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UNIVERSITAS INDONESIA

Macroeconomics Analysis Series

Indonesia Economic Outlook

Q1-2025

Key Figures

GDP Growth (Q3 '24)
4.95%

Inflation (y.o.y, Dec '24)
1.57%

Credit Growth (y.o.y, Q3 '24)
11.55%

BI Rate (Jan '25)
5.75%

Current Account Balance (% GDP) (Q3 '23)
-0.6%

IDR/USD (Jan '25)
IDR16,195

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Aiming for 8, Struggling at 5

Highlights

- *GDP to grow 4.98% (estimated range 4.97%-5.00%) in Q4-2024, 5.02% estimated range 5.02%-5.03%) for FY2024, and 5.0% - 5.1% for FY2025.*
- *Indonesia's GDP grew slower from 5.05% (y.o.y) in Q2-2024 to 4.95% (y.o.y) in Q3-2024 as there is no seasonal factor driving growth in the third quarter.*
- *Without seasonal driver, only 6 out of 17 economic sectors experienced an accelerating growth in Q3-2024 relative to the previous quarter.*
- *Accounting for almost 52% of total economic activity, household consumption grew by 4.91% (y.o.y) in Q3-2024, a slight decrease from 4.93% (y.o.y) in the previous quarter, driven by missing seasonal factor.*
- *Indonesia closed 2024 with the lowest level of headline inflation since 1958 at 1.55% (y.o.y). Two factors contributed to the low headline inflation: the impact of El Ni¿√±o had subsided and weakening purchasing power.*
- *Both Domestic Direct Investment (DDI) and Foreign Direct Investment (FDI) has also shown substantial growth compared to the previous period. Domestic investment grew by 14.1% (y.o.y) in Q4-2024, slightly higher than growth of 11.6% (y.o.y) in the third quarter. FDI grew by 33.3% (y.o.y) in Q4-2024, surging from 18.6% (y.o.y) in Q3-2024.*
- *Driven by a non-oil and gas trade surplus, a reduced service trade deficit, a smaller primary income deficit, and an improved secondary income deficit, the current account deficit in the third quarter of 2024 improved to USD2.2 billion (0.6% of GDP) from USD3.2 billion (0.9% of GDP) in Q2-2024.*

Indonesia enters 2025 with a substantially weakening economic performance. Declining purchasing power, shrinking middle class, and prolonged deterioration in sectoral productivity send a clear signal of significant structural issues, as reflected in the growth figure throughout 2024. The third quarter of 2024 stood out as the only quarter in 2024 without a significant seasonal factor that drove economic activity. Only grew by 4.95% (y.o.y) in Q3-2024, Indonesia's economic growth dipped below 5%, lower than 5.11% (y.o.y) in Q1-2024 and 5.05% (y.o.y) in Q2-2024. The latest GDP growth figure painted a bleak picture and further suggests a worrying structural problem that the Indonesian economy is currently incapable of reaching a 5% growth level without any seasonal driver. This is not a new phenomenon, as a similar occurrence also happened in 2023, in which Indonesia's economic growth only reached 4.94% (y.o.y) in the third quarter. After the passing of the homecoming period during Eid Al-Fitr and the school holiday season in the second quarter of 2024, various related economic sectors experienced a growth decline, such as the transportation and storage sector, business services sector, and accommodation and food and beverages activity.

2025 marks the beginning of the new administration era under the leadership of President Prabowo Subianto. The new administration has set an ambitious agenda to elevate Indonesia's GDP growth to 8% from its current baseline of 5%, along with its numerous strategies deemed as the "quick-win" programs that focus on critical areas such as infrastructure, education, healthcare, and economic resilience. While the results of these programs remain to be seen, Indonesia's economy is also facing high pressure from an international aspect. The victory of Donald Trump as the US President sparks around era of trade war, potentially creating high risks on the exchange rate and inflation. In addition, the uncertainty of the continuation of monetary easing by the Fed also elevates global financial risks. Without a proper mitigation strategy to contain external risks and concrete structural economic reform, Indonesia's economy might not be able to consistently grow by 5% and beyond, much less so to achieve the 8% target.

Table 1: GDP Growth Forecast (y.o.y)

Q4-2024	FY2024	FY2025
4.97% - 5.00%	5.02% - 5.03%	5.0% - 5.1%

Considering the current state of Indonesia's economy, we estimate that Indonesia's GDP to grow by 4.98% in Q4-2024 (estimate range from 4.97% to 5.00%), making the estimation for FY2024 at 5.02% (estimate range from 5.02% to 5.03%). Entering 2025, the external pressure will be heightened. The cost of imported goods will uniformly rise, triggered by the trade war launched by the US, and risks of capital outflow from developing countries (including Indonesia) due to rising global uncertainty and geopolitical tension will negatively put enormous currency pressure. Thus far, we have not seen any concrete plan by the new administration in addressing the productivity issue and Indonesia might have to continue to rely on seasonal factors to drive up its economic growth. Therefore, we maintain our previous view that Indonesia's economy will prolong its current growth trajectory of 5.0% to 5.1% for FY2025.

The First 100 Days

The first 100 days of President Prabowo Subianto's administration set the tone for what could be a transformative period in Indonesia's journey toward achieving its long-term development goals. A prominent feature of this initial phase is the introduction of seven Quick Win Programs (Program Hasil Terbaik Cepat (PHTC)) for 2025. The Quick Win Programs focus on critical areas such as infrastructure, education, healthcare, and economic resilience, reflecting the administration's strategy to accelerate progress and address pressing challenges. These programs aim to address immediate priorities and create momentum for long-term development. The Indonesia Emas 2045 Vision, which aspires to establish Indonesia as a globally respected economic powerhouse with equitable prosperity, strong human capital, and sustainable development, serves as the broader context for these initiatives. Central to this vision is the ambitious target of 8% economic growth.

Beyond the Quick Win Programs, the administration has moved swiftly to implement key policies that address both domestic and international challenges. On the global stage, Indonesia's role as a new member of BRICS has opened opportunities to strengthen diplomatic influence and expand its presence in multilateral forums. On the domestic aspect, tax reform initiatives aim to enhance revenue collection and strengthen fiscal sustainability. At the same time, cabinet expansion demonstrates the administration's focus on improving governance capacity, bringing in expertise to ensure the effective delivery of its agenda.

This edition of the Indonesia Economic Outlook analyses the Quick Win Programs and early policy measures, assessing their progress and impact while evaluating whether these initiatives align effectively with their stated objectives. In addition, it explores the broader implications of these programs and policies on Indonesia's economic trajectory.

Quick Win 1: Free Nutritious Meal Program (*Makan Bergizi Gratis*/MBG)

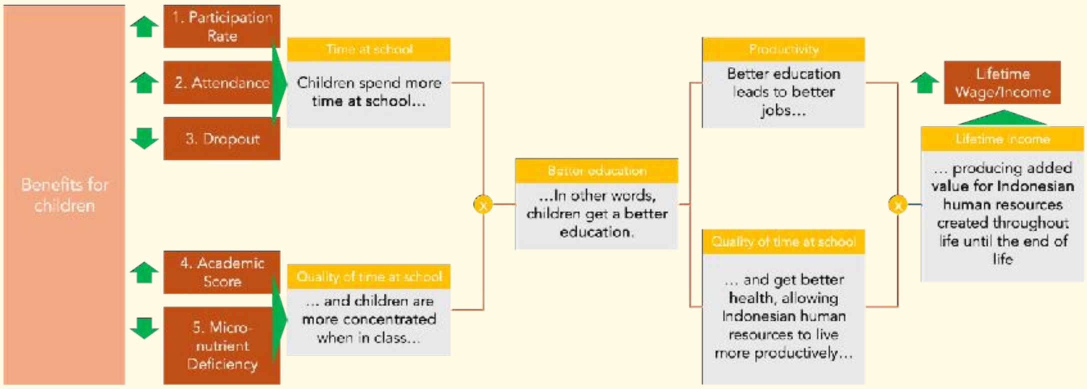
Launched as part of a broader strategy to combat stunting and enhance educational outcomes, the Free Nutritious Meal Program (MBG) is premised on the provision of free meals primarily to school-aged children. The program also envisions extending support to toddlers as well as pregnant and nursing mothers who are at elevated risk of raising stunted children. Although the second component, nutritional assistance for vulnerable mothers and toddlers, remains pending, the initial rollout has already garnered public attention and debate. The first phase focuses on children in schools, Islamic boarding schools, and religious education institutions (2025 State Budget Financial Note). Its primary objectives are threefold: i) improving children's nutritional intake by offering free nutritious meals, with MBG aiming to enhance children's consumption of essential micronutrients and macronutrients, addressing stunting rates and promoting overall health; ii) promoting school attendance by providing free meals at school, serving as an incentive for regular attendance while alleviating household financial burdens through government-subsidized daily meals; and iii) enhancing health and academic performance by fostering improved focus and energy among students, which can translate into better health outcomes and higher academic achievement.

Over a five-year span (2025–2029), the government has allocated IDR450 trillion for this purpose, covering procurement, meal preparation, distribution, and operational costs. In 2025 alone, the targeted budget is IDR71 trillion and might be increased up to IDR171 trillion following the state budget efficiency plan. Initially, the cost per meal was IDR15,000, but this was later reduced to IDR10,000 to optimize program expenditures. In its initial phase, MBG primarily focuses on children in early childhood education (*Pendidikan Anak Usia Dini*/PAUD), elementary school (*Sekolah Dasar*/SD), and secondary school (*Sekolah Menengah Pertama dan Atas*/SMP SMA), especially in regions with high rates of stunting and poverty. Once these core areas are addressed, the program is expected to expand to a broader range of educational levels, including Islamic boarding schools (*pesantren*) and other religious education institutions. The government's five-year plan (2025–2029) forecasts a total of 83 million beneficiaries. Specifically, for 2025, 19.47 million people are expected to receive benefits, with an early period target (January–April 2025) of 3 million beneficiaries. In the first phase, 600,000 individuals across 190 locations in 26 provinces were prioritized.

With the cost per meal valued at IDR10,000, each child receives approximately IDR200,000 worth of meals per month, assuming 20 school days in a month. This amount equates to roughly 0.34 times the individual poverty line of IDR582,932, as reported by BPS in March 2024. For a household of four with two children, this assistance covers around 17.12% of the household poverty line, which is set at IDR2,335,728.

Beyond its immediate impact on household expenses, MBG is projected to generate broader economic benefits. According to the draft of the 2025 State Budget (RAPBN), MBG is expected to create an estimated 820,000 new jobs. In macroeconomic terms, it is forecast to add around 0.1% to the national growth rate, potentially bringing the country's overall economic expansion to 5.2% by 2025. The National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional*/Bappenas) has provided an even more optimistic assessment, projecting that MBG could push economic growth by as much as 0.86%. In addition, Bappenas aims for MBG to reach 40% of its intended beneficiaries by 2025, aligning with broader targets to reduce poverty and stunting. President Prabowo Subianto has publicly expressed hopes that MBG will stimulate village-level economies, suggesting that local financial circulation could grow to IDR7 billion per village—approximately seven times the current average Village Fund allocation of IDR1 billion.

Figure A. Program Benefits Cycle: UN WFP



Source: Prabowonomics by Dirgayuza S. (2024) referring to UN WFP (2023)

A central premise of MBG is that the provision of balanced meals in educational settings contributes to improved cognitive function and academic performance (**Figure A**). By ensuring children have consistent access to nutritious food, the program aims to help them maintain higher levels of concentration, which in turn improves learning engagement and retention. However, research indicates that the most critical phase for addressing micronutrient deficiencies occurs far earlier, namely during pregnancy and the first five years of life. Bailey et al. (2015) highlight that nutritional deficits established within this timeframe often have lasting consequences, implying that school-based interventions, while beneficial, may be insufficient to completely mitigate stunting if maternal and infant health remain overlooked. Adequate animal protein intake is especially crucial in this regard, as it delivers complete and high-quality essential amino acids critical for growth (Headey et al., 2018). Consequently, ensuring sufficient consumption of animal protein during the earliest stages of life is imperative for achieving more sustainable and comprehensive improvements in child nutrition.

In addition to improving immediate learning capacities, MBG also endeavours to address the financial pressures parents face in consistently providing meals for their children. By reducing daily food expenditures, the program seeks to encourage higher school attendance and reduce dropout rates. Yet, while economic factors undoubtedly influence educational participation, existing data show that dropout rates in Indonesia stand at a relatively low 1–2%, with only 2.39% of children aged 10–17 engaged in labour (Statistics, 2023). Moreover, research by Nurjito in Magelang (Kompas, 2024) points to a more nuanced reality, wherein only 40% of children in extreme poverty leave school primarily for economic reasons, while 60% cite cultural attitudes that devalue formal education. Likewise, National Socioeconomic Survey (Susenas) data in 2021 confirms that although 76% of school discontinuations are attributed to economic constraints—67% involving difficulties paying tuition and 8.7% requiring child labour, other socio-cultural dimensions are also influential in a decision to leave school.

The experience of South Korea's free school meal program offers insights into the broader challenges of improving educational outcomes. Altindag et al. (2020) suggests that despite the availability of free meals, the program had no significant effect on test scores or dropout rates. These findings suggest that while nutritional provisions are a critical component of a holistic education strategy, they alone cannot resolve deeper systemic challenges. Teacher quality, institutional infrastructure, and broader socio-economic conditions also play vital roles in determining student performance and retention. Consequently, if MBG focuses narrowly on meal provision without concomitant improvements in these intersecting areas, its ultimate objective of elevating the quality of education may remain only partially realized. A report by CISDI (2024) also notes that there has been no official theoretical framework released to guide MBG's design. While the nutritional aspect is crucial, a holistic approach remains necessary, addressing related educational and socio-economic challenges to maximize the program's efficacy.

