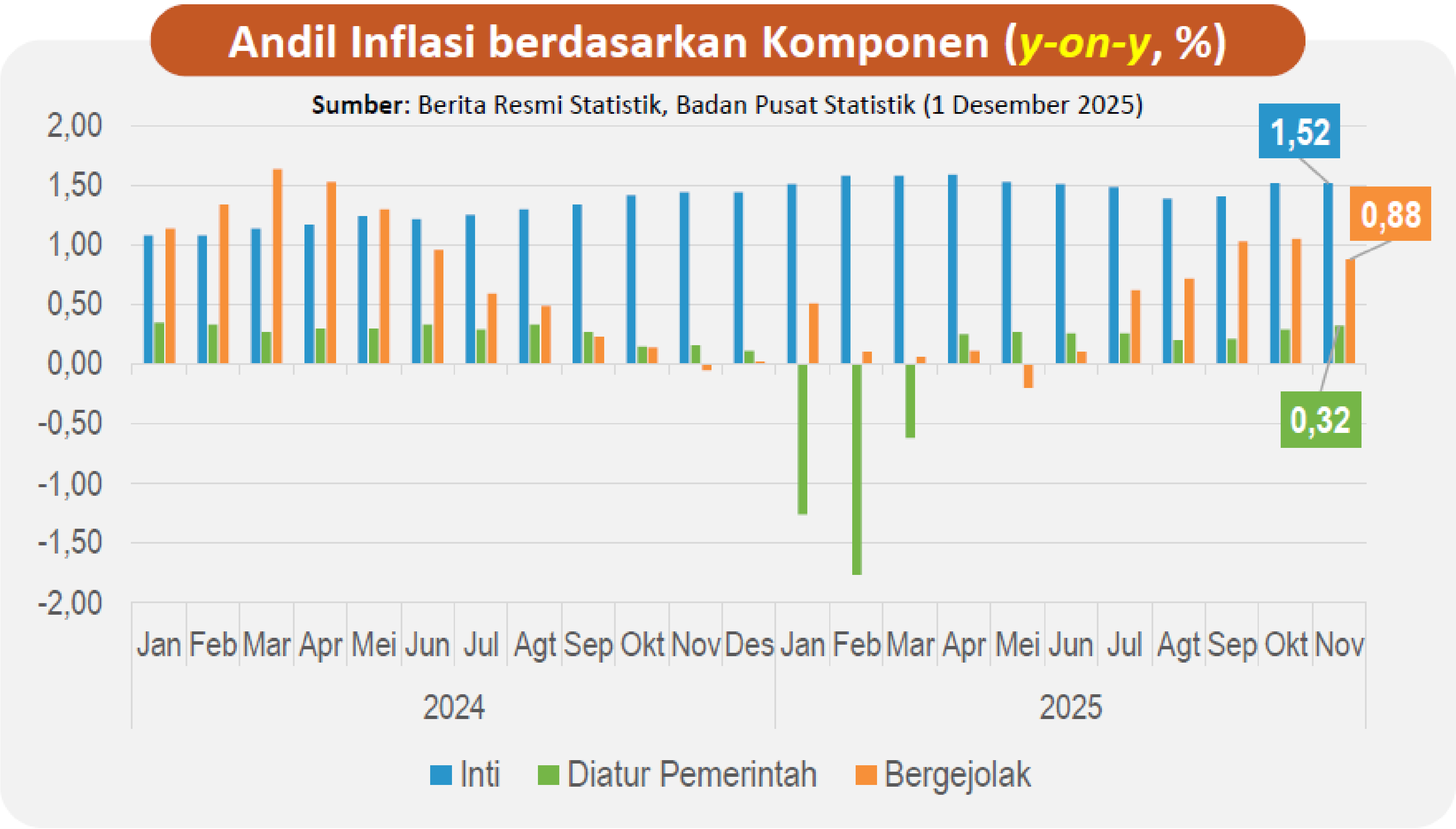
Danantara Indonesia | IFG



- **Monetary policy divergence is narrowing**, with both BI Rate and the Fed Funds Rate on a gradual easing path, reducing interest rate differentials pressure on capital flows.
- **BI maintains a cautious easing stance**, cutting rates more slowly than the Fed to balance growth support with exchange rate and external stability considerations.
- **Inflation remains contained despite easing**, allowing room for accommodative policy while preserving monetary credibility amid global uncertainty.

Inflation Composition: Core Stability Supported by Administered Prices





Source : BPS

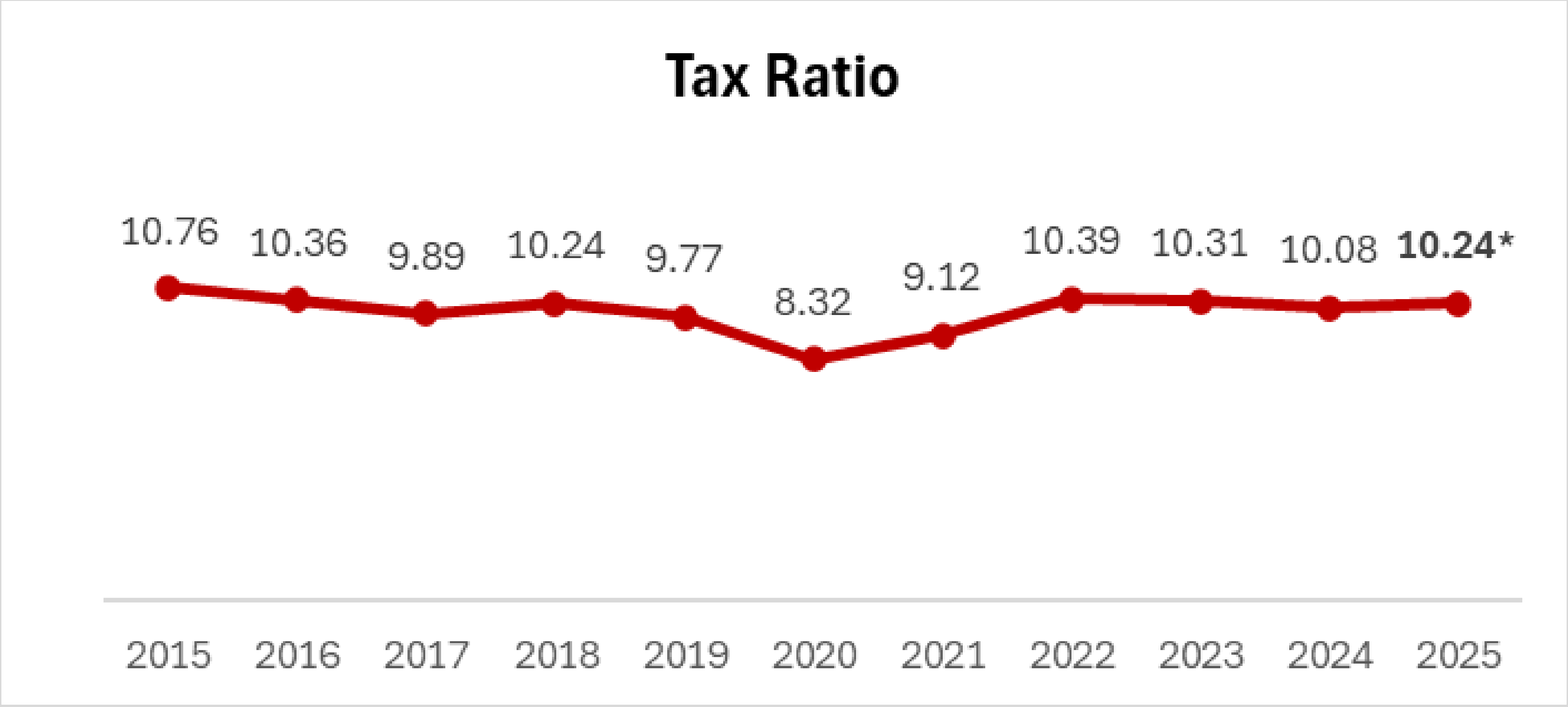
- **Inflation remains within a manageable range**, with headline inflation stabilizing around the target corridor, reflecting effective coordination between monetary policy and administered price management.
- **Core inflation is the main contributor**, indicating demand driven pressures are moderate and controlled, rather than driven by excessive overheating.
- **Volatile components drive short term fluctuations**, while administered prices contribute modestly, suggesting inflation risks are episodic rather than structural.

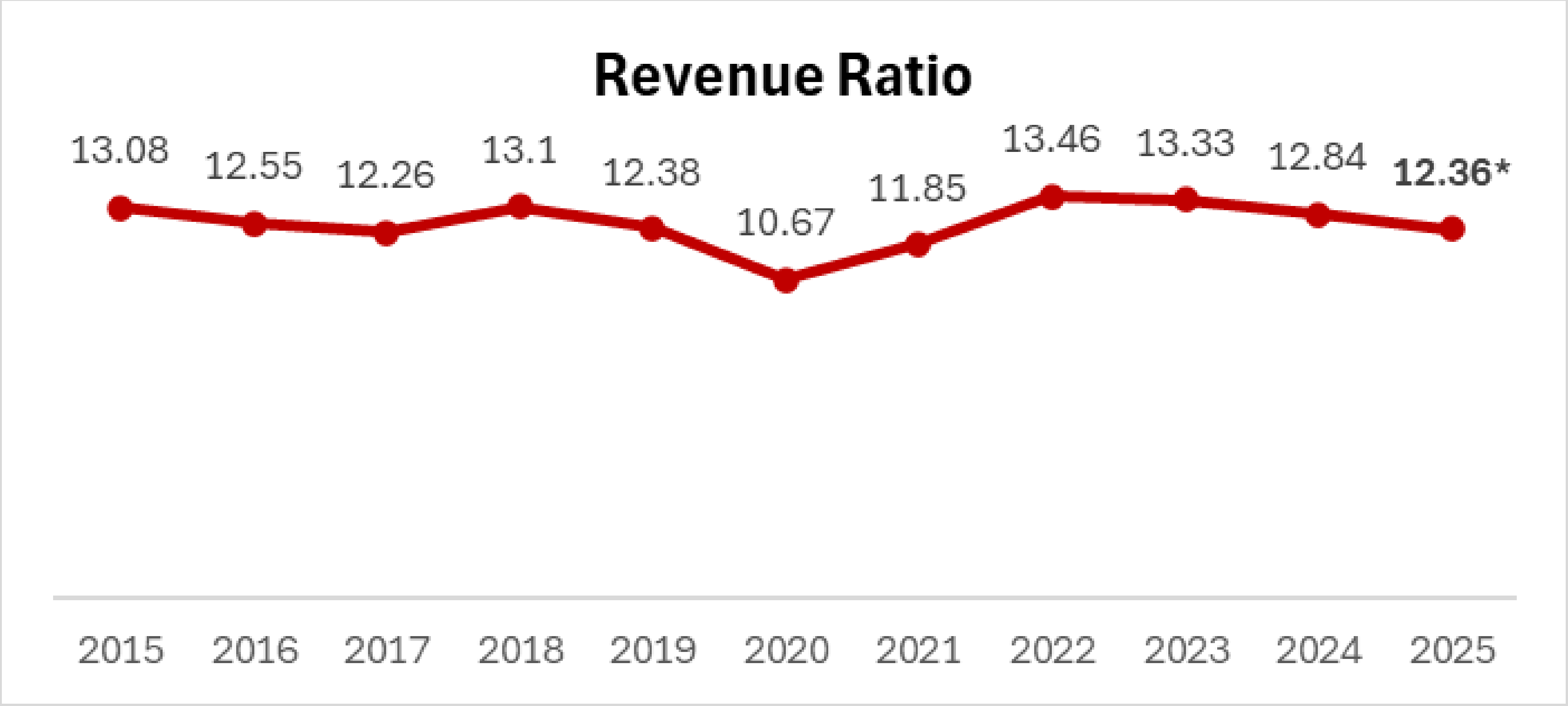
Fiscal Policy Direction 2026

Macro Asumption	2023	2023 (Realisasi)	2024	2024 (Realisasi)	2025	2025 (Realisasi 21 Desember 2025)	Outlook
Economic Growth	5.30	5.50	5.20	5.03	5.20	5.4	4.70–5.00
Inflation	3.60	2.61	2.80	1.57	2.50	1.57	2.20–2.60
Indonesian Crude Oil Price (USD/bbl)	90.00	78.40	82.00	78.10	82.00	56.52	68–82
10-years SBN	7.90	6.99	6.70	6.99	7.00	6.13	6.80–7.30
Nilai Tukar	14800	15397	15000	16102	16000	16805	16300-16800

Source : Ministry of Finance

Tax and Revenue Ratio

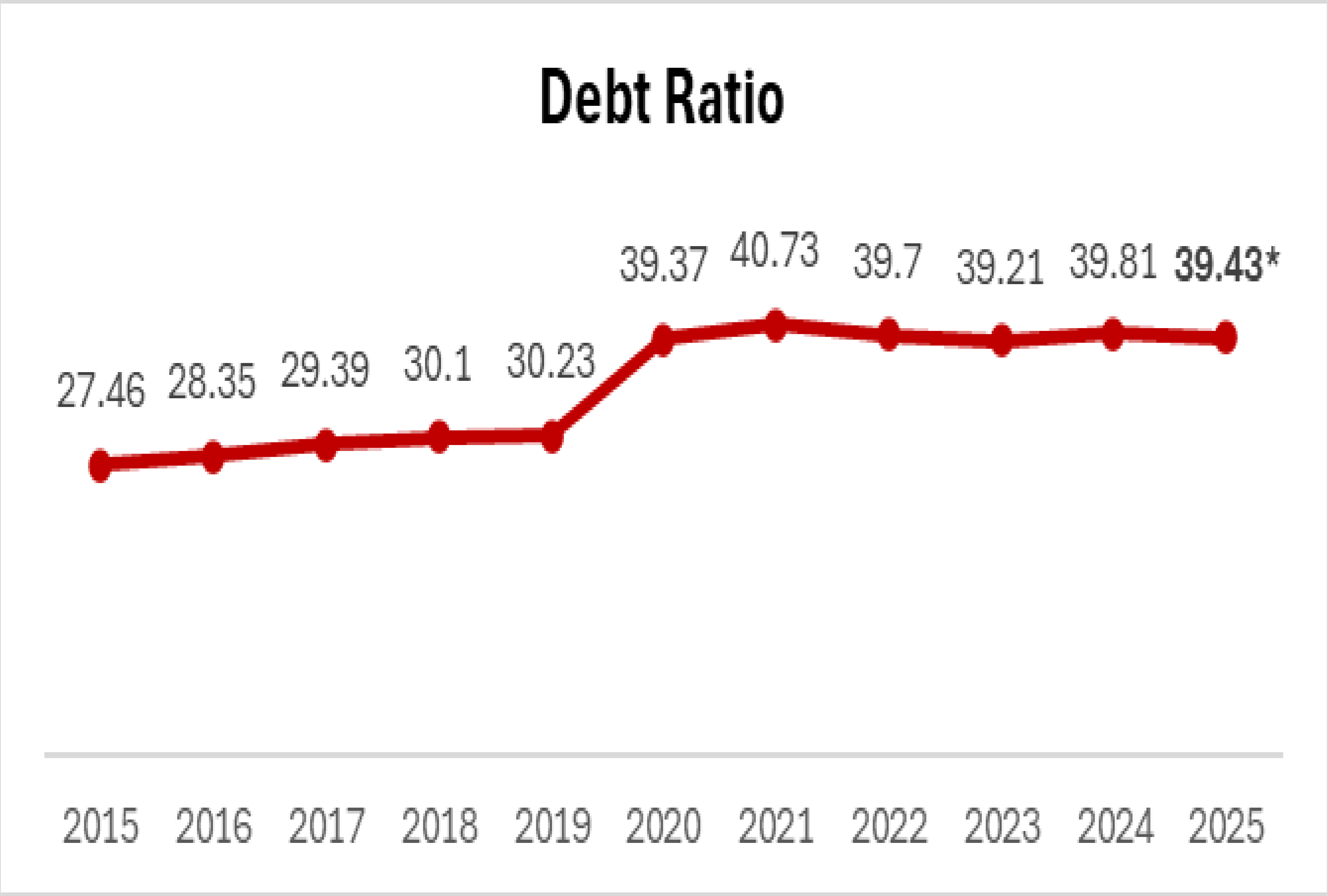


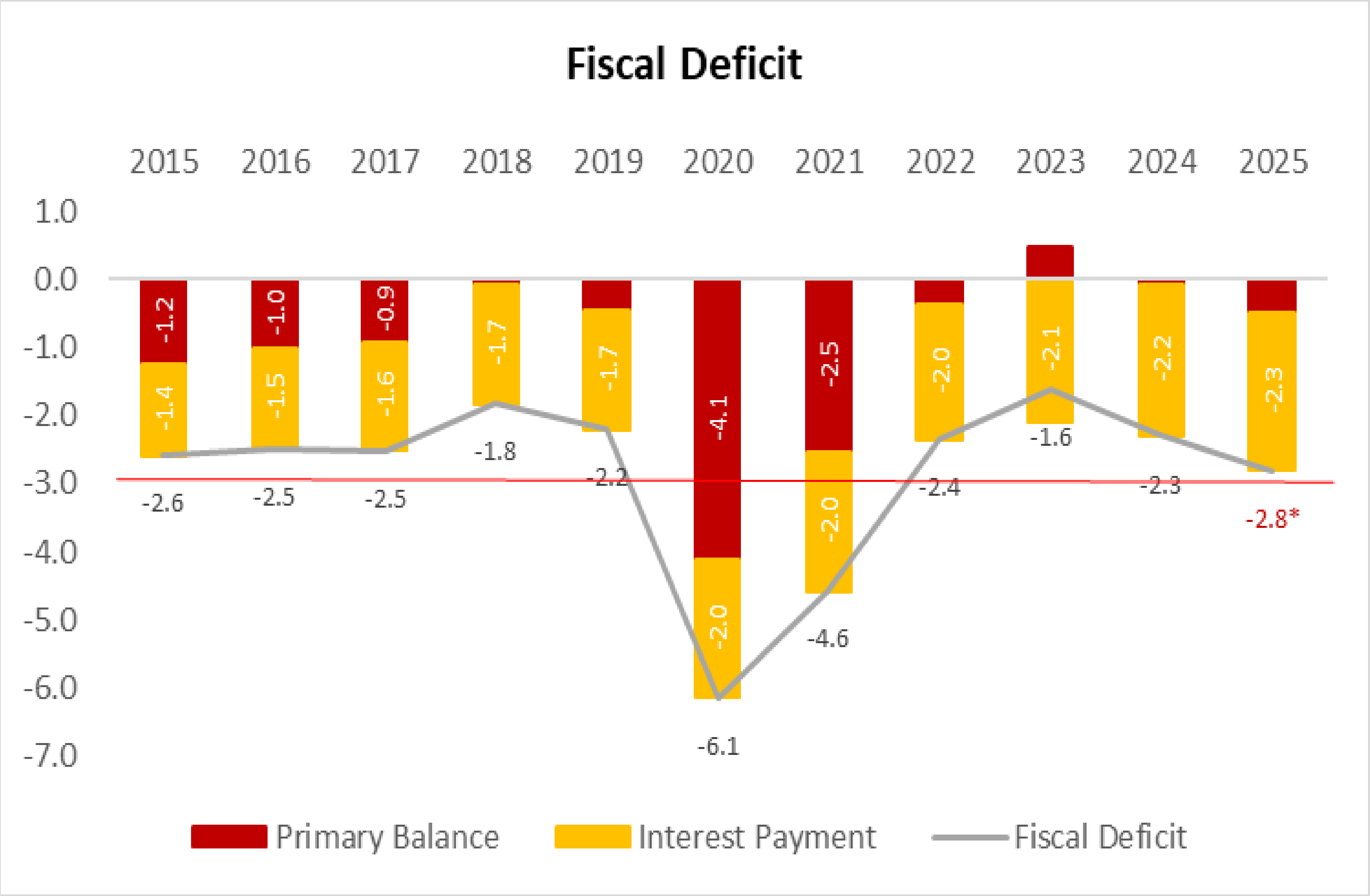


Source : Ministry of Finance

- **Tax ratio remains structurally low and flat,** hovering around 10 percent, indicating limited progress in broadening the tax base despite post pandemic recovery.
- **Revenue ratio has stabilized** but not structurally improved, suggesting continued dependence on non tax revenues and cyclical factors rather than durable fiscal capacity.
- **Fiscal space remains constrained**, reinforcing the need for tax administration reform and compliance driven revenue mobilization to support medium term development spending.