One early critique of MBG's implementation is the absence of standardized operating procedures (SOPs) and technical guidelines, leading to inconsistencies across regions. In Pulo Gebang, East Jakarta, for example, distribution experienced delays due to localized bureaucratic procedures, while in Sidoarjo, East Java, menus often lacked essential vegetables, several reports even included incidences of food poisoning. Another concern involves funding sources. In Kendari, Southeast Sulawesi, for instance, a substantial portion of the program is reportedly still financed by President Prabowo Subianto's personal funds. This raises questions about the long-term sustainability of the program and the potential governance issues related to the blurred lines between personal and state budget to funds national program.

An innovative feature of MBG's design lies in its plan to utilize public kitchens and collaborate with local micro, small, and medium enterprises (MSMEs) to prepare and distribute meals. By partnering with these local businesses, MBG aims to boost local economies. However, because the budget is capped at IDR10,000 per meal, smaller enterprises struggle to maintain profitability after covering the costs of raw materials, labour, and logistics. The scale of the program, requiring tens of thousands of meals per day, often exceeds the capacity of small-scale businesses, which face limitations in capital and production infrastructure. Thus, while the government's intent was to empower grassroots entrepreneurs, larger suppliers better equipped to handle bulk orders have often dominated the supply chain.

Programs focused on logistical provision (food procurement, cooking, distribution) inherently involve extended supply chains that include farmers, cooperatives, local enterprises, and government offices. Without a robust monitoring mechanism, such multi-tiered operations can be prone to budget inefficiencies or misappropriation. Civic organizations have urged greater transparency and accountability, demanding thorough oversight from the planning stage to the final meal deliveries to schools. In some schools, MBG's presence may reduce sales at existing cafeterias, directly affecting local vendors who relied on student purchases for their livelihood.

Analysis by Kompas (2025) using National Socioeconomic Survey data by Statistics Indonesia indicates that approximately 11.3 million schoolchildren, toddlers, pregnant women, and nursing mothers fall within the poor or near-poor category. If MBG resources were concentrated on this group, the budget per recipient could rise to around IDR21,545, potentially delivering a more meaningful nutritional impact. Field observations reveal that some children from wealthier families either do not consume the free meals fully or waste them, while poorer students may try to save part of the food to share with family members. Converting or complementing MBG with a conditional cash transfer (CCT) scheme, providing around IDR200,000 per month per child (equivalent to IDR10,000 per meal for 20 school days), offers a more effective alternative. Such a strategy not only mitigates the logistical and administrative complexities inherent in large-scale meal distribution but also grants families the flexibility to allocate resources toward their most urgent needs. By minimizing potential leakages and streamlining oversight, this approach can enhance both equity and efficiency outcomes. Furthermore, implementing a targeted food voucher system, akin to programs in the United States, can preserve nutritional objectives by limiting purchases to approved items, while potentially stimulating local economies if vouchers are redeemable through domestic suppliers. However, CCTs are not without their drawbacks. There is a risk that recipients may misuse the funds for non-priority expenditures, thus undermining the original objective of improving child nutrition. Moreover, without explicit guidelines on how the cash must be spent, such as requiring proof of school attendance or nutritional purchases, families might not allocate the funds to healthy food options. Designing a robust monitoring and compliance mechanism is therefore crucial if a CCT approach is adopted.

MBG has demonstrated both potential and considerable challenges. On the one hand, it can ease the financial burden on low-income families, boost school attendance, and stimulate local economic activities by engaging farmers and food enterprises. Projected macroeconomic benefits, such as positive impacts on growth and employment, further underscore the program's ambitious scope. On the other hand, the program's "blanket" methodology, where resources are distributed uniformly without sufficiently accounting for varying local needs, can result in inefficient allocation. Schools or regions with differing socio-economic profiles and infrastructure requirements may receive the same level of support, potentially overlooking areas that require more intensive intervention and diluting resources in areas that need them less. This approach, coupled with insufficient oversight and weak program design, heightens the risks of leakages and inconsistencies in meal quality. Moreover, the absence of a clearly articulated theoretical foundation complicates the development of sound technical guidelines and evaluation measures. Finally, it is important to note that no single policy, regardless of its budget, can unilaterally address deep-rooted educational challenges. Teacher quality, school infrastructure, and cultural attitudes toward education are all critical factors that must be addressed as part of a broader, more comprehensive strategy.

Quick Win 2: School Renovations

In the National Teachers' Day Commemoration Ceremony on November 6, 2024, President Prabowo Subianto emphasized the critical importance education, highlighting it as the top priority of his administration. He noted that this commitment is reflected in the largest state budget allocation for education in Indonesia's history (Presiden RI, 2024), although it is relatively lower in term of share compared to state budget allocation for education during the period of 2009-2012 (share of education budget in 2025 is 20%, while during 2009-2012 it was on a range of 20.09%-21.01%). The allocation fund will be utilized to improve teachers' welfare, repair educational infrastructure, and support innovative program. Among the President's quick wins program are efforts to renovate school and build integrated leading schools.

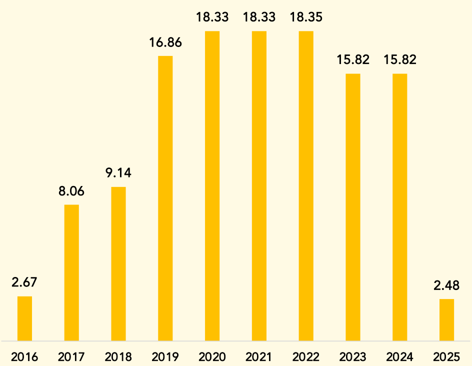
In 2025, the government initially planned to renovate 22,000 school across educational levels, encompassing public and private school. The program, which targeted classrooms, furniture, and sanitation facilities, was supported by almost IDR20 trillion allocation from the state budget (Ministry of Finance, 2025). However, following a program revision, the target was adjusted to 9,300 schools and 2,120 madrasa. The responsibility for implementing this initiative, originally shared between the Ministry of Public Works and the Ministry of Primary and Secondary Education (*Kementerian Pendidikan Dasar dan Menengah*/Kemendikdasmen), was later consolidated under Ministry of Primary and Secondary Education (Ministry of Primary and Secondary Education, 2024).

The revised program targets schools and madrasa, including *pesantren*, at all educational levels, pre-school, elementary, junior high, senior high/vocational, special needs schools (SLB), and community learning centers (*Sanggar Kegiatan Belajar*/SKB) (Ministry of Public Works, 2024). The renovation will be carried out to severely damaged school, or at least moderately damaged, prioritizing schools impacted by natural disasters (Ministry of Primary and Secondary Education, 2024). Additionally, school renovation program has the objective to support the expansion of access and strengthening the quality of learning, in line with efforts to promote economic impact on the community (Ministry of Primary and Secondary Education, 2024). The government construction project is planned to be divided into small packages, allowing local constructor to carry out the work, aiming to boost regional economic growth (Ministry of Finance, 2024). The budget for renovation will be directly transferred to targeted school, giving full access to school in allocating the budget.

Previously, school renovations were primarily funded through two mechanism: Operational School Assistance (*Bantuan Operasional Sekolah*/BOS), which covered minor covered minor repairs limited to 20% of the total allocation, and Physical Special Allocation Funds (*Dana Alokasi Khusus* (DAK) *Fisik*), designated for infrastructure rehabilitation or new construction of classrooms, teacher rooms, and restrooms with moderate or severe damage. Physical special allocation fund was historically aimed at helping local governments meet Minimum Service Standards (SPM) for educational facilities and infrastructures (*sarana dan prasarana*) and improving their quality to support the Human Development Index (HDI) (Government of Indonesia, 2024). Renovation projects under Physical special allocation fund were implemented through two schemes: self-managed by schools or contracted through regional education offices (Ministry of Education, Culture, Research, and Technology, 2021).

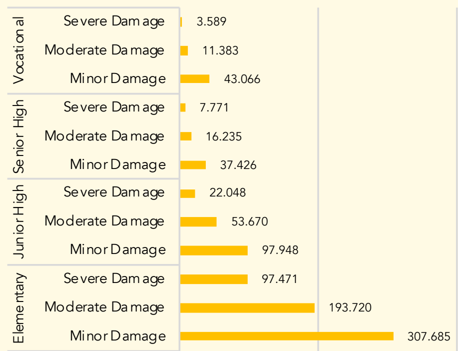
Despite its critical role in addressing infrastructure gaps, physical special allocation fund for the education sector have declined considerably in recent years (**Figure B**). While the budget stood at IDR15.82 trillion in both 2023 and 2024, it had already dropped from IDR18.35 trillion in 2022. By 2025, it plummeted to IDR2.48 trillion, the lowest figure in the past decade. According to the 2025 State Budget Financial Note, physical special allocation fund for education now focuses solely on facilities (*sarana*), with no mention of infrastructure (*prasarana*). The budget originally allocated for revitalizing educational infrastructure may have been reclassified from the special allocation fund to a different budget category.

Figure B: Physical Special Allocation Fund for Educational Sector (IDR Trillion)



Source: Ministry of Finance, Republic of Indonesia

Figure C: Total Number of Damaged Classroom[1] by Educational Level, 2023



Source: Ministry of Education and Culture, Republic of Indonesia

In 2023, Indonesia reported 130,879 severely damaged classroom (**Figure C**) or about 6,93% of total existing classroom across all education levels. Elementary schools (*Sekolah Dasar*/SD) accounted for

[1] The Ministry of Education and Culture (now Kemendikdasmen) (2017) classifies classroom damage into three categories: i) minor damage: damage level value ≤30% with minor damage to non-structural components (roof coverings, ceiling frames and/or ceiling coverings, floor coverings, partition walls); ii) moderate damage: damage level value ≤45% with moderate damage to non-structural and/or structural components (roof structures, floors, walls, frames, water and electrical installations); and iii) severe damage: damage level value ≤65% with severe damage that occurs to most building components, both structural and non-structural, which, after being repaired, can still function properly as intended (roof structures, floor structures, wall structures, finishes, water and electrical installations).

the majority of these cases at 74.47%, followed by junior high schools (SMP) at 16.85%, senior high schools (*Sekolah Menengah Atas*/SMA) at 5.93%, and vocational schools (*Sekolah Menengah Kejuruan*/SMK) at 2.74%. Assuming an average of six classrooms per elementary school and three classrooms per junior high, senior high, and vocational school (Ministry of Education and Culture, 2017), the estimated number of schools requiring renovation is around 27,38, 2.6 times the current program's target.

The school renovation program is expected to enhance the quality of learning, thus expected to improve and contribute to the lagging Programme for International Student Assessment (PISA) score (Indonesia.go.id, 2024). Under the Long-Term National Development Plan (*Rencana Pembangunan Jangka Panjang Nasional*/RPJPN) 2025–2045, Indonesia has set ambitious goals to achieve PISA scores comparable to OECD averages: 485 in reading, 490 in mathematics, and 487 in science. However, Indonesia's PISA scores have been in decline since 2015. There is no clear evidence of how the school renovation initiative will directly influence these outcomes. Research on the impact of school facilities and infrastructure on student achievement yields mixed results. While studies have shown that improvements in physical infrastructure enhance the learning environment, their direct impact on educational outcomes, such as PISA scores, often depends on the broader context (Andrade et al., 2024).

Other aspects have been found to greatly impact educational achievement (PISA scores), namely family environment, socio-economic status, shortage of teachers and school staff, teachers' qualification, and content coverage (Wang et al., 2023). Furthermore, Bomang and Wiberg (2024) find the importance of both socio-demographic, socio-economic, and non-cognitive factors, such as reading self-concept and growth mindset, for both mathematics and reading achievement in PISA score. Ghimire & Mokhtari (2024) find that teacher experience positively correlates with PISA's reading performance score. However, physical environment of schools, including aspects like building maintenance, lighting, and classroom conditions, plays a role in shaping student learning experiences and outcomes (Earthman, 2017).

Some other challenges are also expected to emerge from this program. As the program will directly transfer the fund to school administration, the accountability, along with monitoring and evaluation efforts, of fund allocation should be the top priority to minimize the risk of corruption. Furthermore, school's capacity in carrying out the renovation project should be in consideration to guarantee an effective process while maintain the sustainability. The renovation process will also have direct impact to the learning activities, as the students will encounter a decreasing academic performance at the period of renovation; but positive impact after the period of renovation (de Lima, 2015).

Quick Win 3: Integrated Leading School

Acknowledging the critical role of education in national development, President Prabowo Subianto has emphasized that quality education is essential for eradicating poverty and achieving the vision of a "Golden Indonesia" by 2045. Alongside efforts to enhance educational infrastructure through the school renovation program, the government has prioritized strengthening foundational education in the fields of science, technology, engineering, and mathematics (STEM), given its role in shaping Indonesia's future generation. In this vein, President Prabowo Subianto has proposed the establishment of integrated leading schools to elevate the quality of education nationwide.

This program aims to construct four integrated leading school in Ibu Kota Nusantara, East Nusa Tenggara (NTT), North Sulawesi, and North Maluku with a proposed budget of IDR4 trillion. These schools are primarily designed to foster top talents in STEM fields, which are considered essential for Indonesia's future. Looking ahead, this program envisions the establishment of 40 integrated leading high schools by 2029. This includes constructing 20 new integrated leading high schools (*SMA Unggulan Garuda*) and transforming 20 existing high schools into integrated leading high school (*SMA Transformasi Garuda*). For 2025, with a total budget of IDR2 trillion, new integrated leading high schools are planned for four locations: three confirmed sites in NTT, Bangka Belitung, and North Sulawesi, while the fourth site in IKN remains under consideration.

Initially, the program was under the authority of Ministry of Primary and Secondary Education. However, given the curriculum's alignment with diploma-level education, its oversight has shifted to the Ministry of Higher Education, Science, and Technology (Kementerian Pendidikan Tinggi, Sains, dan Teknologi/Kemendiktisaintek). Ministry of Higher Education, Science, and Technology has announced that the program will commence in early 2025, supported by a Presidential Instruction and Regulation to ensure a strong legal framework.

SMA Unggulan Garuda is envisioned as a full scholarship boarding school, implementing a high standard combination of national and international (International Baccalaureate/ IB) curriculum. It will employ local and foreign teachers and prioritize students from lower-middle socio-economic backgrounds and/or living in outside of Java and underdeveloped region. According to the Vice Minister of Higher Education, Science, and Technology, SMA Unggulan Garuda will be founded on three core pillars, namely: (1) equity; (2) incubator of national leader; and (3) academically outstanding but also committed to serve the community (Ministry of Higher Education, Science and Technology, 2025). Beyond STEM, SMA Unggulan Garuda will non-academic development, including sports talent development, integrated vocational education, and comparative study and collaboration.

The establishment of integrated leading high schools is designed to foster an ecosystem that promotes the advancement of and ensures access to science and technology across Indonesia (Ministry of Higher Education, Science and Technology, 2025). Graduates of SMA Unggulan Garuda are foreseen to be able pursue higher education in high-ranking universities across the world, particularly within the top 100 universities. Furthermore, this program aims to address Indonesia's lagging PISA scores and contribute to improving the overall quality of the nation’s human resources.

While these outcomes are promising, various challenges may hinder their realizations. One critical issue lies in the substantial financial demands of constructing new schools with state-of-the-art facilities, transforming existing schools, training competent educators, and integrating both national and international curricula. For instance, the estimated cost to build one SMA Unggulan Garuda is around IDR500 billion. By comparison, the Ministry of Education and Culture’s 2018 guidelines allocated IDR52 billion for constructing 16 new high school units, averaging IDR3.2 billion per school (or approximately IDR3.8 billion after adjusting for inflation). Based on these figures, the budget for a single SMA Unggulan Garuda could alternatively fund the construction of around 130 regular high schools, potentially alleviating the shortage of public schools in underserved regions. This raises concerns about the efficiency of state budget utilization.

A broader issue tied to this program is the balance between prioritizing quality and ensuring equality in education. As figured in PISA scores, Indonesia’s educational outcome has not yet seen a significant improvement, alerting the quality of education. Additionally, regional disparities in educational sector remains an issue despite the positive impact of decentralization on education (Doriza et al., 2012). Pfeffer (2016) found a positive relationship between educational quality and equality, wherein education systems with a lower degree of institutional differentiation not only provide more educational equality but are also marked by higher levels of educational quality. Ashley et al. (2014) find inconclusive finding relating to whether private schools lead to improved efficiency and quality.

Another concern is the resemblance of the integrated leading school program to the International Standardized School Pilot Program (*Rintisan Sekolah Bertaraf Internasional*/RSBI) and International Standardized School (*Sekolah Bertaraf Internasional*/SBI), both of which were deemed unconstitutional for violating Article 31 of the 1945 Constitution. This article guarantees the right to education for all citizens without discrimination, informed the Spokesperson of the Constitutional Court of the Republic of Indonesia in 2013. The programs appear to overlook educational distribution, which raises concerns on fairness issue. Similar to RSBI and SBI program, integrated leading school perceives to exacerbate the division between groups and foster social inequality. For instance, as of now, several high schools are projected to be transformed into SMA Transformasi Garuda, including SMA Taruna Nusantara and

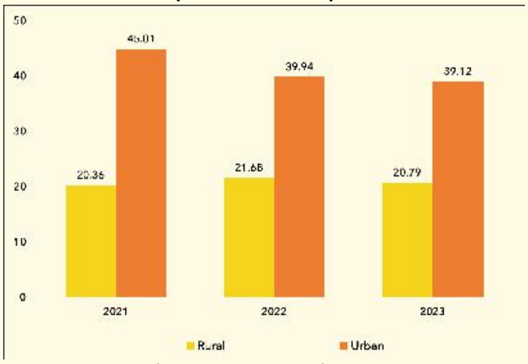
SMA Pradita Dirgantara. However, these schools are already perceived as prestigious boarding schools, with top notch facilities and expensive enrolment fee. Either those who are very wealthy and/or highly intelligent are able to gain admission to these school.

Quick Win 4: Free Medical Check-Up Program

The Free Medical Check-Up Program is a health-focused initiative designed as a meaningful birthday gift to citizens. This program aims to improve public health through early disease detection, mitigating risks of disability and mortality, and fostering a culture of preventive care. Unlike the National Health Insurance (JKN) screening program that covers 14 diseases, this initiative adopts a more targeted approach by focusing on age-specific conditions to maximize the effectiveness of early detection.

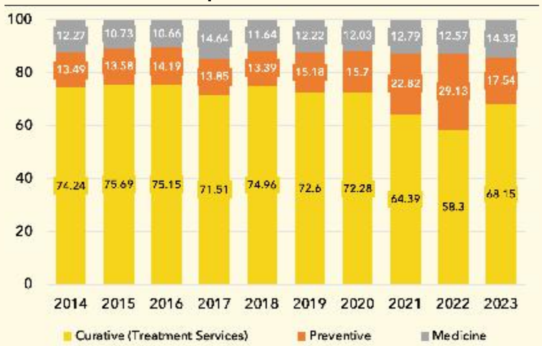
To support this initiative, the government has allocated IDR3.2 trillion from the 2025 State Budget funding screenings for chronic diseases such as cancer, cardiovascular disease, and diabetes. In its first year, it aims to reach 60 million people through community health centers (*Pusat Kesehatan Masyarakat/Puskesmas*). This translates to an average spending of IDR53,000 per individual, equivalent to 0.74% of the annualized poverty line as of September 2024 and 21.24% of the annualized average per capita monthly health expenditure in rural areas (**Figure D**). The program is expected to expand to 200 million Indonesians by 2029. By prioritizing early detection and preventive care, the program seeks to address healthcare disparities, particularly among underserved populations in rural and low-income regions. This investment is crucial in bridging gaps in health expenditures, as preventive care accounted for 17.54% of the population's monthly per capita health spending in 2023 (**Figure E**), compared to 7% in Philippines in 2023, 15% in Malaysia in 2021, and 8% in Thailand in 2018 (WHO, 2024).

Figure D: Monthly Per Capita Health Expenditure (Rupiah)



Source: Ministry of Health, Republic of Indonesia

Figure E: Share of Monthly Per Capita Health Expenditure (%)



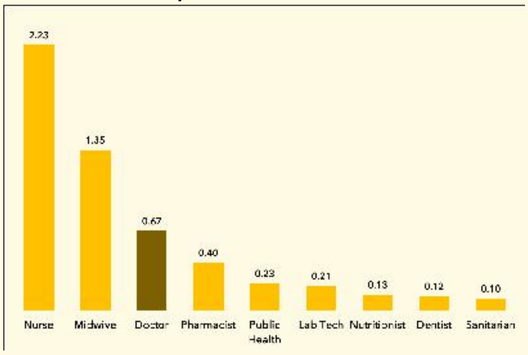
Source: Ministry of Health, Republic of Indonesia

A key priority of the program is screening for cardiovascular diseases, such as stroke and heart disease, and cancer, the two leading causes of mortality in Indonesia. According to the World Health Organization (2021), stroke and heart disease accounted for 140.8 and 90.4 deaths per 100,000 people, respectively, in Indonesia. The urgency of early detection is further underscored by findings from the Indonesian Oncology Association, which reports that 65% of cancer patients seeking treatment only at advanced stages (stage 3 or 4). Supporting this view, the Indonesian Health Economics Association (InaHEA) reported in 2018 that 35.6% of cancer diagnoses occurred at stage 3, while 29.8% were at stage 4. Early detection can increase the probability of a cure to 43%, highlighting the critical role of this program in addressing these public health challenges.

To maximize impact, screenings will be tailored to different demographic groups: infants and toddlers will be screened for congenital diseases such as hypothyroidism; adolescents for obesity, diabetes, and dental health; adults for early detection of breast and cervical cancers; and the elderly for cardiovascular diseases and degenerative conditions such as osteoporosis. Screenings will be conducted on individuals' birthdays at *puskesmas*, while school-aged children will undergo check-ups at the start of the academic year. The program integrates both online registration through the Satu Sehat Mobile app and manual registration at local *puskesmas*, ensuring accessibility across all segments of the population.

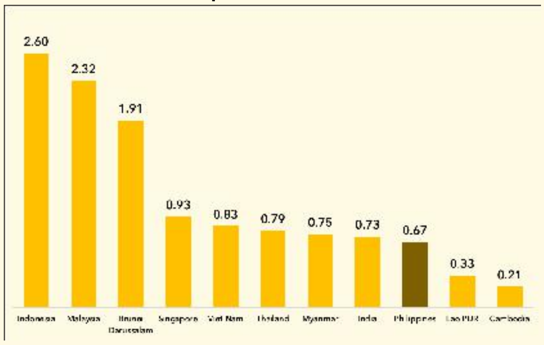
Beyond screenings, the program ensures follow-up care, particularly for individuals covered by the National Health Insurance (JKN) system. If abnormalities are detected, JKN participants will be referred to hospitals following BPJS Kesehatan procedures, with all subsequent treatments covered under JKN benefits. However, non-JKN participants will need to pay for follow-up treatments out-of-pocket as they are not eligible for government-covered care. To address this gap, the government strongly encourages non-JKN participants to enrol in the national insurance program ensuring access to essential healthcare services and ensure continuity of care.

Figure F: Ratio of Healthcare Workers per 1,000 Population in Indonesia (%)



Source: Ministry of Health, Republic of Indonesia (2023)

Figure G: Ratio of Doctors per 1,000 Population (%)*



Source: World Bank (2024); Ministry of Health, Republic of Indonesia (2023)
** Viet Nam in 2018. Cambodia and Myanmar in 2019. India and Thailand in 2020. Singapore, Malaysia, Brunei Darussalam, Lao PDR, and Philippines in 2021. Indonesia in 2023.*

Despite its ambitious goals, the program faces considerable challenges related to health infrastructure and workforce shortages, particularly in remote areas (3T regions). Many *puskesmas*, lack sufficient medical equipment, medication, and healthcare workers. In 2023, 4.17% of *puskesmas* operated without doctors and 45.36% lacked critical health workers such as doctors, dentists, nurses, midwives, pharmacists, public health workers, sanitarians, lab technicians, and nutritionists (Ministry of Health, 2023). The doctor-to-population ratio in Indonesia remains critically low at 0.67 per 1,000 people as of 2023 (**Figure F**) (Ministry of Health, 2023). Indonesia lags behind Singapore (2.60 per 1,000 in 2021), Malaysia (2.32 per 1,000 in 2021), Brunei Darussalam (1.91 per 1,000 in 2021), Thailand (0.93 per 1,000 in 2020), Vietnam (0.83 per 1,000 in 2018), Philippines (0.79 per 1,000 in 2021), Myanmar (0.75 per 1,000 in 2019), and India (0.73 per 1,000 in 2020) (**Figure G**) (World Bank, 2024). Among ASEAN countries, only Lao PDR (0.33 per 1,000 in 2021) and Cambodia (0.21 per 1,000 in 2019) have lower doctor-to-population ratios than Indonesia. These workforce shortages, especially in remote and rural areas, present a substantial obstacle to the program's success. Addressing these disparities will require coordinated efforts to increase healthcare workforce capacity, improve medical education and training, and incentivize healthcare professionals to serve in underdeveloped regions.

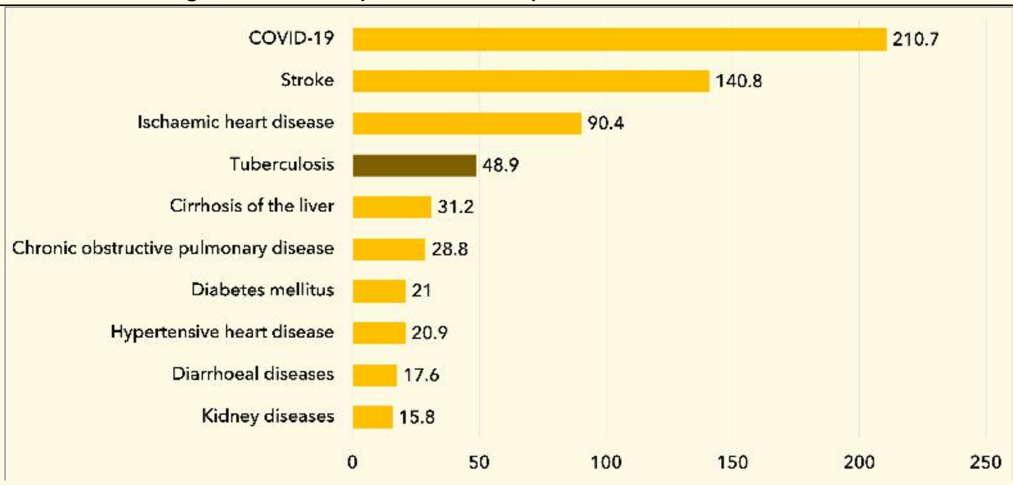
Lessons can be drawn from Australia's BreastScreen program. The program invites women aged 50 to 74 for free mammograms every two years with optional free access for women aged 40–49 and over 75. In 2019–2020 alone, approximately 1.8 million women participated in the screenings, representing 50% of the target age group. Between 1991 and 2020, breast cancer mortality decreased from 74 to 41 deaths per 100,000 women in Australia. Denmark follows a similar approach, offering free national screening programs for cervical, breast, and colorectal cancer. All women aged 50–69 are eligible for breast cancer screening, with the primary goal of reducing morbidity and mortality through early detection. Annually, approximately 4,800 Danish women are diagnosed with breast cancer, with around 1,100 deaths recorded each year. The screening program has been shown to be life-saving; among women aged 50–59, five out of every 31 breast cancer-related deaths can be prevented with regular screening, while in the 60–69 age group, 14 out of 40 deaths are avoidable through participation. Similarly, the Netherlands' National Population Screening Programme invites women aged 50–75 for a mammogram every two years. Since the introduction of these programs, breast cancer mortality in the Netherlands has declined by 42% (2022 compared to 1989), largely due to early detection and improved treatment options. This best practices highlight the transformative potential of national screening programs.