Deficit Under Control, But Pressure Remains

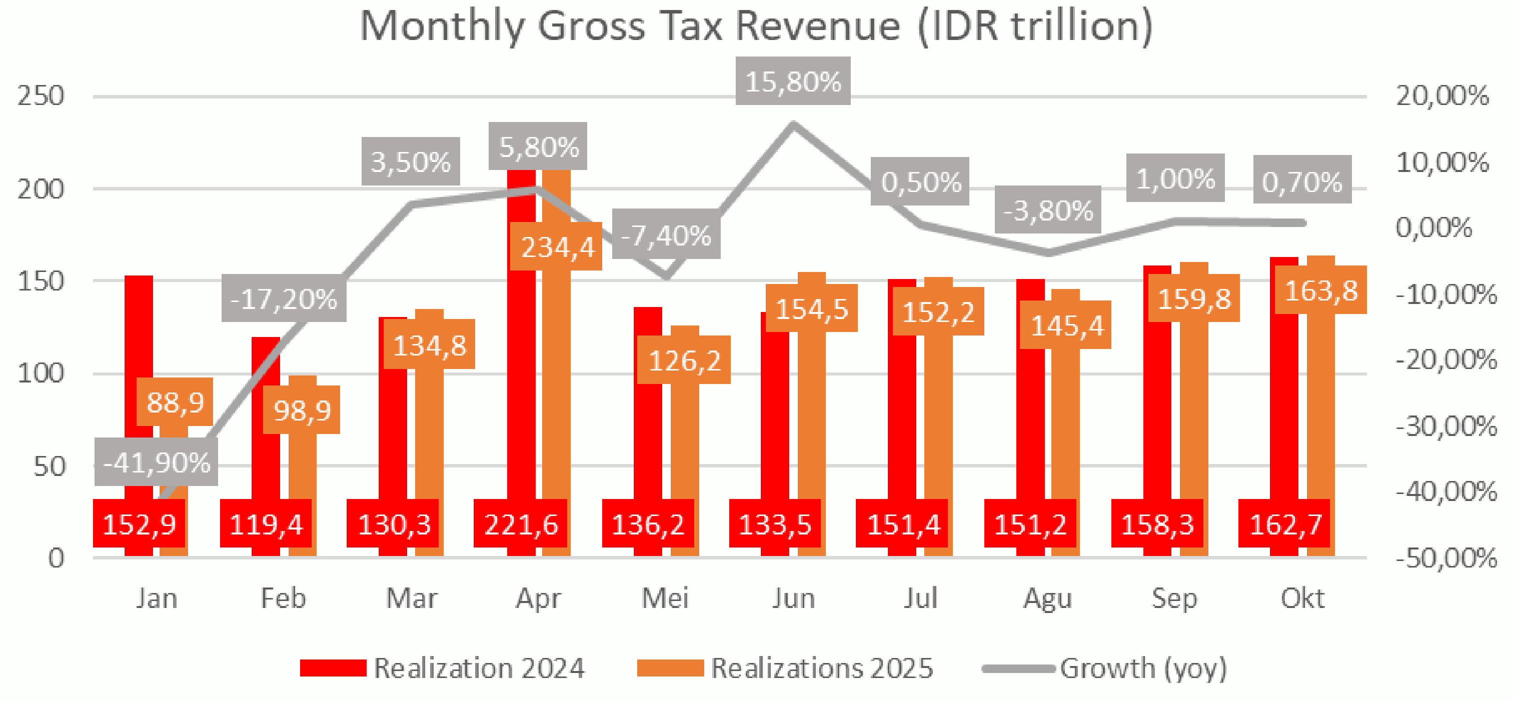


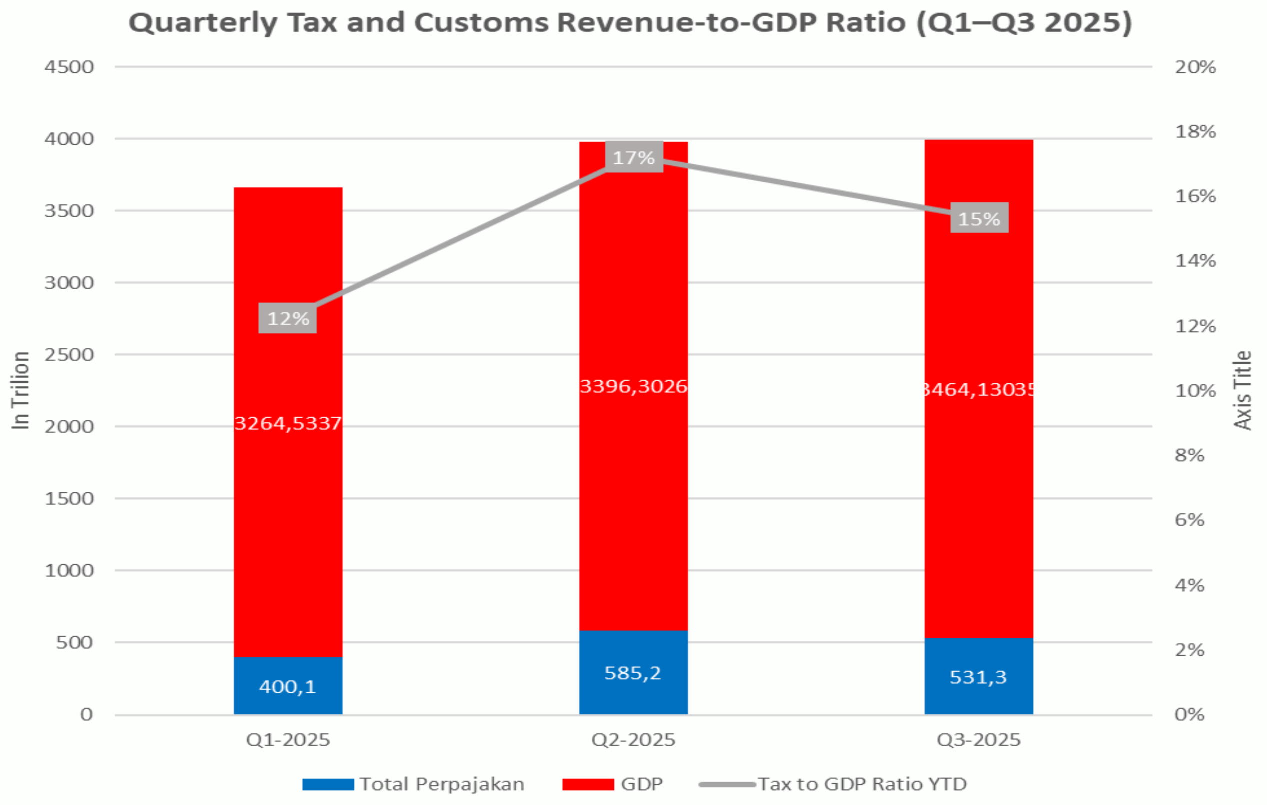


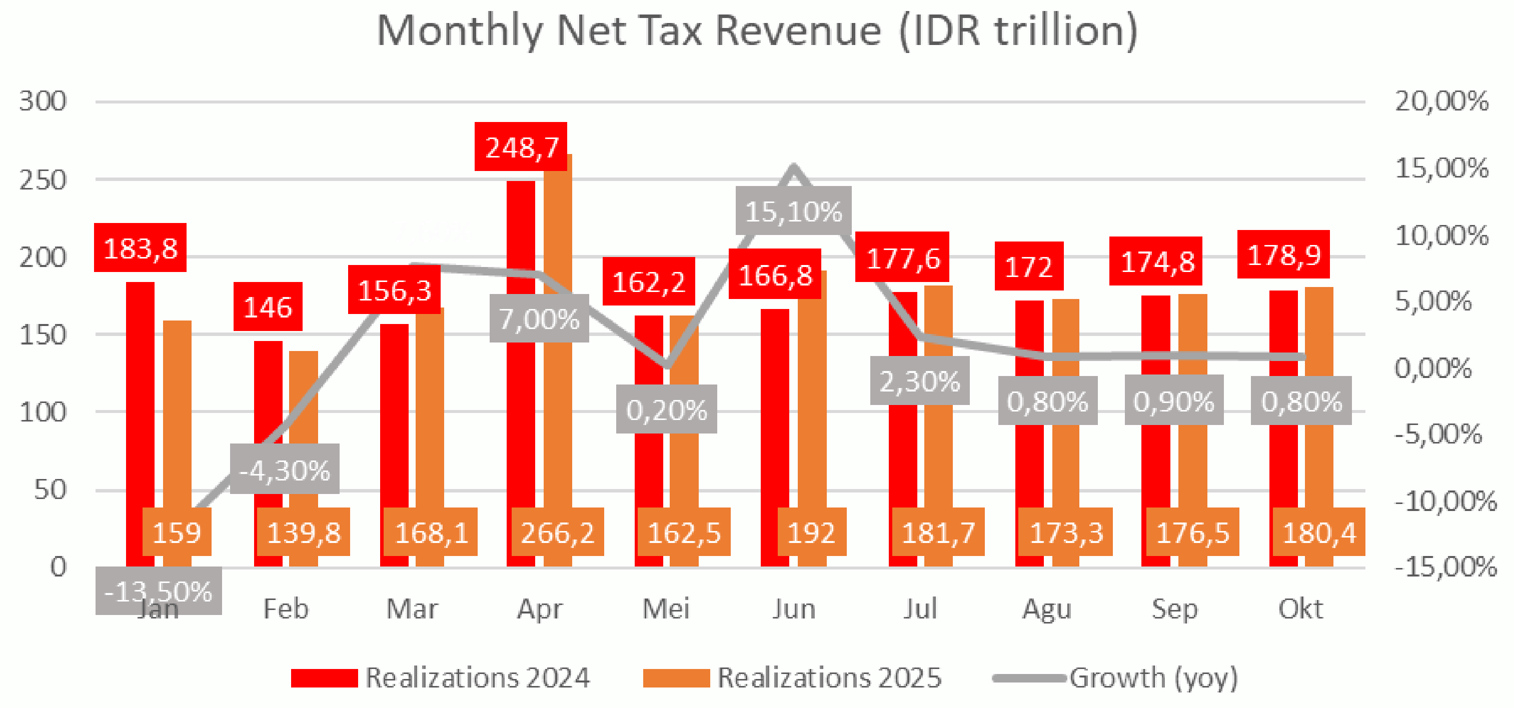
- **Debt ratio has stabilized below 40 percent**, indicating manageable sovereign risk and effective post pandemic fiscal consolidation, though still higher than pre 2020 levels.
- **Fiscal deficits have narrowed from crisis levels**, returning close to the legal threshold, driven by reduced primary deficits and controlled interest burdens.
- **Fiscal sustainability is preserved but with limited room**, as rising interest payments constrain flexibility, making growth friendly revenue reforms more critical going forward.

Revenue Performance and Tax-to-GDP Trends (2024–Q3 2025)

Tax revenues remain resilient, with the tax-and-customs revenue-to-GDP ratio rising to around the mid-teens in 2025—signaling stronger collection momentum despite month-to-month volatility.







Source : Ministry of Finance

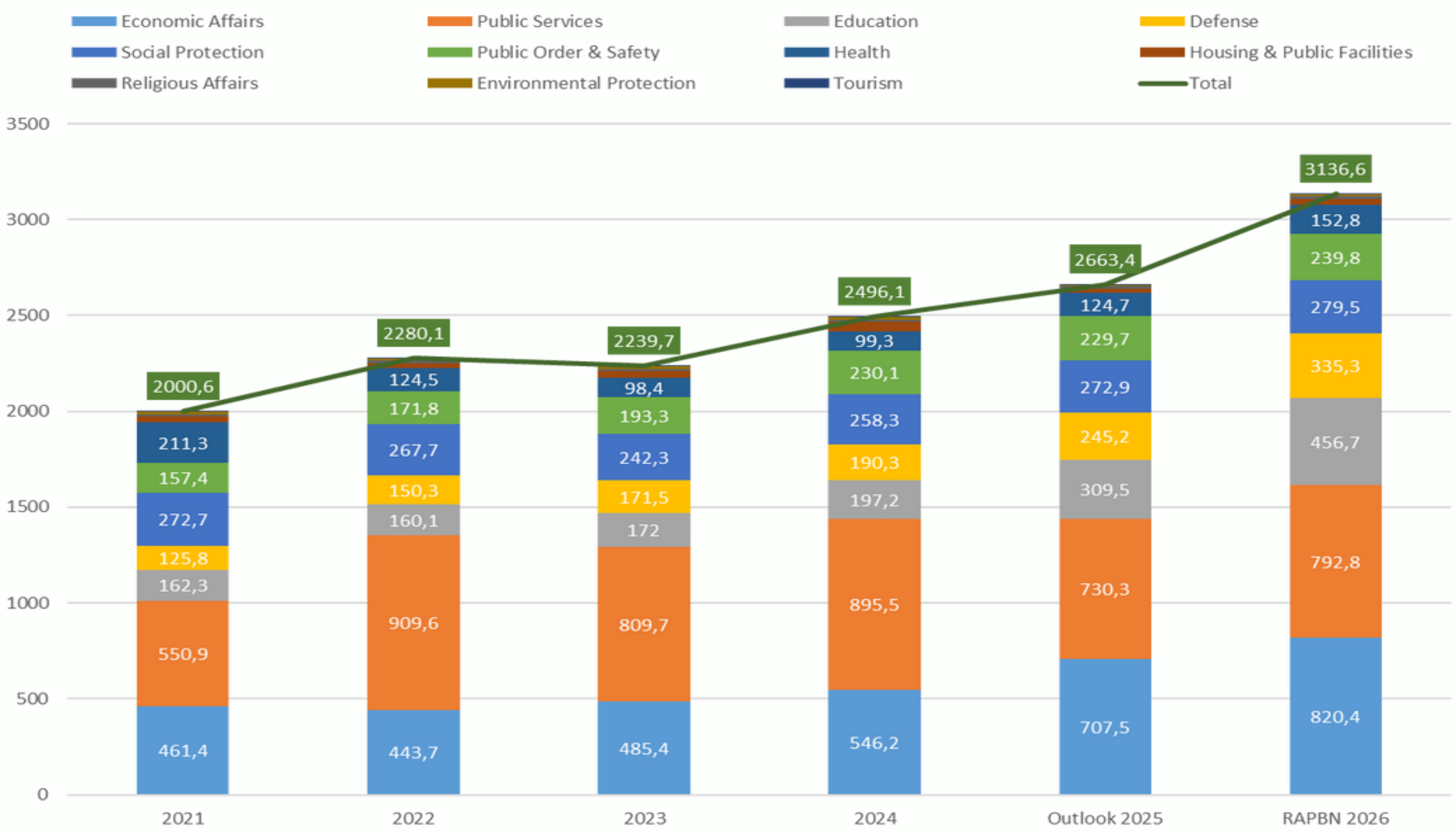
- **Tax revenue performance remains resilient despite monthly volatility**, with both gross and net collections holding up in 2025, indicating sustained compliance and administrative effectiveness rather than one off windfalls.
- **The tax and customs revenue to GDP ratio is trending upward**, reaching the mid teens by Q3 2025, signaling improving revenue productivity relative to economic activity.
- **Momentum is improving but not yet structural**, as gains are still sensitive to growth cycles and timing effects, underscoring the need for deeper tax base broadening and policy reform to lock in durability.

Goverment Spending

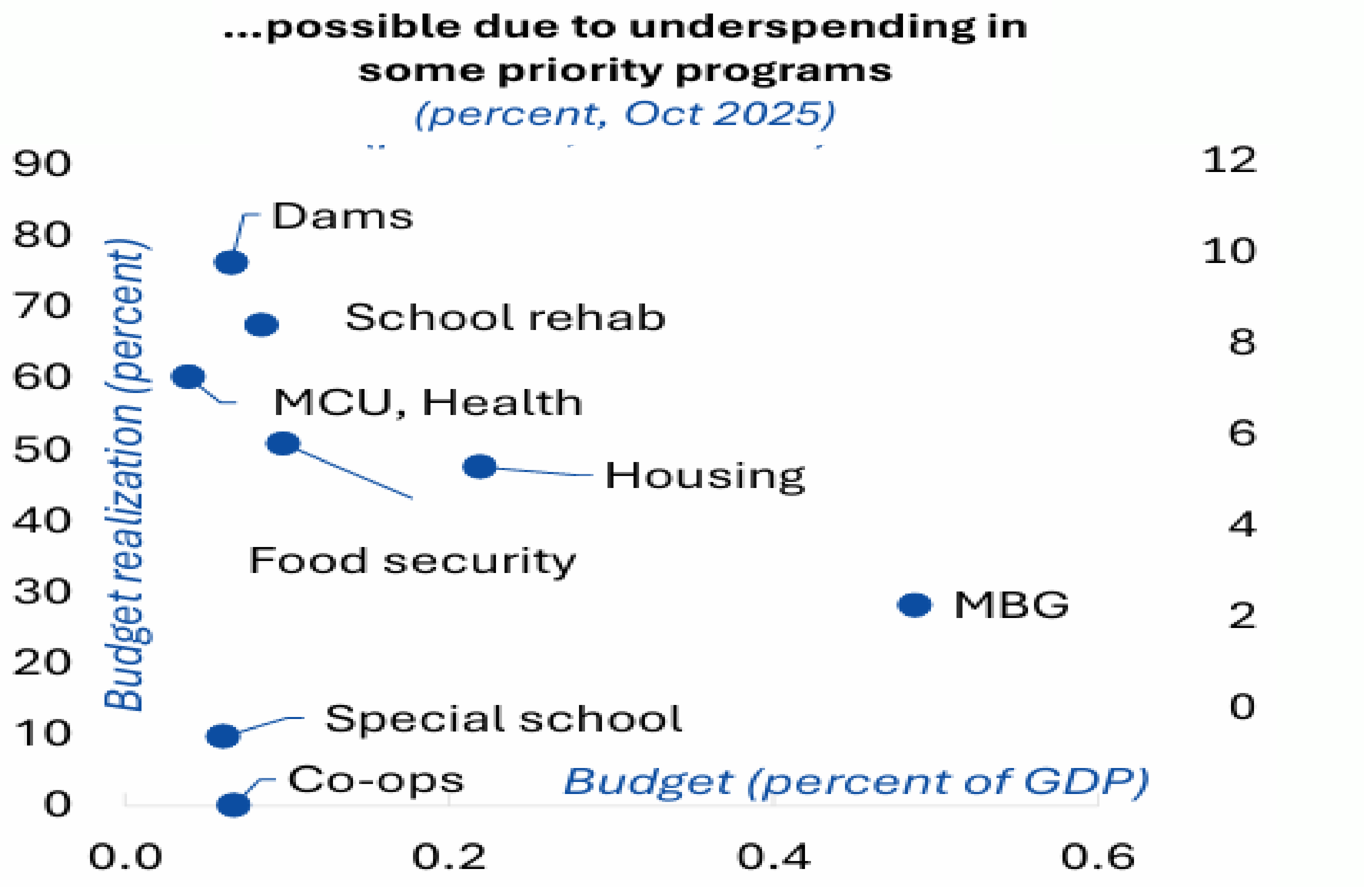
Danantara Indonesia IFG

Government spending is increasingly prioritized across key functions, yet execution gaps in select priority programs indicate that outcomes may depend as much on implementation capacity as on budget allocations.

Goverment Spending by Function



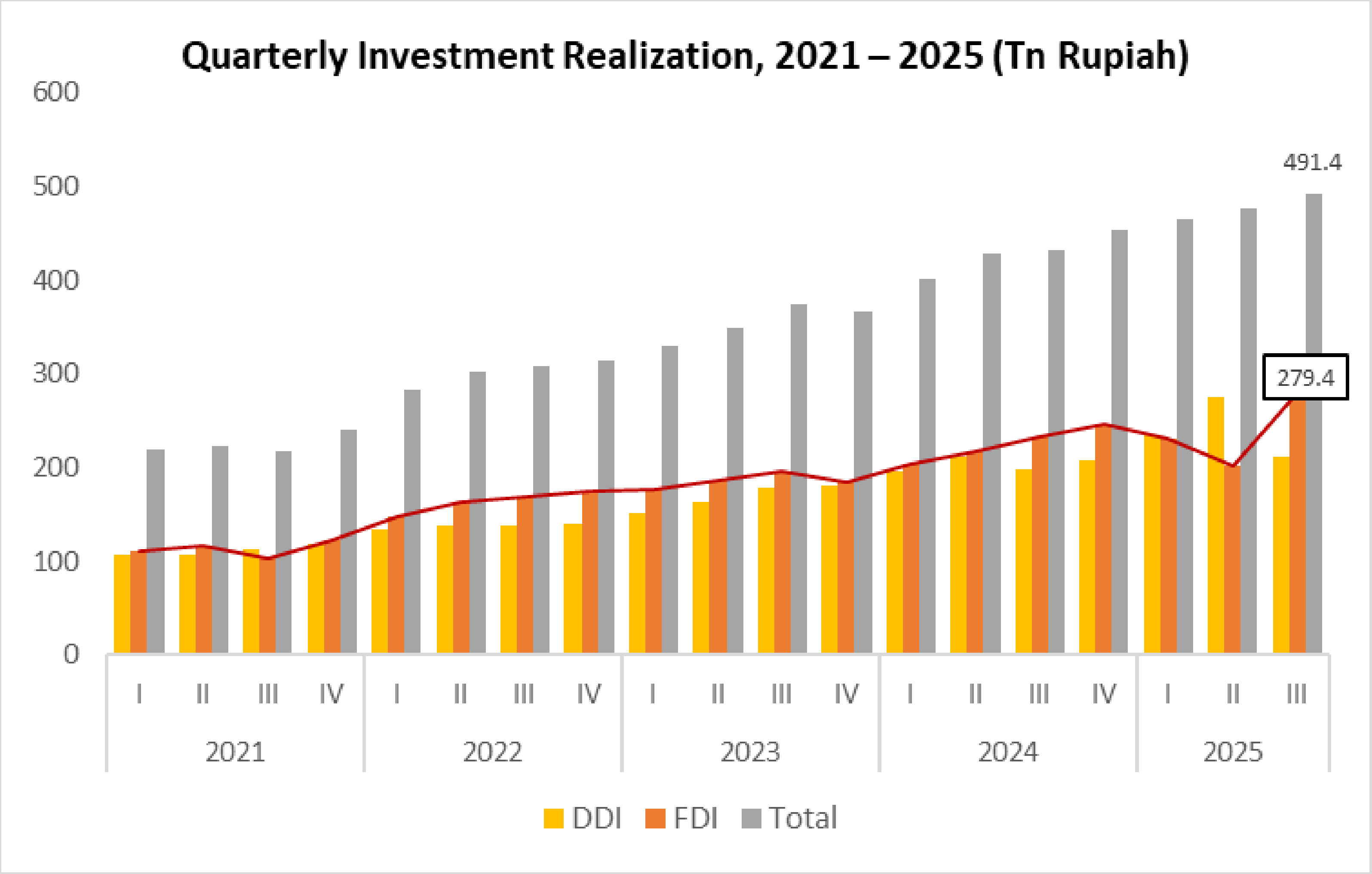
Source : Ministry of Finance

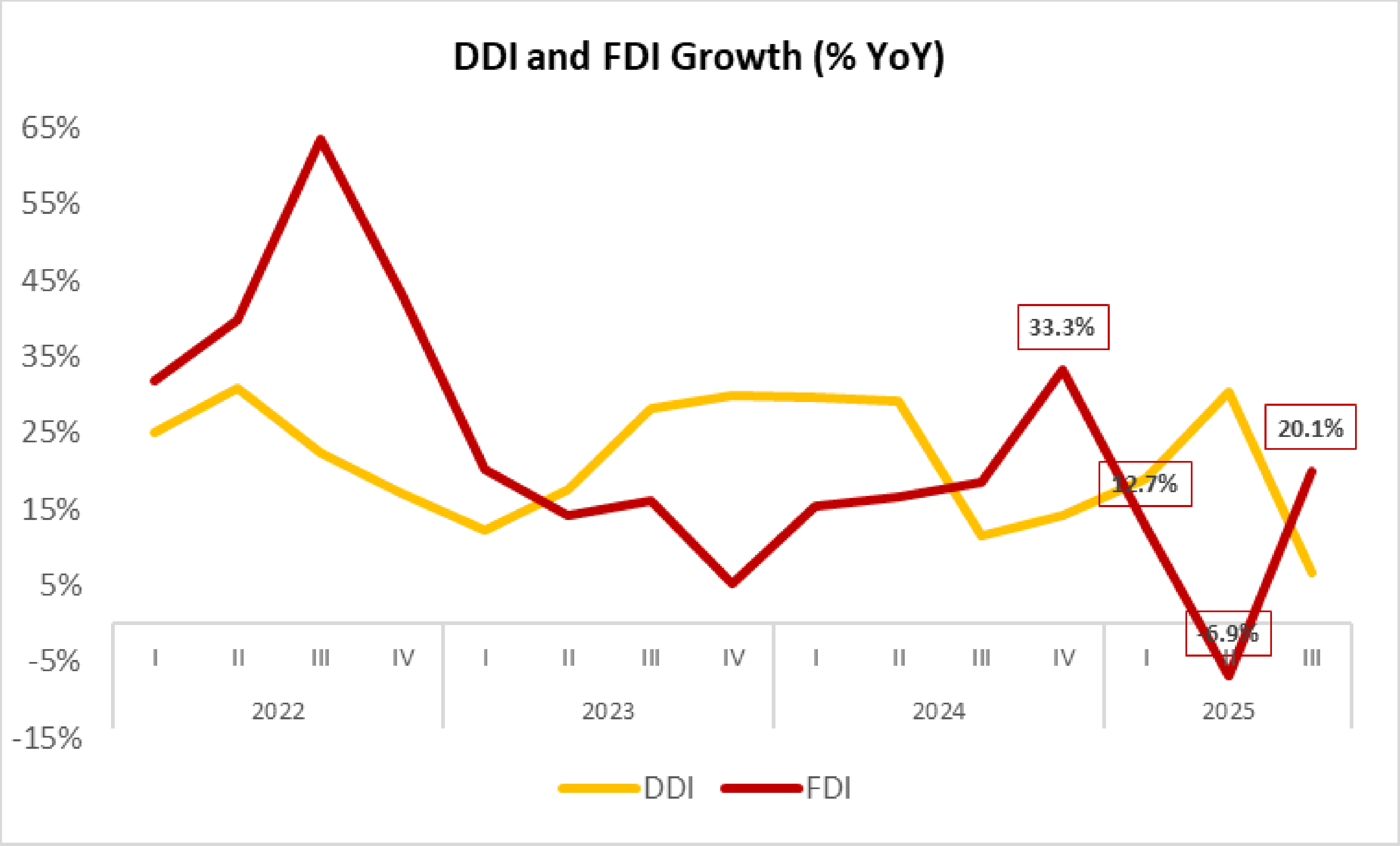


Source : Indonesia Economic Prospects, World Bank

- **Government spending continues to rise in nominal terms**, but allocation is increasingly spread across functions, diluting impact on priority programs that require focused execution.
- **Underspending persists in several critical sectors**, including dams, school rehabilitation, health facilities, housing, and food security, reflecting execution and absorption constraints rather than budget scarcity.
- **The main constraint is implementation, not fiscal space**, as relatively small budget shares to GDP still translate into low realization, highlighting the need to strengthen project readiness, procurement, and inter agency coordination.