The program's long-term success hinges on efficient logistics and financial sustainability. Ensuring timely distribution of medical supplies and equipment to *puskesmas* across Indonesia, particularly in remote areas, will require robust coordination and infrastructure development. Financial sustainability is another concern, given the IDR3.2 trillion budget allocation. Transparent fund management, coupled with a good monitoring and evaluation framework, will be essential to track program progress, address inefficiencies, and ensure accountability.

Quick Win 5: Tuberculosis Eradication

Tuberculosis (TB) remains one of the worlds pressing health threats, ranking as the second leading cause of death from a single infectious agent worldwide in 2022, following COVID-19 (WHO, 2023). That year, an estimated 1.1 million deaths occurred among TB patients without HIV, a slight decrease from 1.2 million in 2021. Despite this modest reduction, TB continues to pose a major challenge, particularly in countries with high caseloads. Thirty nations accounted for 87% of global TB cases, with two-thirds concentrated in just eight countries. Indonesia ranked second, contributing 10% of cases, following India (27%) and ahead of China (7.1%), Philippines (7%), and Pakistan (5.7%) (WHO, 2022). In 2021, TB was Indonesia's fourth leading cause of death, with a mortality rate of 48.9 deaths per 100,000 population, trailing only COVID-19, stroke, and heart disease (**Figure H**) (WHO, 2022).

Figure H: Deaths per 100,000 Population in Indonesia in 2021

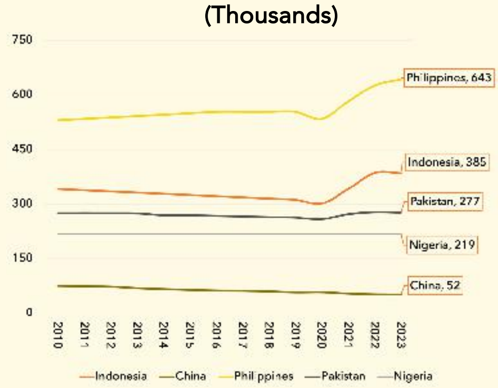


Source: World Health Organization (2022)

Indonesia has made considerable strides in combating TB, reflected in the increase of its case detection rate, the proportion of case reported and treated to estimated incidence each year, which increased from 68% in 2022 to 77.5% in 2023 (Ministry of Health, 2023). While this improvement demonstrates progress in identifying and treating TB cases nationwide, it remains below the Ministry of Health's 2020-2024 Strategic Plan (*Rencana Strategis*/Renstra) target of 90%. This gap highlights the need for continued interventions to improve case identification and ensure effective treatment coverage.

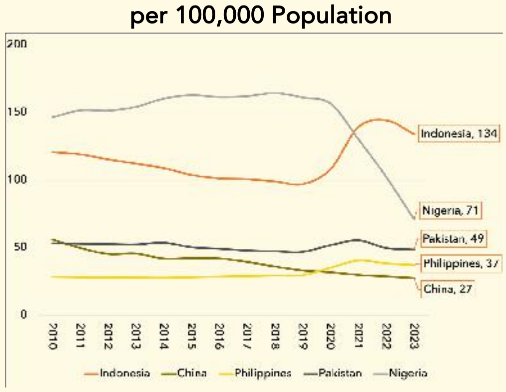
With an estimated 1,060,000 TB cases in 2023, equivalent to 385 cases per 100,000 population, and 134,000 annual deaths (49 deaths per 100,000 population) (**Figure I and Figure J**) (WHO, 2023), TB continues to place a heavy burden on Indonesia's healthcare system. To address this, the Tuberculosis Eradication Program focuses on early detection, effective treatment, and vaccine development. Supported by a budget allocation of IDR8 trillion, which accounts for 7.57% of the total health priorities budget in the 2025 State Budget (APBN), the program aims to reduce TB incidence to 272 cases per 100,000 population by 2025. This goal aligns with Presidential Regulation No. 67 of 2021, targeting TB elimination by 2030 by reducing incidence to 65 cases and mortality to 6 deaths per 100,000 population.

Figure I: Tuberculosis Mortality (Thousands)



Source: World Health Organization (2022)

Figure J: Tuberculosis Incidence per 100,000 Population



Source: World Health Organization (2022)

Efforts to combat TB have been bolstered through policy reforms, expanded healthcare services, and community-driven initiatives. The establishment of the TB Acceleration Task Force (*Tim Percepatan Pengendalian* TB/TP2TB) and TB Partnership Platform (*Wadah Kemitraan Penanggulangan TB*/WKPTB), mandated by Presidential Regulation No. 67 of 2021, has strengthened coordination across government levels. Healthcare services have been expanded with the addition of PCR laboratories and locally produced reagents to enhance TB diagnosis. Community involvement has also been prioritized through the "TB Army", which tracks patients who have discontinued treatment, leveraging TB survivor communities for outreach. Additionally, three TB vaccines, recombinant protein-based, viral vector-based, and mRNA-based, are undergoing Phase 3 clinical trials in Jakarta and West Java. Screening efforts have increased substantially, from 400,000 individuals in 2022, which was limited due to the COVID-19 pandemic, to 900,000 in 2024, with a target of 1 million in 2025.

Looking ahead, the program outlines several planned actions to accelerate progress, including expanding TB screenings to reach 1 million individuals in 2025 and advancing clinical trials for TB vaccines to support elimination efforts. Additionally, there are plans to scale up the innovative TB financing model, which was previously piloted in six cities with support from BPJS, USAID, and the World Bank. This innovative approach focuses on transforming the behaviour of First-Level Healthcare Facilities (Fasilitas Kesehatan Tingkat Pertama/FKTP) in detecting, reporting, and treating TB cases to completion. The pilot program demonstrated success, achieving a 5% increase in TB notifications (case detection and reporting) in government-run FKTPs and a 95% increase in private FKTPs compared to the pre-intervention period in the previous year. Furthermore, regular program evaluations and strengthened coordination among stakeholders are planned to ensure effective implementation.

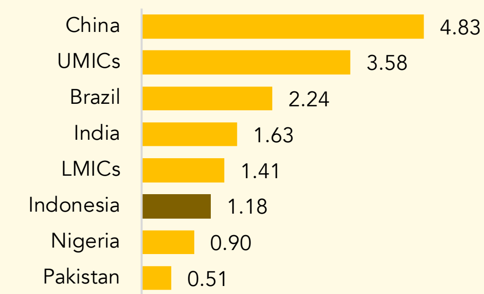
Despite progress, major obstacles remain. Patient compliance with TB treatment continues to be a challenge, often affected by limited healthcare access, medication side effects, social stigma, and socioeconomic barriers. These factors contribute to treatment discontinuation, which exacerbates transmission risks and compromises program outcomes. Public awareness of TB symptoms, prevention, and treatment options also remains low, reducing participation in health programs and delaying early detection. Additionally, TB often co-occurs with other diseases, such as HIV/AIDS, complicating treatment and increasing mortality risks.

Indonesia can draw valuable lessons from Uganda and Brazil, two countries that have achieved notable success in TB control. Uganda's CAST TB campaign emphasizes community-based awareness, screening, and treatment, resulting in a significant increase in the TB case notification rate by 11.4–26.6 percentage points per 100,000 population (Turyahabwe et al., 2024) and achieving a 100% treatment coverage rate, the number of treated individuals by the estimated TB cases in a year, in 2022 (WHO, 2022). Brazil's efforts include three integrated systems: the SINAN-TB database for epidemiological monitoring, the IL-TB system for tracking preventive treatment, and the SITE-TB system for managing drug-resistant TB cases (Villalva-Serra et al., 2025). These systems have strengthened Brazil's TB treatment coverage, achieving an 83% treatment coverage rate in 2022 compared to Indonesia's 67% (WHO, 2022). By adopting similar strategies, emphasizing community engagement and data-focused approaches, Indonesia could accelerate progress toward its TB eradication.

Quick Win 6 : Upgrading Type D to Type C Hospitals

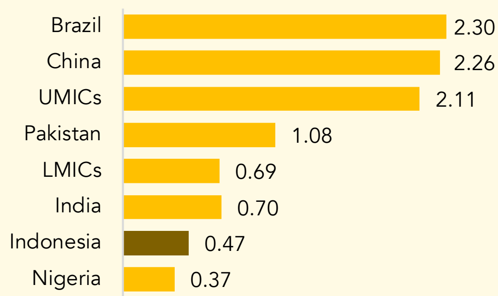
Beyond tackling the disease itself, Indonesia faces fundamental challenges in healthcare infrastructure and workforce capacity. In 2019, the country had only 1.18 hospital beds per 1,000 people, trailing behind China, Brazil, India, and even the lower-middle-income countries (LMICs) average (**Figure K**). The shortage extends to healthcare professionals, with just 0.70 physicians per 1,000 people, fewer than in Brazil, China, Pakistan, and India (**Figure L**). This falls far short of the WHO's recommended minimum of 2.5 medical staff (including physicians, nurses, and midwives) per 1,000 people to ensure adequate primary healthcare coverage (WHO, 2006). The limited availability of hospital beds and medical personnel places immense pressure on Indonesia's healthcare system, particularly in rural and remote areas where access to quality care is already constrained.

Figure K: Hospital Bed Per 1,000 People in Selected Countries in 2019**



Source: World Bank
***Latest available data for international comparison*

Figure L: Physician Per 1,000 People in Selected Countries in 2019**

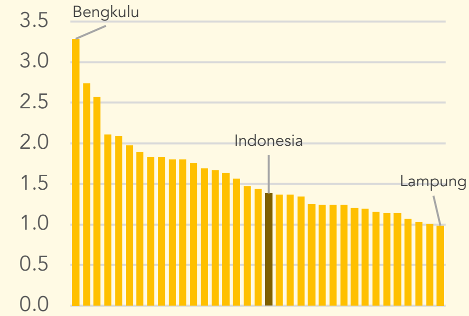


Source: World Bank

Healthcare facilities are also unevenly distributed across provinces. In 2022, Bengkulu had the highest hospital bed-to-population ratio at 3.29 per 1,000 people, while Lampung had the lowest at just 0.99 (Figure J). A similar disparity exists in the availability of healthcare workers, with Jakarta boasting 2.1 physicians per 1,000 people, the highest in the country, while East Nusa Tenggara had the lowest at 0.4 (Figure K). Moreover, the eastern regions of Indonesia, including provinces outside Sumatra, Java, Bali, and Kalimantan, generally lack well-equipped hospitals. These areas have a higher concentration of Type D hospitals, which, by regulation, only have a minimum of 50 beds, two out of four basic medical specialties (Internal Medicine, Pediatrics, Surgery, Obstetrics & Gynecology), and are often missing advanced medical facilities.

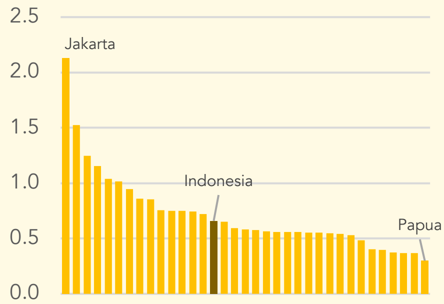
Poor and uneven access to health services has contributed to Indonesia's relatively low life expectancy at birth, which currently stands at 68 years. This is comparable to the average for LMICs (67 years) but lags behind upper-middle-income countries (UMICs) (76 years). Other indicators, such as neonatal mortality rates, further highlight Indonesia's struggles in achieving better health outcomes. According to UNICEF, many neonatal deaths in the country are caused by pneumonia, congenital diseases, and diarrhea, conditions that are difficult to manage in inadequately equipped Type D hospitals. This demonstrates how the lack of properly facilitated healthcare institutions continues to affect health outcomes.

Figure M: Hospital Bed Per 1,000 People By Province in 2022



Source: Statistics Indonesia (2022)

Figure N: Physician Per 1,000 People By Province in 2022



Source: Statistics Indonesia (2023)

To address these shortcomings, the government has prioritized improving healthcare access as part of its 2025 spending agenda. While the 2025 state budget financial note does not explicitly mention this initiative, one of the key priorities of the Prabowo administration is upgrading Type D hospitals to Type C facilities. According to the Director General of Advanced Health Services, Ministry of Health, this initiative aims to upgrade 66 hospitals by the end of 2029, with an initial phase targeting 32 hospitals in remote islands and border areas by 2026. The program includes an allocation of IDR150 billion per hospital for construction, along with an additional IDR20 billion for medical equipment and facilities, bringing the total estimated cost to IDR5.44 trillion by 2026. The initiative emphasizes the use of locally produced materials to support domestic industries. Several regions, including East Kolaka, West Muna, East Manggarai, Kubu Raya, and Southwest Sumba, have already begun construction, with completion expected by the end of 2025.