Investment Growth Remains Solid, Driven by Domestic Capital



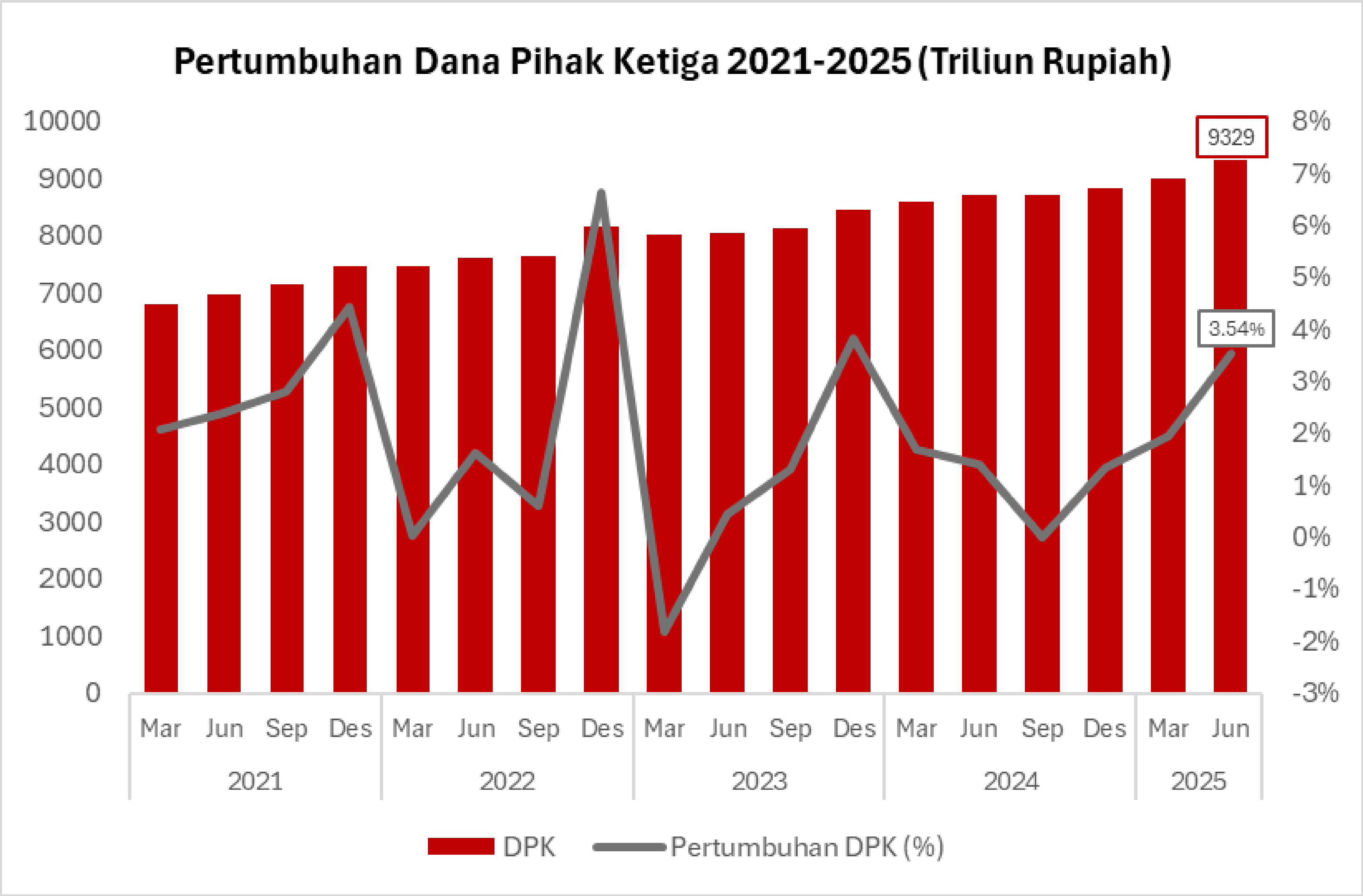


Source : BKPM

- **Total investment realization continues to rise steadily**, reaching new highs by 2025, indicating sustained capital formation despite global uncertainty.
- **Domestic investment (DDI) provides the main growth anchor**, showing more stable and consistent expansion compared with the highly volatile pattern of foreign direct investment.
- **FDI growth remains episodic and shock sensitive**, with sharp swings reflecting global financial conditions and geopolitical sentiment rather than Indonesia specific fundamentals.

FINANCIAL SECTOR

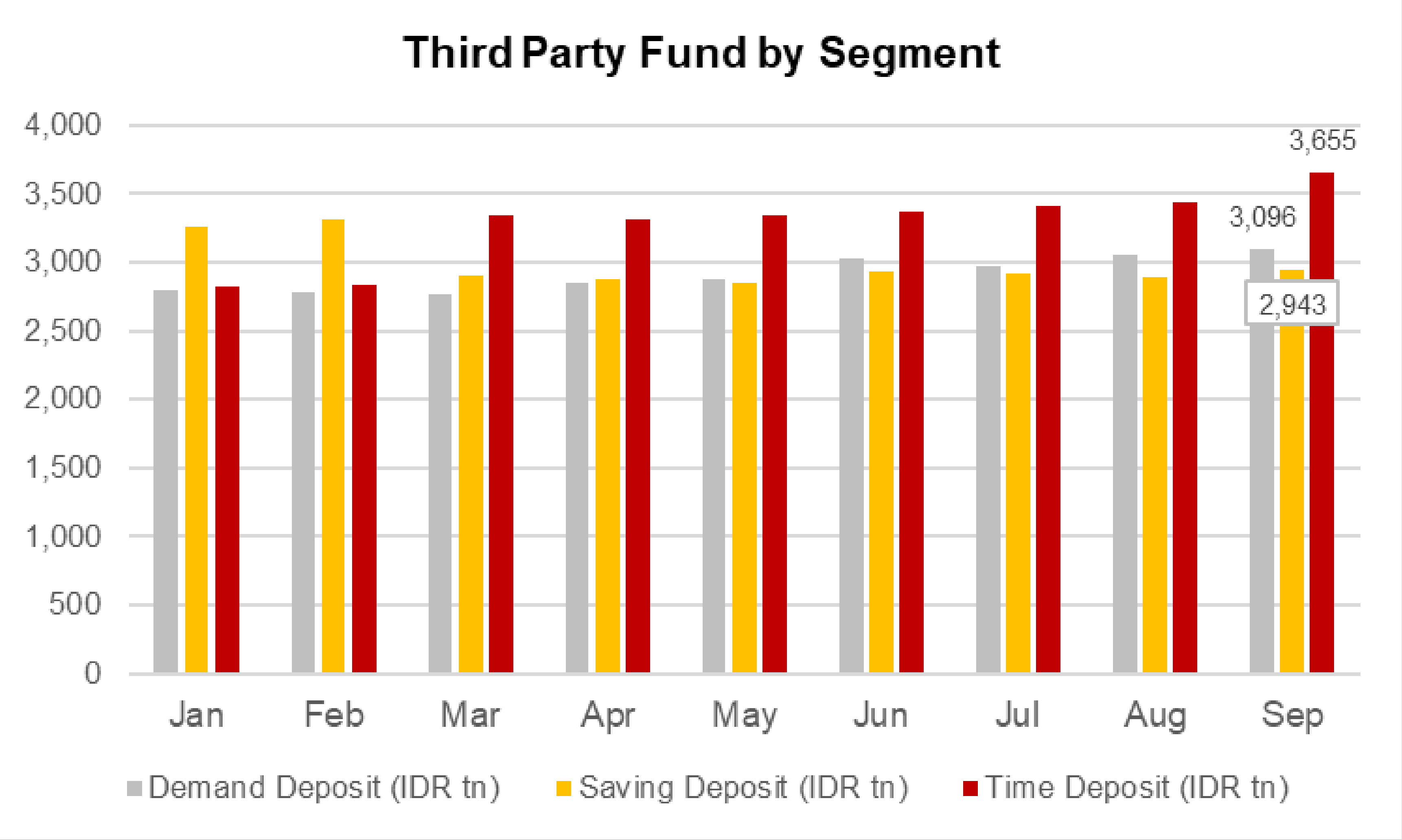
Banking Liquidity Strengthens, Credit Risk Remains Contained

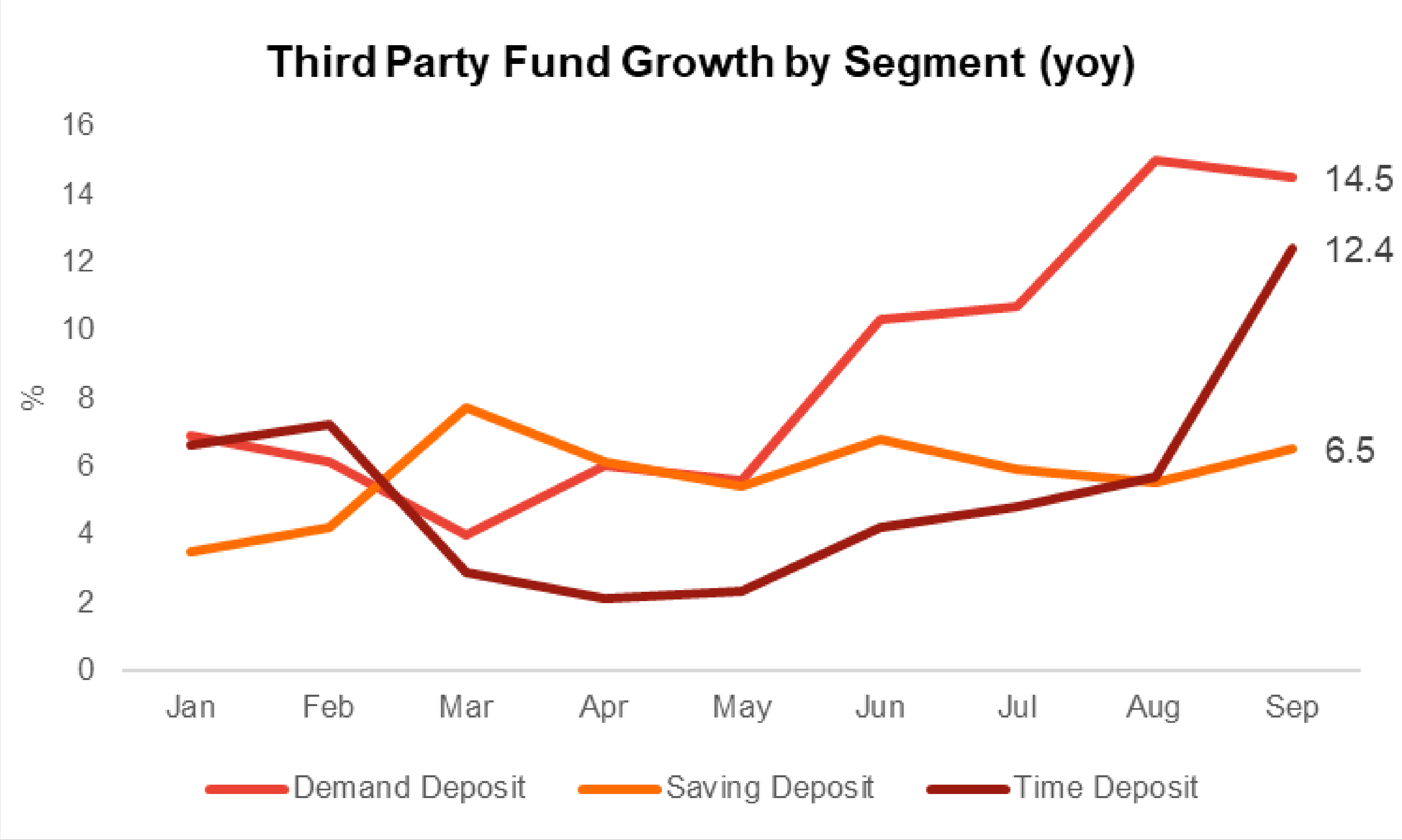


Source: OJK

- **Third party funds continue to grow steadily in nominal terms**, reaching above IDR 9,300 trillion in 2025, indicating sustained depositor confidence in the banking system.
- **DPK growth has moderated compared with earlier post pandemic spikes**, reflecting tighter liquidity conditions and competition with higher yielding financial instruments.
- **The positive growth trajectory remains intact**, suggesting banking liquidity is expanding gradually rather than overheating, supporting credit growth in a controlled manner.

Banking Liquidity Strengthens, Credit Risk Remains Contained

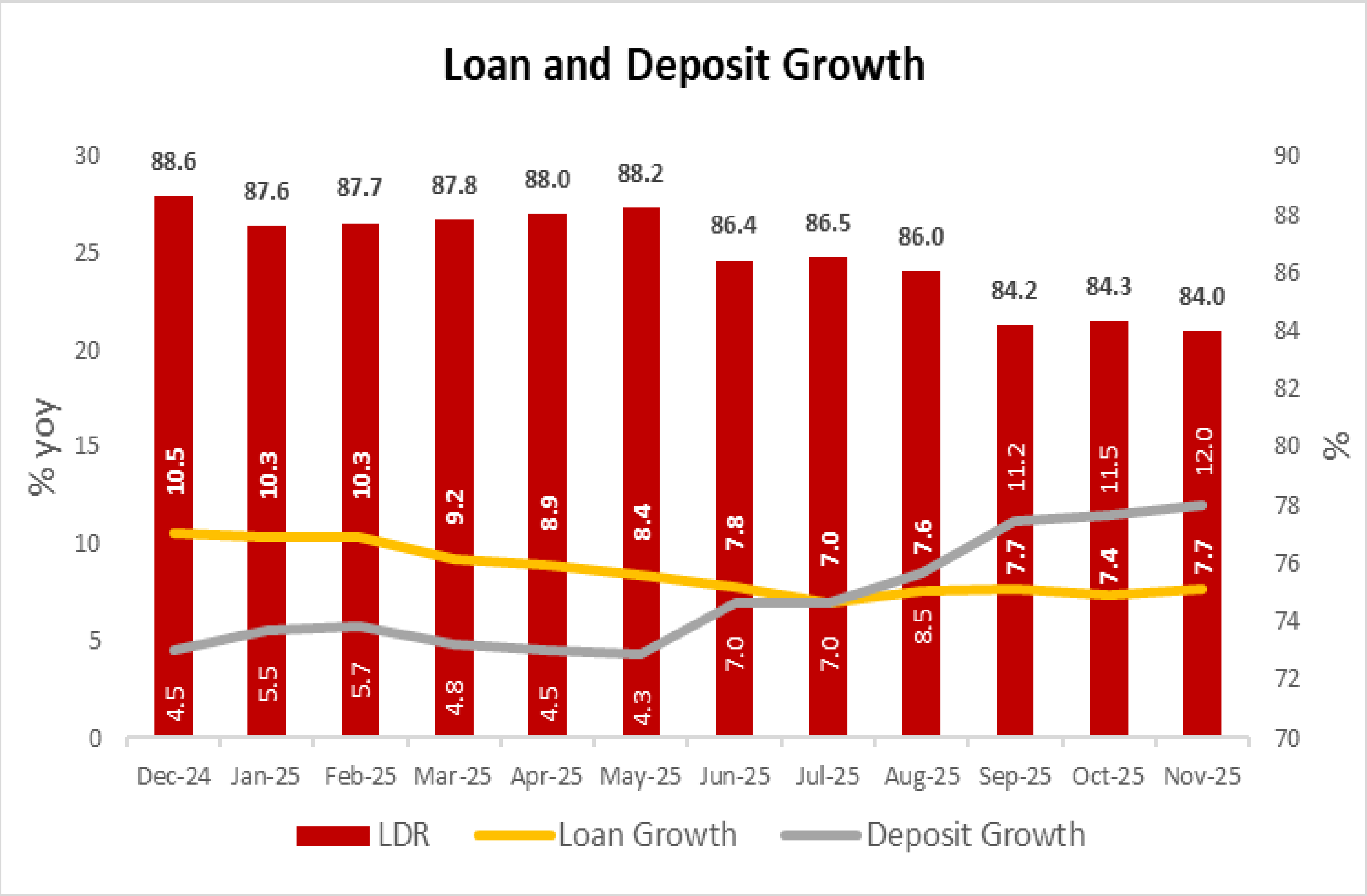




Source: OJK

- **Deposit growth is increasingly driven by demand deposits**, which show the strongest acceleration by September, signaling higher transaction balances and corporate liquidity.
- **Time deposits are rebounding sharply**, reflecting households and firms locking in yields amid still attractive interest rates.
- **Savings deposits grow more moderately**, indicating a gradual shift in preference toward either liquidity for transactions or yield seeking instruments.

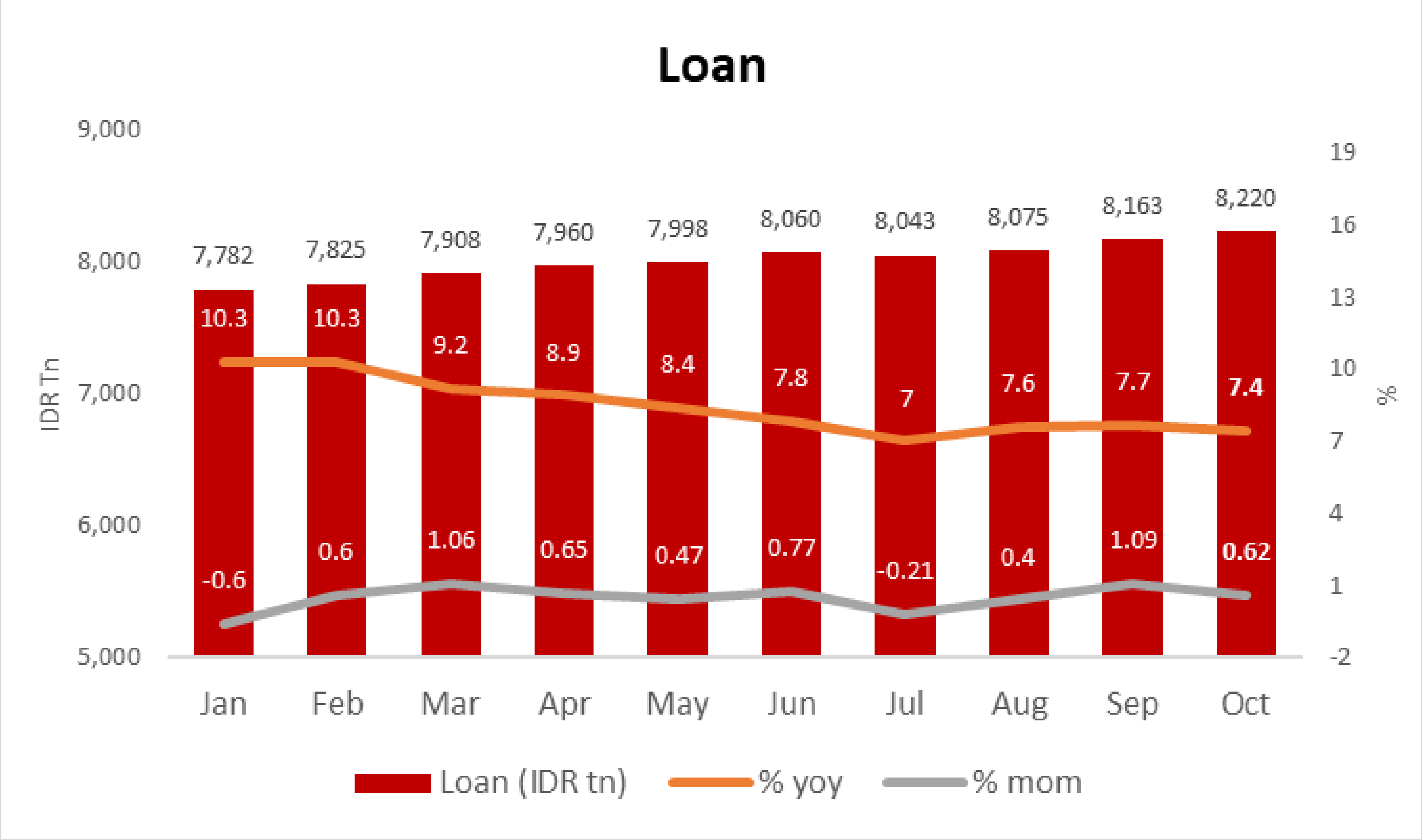
Loan and Deposit Growth

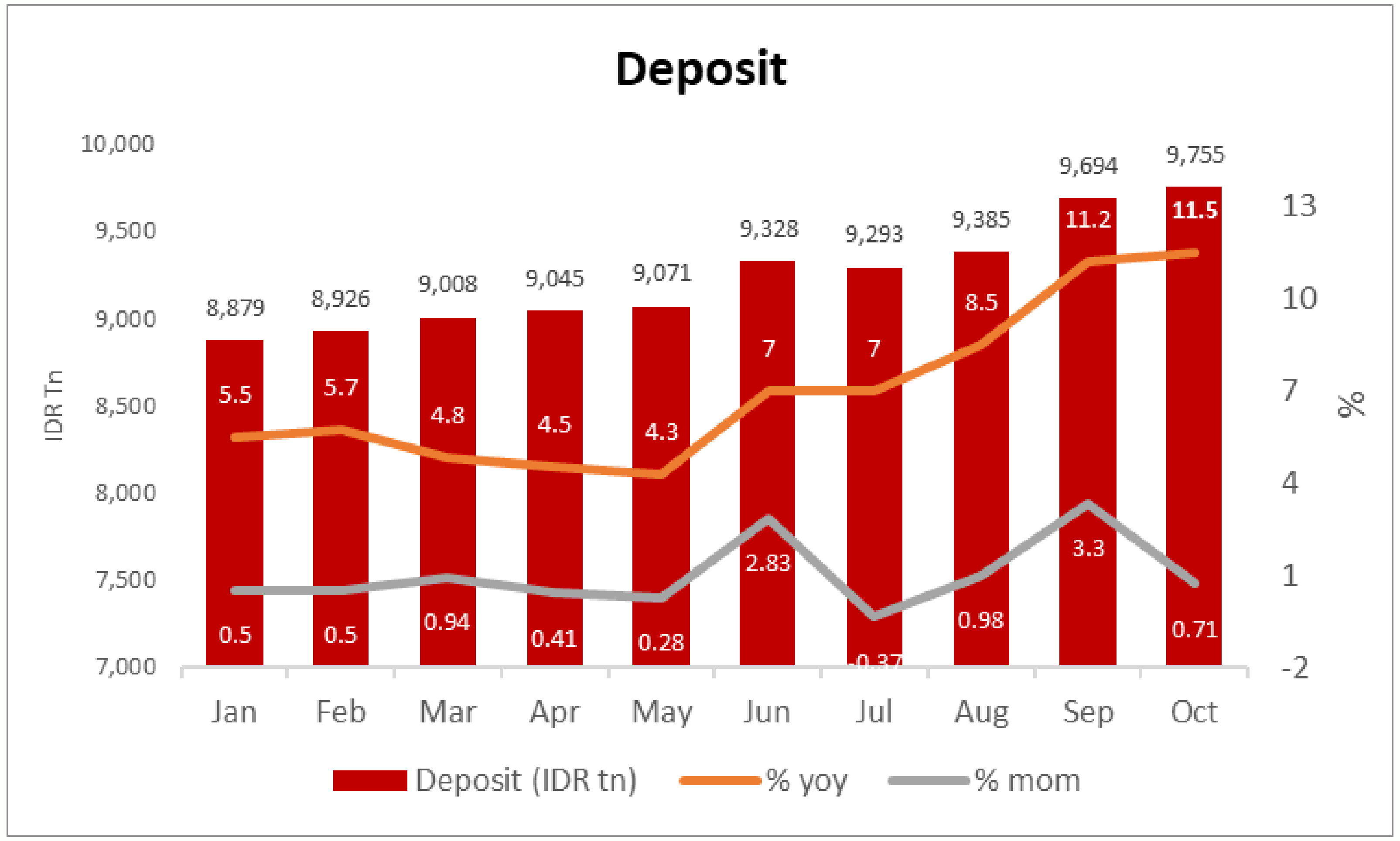


Source : OJK

- **Deposit growth has overtaken loan growth**, indicating improving banking liquidity and a shift toward balance sheet strengthening rather than aggressive credit expansion.
- **Loan growth is moderating but remains healthy**, reflecting cautious lending behavior amid tighter financial conditions and risk management considerations.
- **The loan to deposit ratio is declining steadily**, signaling easing liquidity pressure and reduced funding risk in the banking system.

Loan and Deposit Growth





Source : WUI

- **Deposit growth has overtaken loan growth**, indicating improving banking liquidity and a shift toward balance sheet strengthening rather than aggressive credit expansion.
- **Loan growth is moderating but remains healthy**, reflecting cautious lending behavior amid tighter financial conditions and risk management considerations.
- **The loan to deposit ratio is declining steadily**, signaling easing liquidity pressure and reduced funding risk in the banking system.

Loan by Segment

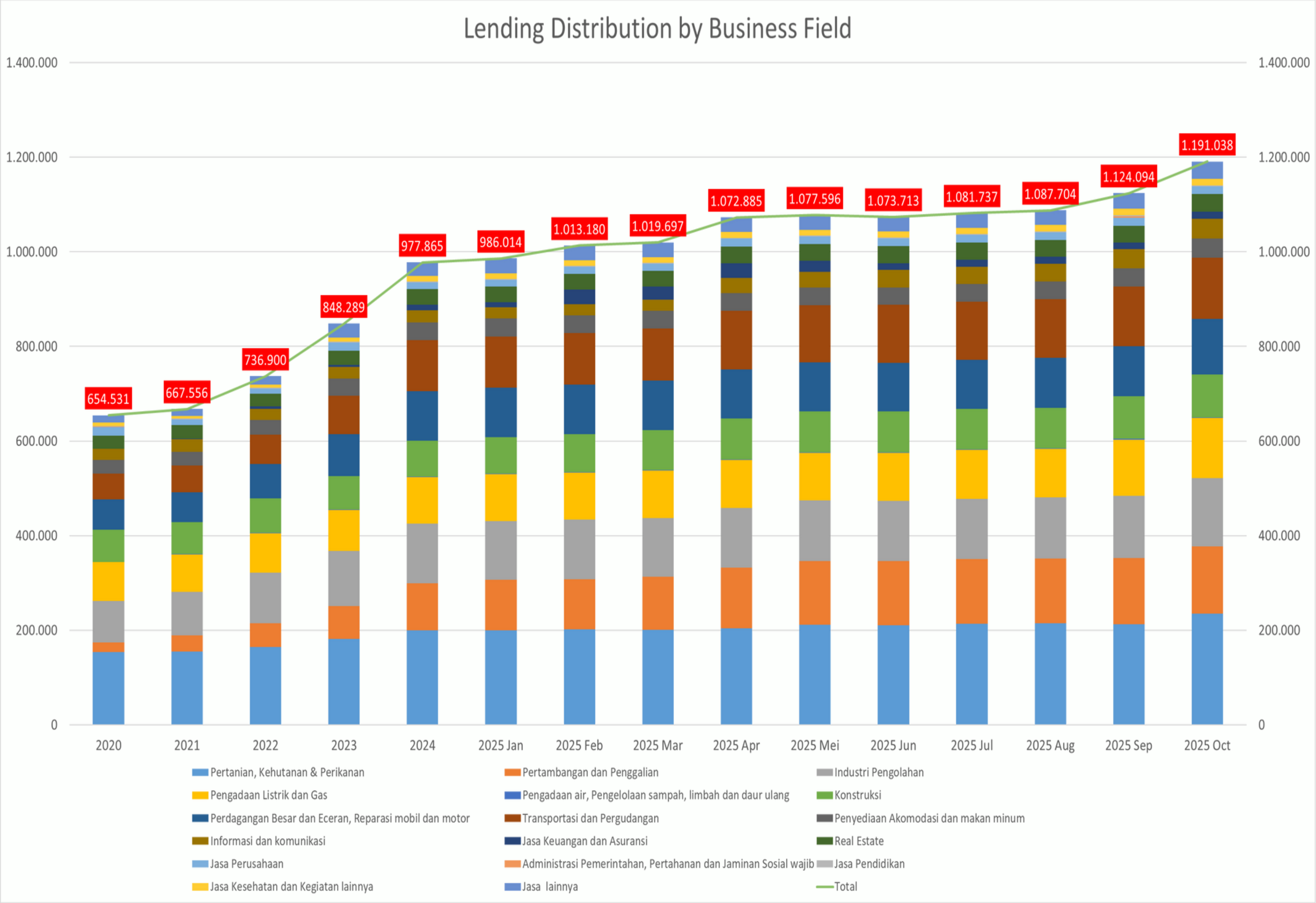
Month	Investment Loan (IDR tn)	% yoy	% mom	% Share*	Working Capital Loan (IDR tn)	% yoy	% mom	% Share*
Jan-25	2199	13.20	0.70	28.30	3441	8.40	-1.90	44.20
Feb-25	2236	14.60	1.70	28.60	3437	7.70	-0.10	43.90
Mar-25	2256	13.40	0.90	28.50	3486	6.50	1.50	44.10
Apr-25	2320	15.90	2.80	29.10	3472	4.60	-0.40	43.60
May-25	2319	13.70	0.00	29.00	3497	4.90	0.70	43.70
Jun-25	2322	12.50	0.10	28.80	3540	4.50	1.20	43.90
Jul-25	2335	12.40	0.60	29.00	3497	3.10	-1.20	43.50
Aug-25	2341	13.90	0.30	29.00	3510	3.50	0.40	43.50
Sep-25	2377	15.20	1.50	29.10	3549	3.40	1.10	43.50

Source : OJK

- **Investment loans are growing robustly**, with double digit year on year growth and a rising share, indicating strengthening appetite for capital formation and medium term expansion.
- **Working capital loans grow more moderately and unevenly**, reflecting cautious business sentiment and selective use of short term financing amid uncertain demand conditions.
- **Credit composition is gradually shifting toward investment financing**, signaling a healthier lending structure focused on productivity and longer term growth rather than purely operational liquidity.

Financing access is more open in sectors with more measurable risks

Credit expansion continues and is increasingly channelled toward sectors with clearer, measurable risk profiles, reinforcing a more selective financing environment.



Source : SEKI Bank Indonesia

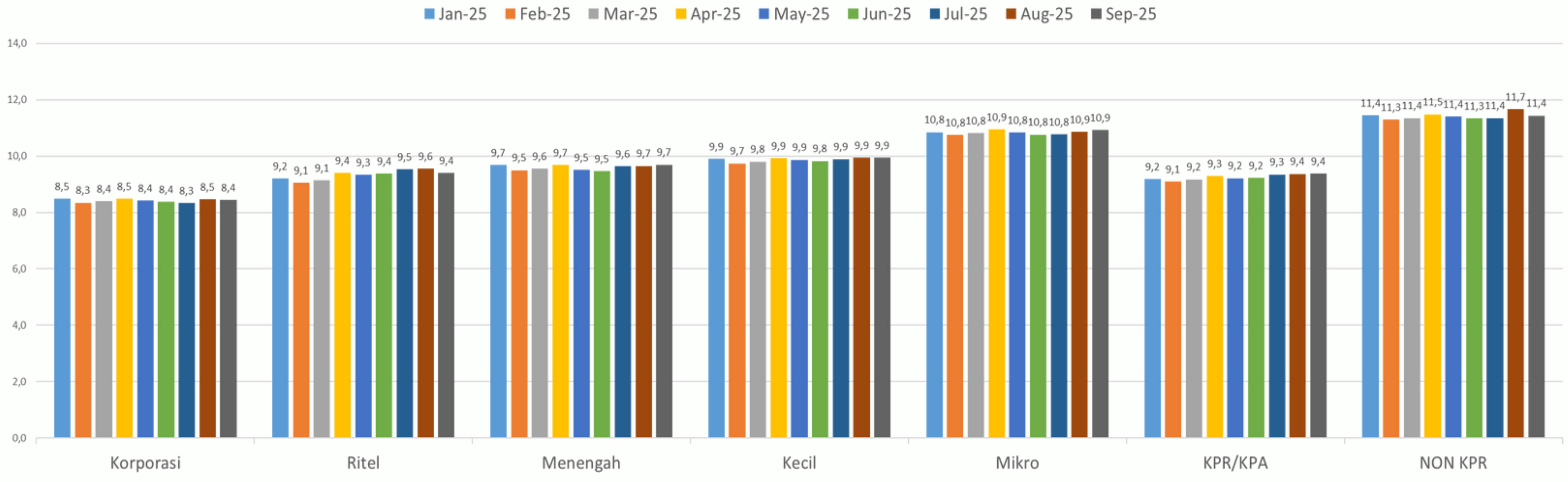
- **Credit growth is broad based across sectors**, with manufacturing, trade, construction, and transportation remaining the largest recipients, indicating real economy driven lending rather than speculative concentration.
- **Services related sectors are gaining share steadily**, including information and communication, accommodation, and business services, reflecting structural shifts toward a more service oriented economy.
- **Overall lending expansion is stable and diversified**, reducing sector specific risk and supporting more resilient credit quality amid uneven global conditions.

Credit costs tend to be stable, but vary across business segments

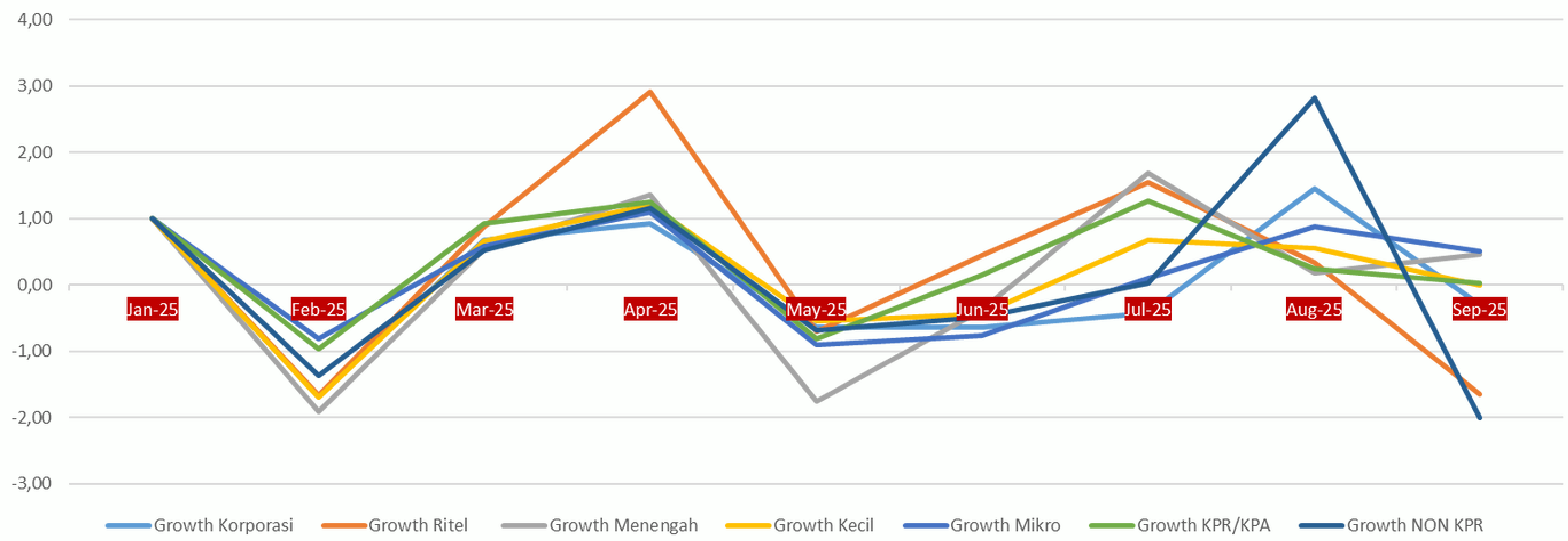
Danantara Indonesia

IFG

Average Per-sector Prime Lending Rate (SBDK)



Growth of Average Per-sector Prime Lending Rate (SBDK)

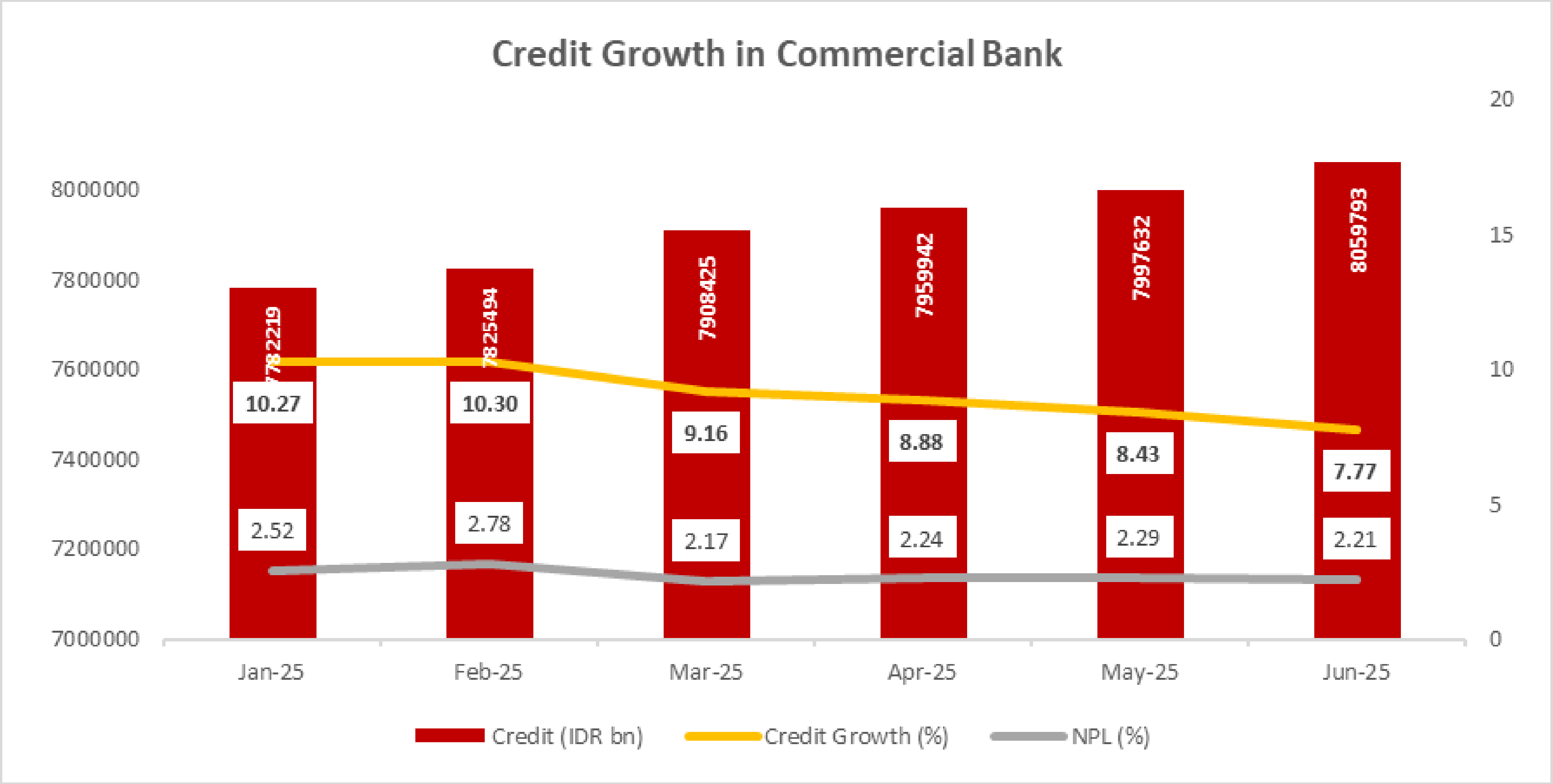


Borrowing costs are broadly stable, but pricing dispersion across segments remains meaningful—making funding strategy and customer selection more important.

- **Prime lending rates remain sticky across segments**, with micro, small, and non KPR loans staying at the highest levels, indicating limited and uneven pass through from policy easing.
- **Rate adjustments are modest and volatile month to month**, suggesting banks are prioritizing margin protection and risk pricing rather than aggressive loan repricing.
- **Credit transmission remains segmented**, with corporate and retail rates moving more gradually while micro and non KPR segments face structurally higher borrowing costs.

Source : Otoritas Jasa Keuangan

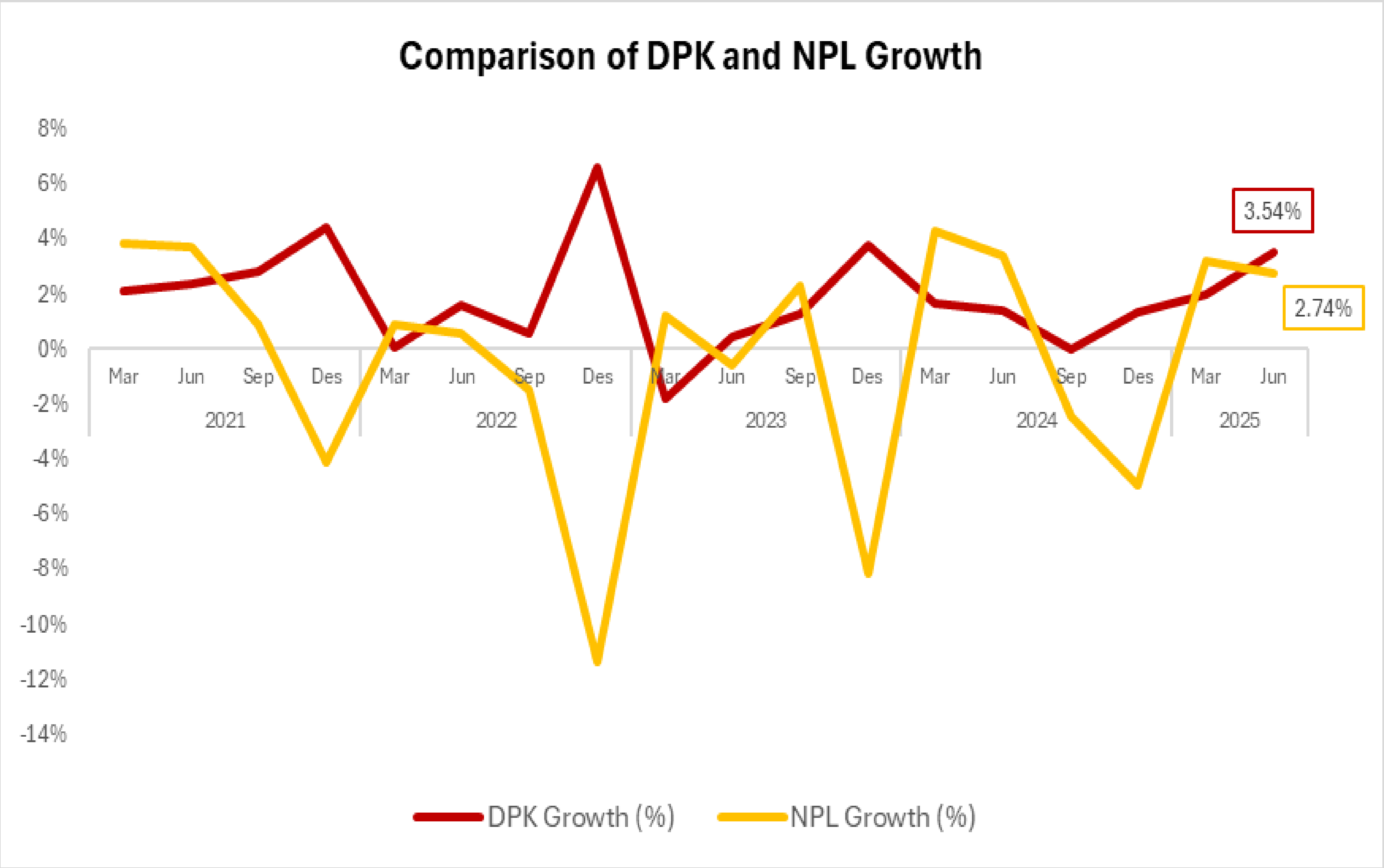
Credit Growth



Source : BPS

- **Credit volumes continue to expand steadily**, with outstanding loans rising each month, indicating sustained lending activity despite a slowing growth rate.
- **Credit growth is moderating gradually**, suggesting normalization after earlier acceleration rather than a sharp tightening in bank lending.
- **Asset quality remains stable**, with NPL ratios contained around low levels, supporting the sustainability of ongoing credit expansion.