Upgrading Type D hospitals to Type C facilities is expected to enhance healthcare access, particularly for populations in remote and underserved regions. Empirical evidence from LMICs suggests that reducing the distance to healthcare facilities can significantly decrease neonatal mortality (Karra et al., 2017). In Indonesia, improving hospital infrastructure would enhance the capacity to treat conditions, such as acute diarrhea and severe pneumonia, two of the leading causes of neonatal deaths. However, Type C hospitals may still lack the necessary resources to address more complex health issues, such as stroke, coronary artery disease, or cancer, which are among the leading causes of adult mortality. As such, while this initiative represents an important step toward improving healthcare access, additional efforts will be required to ensure comprehensive coverage for a wider range of medical conditions.

Despite its potential benefits, the program faces two key challenges in achieving equitable healthcare provision. First, the expansion of healthcare facilities will increase operational costs, straining already limited regional government budgets. This issue is particularly pressing if upgraded hospitals remain under subnational government management, as they would continue to rely on local fiscal capacity. Converting these hospitals into regional service agencies (*Badan Layanan Umum Daerah*/BLUD) could provide them with greater financial autonomy, but this transition requires careful planning and the capacity to generate sustainable revenue. Capacity-building programs for hospital administrators, along with alternative funding mechanisms, such as grants, will be crucial to ensuring the long-term financial viability of these facilities.

Second, addressing Indonesia's physician shortage remains a major challenge. Merely constructing new hospitals will not be enough if there are not enough medical professionals to staff them. The government must implement targeted strategies, such as offering incentives to encourage doctors to work in underserved areas and expanding medical training programs to address workforce gaps. The proposal to recruit foreign doctors may provide a short-term solution, but challenges related to language barriers, cultural adaptation, and integration into Indonesia's healthcare system must be carefully managed to ensure effective service delivery. Strengthening domestic medical education and training remains a more sustainable approach to overcoming Indonesia's healthcare workforce constraints in the long run.

Quick Win 7: National Food Reserve and Land Optimization

Recent data highlights a concerning trend in Indonesia's rice production. National rice production, measured in dry milled grain, has been on a steady decline from 2019 to 2023, dropping from 54.60 million tons to 53.98 million tons. When converted into rice for household consumption, the amount has also decreased from 31.31 to 31.10 million tons over the same period. While this level of production remains above the estimated household consumption of 30.62 million tons in 2023, making Indonesia already self-sufficient in terms of rice, it does not fully account for the supply needed to stabilize food prices and anticipate supply shocks such as caused by El Niño. To address this gap, the government imported 3.06 million tons of rice in 2023 to ensure sufficient supply and maintain food price stability.

Table A. Rice Production, Import, and Consumption in Indonesia (Million Ton)

Year	Paddy Production	Rice Production	Rice Import	Rice Consumption
2019	54.60	31.31	0.44	28.93
2020	54.65	31.33	0.36	29.37
2021	54.42	31.20	0.41	30.04
2022	54.75	31.54	0.43	30.20
2023	53.98	31.10	3.06	30.62

Source: Statistics Indonesia; Ministry of Agriculture, Republic of Indonesia

Indonesia remains one of the most productive Asian countries when it comes to producing rice. With a rice yield of 5.29 thousand kg/ha in 2023, Indonesia outperformed India, the Philippines, and even Thailand, from which it imports a significant amount (**Figure O**). Despite the high productivity, Indonesia has experienced low productivity improvements, reflected in sluggish rice yield growth. FAO data estimated that from 2010 to 2019, Indonesia had one of the lowest rice yield growth among selected Asian countries, falling behind many countries (**Figure P**). This weak performance is not only evident in regional comparisons but also in historical data, where the average rice yield growth in Indonesia was only 0.2% in 2010 to 2019, a stark contrast to the previous period's 1.7% (**Figure Q**). Low access to modern technology and persistent infrastructure challenges, such as suboptimal irrigation, continue to hinder improvements in rice productivity.

Figure O: Rice Yield in Selected Asian Countries (thousand kg/ha), 2023

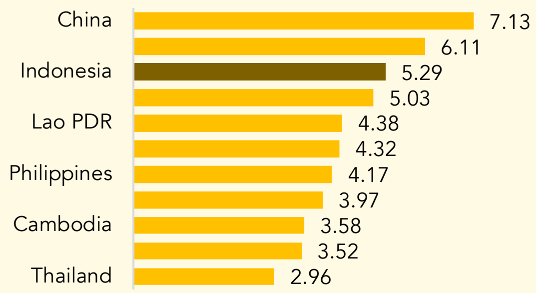
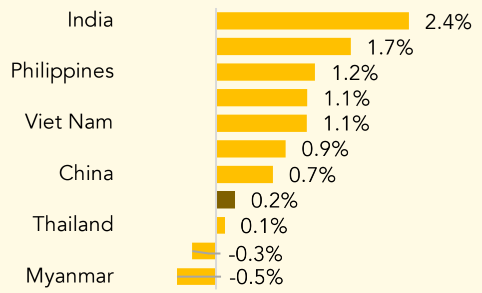
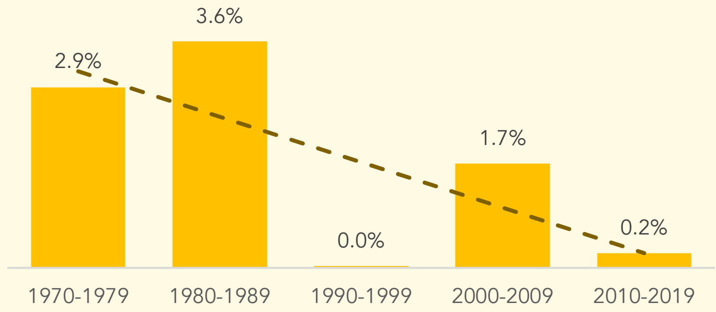


Figure P: Rice Yield Growth in Selected Countries (%), 2010 - 2019



Source: FAO

Figure Q: Indonesia Rice Yield Growth (%)



Source: FAO

The government has frequently emphasized the importance of food self-sufficiency, reinforcing the notion that an agricultural country like Indonesia should not imports its foods. As part of this vision, the "National Food Reserve" initiative was introduced to enhance food security and reduce dependence on imports, with a focus on key commodities such as rice, corn, soybeans, and sugar cane. Backed by a budget of 15 trillion Rupiah, the Ministry of Agriculture has set forth a strategy involving both extensification and intensification. Extensification will be carried out through the opening of three million hectares of new land, while intensification efforts will include fertilizer subsidies, water pump installations, and swamp land optimization. The government has set an ambitious timeline, aiming to achieve rice self-sufficiency by 2027, generate a surplus for export in 2028, and allocate food surplus for humanitarian assistance by 2029 (**Table B**).

Table B: Roadmap for National Food Self-Sufficiency

Year	Description
2025	Opening one million hectares of land and optimizing another hectare of land, to increase rice production by 2.5 million tons.
2026	Continuing extensification and intensification, 1 million hectares of land each to increase production by 5 million tons.
2027	National rice production increased by 10 million tons.
2028	Rice production increased by 10 million tons, starting to export.
2029	Allocate food surpluses for humanitarian aid and additional exports.

Source: Ministry of Agriculture, Republic of Indonesia

To reach its rice production targets by 2029, the government is relying on the establishment of a national food reserve, with the overarching goal of reducing import dependency and securing a food surplus for export. Key strategies include modernizing agricultural equipment, developing modern agricultural clusters, rehabilitating irrigation networks, optimizing swamp land, and implementing advanced agricultural technologies. Additionally, the initiative seeks to attract younger generations to the agricultural sector and address longstanding land productivity constraints. The 2025 quick win program outlines plans to open 150,000 hectares of new land and intensify cultivation across 80,000 hectares, with intensification efforts concentrated in East Java, Central Java, and South Sumatra, while extensification will be implemented in Central Kalimantan, Merauke, and South Sumatra. This program involves collaboration among various stakeholders, including the Ministry of Public Works and state-owned enterprises such as Hutama Karya and Pindad, which will provide modern agricultural equipment. However, the progress so far remains well below the target of opening one million hectares per year, casting doubts on the feasibility of achieving the three-million-hectare goal by the end of the administration's term.

The government's rice production targets are ambitious, but achieving them does not guarantee an end to rice imports. The import of three million tons in 2023 reflects the continued demand for certain rice varieties and the need for additional supplies during planting seasons to maintain price stability. Progress in opening new agricultural land has also fallen short of expectations, particularly in Central Kalimantan, where expansion remains well below the target of 150,000 hectares. Beyond production challenges, environmental concerns add another layer of complexity. Expanding farmland through deforestation and peatland conversion contributes to carbon emissions, while conflicts over land use, especially in areas like Merauke, highlight the risks of inadequate consultation with indigenous communities. The push for self-sufficiency must navigate these economic, environmental, and social trade-offs to be truly sustainable.

Plan to Establish a National Revenue Agency and Optimizing State Revenue

The establishment of a National Revenue Agency has been a key topic of discussion within President Prabowo Subianto's administration. The agency was intended to improve state revenue by reforming the taxation system, streamlining excise duties, and making Indonesia a more attractive destination for foreign investment. However, despite discussions and planning, the proposed agency has not yet materialized since the cabinet's inauguration. Nevertheless, the government has continued to focus on optimizing state revenue, evident in the launch of Coretax, among other initiatives.

On 1 January 2025, the Directorate General of Taxes introduced Coretax, an integrated information technology system designed to modernize tax administration across Indonesia. The system covers various aspects of tax management, including taxpayer registration, the filing of annual tax returns (SPT), tax payments, audits, and collections. Coretax builds on previous digital tools such as e-filing, e-invoice, and e-billing, but aims to address the shortcomings of those platforms by creating a unified system. This integration is meant to reduce administrative burdens, lower compliance costs, and improve interactions between taxpayers and tax officials. Through this, the government hopes to foster greater voluntary tax compliance and streamline operations across the tax system.

Despite its ambitious goals, the rollout of Coretax has faced technical issues that have impacted its effectiveness. Among the most frequent problems reported are system outages and slow response times, particularly during key periods such as tax filing deadlines. These disruptions have caused frustration for taxpayers, especially businesses that rely on timely filings to avoid penalties and maintain compliance. Additionally, the transition from older systems to Coretax has revealed discrepancies in data, such as missing or incorrect records, which have further complicated the tax filing process. In response, the Directorate of General Taxes, Ministry of Finance has been working to resolve these issues to ensure the system performs as expected. Once fully operational, Coretax is expected to improve Indonesia's tax ratio by two percentage points (the National Economic Council, 2025), a much-needed increase from the 2023 level of 10.31%, which remains low compared to its regional counterparts. This increase is projected to generate an additional IDR1,500 trillion revenue over the next five years the National Economic Council, 2025).

While enhancing the tax system through initiatives like Coretax is vital for optimizing state revenue, it is equally important for the government to focus on broader measures that can stimulate economic growth and attract both foreign and domestic investments. A more favourable investment climate can not only create jobs but also increase revenue from corporate taxes, personal income taxes, and other sources. Key actions to improve the investment environment include simplifying regulatory frameworks, reducing bureaucratic obstacles, and investing in infrastructure. For instance, a 2024 survey by Business Sweden in Indonesia found that only 40% of Swedish companies planned to increase their investments in the next 12 months. The three least satisfactory conditions cited were customs procedures, licensing and approvals, and corporate taxation. Addressing these issues, along with offering more attractive incentives could enhance Indonesia's competitiveness. Additionally, offering more attractive incentives for investors, especially in sectors like manufacturing, technology, and renewable energy, could further strengthen Indonesia's competitiveness. However, addressing issues such as corruption, legal uncertainty, and inefficiencies within the public sector is equally essential for boosting investor confidence. According to the 2024 Indonesia Anti-Corruption Behavior Index (ACBI), the public's perception of corruption remains a concern, with 82.83% of respondents reporting no bribes paid for public services, a slight decline from the previous year. Similarly, business actors reported a decrease in anti-corruption behaviour, with 81.19% indicating they did not engage in bribery. Tackling these challenges will be crucial for creating a transparent and attractive investment climate that supports revenue growth and long-term economic development.

Officially A Member of BRICS

Shortly after his inauguration, President Prabowo Subianto sent the Minister of Foreign Affairs, Sugiono, to attend the BRICS Summit in Kazan, Russia. On January 6, 2025, Indonesia officially joined BRICS, reflecting the non-aligned foreign policy President Prabowo seeks to pursue and signaling his intention to play a more active role in shaping global governance. Established in 2009, BRICS brings together emerging economies with the shared goal of challenging the dominance of Western-led institutions. The group has expanded over time, most recently adding Egypt, Ethiopia, Iran, and the United Arab Emirates under the BRICS Plus framework.

As outlined by ISDP (2019), BRICS operates as an intergovernmental organization without a permanent secretariat or formal supranational structures. Its decision-making process is consensus-based, reflecting the diverse priorities of its member states. The organization's activities focus on annual summits, ministerial meetings, and specialized forums. Key institutions such as the New Development Bank (NDB) and the Contingent Reserve Arrangement underscore BRICS' commitment to promoting economic stability and development. The bloc champions principles such as sovereign equality, non-interference in domestic affairs, and support for a multipolar world order, fostering collaboration while respecting each nation's interests (ISDP, 2019).

Indonesia's entry into BRICS began under President Joko Widodo and was continued by President Prabowo. BRICS membership offers Indonesia a platform to collaborate with other developing nations, addressing shared challenges and strengthening its bargaining power in international discussions. The platform also presents opportunities for deepening trade and investment relations with BRICS countries. Intra-BRICS trade has shown promise, increasing from USD407.3 billion in 2013 to USD636.5 billion in 2022, with an annual growth rate of 4.6% (ECIC, 2023). However, intra-BRICS trade accounted for just 15% of the bloc’s total global trade in 2022, highlighting that the majority of trade still takes place outside the group. This suggests that there is significant untapped potential for deeper economic integration within BRICS. Similarly, foreign direct investment (FDI) flows have increased, with total inward FDI stock among BRICS nations growing from USD27 billion in 2010 to USD167 billion in 2020, largely driven by China, followed by Brazil and India (UNCTAD, 2023). Indonesia could benefit from deeper partnerships with energy-rich nations like the United Arab Emirates, Saudi Arabia, and Iran, potentially securing more affordable energy imports and strengthening economic ties.