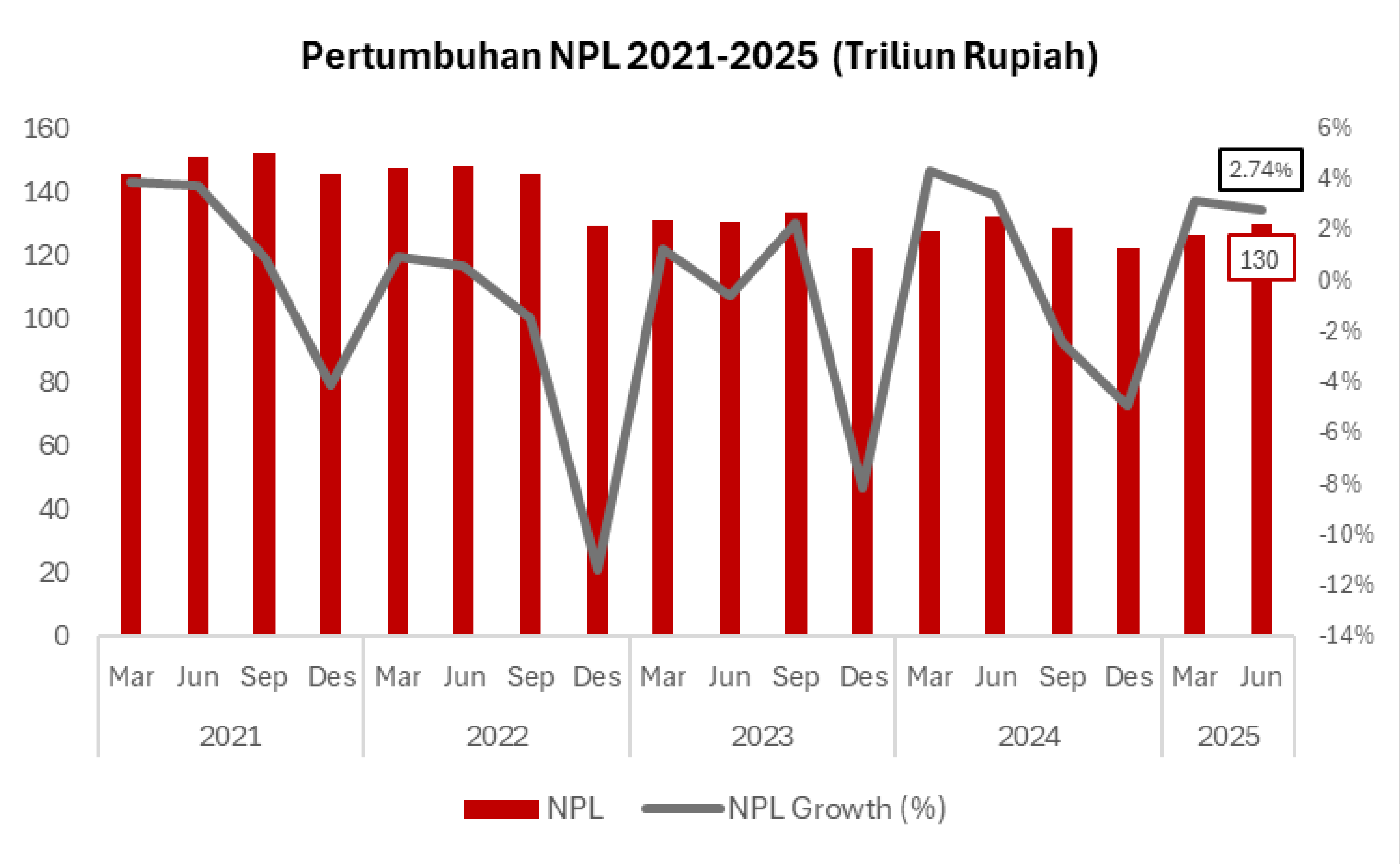
Stable Banking System, Uneven Credit Risk



Source: OJK (2025), diolah

- **DPK growth remains positive and relatively stable**, reinforcing funding resilience in the banking system even amid cyclical fluctuations.
- **NPL growth is volatile but not synchronized with DPK growth**, indicating that asset quality pressures are episodic rather than driven by funding stress.
- **Recent data point to improving balance sheet health**, with deposit growth outpacing NPL growth, supporting credit sustainability going forward.

Banking Liquidity Strengthens, Credit Risk Remains Contained



Source: OJK

- **NPL levels remain broadly stable in nominal terms**, hovering around IDR 120 to 130 trillion, indicating no systemic deterioration in asset quality.
- **NPL growth is volatile year to year**, reflecting periodic resolution, write offs, and reclassification rather than a persistent upward trend.
- **Recent uptick in NPL growth remains manageable**, staying well below stress thresholds and consistent with a controlled credit expansion environment.

NPL by Sector (%)

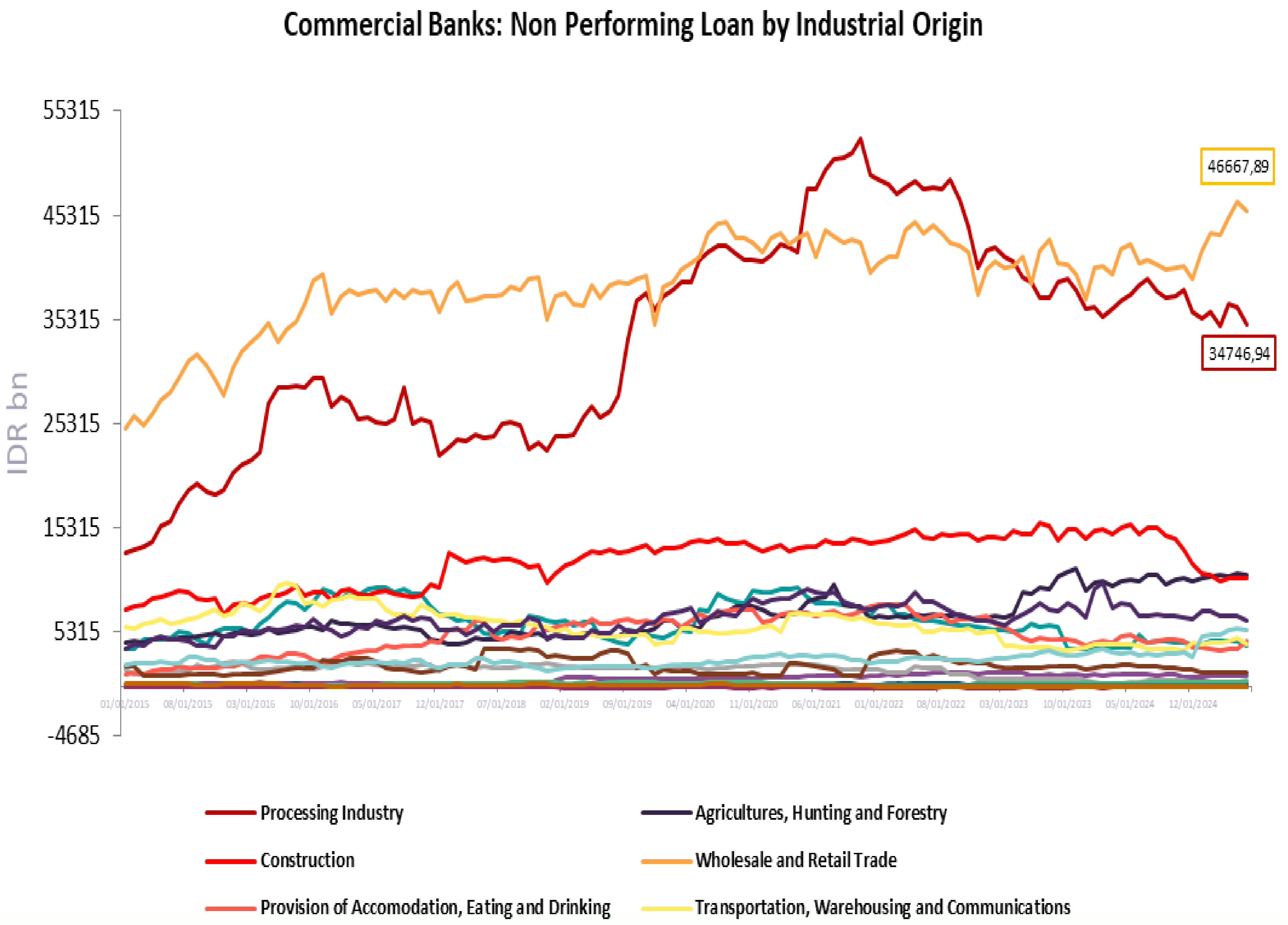
Industry Sector	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Agriculture, forestry and fishing	2.11	2.13	2.14	2.07	2.13	2.09	2.07	2.07	2.11
Mining and quarrying	1.09	1.17	1.12	1.13	1.13	1.01	1.05	1.06	1.06
Manufacturing	2.91	2.93	2.82	2.96	2.95	2.81	2.81	2.65	2.46
Electricity, gas, steam and air conditioning supply	0.20	0.20	0.15	0.15	0.15	0.13	0.17	0.17	0.16
Water supply; sewerage, waste management and remediation activities	0.66	0.67	0.84	0.97	0.98	0.88	0.92	0.76	0.71
Construction	2.85	2.78	2.61	2.64	2.64	2.65	2.75	2.70	2.74
Wholesale and retail trade; repair of motor vehicles and motorcycles	3.61	3.73	3.63	3.78	3.93	3.75	3.87	3.89	3.86
Transportation and storage	1.27	1.30	1.27	1.26	1.30	1.17	1.18	1.17	1.13
Accommodation and food service activities	2.77	2.64	2.49	2.59	2.69	3.21	3.28	3.29	3.18
Information and Communication	0.84	0.89	0.78	0.76	0.74	0.69	0.69	0.70	0.76
Financial and Insurance Activities	0.31	0.31	0.29	0.30	0.31	0.30	0.30	0.32	0.31
Real Estate	1.88	1.86	1.83	1.81	1.83	1.60	1.80	1.98	1.96
Professional, Scientific and Technical Activities	1.07	1.17	1.14	1.12	1.67	0.93	1.66	1.74	1.38
Rental and Leasing Activities Without Option Rights, Employment, Travel Agencies and Other	1.82	1.79	1.49	1.51	1.55	1.46	1.51	1.67	1.67
Government Administration, Defense and Compulsory Social Security	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.06
Education	1.47	1.43	1.53	1.70	1.70	1.88	2.71	2.61	2.46
Human Health Activities and Social Activities	0.84	0.88	0.90	0.89	0.90	1.17	1.19	1.18	0.96
Arts, Entertainment and Recreation	1.80	1.79	1.52	1.61	1.68	1.70	3.54	1.70	1.55
Other Service Activities	2.68	2.71	2.61	2.80	2.79	2.90	2.89	2.90	2.83
Household Activities as Employers; Goods and Services Producing Activities by Households for Own Us	2.98	2.99	2.93	3.12	3.16	3.15	3.02	3.11	3.02
Activities of International Bodies and Other Extra International Agencies	6.08	6.16	5.14	1.61	1.61	4.55	2.91	4.45	3.76
Total NPL Industry	**2.24**	**2.28**	**2.20**	**2.26**	**2.29**	**2.21**	**2.27**	**2.24**	**2.18**

Source : OJK

By sector NPL

- Overall industry NPL remains low and stable, declining slightly from around 2.24 percent in January to about 2.18 percent in September, indicating no systemic deterioration in credit quality.
- Wholesale and retail trade consistently records one of the highest NPL levels, hovering close to 3.6 to 3.9 percent, reflecting its exposure to consumption cycles and working capital risks.
- Transportation and storage shows relatively low and stable NPLs, around 1.1 to 1.3 percent, suggesting gradual normalization after post pandemic adjustments.
- Education and human health related sectors exhibit rising NPLs in mid 2025, pointing to delayed payments and cash flow pressure despite stable demand.
- Manufacturing related activities show a mild downward trend in NPLs, signaling improving repayment capacity and better risk management as investment oriented lending expands.

Stable Banking System, Uneven Credit Risk



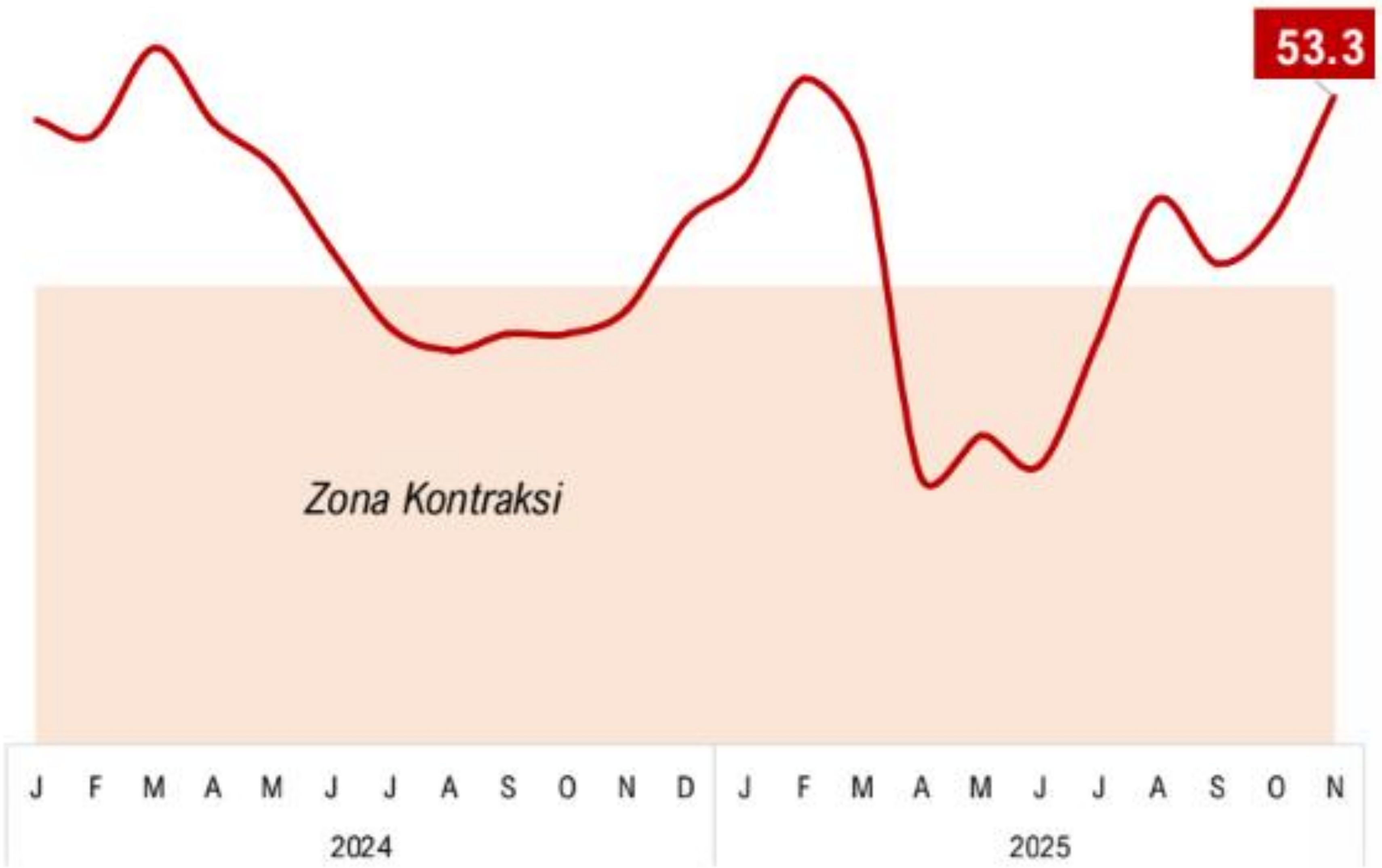
Source: OJK (2025), diolah

- **NPLs are structurally concentrated in a few large sectors**, with wholesale and retail trade and processing industry consistently accounting for the largest nominal NPL stock, reflecting their scale and exposure to cyclical demand.
- **Post pandemic normalization is visible**, as NPLs in processing and construction peaked around 2021–2022 and have gradually declined, indicating effective restructuring and recovery rather than renewed stress.
- **Other sectors remain relatively contained and stable**, with agriculture, transportation, accommodation, and services showing lower and flatter NPL trajectories, suggesting sector specific risks are not spreading systemically.

REAL SECTOR

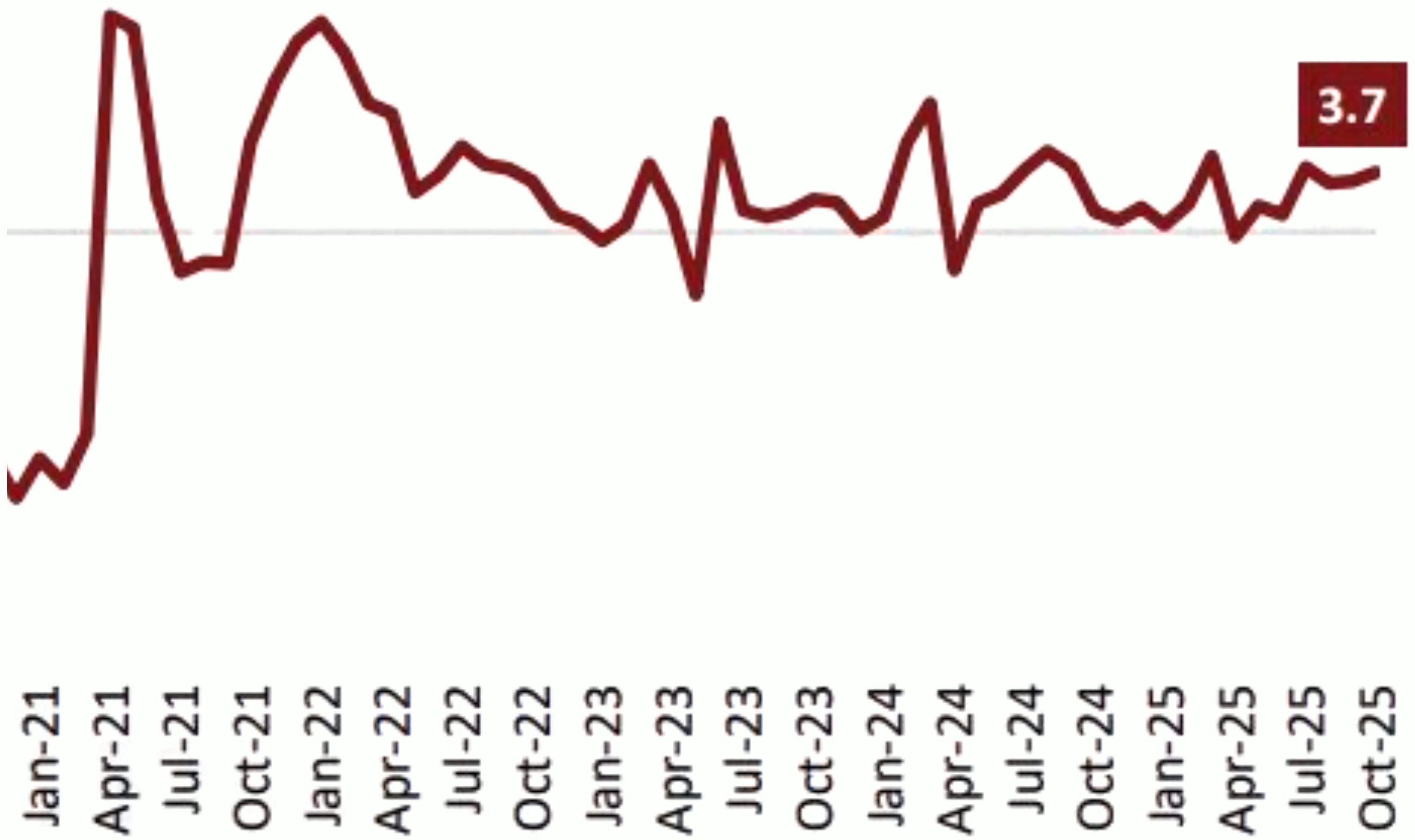
Domestic Demand is Holding, Manufacturing is Rebounding

PMI Manufaktur



Source : S&P Global

Retail Sales (%, yoy)