However, the benefits of BRICS membership for Indonesia remain uncertain. Even before joining, trade with China and India had already been significant, surpassing trade with other BRICS members. In 2023, Indonesia’s exports to China and India accounted for 25.09% and 7.84%, respectively, of total exports, while exports to all other BRICS members combined represented less than 4%. These strong bilateral ties, formed through frameworks like the Regional Comprehensive Economic Partnership (RCEP) and the ASEAN-India Free Trade Agreement, have already brought Indonesia tangible benefits, including reduced tariffs and improved market access. Given the dominant role that China and India play in Indonesia’s trade, it remains unclear how BRICS membership could further enhance the country’s economic position, particularly given the limited trade with other BRICS nations.

Similarly, FDI from BRICS countries is another area where the benefits of membership are unclear. In 2023, FDI from China alone accounted for 14.80% of Indonesia's total FDI, a share that was already substantial before Indonesia joined BRICS. China's economic presence in Indonesia, particularly in sectors like infrastructure, manufacturing, and energy, has been robust for years, underscoring the importance of this bilateral relationship. In contrast, other BRICS countries contribute much less to Indonesia's FDI inflows, with nations such as India, Brazil, and Russia playing a minor role in comparison. Indonesia's decision to join BRICS may not lead to a substantial increase in investment from these member states, raising questions about the economic benefits of BRICS membership for Indonesia, particularly in terms of FDI, as China's existing investment in Indonesia already plays a key role in supporting vital sectors of the economy.

Table C. Exports Share to BRICS Members and FDI Share from BRICS Nations in 2023

No.	Country	Share of Indonesian Exports (2023)	Share of FDI (2023)
1.	China	25.09	14.8
2.	India	7.84	0.55
3.	UAE	1.02	0.14
4.	Egypt	0.51	0
5.	Brazil	0.49	0.01
6.	Russia	0.35	0.23
7.	South Africa	0.33	0.02
8.	Iran	0.08	0
9.	Ethiopia	0.02	-
	Total	35.73	15.75

Source: CEIC (2024)

While the potential benefits of BRICS membership remain uncertain, the associated risks are more tangible. The bloc's reliance on consensus decision-making often hampers its ability to address divisive issues effectively. For example, although members have issued joint statements on issues like unilateral sanctions, achieving consensus on more contentious matters, such as the Ukraine conflict, has proven challenging. Additionally, Indonesia has yet to join the New Development Bank (NDB), limiting its access to crucial infrastructure and development funding. Since its establishment in 2015, the NDB has allocated USD32.8 billion in funding, with China and India receiving the largest shares (NDB, 2024). Furthermore, the NDB's reliance on USD-denominated financing undermines its goal of promoting local currency funding, further complicating the situation. Another concern is that most BRICS nations are producer economies with trade surpluses, which reduces their demand for imports from Indonesia.

Although Indonesia is now a member of BRICS, the country has opportunities to strengthen its economic position by fully utilizing the trade agreements it has already secured. These include agreements such as the ASEAN Free Trade Area (AFTA), the Regional Comprehensive Economic Partnership (RCEP), and various other preferential trade deals. Through these arrangements, Indonesia can enhance its access to key markets, reduce tariffs, and improve the ease of entry for its exports. Furthermore, these agreements create opportunities to attract foreign direct investment (FDI), which can support the growth of industries ranging from manufacturing to agriculture. By optimizing these existing trade frameworks, Indonesia can diversify its trading partners, negotiate better terms, and tap into regional value chains, thus gaining a competitive advantage in global markets.

The potential imposition of 100% tariffs on BRICS nations by U.S. President-elect Donald Trump poses significant risks for Indonesia's trade relations with the United States, a major trading partner. Such tariffs would likely lead to a sharp decline in demand for Indonesian exports, particularly in manufacturing, agriculture, and natural resources, potentially resulting in widespread job losses. The threat of trade disruption could also deter U.S. foreign investment, impeding Indonesia's efforts to attract capital for industrial development. This could lead to an economic slowdown, further complicating Indonesia's growth prospects as a BRICS member.

State Budget Efficiency and Cabinet Expansion

With numerous massive-scale new programs launched by President Prabowo's administration poses a big pressure on the fiscal burden. Like many other developing countries, Indonesia has a relatively narrow fiscal space, even before current administration took office. Faced with arduous challenge of financing new programs, President Prabowo issued the first Presidential instruction in 2025 (Presidential Instruction no.1/2025), directing and outlining government budget cuts and ensuring efficient use of public funds in the implementation of the 2025 fiscal year budget. The efficiency will be achieved through total spending cut of around IDR306.69 trillion or around 8.4% of state budget, consisting of a spending reduction by ministries and agencies of around IDR256.10 trillion (22.1% reduction) and regional transfer cut of around IDR50.59 trillion (5.5% reduction). Specifically, the Ministry of Finance letter numbered S-37/MK.02/2025 lists 16 types of operational expenditures to be reduced, and the finance minister has ensured that budget efficiency plan will not affect the allocated budget for social assistance.

Table D. Ministry and Agency Budget Cut Identification

No.	Item	Budget Cut (%)	No.	Item	Budget Cut (%)
1.	Office supplies	90.0	9.	Meeting and seminar	45.0
2.	Printing and souvenir	75.9	10.	Activity honorarium and professional service	40.0
3.	Office, vehicle, and equipment rent	73.3	11.	Infrastructure spending	34.3
4.	Other expenditure	59.1	12.	Education and training	29.0
5.	Ceremonial activity	56.9	13.	Machine and equipment procurement	28.0
6.	Official trip	53.9	14.	Application license	21.6
7.	Research and analysis	51.5	15.	Government grant	16.7
8.	Consultant service	45.7	16.	Maintenance	10.2

Source: Ministry of Finance Letter S-37/MK.02/2025

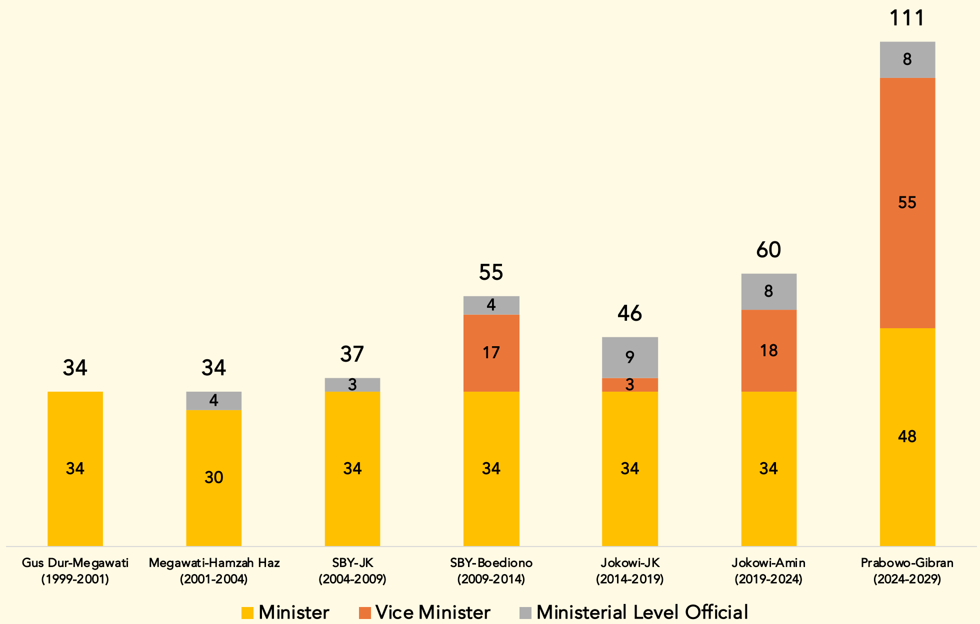
Considering the list of items in the budget cut, there might be a room for efficiency improvement in the state budget, such as from ceremonial activity, souvenir, official trip and meeting. However, there is a growing concern that the ongoing budget efficiency plan is rather a drastic measure and might affect the capacity of ministries and government agencies to function well and operate properly. In addition, although spending efficiency is urgently needed, the directive to implement spending cut might not emerge from a well-planned initiative to increase fiscal efficiency and rather materialize as a reactionary action to accommodate various expensive programs by the new government. Also, the general plan of making fiscal spending more productive and efficient seem incoherent and counterintuitive with the previous manoeuvre by President Prabowo to vastly expand its cabinet size, increasing the number of ministries by 41%, from 34 to 48, and tripling the number of vice ministers from 18 to 55 during the process.

In the context of state budget efficiency improvement effort, the world is currently seeing one of the most effective measures that has been taken in modern history. Javier Milei became a President of Argentina in December 2023, which at that time was a country in the wake of an economic crisis and economic mismanagement by the previous administration. Annual inflation in 2023 was around 211%

(the second highest inflation in the world), GDP per capita was below the 2008 level, and Argentina's poverty rate was the highest since 2002. Its economy has been shut out of international capital markets for more than for four years amid extreme controls on the balance of payments, a multiplicity of exchange rates, and a very high primary fiscal deficit financed by central bank credit. President Milei assumed the office with the main focus of taming inflation and eradicating fiscal deficit, targets that were deemed as almost impossible by many. However, in his first year of his presidency, President Milei's commitment to a draconian fiscal adjustment has begun to change a country that was prone to economic stagnation and runaway inflation, driven by years of wild money-printing that paid for government deficits. In 2024, Argentina successfully reached its first fiscal surplus in the last 14 years, brought down inflation to 117% (93.6 percentage points less than in 2023), and recorded a positive GDP growth in Q3-2024.

Formerly an economist, President Milei delivered such phenomenal outcome by taking aggressive austerity measure of massively reduced the size of bureaucracy. Specifically, President Milei set up a new ministry called Ministry of Deregulation and Transformation of the State headed by Frederico Stuzerngger, a PhD of Economics graduate from MIT and former Argentina's Central Bank President. Stuzernegger main role is to assist the President in reducing public spending and increasing the efficiency and effectiveness of overall government agencies. Termed as "chainsaw" approach, Milei's administration are notoriously reducing the size of the state and shutting down shut down any government institutions that are deemed as "unnecessary". As a consequence, Milei's administration has closed 18 ministries, 200 directorates and agencies, almost 100 secretariats, laid off more than 30,000 public workers (around 10% of federal employees), and reduced fiscal spending by estimated 31% in his first 10 months taking office. While the impact of Milei's chainsaw approach on long-term macroeconomic health is yet to be seen, it has achieved the notable success of drastically reducing fiscal spending inefficiencies, even inspiring the creation of Department of Government Efficiency (DOGE) in the US. Considering the objective, Indonesia is currently sharing the same objective with Argentina to increase state budget efficiency. Argentina illustrates its success in achieving that objective by aggressively reducing the size of bureaucracy and a complete opposite of Indonesia with its hefty cabinet expansion.

Figure R: Number of Ministers, Vice Ministers, and Ministrial Level Officials by Administration



Source: The Cabinet Secretariat, Republic of Indonesia

Supported by the Advanced Indonesia Coalition (*Koalisi Indonesia Maju/KIM*), Prabowo Subianto won the Presidential Election. Initially a coalition of nine political parties, KIM later evolved into Advanced Indonesia Coalition Plus (*Koalisi Indonesia Maju Plus/KIM Plus*) during regional elections and ultimately became a coalition of 14 parties (out of 18 parties competing on general and regional elections). While a coalition with significantly dominant share of vote provides crucial assistance to secure Prabowo's Presidency, it came with a cost. A coalition consisting of a large number of political parties enforce Prabowo's administration to accommodate an enormous amount of political interest. Consequently, Prabowo's accommodative politics has been reflected in the cabinet size. "Red and White" cabinet consists of seven coordinating ministers, 41 ministers, 55 vice ministers, and eight ministerial level officials, making Prabowo's cabinet size around 85% larger than the previous administration and around 3.25 times larger than the cabinet size of Gus Dur and Megawati administration.