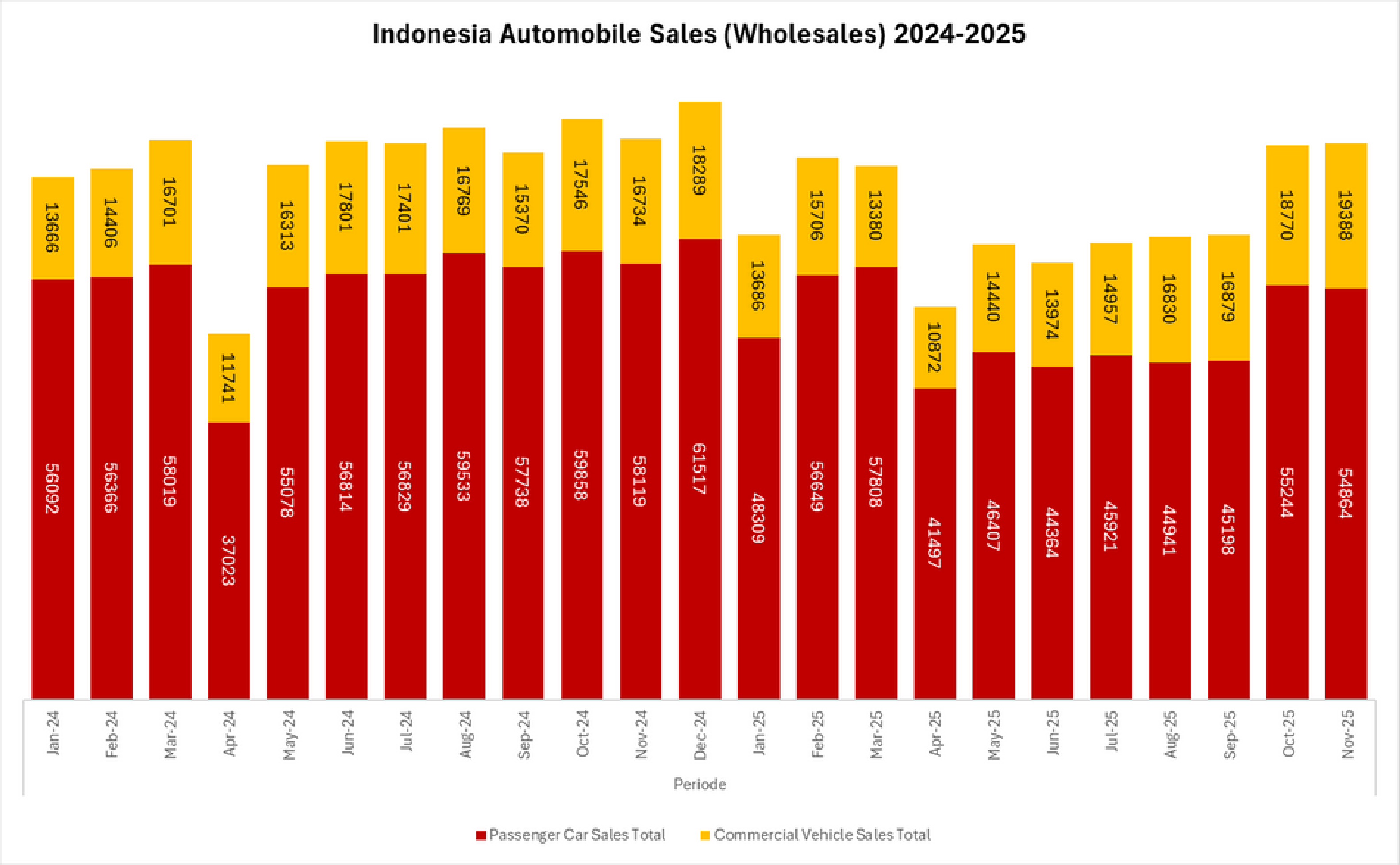


Source : Bank Indonesia

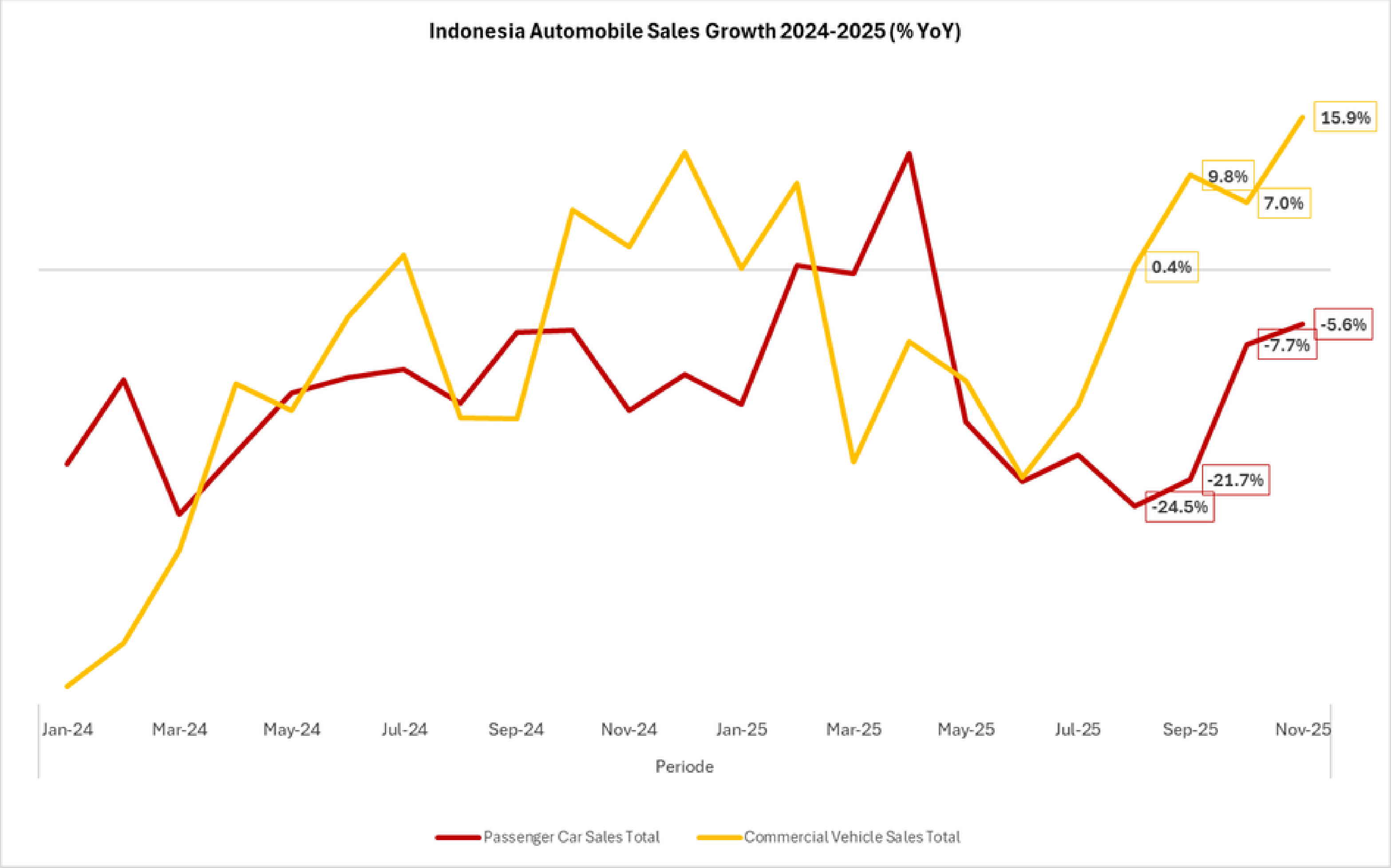
- **Manufacturing activity has re entered expansion territory**, with PMI rising to 53.3, signaling improving production momentum after a period of contraction.
- **The rebound appears demand supported rather than inventory driven**, suggesting healthier order flows and production normalization.
- **Retail sales growth remains positive but moderate**, holding around 3.7 percent, indicating resilient household consumption without signs of overheating.

Automotive Sales Signal Real Sector Momentum

Penjualan Mobil di Indonesia 2024-2025



Pertumbuhan Penjualan 2024-2025 (% YoY)



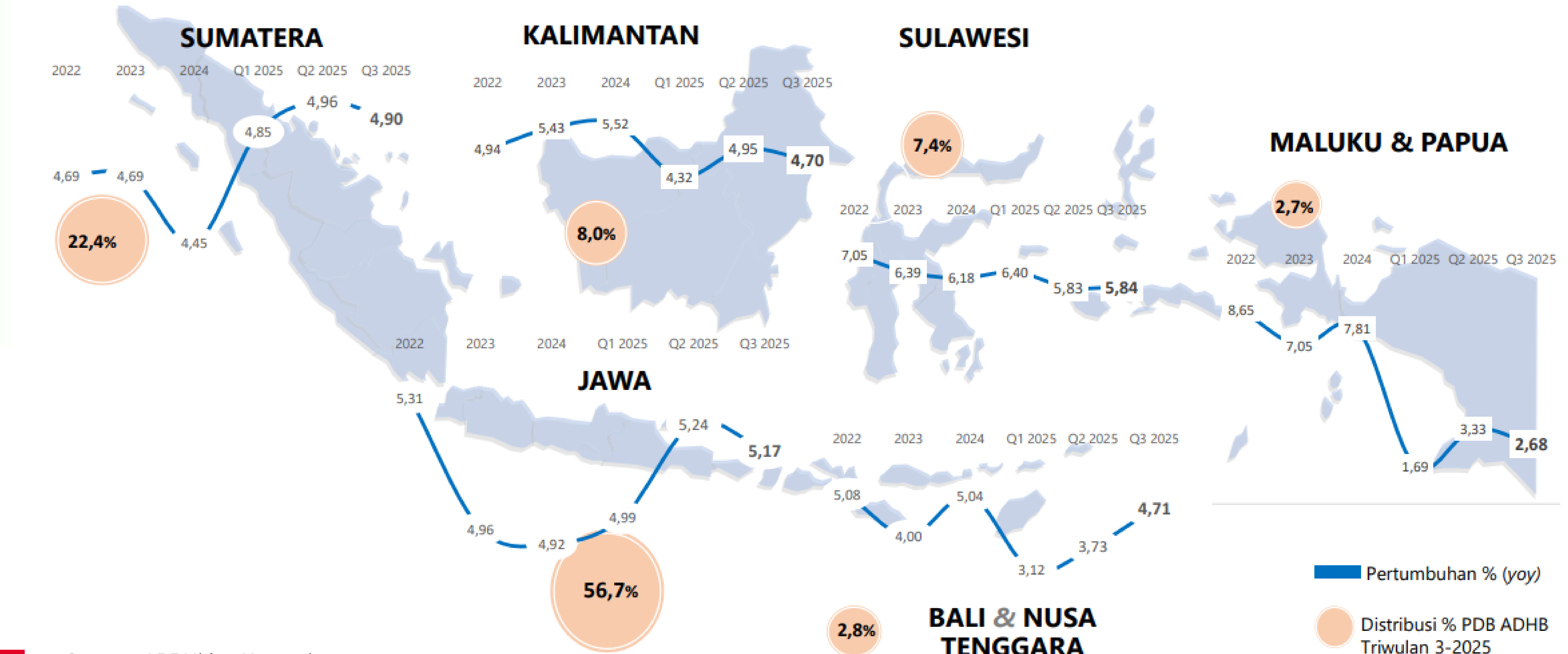
Sumber: Gaikindo (2025), diolah

- **Car sales remain volatile across 2024–2025**, with monthly volumes fluctuating rather than following a smooth recovery path, reflecting sensitivity to financing costs and consumer confidence.
- **Commercial vehicle sales outperform passenger cars**, showing stronger and more consistent growth momentum, which points to firmer investment and logistics related demand rather than household consumption.
- **Passenger car growth remains fragile**, with several negative YoY prints in 2025, indicating that higher interest rates and cautious households continue to weigh on discretionary durable purchases.

REGIONAL SECTOR

Regional Growth Landscape

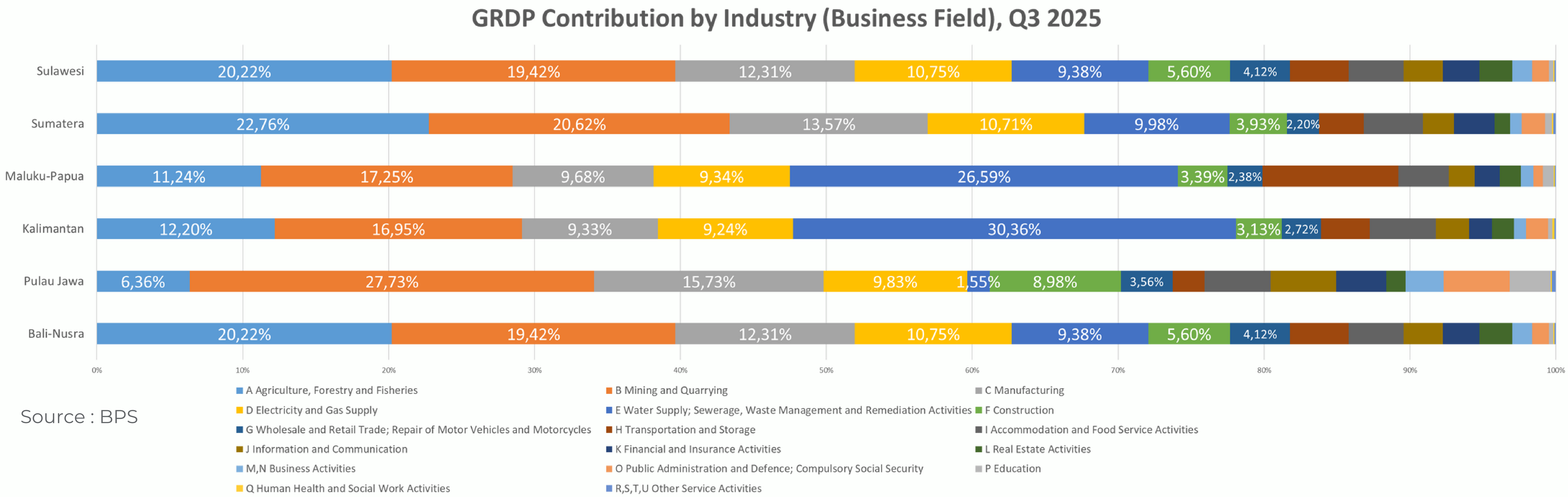
National growth is anchored by Java's dominant GDP share, while non-Java regions show varied momentum—highlighting the importance of region-specific market and investment strategies.



Source : APBNkita, Kemenkeu

Regional Growth Drivers

The drivers of regional growth differ materially by industry mix, implying that sector opportunities are highly location-dependent rather than uniform nationwide.



Source : BPS

- **Regional growth is driven by fundamentally different sector mixes**, with mining dominating Kalimantan and Maluku Papua, while Java and Bali Nusra rely on manufacturing, trade, and services.
- **Economic opportunities are therefore location specific**, implying that investment strategy, industrial policy, and financing should be regionally targeted rather than nationally uniform.

Regional Growth Drivers by Expenditure Approach

Regional demand structures diverge—some areas are consumption-led while others rely more on investment or net exports—so expansion plans should be tailored to each region’s expenditure profile.

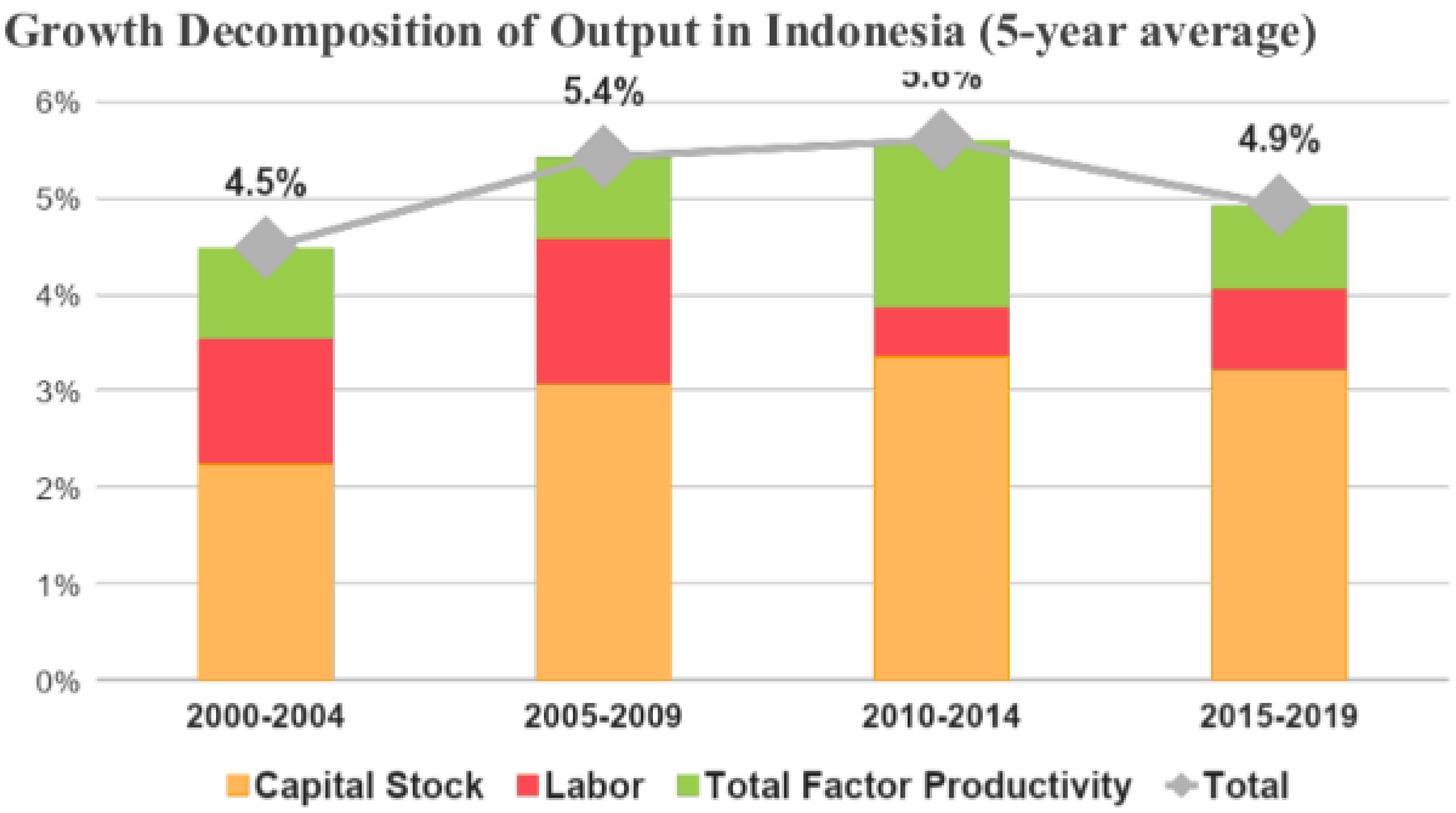
Jenis Komponen	Sumatera		Jawa		Bali-Nusra		Kalimantan		Sulawesi		Maluku dan Papua	
	Growth yoy Q3	Share GDRP	Growth yoy Q3	Share GDRP	Growth yoy Q3	Share GDRP	Growth yoy Q3	Share GDRP	Growth yoy Q3	Share GDRP	Growth yoy Q3	Share GDRP
Pengeluaran	4.28	47.51	10.94	58.60	4.63	60.62	25.56	26.93	4.50	42.98	4.04	37.01
Pengeluaran Konsumsi LNPRT	7.28	1.10	8.00	1.35	2.69	2.12	11.45	79.00	4.88	1.41	1.45	1.60
Pengeluaran Konsumsi Pemerintah	0.77	5.88	13.20	6.29	3.52	12.65	38.92	68.50	-1.13	8.52	11.00	16.47
Pembentukan Modal Tetap Bruto	2.41	30.25	11.88	29.96	3.34	33.07	63.61	30.04	4.36	37.43	8.04	29.23
Perubahan Inventori	-128.01	0.17	-127.34	2.40	86.61	56.00	-114.12	9.00	-104.27	26.00	-96.12	-1.13
Net Ekspor	13.53	15.14	26.02	3.60	4.93	-9.08	108.49	35.32	24.28	9.44	-13.94	16.84

Source : BPS

- **Growth drivers differ sharply across regions**, with Java and Bali Nusra dominated by household consumption, Kalimantan driven overwhelmingly by investment and net exports, and Sumatra and Sulawesi showing a more balanced mix between consumption, investment, and exports.
- **Investment and external demand are the key differentiators**, as regions with high PMTB and net export contributions post much stronger growth, while regions reliant mainly on consumption exhibit steadier but lower growth momentum.

STRCUTURAL CHALLENGES

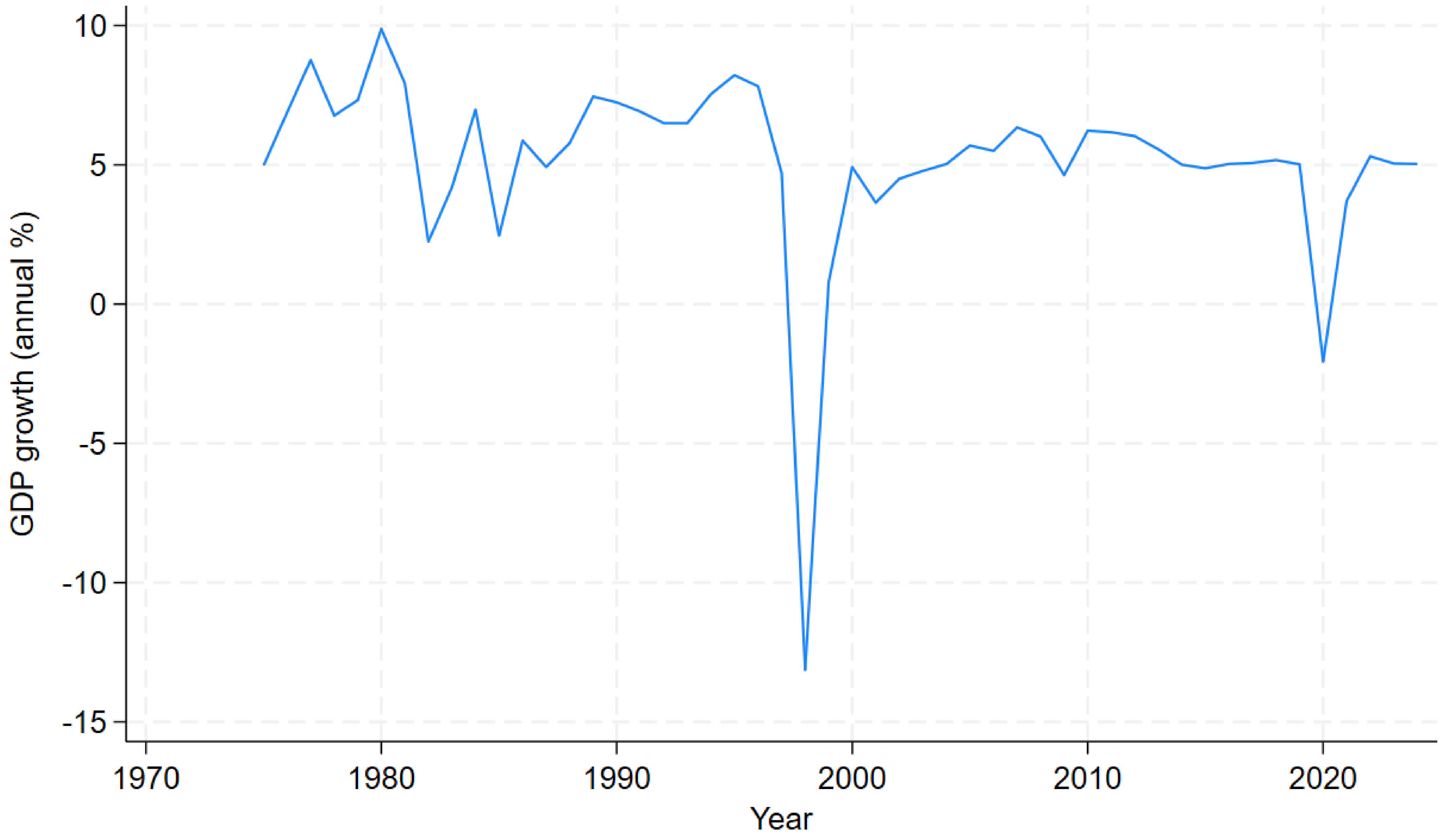
Indonesia’s Growth Engine: Capital-Driven, Productivity-Constrained



Source : LPEM FEB UI

- **Indonesia’s growth has been driven primarily by capital accumulation**, with capital stock consistently contributing the largest share across periods, while labor adds modestly and productivity plays a secondary role.
- **Total factor productivity contribution weakened in the late 2010s**, helping explain why overall growth eased after 2014 despite continued capital deepening.

Indonesia's long term growth



1. Indonesia has not achieved growth above 6 percent since 2012, indicating a persistent "5 percent ceiling."
Periods of >6 percent growth occurred mainly during exceptional commodity booms and early industrialization, not from enduring productivity gains. The post-2012 stagnation shows that the current economic structure is no longer capable of generating high, sustained growth.

2. Episodes of >6 percent growth were driven by temporary external cycles, and after every major shock Indonesia reverts to ~5 percent.
Both the 1998 crisis and the 2020 pandemic caused deep contractions, but the recovery always settles back at around 5 percent. This pattern signals resilience, but also limited structural transformation – high growth has been cyclical, not structural.

Country comparison

Length of years when growth >7% during the last 60 years

GDP growth > 7%

Country	How many times growth > 7%	Number of years achieved consecutively
Indonesia	15	5
Malaysia	27	10
Thailand	23	9
Vietnam	14	6
China	45	24

Bloomberg Commodity Price changes – last 40 years

Metric	Value
Average length of an upcycle	3.5 years
Median length	3 years
Typical range	2–4 years
Long cycles (>5 years)	Rare (1 episode)

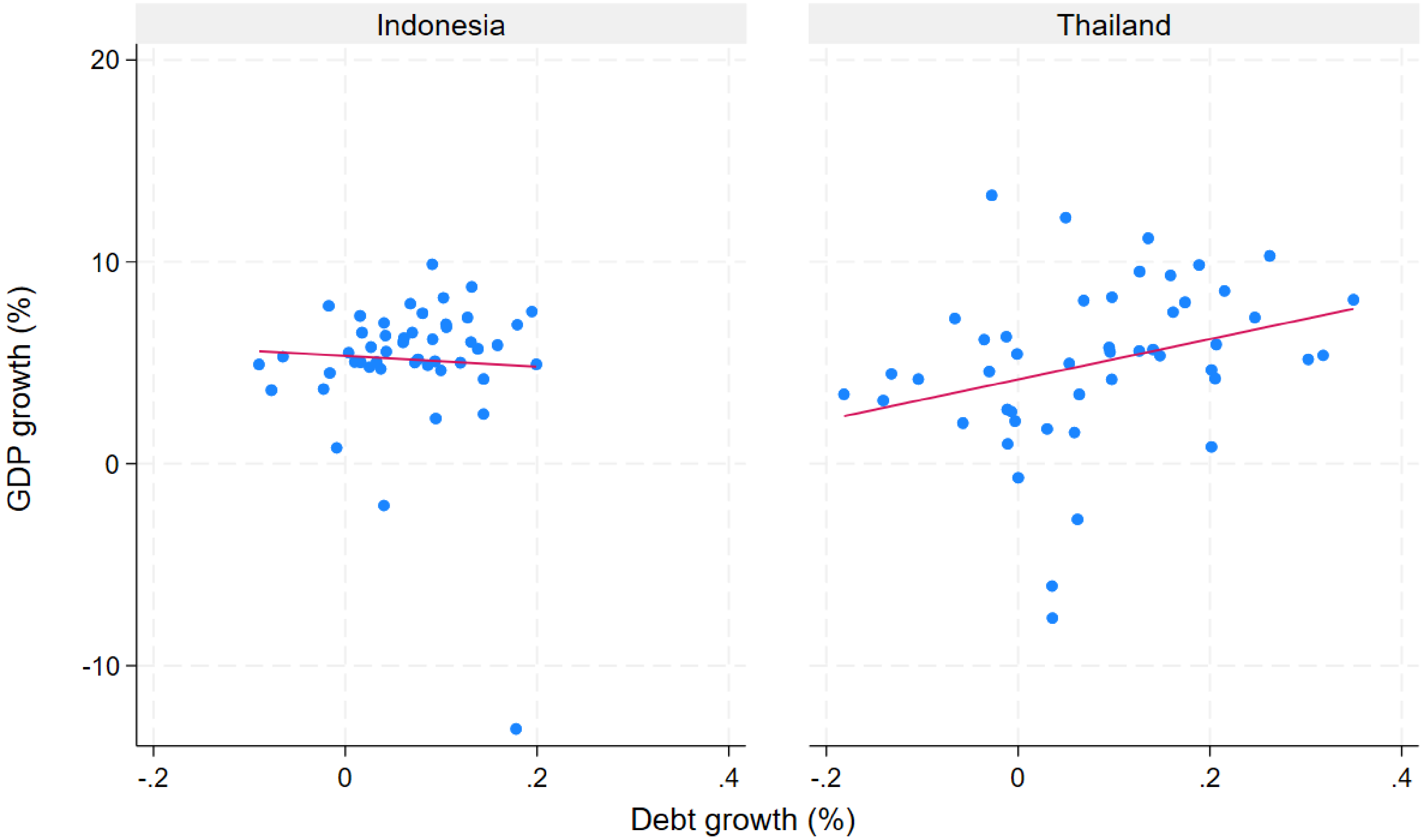
- **Consistency matters more than occasional spikes.** China, Malaysia, and Thailand are not just growing fast occasionally, they sustain **long consecutive streaks** of growth above 7 percent. China's 24 consecutive years and Malaysia's 10 years indicate structural growth engines, not cyclical luck. Indonesia's 15 episodes but only 5 consecutive years suggest growth that is more **episodic and shock-sensitive**.
- **Indonesia's challenge is persistence, not capability.**

Indonesia has demonstrated the **capacity** to grow above 7 percent multiple times, but it struggles to **lock it in over long periods**. Compared to peers, the binding constraint is not potential growth, but **institutional continuity, investment depth, and structural transformation** that can sustain high growth across cycles.

Indonesia’s Debt Led Growth

Theory / Tradition	Core Idea	Mechanism: How Debt Leads to Growth	Key References (Established)
Harrod–Domar Growth Model (1939–1946)	Growth depends on capital accumulation.	Debt fills the **savings gap**, enabling more investment, which raises output.	Harrod (1939); Domar (1946)
Keynesian Demand-Driven Growth (1936 onward)	Output is driven by aggregate demand.	Debt-financed spending raises **government expenditure**, **household consumption**, and **investment**, boosting GDP.	Keynes (1936)
Kaldorian Investment-Productivity Growth (1960s–70s)	Investment drives productivity and structural transformation.	Debt allows firms and governments to **scale investment**, raising productivity and long-run growth.	Kaldor (1966, 1970)
McKinnon–Shaw Financial Deepening (1973)	Credit availability supports efficient capital allocation.	Borrowing (private credit, bank lending) finances **entrepreneurship** and **capital formation**.	McKinnon (1973); Shaw (1973)
Two-Gap Model (Chenery & Strout, 1966)	Developing countries face savings and foreign exchange constraints.	External debt overcomes the **foreign exchange gap**, enabling investment in capital goods.	Chenery & Strout (1966)
Modern Debt Laffer Curve / Threshold Theory (IMF)	Debt stimulates growth only up to a point.	At low debt: borrowing increases investment and growth. At high debt: **debt overhang** reduces incentives and slows growth.	Pattillo, Poirson & Ricci (IMF, 2002); Reinhart & Rogoff (2010)
Financial Accelerator / Credit Cycle Theory	Credit conditions amplify economic activity.	Debt expansion during upswings increases **investment**, **asset prices**, and **GDP growth**.	Bernanke, Gertler & Gilchrist (1999)

Indonesia's Debt Led Growth



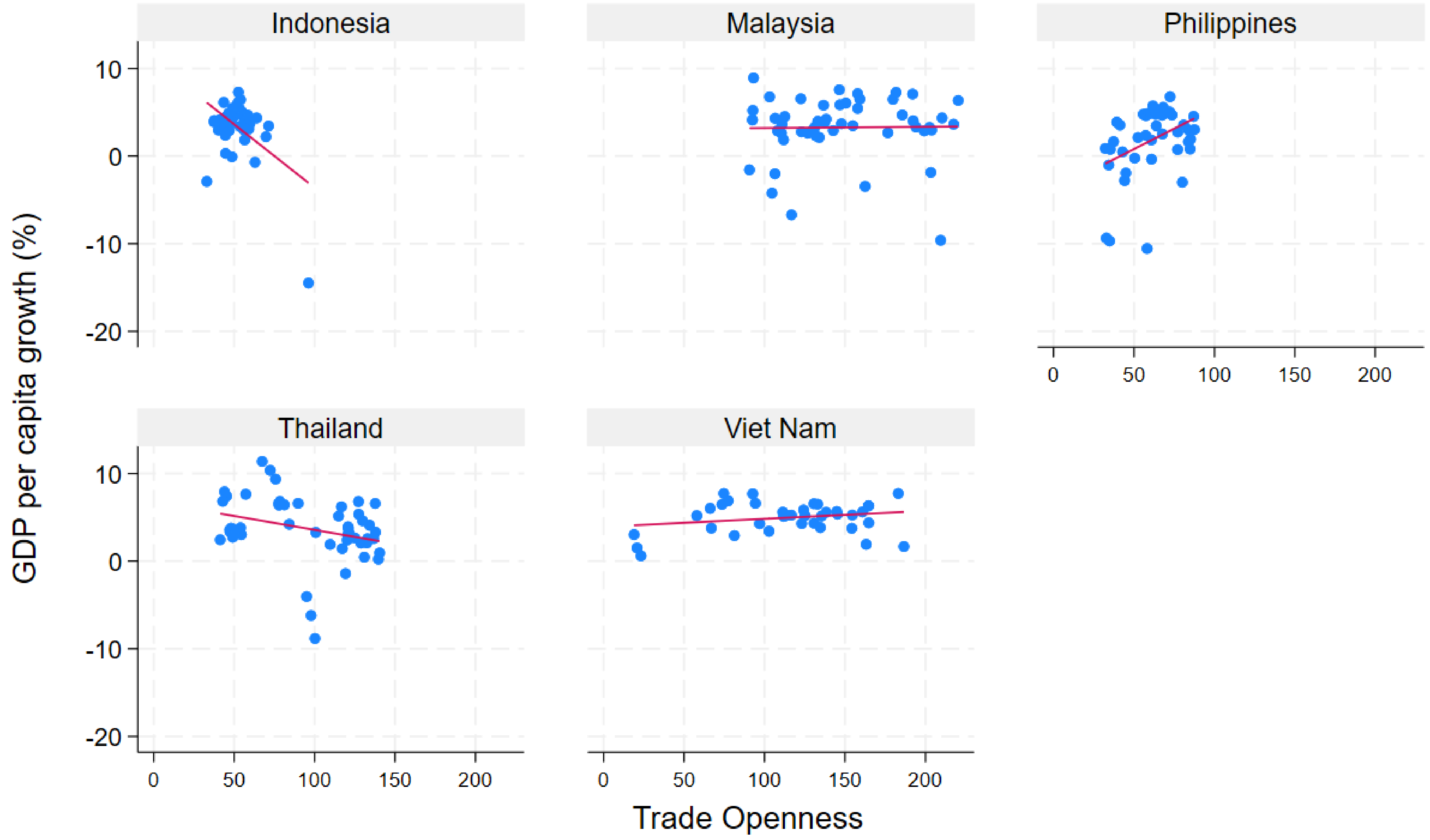
Indonesia

- Debt growth has no positive link with GDP growth.
- Fitted trendline is flat to slightly negative.
- Borrowing not translating into productive growth.
- Indicates non-debt-led or weak efficiency of debt use.
- Possible issues: consumption-led debt, low investment absorption, structural bottlenecks.

Thailand

- Debt growth shows a clear positive association with GDP growth.
- Trendline upward-sloping.
- Suggests moderate debt-led growth pattern.
- Borrowing more likely directed to productive sectors (manufacturing, exports, investment).

Debt-led growth is a growth model where economic expansion is driven by borrowing that finances higher investment and aggregate demand.
Borrowing allows countries to overcome savings constraints, accelerate capital formation, and raise productive capacity.



TRADE AND INVESTMENT OPENNESS

Trade openness refers to the extent to which a country engages in international trade, usually measured by the ratio of exports and imports to GDP : how integrated an economy is with global markets through the exchange of trade (Krugman & Obstfeld, 2009).

Economic theory suggests that greater trade openness promotes GDP growth by increasing market size, encouraging specialization, enabling technology transfer, and raising productivity (Frankel & Romer, 1999). It improves efficiency, while access to global demand supports expansion of high-productivity sectors (Sachs & Warner, 1995).

The relationship between trade openness and GDP per capita growth is **highly heterogeneous across ASEAN-5**, indicating that openness alone does not guarantee stronger growth.

Viet Nam and the Philippines show a **positive link**, suggesting they are successfully leveraging openness through export-led and globally integrated industries.

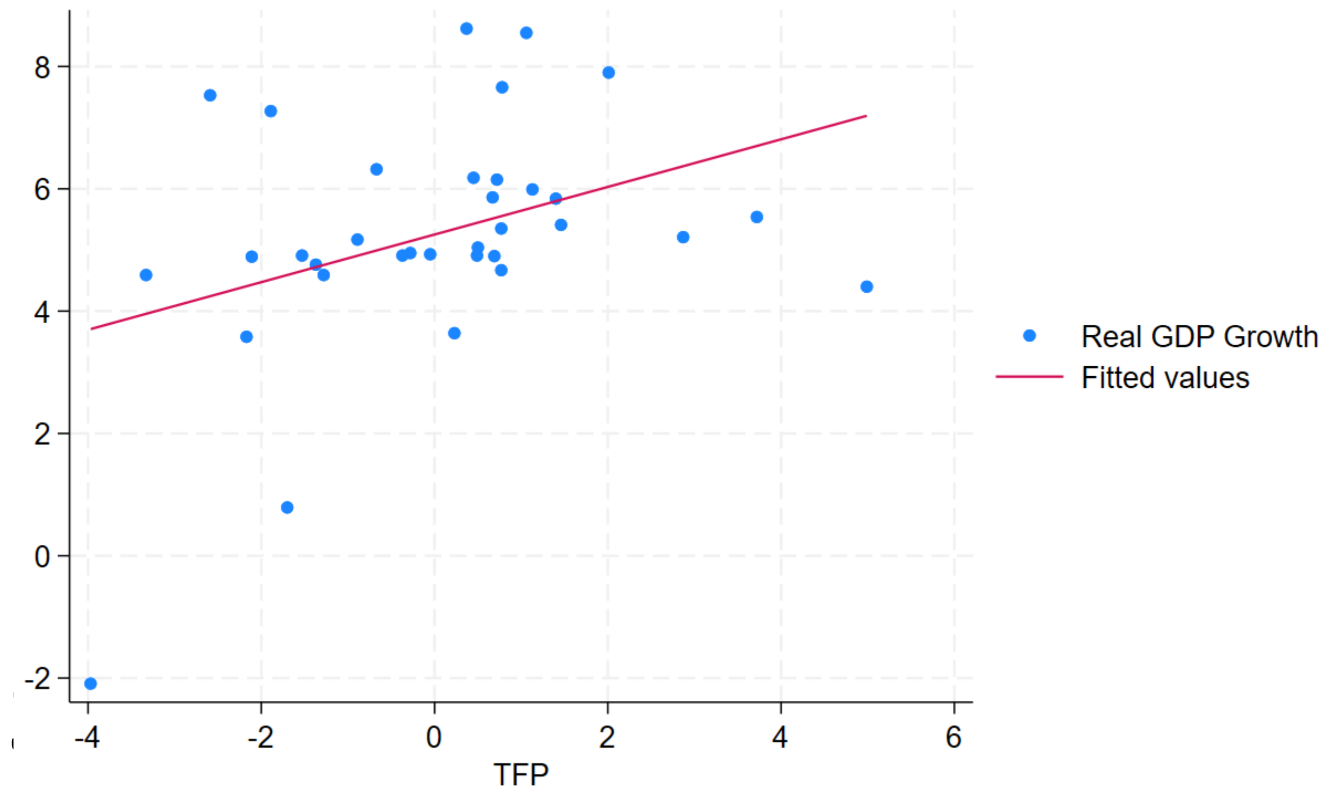
For **Indonesia**, greater trade openness does not lead to higher growth, indicating that the country has not yet been able to convert global integration into stronger productivity or export-driven gains

What happens?

- **Upstream-heavy GVC position**
  Indonesia's GVC participation is sizable at **39.2%**, but it is **skewed upstream**: **forward participation 24.8% vs backward 14.4%**. Exports are dominated by sectors with very high domestic VA, notably **mining and food (both >86% domestic VA)**, indicating limited use of imported intermediates for complex manufacturing.
- **Shallower and less persistent high-growth episodes than peers**
  Since 2000, Indonesia has **fewer and shorter high-growth spells** than Viet Nam (**5 years >6% with a 3-year streak vs Viet Nam's 18 years and 8-year streak**), suggesting weaker integration into growth engines that sustain rapid expansion.
- **Low observed innovation intensity**
  On **patents per capita (2024)**, Indonesia is **8.1 per million**, below **Viet Nam (12.1), Thailand (13.0), Malaysia (23.7)** and far below **Singapore (314.4)**, consistent with limited movement into higher-value, innovation-intensive segments of regional production.

The ratio of high tech-export (% of total manufacturing export)

Country	Average 2010–latest (%)
Indonesia	9.37
Malaysia	49.96
Vietnam	33.08
Thailand	24.13
Philippines	62.74
China	30.91



TY

President	Mean GDP Growth	Mean TFP	SD GDP Growth
BJ Habibie	3.19	-0.33	2.24
Jokowi	4.11	-0.70	2.22
Megawati	4.66	2.08	0.26
SBY	5.58	0.69	0.53
Soeharto	7.31	-0.53	1.32
Total	5.26	0.03	1.99

1. Productivity (TFP) contribution to growth is persistently weak.

Across presidencies, **mean TFP hovers around zero** or negative (Jokowi −0.70, BJ Habibie −0.33, Soeharto −0.53).
This shows Indonesia grows mostly from **capital accumulation and labor**, not productivity gains — making long-term growth harder to sustain.

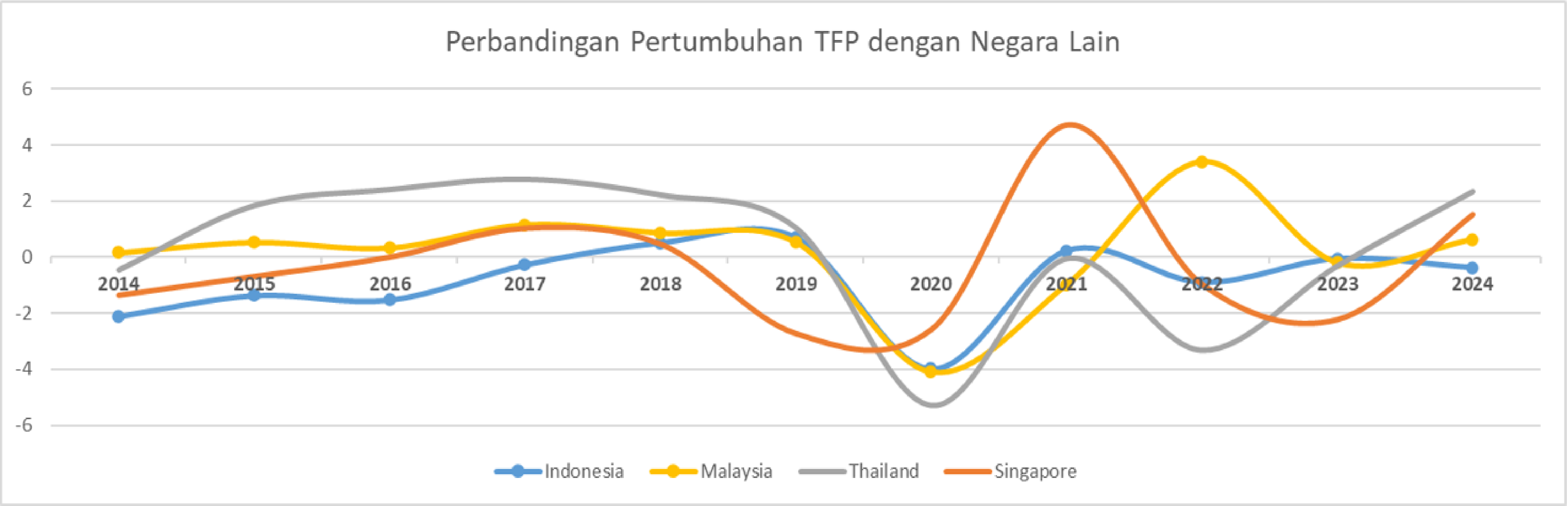
2. GDP growth varies more than TFP — meaning volatility comes from shocks, not structural strength.