Table E. Central Government Expenditure by Function

	2023	2024***	2025****	2024-2025 Growth	2024-2025 Growth	2014-2023 Average Growth
	IDR Trillion				*%*	
Personnel	*412.71*	*460.86*	*521.45*	*60.59*	*13.1*	*6.5*
Material	*432.71*	*436.88*	*486.85*	*49.97*	*11.4*	10.9
Capital	*303.04*	*338.95*	*234.11*	*(104.84)*	*(30.9)*	7.4
Interest Payment	*439.88*	*498.96*	*552.85*	*53.90*	*10.8*	14.6
Subsidy: Energy	*164.29*	192.75	203.41	10.66	*(5.5)*	*0.6*
Subsidy: Non-Energy	*105.30*	*121.10*	*104.52*	*(16.57)*	*(13.7)*	*10.7*
Grant	*0.22*	*0.01*	*0.20*	*0.20*	*2.971.2*	*77.2*
Social Assistance	*156.60*	*153.31*	*140.06*	*(13.25)*	*(8.6)*	*7.3*
Others	*225.02*	*355.41*	*457.98*	*102.57*	*28.9*	*35.7*
Total Central Government Expenditure	***2,239.79***	***2,486.70***	***2,701.44***	***214.74***	***8.6***	***3.9***

Source: CEIC; LPEM FEB UI staff calculations
****Unaudited realization*
*****From 2025 state budget statement (Nota Keuangan APBN 2025)*

One substantial risk of having a fat cabinet is it creates additional burden to the already-narrow Indonesia's fiscal space. While it is rather infeasible to precisely determine the additional fiscal burden of the cabinet expansion due to limited details breakdown of the expenditure items in the state budget statement (*nota keuangan APBN*), assessment of allocated budget in the central government expenditure items might provide some insights. Overall, central government expenditure in 2025 increased by IDR214.74 trillion or around 8.6% relative to 2024. Besides interest payment item (which is not related to the size of cabinet), personnel, material, and other spending are the biggest contributor to the increase of central government expenditure. Two central government expenditure components that are most likely affected by cabinet size expansion, namely personnel expenditure and material expenditure, grew considerably in 2025. Specifically, personnel expenditure increased by 13.1% or IDR60.59 trillion, well beyond its average in the last ten years of around 6.5% and above the growth of overall central government expenditure. Similarly, material expenditure rose by 11.4% (IDR49.97 trillion) in 2025, while its historical average growth rate since 2013 was 10.9%. However, the most interesting observation can be seen in the other spending item of central government budget. Other spending has the biggest nominal increase in 2025 state budget, surged by 28.9% or IDR102.57 trillion relative to 2024. Excluding Covid-19 period (2020-2022), other spending contributes to 16.95% of central government expenditure in 2025 and accounted for almost half of the total increase in the central government expenditure, reaching its highest share and additional contribution at least since 2004. Although not necessarily attributed to the expansion of cabinet size, immense surge of budget allocation for other spending might reflect massive needs to accommodate various programs by the new administration. Other spending expenditure was historically used for emergency and contingency purposes, and to provide room to accommodate potential new programs during the era of government transition. However, the growth of other spending in the latest government transition period is well above the previous transitions. In 2008, share of other spending in central expenditure budget was 4.37%, increased only to 6.19% in 2009 and even decreased in 2010 to 3.11%. During the transition from SBY era to Jokowi era, other spending share also rose mildly from 0.30% in 2013 to 0.97% in 2014 and 0.85% in 2015. On the other hand, other spending hiked substantially from 10.05% in 2023 to 14.29% in 2024 dan 16.95% in 2025. If other spending expenditure in 2025 state budget is spared to accommodate new programs by Prabowo's administration, a substantial share of budget allocation for other spending might suggest that the new programs might have not been adequately formulated and developed.

Besides the fiscal implication, other issues might emerge from the cabinet expansion. The presence of excessive coordinating ministries and ministries might lead to an overlapping responsibilities and conflicts in policy decision making and potentially sparks confusion and inefficiencies throughout government agencies. Furthermore, a fat cabinet will inevitably create a considerably longer bureaucratic chain. The longer bureaucratic and administrative chain will not only prompt coordination issue but also provide more opportunity for potential rent-seeking activities. Therefore, it is of utmost importance to mitigate these risks and ensure the commitment of bringing transparency and accountability in the operations of government.

8% Growth?

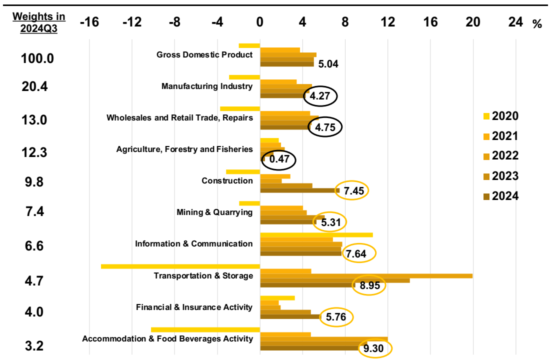
100 days of Presidency is objectively a very short time for any government to deliver concrete results. Expecting the new administration to deliver any tangible results in its first 100 days is rather premature as a new administration requires a period of transition and adjustment from the previous one. However, the first 100 days of new administration should be an enough time to give indications of the policy trajectory going forward. President Prabowo has an ambitious agenda to elevate Indonesia's GDP growth to 8% from its current baseline of 5%. Having stagnant economic growth for more than a decade, Indonesia is facing a serious challenge of declining productivity with no identifiable new source of growth. Without structural reform that could resolve the productivity issues, the agenda of pushing Indonesia's economic growth to 8% is unattainable. Thus far, there are some progresses brought by the quick win programs of the new administration on the aspect of health and education. However, the quick win programs are not necessarily addressing the productivity issue and structural problems of economic growth stagnation in Indonesia. So far, the strategy and potential source of growth for boosting Indonesia's economic growth, especially to achieve the 8% rate, remains unclear. While the state budget reallocation to support economic program could contribute to the economic growth, if reallocated properly, the increasing number of ministries and government institutions might have a counterproductive impact to the growth itself. Going forward, achieving 8% economic growth as targeted by President Prabowo will necessitate more drastic and concrete measures which are designed specifically to address the productivity bottlenecks in the Indonesia's economy.

Stronger Indication of Secular Stagnation

"... in the absent of seasonal factor, only six out of 17 economic sector that managed to grow higher in Q3-2024 compared to the previous quarter."

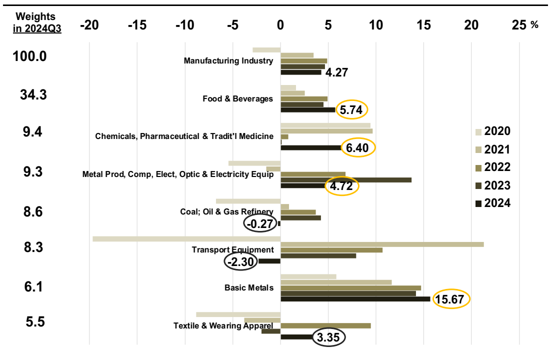
The third quarter of 2024 stood out as the only quarter in 2024 without a significant seasonal factor that drove economic activity. Only grew by 4.95% (y.o.y) in Q3-2024, Indonesia's economic growth dipped below 5%, lower than 5.11% (y.o.y) in Q1-2024 and 5.05% (y.o.y) in Q2-2024 (**Figure 1**). The latest GDP growth figure painted a bleak picture and further suggests a worrying structural problem that the Indonesian economy is currently incapable of reaching a 5% growth level without any seasonal driver. This is not a new phenomenon, as a similar occurrence also happened in 2023, in which Indonesia's economic growth only reached 4.94% (y.o.y) in the third quarter. After the passing of the homecoming period during Eid Al-Fitr and the school holiday season in the second quarter of 2024, various related economic sectors experienced a growth decline, such as transportation and storage sector, business services sector, and accommodation and food and beverages activity. Furthermore, growth of agriculture sector normalized in Q3-2024 after encountering growth rebound in the previous quarter due to the passing of El Niño period. Being the third biggest sector in the Indonesian economy with the contribution of 12.3% to the overall economic activity, agriculture sector illustrated a depressing trend as it only grew by 1.69% (y.o.y) in Q3-2024, indicating a dismal agriculture productivity in Indonesia. Moreover, high value-added services sectors, such as ICT and financial and insurance industry also grew lower in Q3-2024 compared to the previous quarter. On the other hand, public administration sector growth increased in preparation for the regional election period. Overall, in the absent of seasonal factor, only six out of 17 economic sector that managed to grow higher in Q3-2024 compared to the previous quarter.

Figure 1: Growth of GDP and the Main Industries, 2020-2024Q3



Source: CEIC

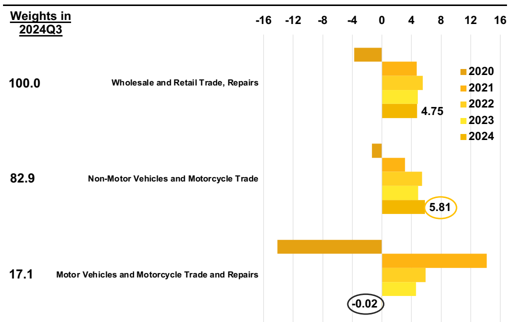
Figure 2: Growth of Manufacturing Sector and Its Subsectors, 2020-2024Q3



Source: CEIC

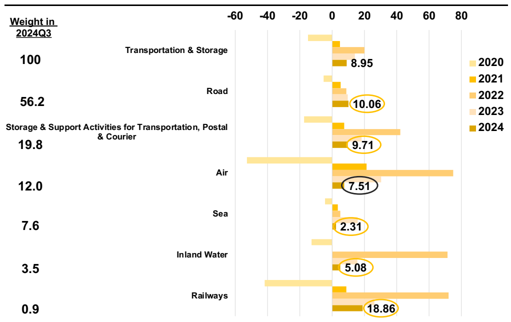
Contrary to the national growth figure, growth of manufacturing sector accelerated. Manufacturing sector grew 4.72% (y.o.y) in Q3-2024, increased rapidly from 3.95% (y.o.y) in the previous quarter (**Figure 2**). The positive performance of the manufacturing sector in the third quarter of 2024 was partially driven by a massive growth of electrical machinery and equipment exports due to higher demand for electrical products and their components. After experiencing negative annual growth in the previous five quarters, the export value of electrical machinery and equipment rose by 10.49% (y.o.y) in Q3-2024, increasing considerably from -1.50% (y.o.y) in the previous quarter. The higher export of electrical machinery and equipment was contributed by the South Korean smartphone producers that have set up their production base in Indonesia and bolstered the export value of smartphones and their components to South Korea by 86.82% (y.o.y) and the USA by 7.85% (y.o.y) in Q3-2024. As a result, metal products, computer and electrical equipments subsector growth increased from 4.12% (y.o.y) in Q2-2024 to 7.29% (y.o.y) in Q3-2024 and machinery and equipment subsector grew by 2.55% (y.o.y) from 1.80% (y.o.y) during the same period.

Figure 3: Growth of Wholesale and Retail Trade and Its Subsectors, 2020-2024Q3



Source: CEIC

Figure 4: Growth of Transport and Its Major Subsectors, 2020-2024Q3



Source: CEIC

"… food and beverages subsector growth was recorded at 5.82% (y.o.y) in Q3-2024, accelerated from 5.53% (y.o.y) in the previous quarter due to increased production activity to anticipate the upcoming demand during end-of-year period."

Another contributor to excellent manufacturing sector performance was food and beverages subsector. As the biggest subsector and accounted for more than a third of manufacturing industry activity, food and beverages subsector growth was recorded at 5.82% (y.o.y) in Q3-2024, accelerated from 5.53% (y.o.y) in the previous quarter due to increased production activity to anticipate the upcoming demand during end-of-year period. Moreover, after experiencing a contraction for three consecutive quarters, coal, oil, and gas refinery subsector grew positively by 3.41% (y.o.y) in Q3-2024, hiked from -2.82% (y.o.) in the previous quarter. Thanks to higher global demand, export value of oil and gas surged from -8.43% (y.o.y) in Q2-2024 to 5.19% (y.o.y) in Q3-2024 and export value of coal raised from -12.85% (y.o.y) to 9.49% (y.o.y) in the same period. While still enduring a massive pressure, clothing products subsectors managed to grow substantially, partly driven by low-base effect. Having four negative growth rate in the past six quarters, textile products subsector grew rapidly from -0.03% (y.o.y) in Q2-2024 to 7.43% (y.o.y) in Q3-2024. Similarly, leather and footwear subsector growth increased considerably by 10.15% (y.o.y) in Q3-2024 from 1.93% (y.o.y) in the previous quarter. On the other hand, lower growth of various subsectors moderated the overall manufacturing sector expansion. Implementation of higher tobacco excise substantially drove down the growth rate of tobacco processing subsector from 5.05% (y.o.y) in Q2-2024 to 0.03% (y.o.y) in Q3-2024. During the same period, chemical products growth also declined substantially from 8.01% (y.o.y) to 3.08% (y.o.y). In addition, despite still recording a double-digit growth rate, lower global price of basic metal products pushed down basic metal subsector growth from 18.07% (y.o.y) in Q2-2024 to 12.36% (y.o.y) in Q3-2024.

The wholesale and retail trade sector experienced a slight decline in growth, from 4.86% (y.o.y) in Q2-2024 to 4.82% (y.o.y) in Q3-2024 (**Figure 3**). This deceleration can be attributed to the normalization of growth in the non-motor vehicle trade subsector, which eased from 5.92% (y.o.y) in Q2-2024 to 5.85% (y.o.y) in Q3-2024, and contributes 82.9% to the overall sector. However, a notable development came from the motor vehicle trade subsector, which returned to positive growth territory after three consecutive quarters of contraction. Having contracted by -0.04% (y.o.y) in Q2-2024, the subsector rebounded modestly to 0.10% (y.o.y) in Q3-2024. While car sales played a central role in the earlier contraction, the recovery in Q3-2024 was primarily fueled by motorcycle sales. Unlike in Q2-2024, where car sales were the primary driver of the -0.04% (y.o.y) growth, Q3-2024's uptick is driven by motorcycle sales. This shift was likely supported by improved purchasing power following harvest season in July – August 2024, with motorcycles remaining a preferred choice due to their greater affordability compared to cars. Motorcycle sales recorded robust growth at 10.80% (y.o.y) in Q3-2024, contrasting with the declining performance of car sales, in contrast to declining car sales indicators, which saw wholesale and retail contractions of -10.49% (y.o.y) and -7.78% (y.o.y), respectively. These contrasting trends likely contributed to the subsector's marginal overall growth.

"The transportation and storage sector also reflected the cooling economic momentum, recording its lowest growth since Q1-2022 at 8.64% (y.o.y) in Q3-2024, down from 9.56% (y.o.y) in Q2-2024."