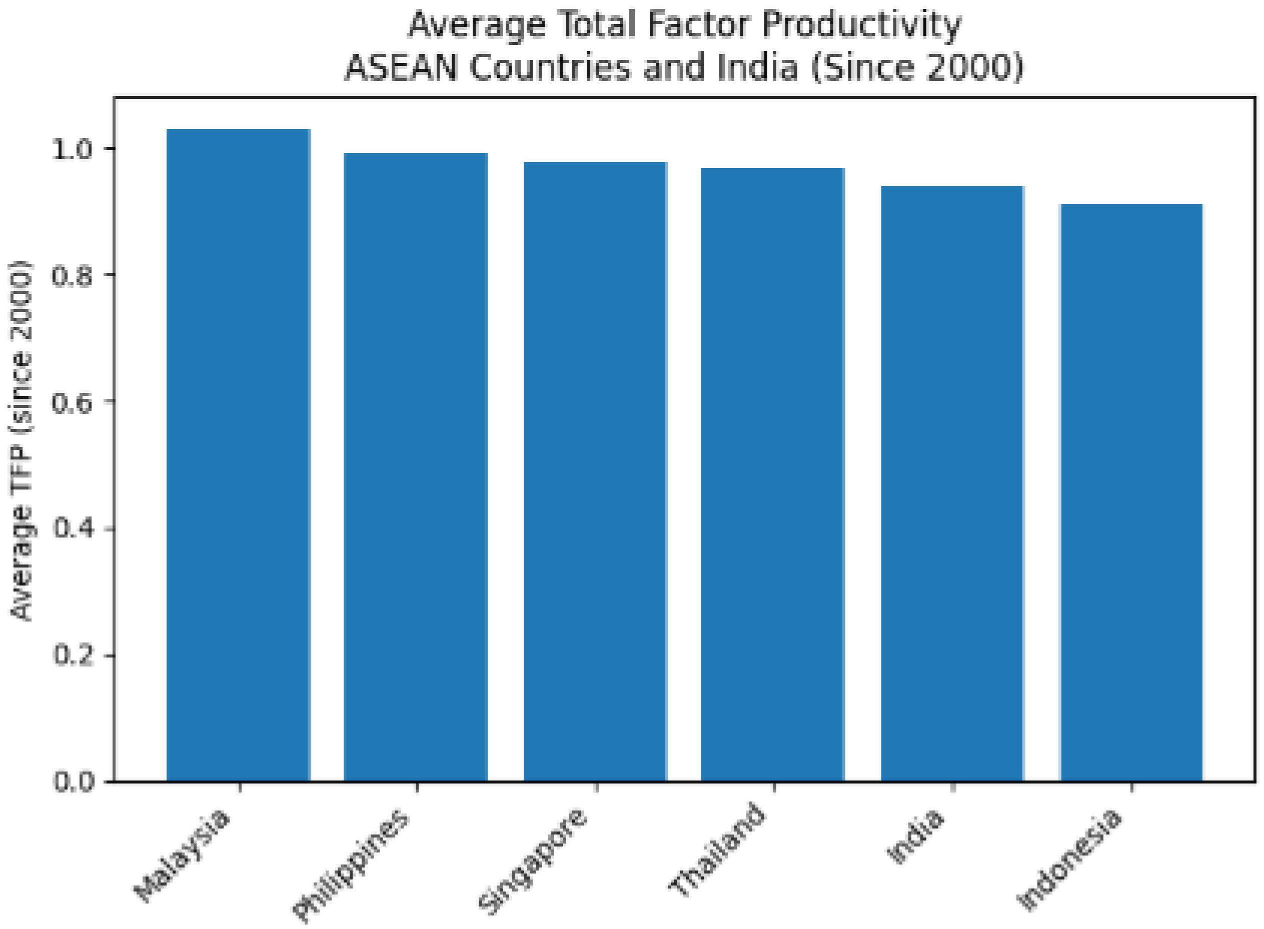
High SD under BJ Habibie (2.24) and Jokowi (2.22) indicates **growth instability**, while TFP remains nearly flat.
This implies growth is **cyclical**, not driven by deep structural improvements in efficiency or innovation.

3. Stronger growth episodes occur even with low or negative TFP — signalling a non-transformational growth model.

Soeharto averages **7.31 percent GDP growth** despite **negative TFP**, and SBY achieves solid growth with only small TFP gains (0.69).
This shows Indonesia relies on **resource-driven, investment-heavy, government-led growth**, not productivity-driven structural transformation — a core constraint for escaping the middle-income trap.

Indonesia’s Debt TFP





- Indonesia’s TFP growth remains relatively flat and below its regional peers, while Malaysia, Thailand, and Singapore show sharper cyclical improvements. This indicates that Indonesia’s productivity gains are weaker and less responsive to economic cycles compared with neighboring economies.
- Indonesia’sroductivity since 2000 remains below key ASEAN peers, reflecting limited translation of growth, commodity rents, and innovation inputs into sustained efficiency gains.

Research and development

R&D expenditure per GDP (%)

Negara	Tahun data terbaru di file	R&D (% dari PDB) pada tahun terbaru
China	2022	2.55518
Singapore	2020	2.15626
Thailand	2022	1.15902
Malaysia	2020	0.95055
India	2020	0.64558
Viet Nam	2021	0.42494
Philippines	2018	0.32222
Indonesia	2020	0.28068

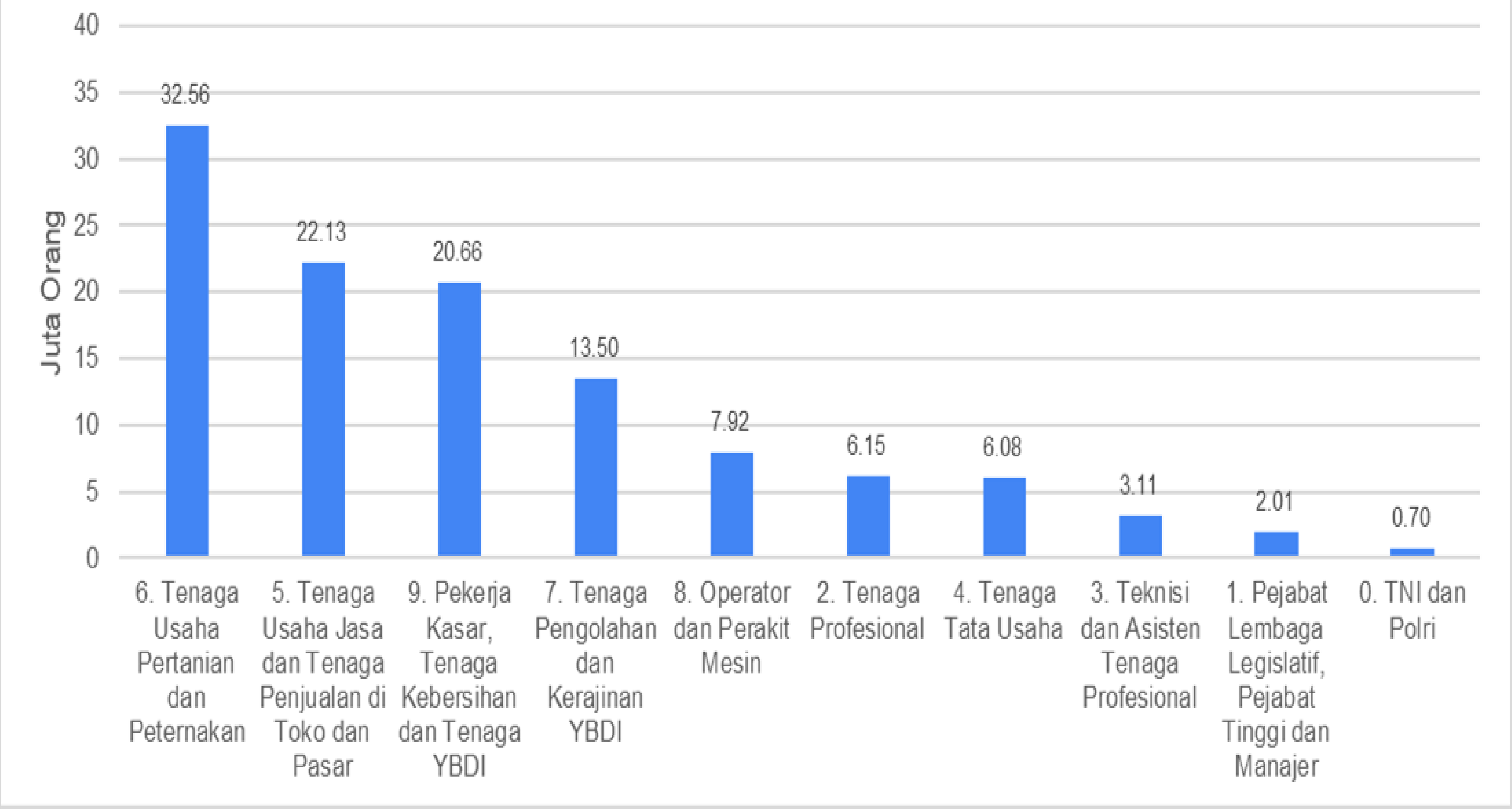
Patent per capita

- Indonesia, 8.1 per million
- Viet Nam, 12.1 per million
- Thailand, 13.0 per million
- Malaysia, 23.7 per million
- Singapore, 314.4 per million
- China, 1186.7 per million

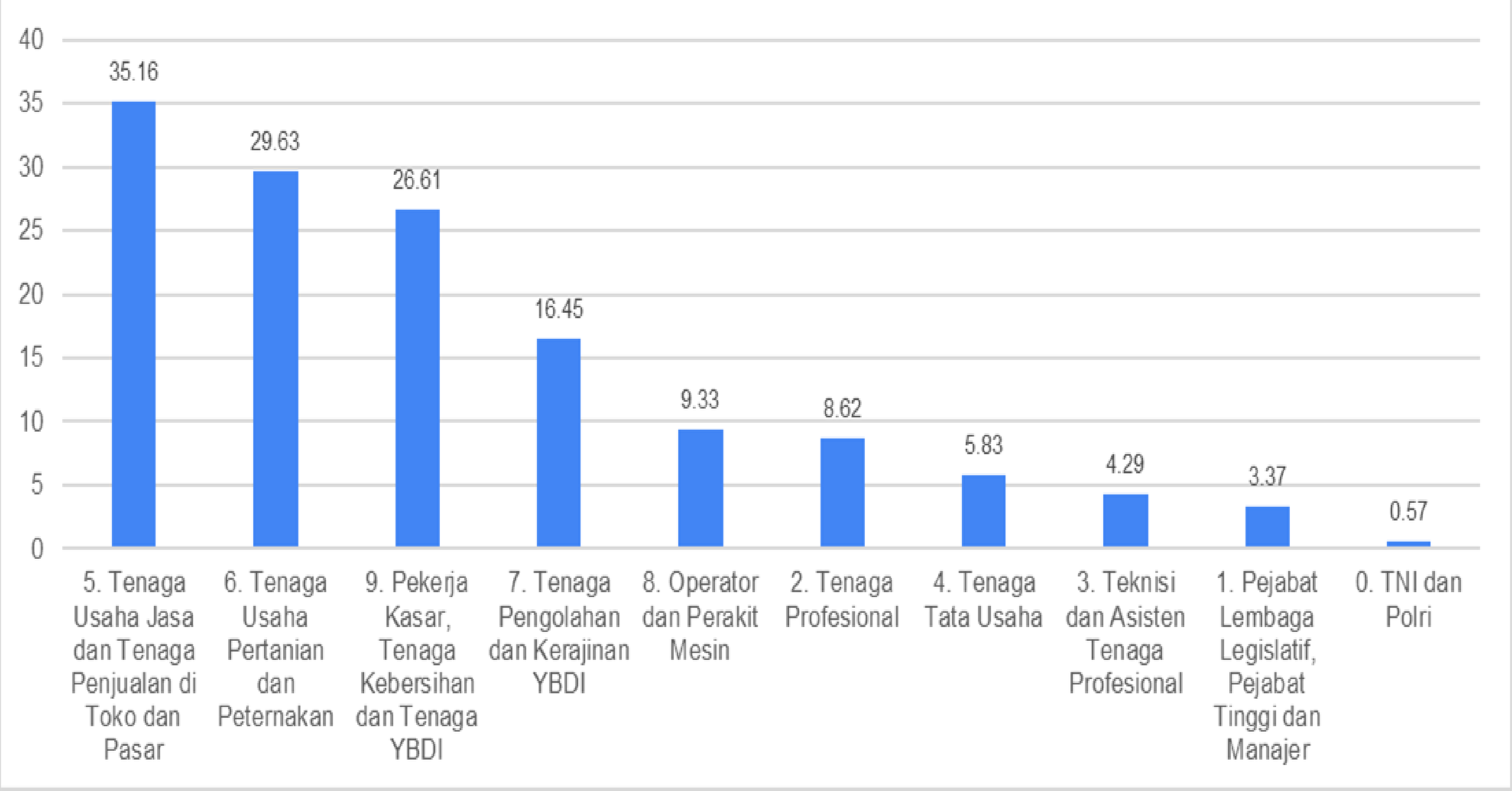
- Indonesia's R&D intensity is the lowest among regional peers.In the latest available year (2020), Indonesia's R&D spending is 0.28% of GDP, well below Viet Nam (0.42%), India (0.65%), Malaysia (0.95%), Thailand (1.16%), Singapore (2.16%), and China (2.56%).
- This places Indonesia at the bottom of the comparison set in terms of formal R&D effort.
- There is a clear gap between Indonesia and countries that sustain higher innovation capacity.
- Economies that rank higher in patents, high-tech exports, and productivity such as China and Singapore consistently invest above 2% of GDP in R&D, while Indonesia remains below 0.3%. The magnitude of the gap is large: China invests roughly nine times, and Singapore about seven times
- Indonesia's patent intensity is **structurally low** at **8.1 patents per million people**, placing it **below all ASEAN comparators except the Philippines** and **an order of magnitude behind innovation leaders** (Malaysia 23.7, Singapore 314.4, China 1186.7), indicating that Indonesia's growth and export performance are **not yet underpinned by domestic inventive activity**.

HIGH VALUE-ADDED VS LOW VALUE-ADDED WORKERS

2015



2024



Based on KBJI

1. Job growth is dominated by low-skill services.
Retail/market jobs jump **22.13 → 35.16 juta** (**+13 juta**).

2. Low-productivity manual work expands sharply.
Pekerja kasar & kebersihan rise **20.66 → 28.61 juta** (**+8 juta**).

3. High-skill occupations remain very small.
Professionals stay flat **6.15 → 5.83 juta**; managers only **2.01 → 3.37 juta**.

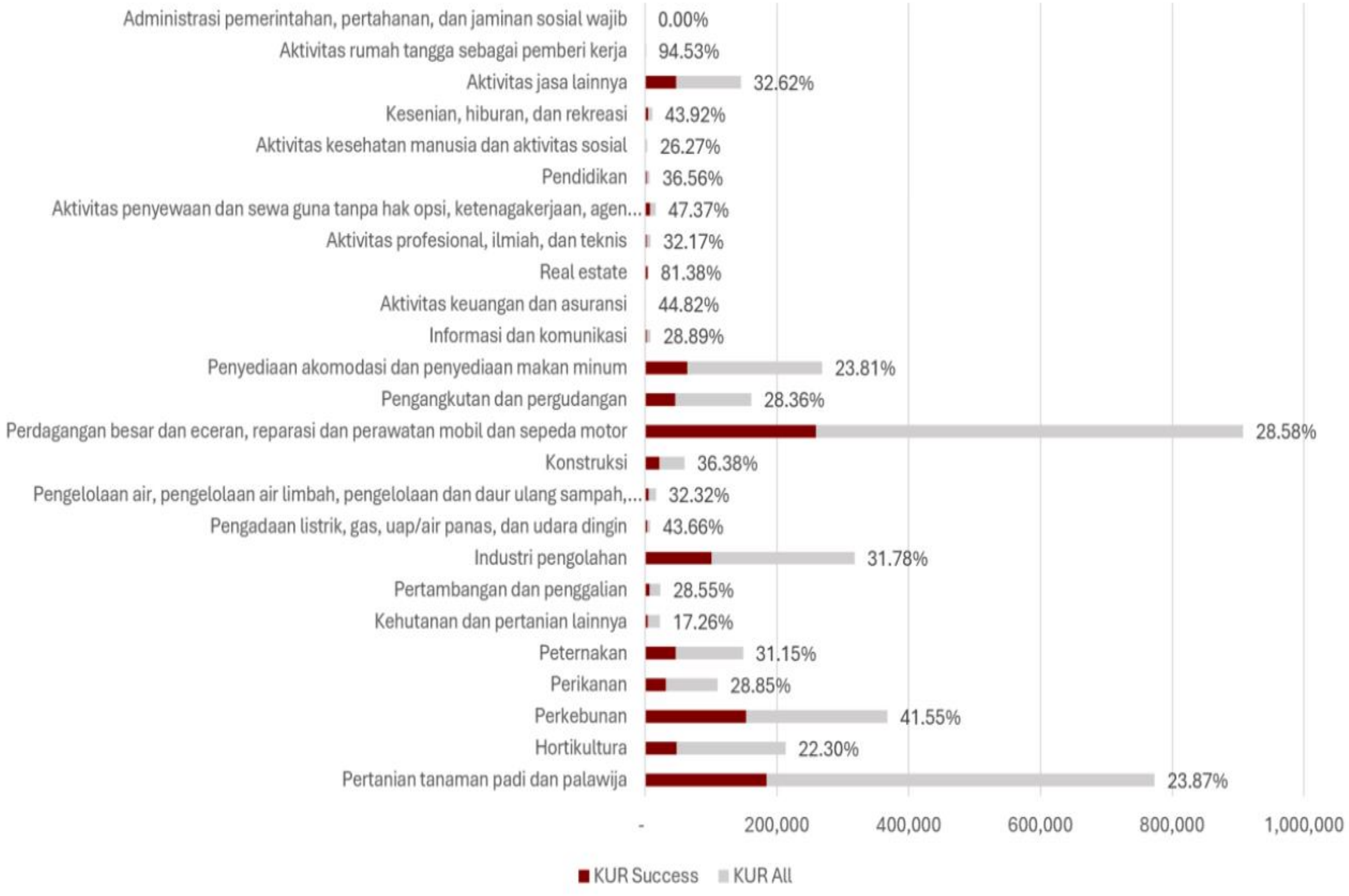
4. Technical/industrial skills grow too slowly.
Operators/mechanics increase only **7.92 → 9.33 juta** (**+1.4 juta**).

5. Overall shift moves toward low-value-added employment.
Fastest growth is in **low-wage services & manual labor**, not in skilled or modern occupations.

Source: Sakernas

STRUCTURALLY WEAK ECONOMY

Successful Rate of KUR based on Sectors (2023)



Key Takeaways

Clear disparities in KUR disbursement and success rate across sectors

- KUR allocation varies widely by sector due to priority rules. While some sectors such as **accommodation, plantation, and trade** show rising disbursement alongside stable or improving success rates, others do not follow this pattern.

Agriculture and fisheries show rising disbursement but declining success

- Despite being priority sectors with strong disbursement growth, agriculture (and partly fisheries) experienced a significant drop in repayment success, raising concerns about absorption capacity and sector-specific risks.

Source: IFGP Analysis

Conclusion

- ***Indonesia's constraint is not growth, capital, or openness, but the weak translation of commodity-driven and investment-led growth into sustained productivity, innovation, and complexity; policy must therefore focus on deepening value added, fixing allocation, and forcing learning to stick.***

“High growth episodes are typically the result of unconventional and heterodox strategies tailored to local conditions.” – Dani Rodrik

SO WHAT?

Most likely to happen in 2026-2030 -1

Macroeconomic indicator	What happens	Implications
Growth will stay around 5 percent unless productivity is structurally fixed - Indonesia is likely to remain in a stable but capped growth regime, hovering around 4.8–5.3 percent annually through 2026–2030.	• Growth decomposition shows that capital accumulation dominates, while TFP contribution remains weak or near zero. • Historically, Indonesia has not sustained growth above 6 percent since 2012 except during commodity booms. • Post-shock recoveries consistently revert to ~5 percent, signaling resilience without transformation.	• The economy will feel “safe but slow.” • Without productivity reform, even higher investment and fiscal spending will raise volume, not efficiency. • Middle-income trap risk persists, not because of crisis, but because of stagnation in quality growth.
Domestic demand will anchor growth, while exports add volatility, not acceleration. Growth in 2026–2030 will remain consumption-led, with investment contributing selectively and net exports fluctuating rather than driving momentum.	• Household consumption remains the most stable GDP component across cycles. • Export structure has improved toward manufacturing, but Indonesia remains upstream-heavy in GVCs, limiting productivity spillovers. • Commodity normalization means exports no longer provide strong cyclical tailwinds.	• Growth will be less volatile but also less explosive. • Regions reliant on mining and net exports will experience sharper cycles, while Java and Bali-Nusra grow steadily but modestly. • Policy mistakes that weaken consumption (rate shocks, subsidy mismanagement) will have outsized growth impact.

Most likely to happen in 2026-2030 -2

Danantara Indonesia IFG

Macroeconomic indicator	What happens	Implications
Fiscal and financial stability will hold, but policy space will remain narrow Indonesia will maintain macro stability, but with limited fiscal maneuvering room through 2030.	• Debt ratio remains below 40 percent, deficits near legal thresholds. • Tax ratio stays structurally low around 10 percent despite administrative gains. • Rising interest payments crowd out discretionary spending. • Banking sector is liquid and stable, but lending is cautious and increasingly selective.	• No fiscal crisis, but also no fiscal-led growth acceleration. • Development outcomes will depend more on execution capacity than budget size. • Financial system will support growth, but not aggressively transform it.
Structural transformation will lag unless innovation and skill upgrading are forced Indonesia risks entering 2030 with a larger economy but similar structure: low productivity services, commodity-linked industries, and weak innovation depth.	• R&D intensity remains the lowest among peers. • Patent intensity and high-tech export shares are structurally weak. • Employment growth is concentrated in low-skill, low-value services, not technical or managerial roles. • Trade openness does not translate into productivity gains, unlike Viet Nam or Malaysia.	• Investment will continue, but learning does not stick. • Debt, openness, and capital inflows will not automatically raise long-term growth. • Without deliberate policy forcing upgrading (skills, technology, firm learning), Indonesia's economy becomes bigger, not better.

For businesses

- **Growth will be stable but unspectacular (~5%):** Favor scale, cost discipline, and steady cash flows over high-beta expansion plays.
- **Returns driven more by volume than productivity:** Winning firms will optimize execution, logistics, and market reach rather than rely on efficiency gains.
- **Policy and investment cycles matter more than innovation cycles:** Business momentum will track public spending, infrastructure, and credit conditions closely.
- **Structural advantage comes from firm-level productivity, not the economy:** Companies that digitize, automate, and upskill internally can outperform in an otherwise “slow-quality” growth environment.
- **Expect stable but moderate returns,** not re-rating-driven upside: Equity and real-sector gains will be driven by earnings growth and dividends, not multiple expansion.
- **Stock picking matters more than market beta:** Outperformance will come from firms with pricing power, execution strength, and balance-sheet discipline.
- **Yield and cash flow become core investment themes:** Dividend stocks, infrastructure-linked assets, and credit instruments gain relative appeal in a low-productivity environment.
- **Structural reform optionality remains underpriced:** Upside scenarios depend on productivity reforms; without them, Indonesia remains a “carry and compound” market rather than a growth breakout story

Thank you