The transportation and storage sector also reflected the cooling economic momentum, recording its lowest growth since Q1-2022 at 8.64% (y.o.y) in Q3-2024, down from 9.56% (y.o.y) in Q2-2024 (**Figure 4**). Despite this deceleration, it remained second-fastest-growing sector in Q3-2024, outpaced only by other services. The growth slowdown was observed across most subsectors except for air transport. Air transport growth accelerated from 8.38% (y.o.y) in Q2-2024 to 9.23% (y.o.y) in Q3-2024, mainly driven by a rebound in domestic air travel. Aircraft passenger numbers for domestic flights at key airports, Polonia, Soekarno-Hatta, Juanda, and Ngurah Rai, increased by 3.20% (y.o.y) in Q3-2024, marking a recovery after two consecutive quarters of contraction. Aircraft passenger numbers for international flights also increased by 20.28% (y.o.y) in Q3-2024. The uptick in domestic flights was driven by school holiday travel, discounted ticket offers, and increased Umrah departures and Hajj returns. The growth in international flights was supported by the introduction of new international routes. The road transport subsector, which accounts for more than half of the transportation and storage sector, posted a 9.97% (y.o.y) growth in Q3-2024, slightly lower than the 10.27% (y.o.y) in Q2-2024, as daily activities normalized following the holiday-driven surge in the previous quarter. Similarly, the railways subsector experienced a significant drop, declining from 24.11% (y.o.y) in Q2-2024 to 14.31% (y.o.y) in Q3-2024. The sea and inland water transport subsectors continued their downward trends. Sea transport growth has been declining since Q2-2023, with the latest figure at 0.60% (y.o.y) in Q3-2024, down from 2.33% (y.o.y) in Q2-2024. Inland water transport, in declining growth as well since Q1-2024, recorded growth of 4.27% (y.o.y) in Q3-

2024, compared to 5.32% (y.o.y) in Q2-2024. Storage activities saw a notable decline, reflecting the downturn in wholesale and retail trade dynamics, dropping from 11.37% (y.o.y) in Q2-2024 to 8.43% (y.o.y) in Q3-2024, marking the lowest growth since Q4-2022. However, a recovery is expected in Q4-2024, supported by increased holiday-related travel and logistics demand during the end-of-year period, including the Christmas and New Year holidays.

In comparison to the second quarter, most sectors recorded slower growth in Q3-2024. The agriculture, forestry, and fisheries sector, the third-largest contributor to the economy, experienced a notable slowdown as the growth effects of El Niño recovery from the previous quarter dissipated. Similarly, the ICT sector saw a reduction in growth, easing from 7.66% (y.o.y) in Q2-2024 to 6.86% (y.o.y) in Q3-2024. This deacline was partly due to waning purchasing power, the shift from legacy services (voice and SMS) to data, reduced mobile spending, and intense competition that hindered price increases. On the other hand, as President Joko Widodo's administration approaches its conclusion, the government has prioritized the completion of pending construction projects, contributing to a slight increase in the construction sector's growth from 7.29% (y.o.y) in Q2-2024 to 7.48% (y.o.y) in Q3-2024. Additionally, public administration spending surged in preparation for the regional elections (Pilkada), with sector growth rising from 2.79% (y.o.y) in Q2-2024 to 3.94% (y.o.y) in Q3-2024. This represented the largest quarter-to-quarter change, amounting to 1.15 percentage points among all sectors.

The economic landscape in Q3-2024 reflects the initial phase of the transition to Prabowo Subianto's administration, characterized by sub-five percent growth, a decline from previous quarters. This slowdown reveals persistent structural weaknesses as growth above five percent has largely depended on seasonal factors. Various sectors softened following the conclusion of holiday-driven activity and the diminishing effects of weather-related boosts. Achieving the ambitious target of eight percent growth will require navigating these less-than-ideal starting conditions effectively.

"Achieving the ambitious target of eight percent growth will require navigating these less-than-ideal starting conditions effectively."

Slower Household Consumption Growth Amid Fading Seasonal Influences

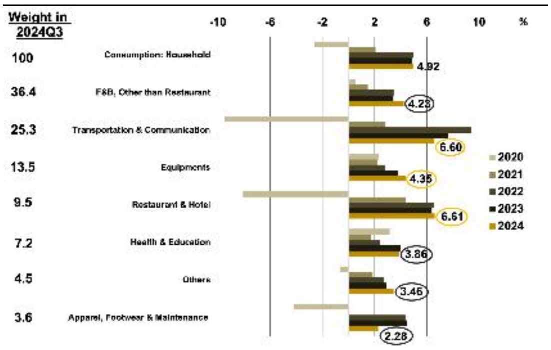
On the expenditure side, household consumption continues to be the primary driver of economic growth in Indonesia. Household consumption, which accounted for 51.94% of total economic activity, grew by 4.91% (y.o.y) in Q3-2024, a slight decline from 4.93% (y,o.y) in Q2-2024 (**Figure 5**). Household consumption peaked in Q2-2024, driven by the momentum of Ramadan, Eid al-Fitr, Eid al-Adha, and extended weekend holidays. Conversely, in Q3-2024, household consumption growth slowed due to the absence of significant seasonal factors.

The slowdown in household consumption growth can be explained by a decline in the growth of three main components, which contributed 48.28% to total household consumption. First, the restaurant & hotel component grew by 6.61% (y.o.y) in Q3-2024, down from 6.80% (y.o.y) growth in the previous quarter. The slowdown in this

"In 2024, 41.67% of expenditures by the middle class and 56.21% of those by the aspiring middle class were allocated to food and beverages."

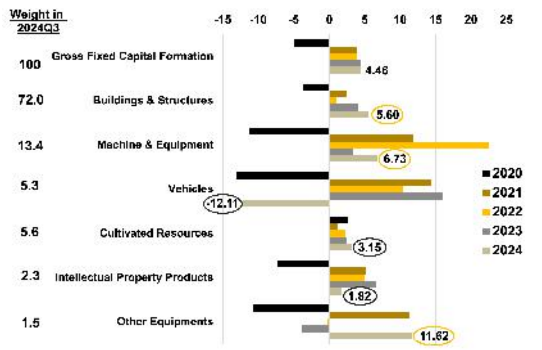
component was reflected in the growth of the average occupancy rate of star-rated hotels, which declined to 3.61% (y.o.y) in Q3-2024 from 8.18% (y.o.y) in Q2-2024. Second, the transportation & communication component grew by 6.54% (y.o.y) in Q3-2024, decreasing from 6.84% (y.o.y) in the previous quarter. This slowdown was evident in the reduced growth of passenger movement on land, which fell to 13.79% (y.o.y) in Q3-2024 from 17.85% (y.o.y) in the previous quarter, as well as in the contraction of passenger movement by train, which recorded negative growth of 5.15% (y.o.y) in Q3-2024, a sharp drop from growth of 39.86% (y.o.y) in the previous quarter. This declining growth was primarily due to the low season following the end of the Eid al-Fitr and Eid al-Adha festive seasons, along with the end of the school vacation period. Third, the equipments component experienced slower growth, declined to 3.68% (y.o.y) in Q3-2024 from 4.40% (y.o.y) in the previous quarter due to reduced household equipment consumption as seasonal factors like Ramadan and holiday periods ended. The slowdown in the three components was mediated by increasing growth in other half of household consumption components. In Q3-2024, consumption of primary needs remained strong, as reflected in the food & beverage component, which grew by 4.27% (y.o.y) in Q3-2024, up from 4.11% in Q2-2024, and in the clothing, footwear, & maintenance component, which grew by 3.41% (y.o.y) in Q3-2024, up from 1.68% (y.o.y) in the previous quarter. This trend was driven by a shift in consumption patterns among the middle class, who are now prioritizing primary needs. In 2024, 41.67% of expenditures by the middle class and 56.21% of those by the aspiring middle class were allocated to food and beverages. Additionally, the growth of the health & education consumption component rose to 4.18% (y.o.y) in Q3-2024 from 3.71% (y.o.y) in Q2-2024, driven by the start of the new school year. Furthermore, consumption growth in non-profit institutions serving households, which accounted for 1.29% of total economic activity, accelerated to 11.69% (y.o.y) in Q3-2024 from 9.98% (y.o.y) in the previous quarter. This acceleration was driven by increased activities related to regional election preparations and the National Sports Week (*Pekan Olahraga Nasional*/PON) XXI.

Figure 5: Growth of Household Consumption and its Components, 2020-2024Q3



Source: CEIC

Figure 6: Growth rate of Investment and Its Main Components, 2020-2024Q3



Source: CEIC

"In terms of government consumption ..., growth increased to 4.62% (y.o.y) in Q3-2024 from 1.42% (y.o.y) in the previous quarter.... supported by a 15.68% (y.o.y) increase in central government spending, driven by higher infrastructure and defense spending."

In terms of government consumption, which accounted for 6.86% of Indonesia's GDP, growth increased to 4.62% (y.o.y) in Q3-2024 from 1.42% (y.o.y) in the previous quarter. This growth was driven by state expenditure realization, which by the end of September 2024 had reached 67.72% of the budget, growing by 14.41% (y.o.y). The realization of state expenditure was supported by a 15.68% (y.o.y) increase in central government spending, driven by higher infrastructure and defense spending. Additionally, goods expenditure grew by 19.65% (y.o.y), fueled by support for the food aid disbursement. Furthermore, social assistance spending recorded a growth of 6.67% (y.o.y), primarily supporting various social assistance programs, including the Staple Food Card (*Kartu Sembako*) and the Family Hope Program (*Program Keluarga Harapan*). The low growth in Q2-2024 was influenced by a high-base effect, as Q2-2023 had recorded strong growth of 10.62% (y.o.y) due to the disbursement of the 13th salary for civil servants during that quarter. Conversely, the high growth in Q3-2024 was driven by a low-base effect from negative growth of 3.76% (y.o.y) in Q3-2023, caused by the discontinuation of social assistance programs like Direct Cash Assistance for Cooking Oil (*BLT Minyak Goreng*) and Direct Cash Assistance for Fuel (*BLT BBM*).

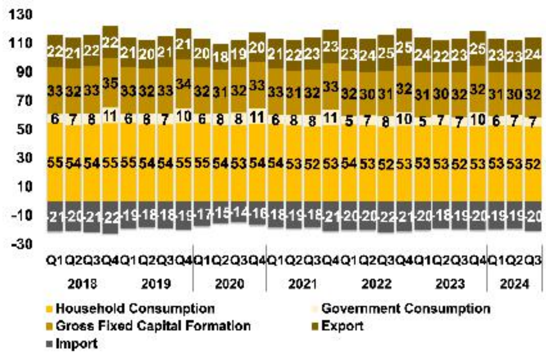
Gross Fixed Capital Formation (GFCF), the second-largest contributor to Indonesia's GDP at 31.68%, saw a growth of 5.15% (y.o.y) in Q3-2024, up from 4.43% (y.o.y) in the previous quarter (**Figure 6**). Based on its decompisition, GFCF growth was primarily driven by increases in two main components. First, the building & structures component, which accounted for 71.95% of GFCF, grew by 6.02% (y.o.y) in Q3-2024 compared to 5.31% (y.o.y) in the previous quarter. This increase was influenced by the construction of infrastructure projects by both the government and the private sector, in line with the ongoing development of Nusantara Capital City (*Ibu Kota Nusantara*/IKN) and other construction activities such as toll roads and other infrastructure. Second, the machinery & equipment investment component, contributing 13.38% to GFCF, experienced growth of 11.17% (y.o.y) in Q3-2024, up from 6.08% (y.o.y) in the previous quarter. This growth was driven by ongoing infrastructure projects, increased government capital expenditure realization, and higher imports of capital goods due to rising manufacturing activity in machinery and electronic products. Furthermore, components such as intellectual property products and other equipment also recorded higher growth compared to the previous quarter. In contrast, the vehicle investment component continued to post negative growth for the third consecutive quarter in 2024. The decline in vehicle investment was attributed to signs of weakened purchasing power for vehicles, particularly cars. National wholesale car sales in Q3-2024 dropped by 10.49% (y.o.y) compared to Q3-2023, while total sales for the January-September period declined by 16.2% (y.o.y) compared to the same period in 2023.

Credit growth in Q3-2024 remained in a double-digit territory, although it slowed down to 11.55% (y.o.y) from 12.53% (y.o.y) in the previous quarter (**Figure 8**). The slowdown in credit growth was influenced by a decline in the growth of investment credit and working capital credit. Investment credit in Q3-2024 grew by 13.50% (y.o.y), down from 15.18% (y.o.y) in Q2-2024. Similarly, working capital credit growth

> *"… consumer credit was the only component to show an acceleration in growth, increasing to 10.89% (y.o.y) in Q3-2024 from 10.54% (y.o.y) in the previous quarter."*

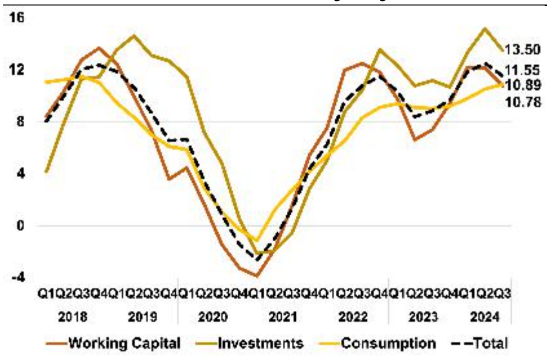
decreased to 10.78% (y.o.y) in Q3-2024 from 12.16% (y.o.y) in the previous quarter. These declines were likely driven by slower investment credit and working capital credit in manufacturing sectors. In Q3-2024, Indonesia's Manufacturing Purchasing Managers' Index (PMI) remained below 50, marking its first contraction since the sharp decline during the COVID-19 period in July and August 2021 (40.1 and 43.7, respectively). The drop in PMI could explain low demand for credit as the manufacturing sector was not in expansion territory. One contributing factor to the PMI decline was commodity prices. The average price of Indonesia's crude oil (Indonesia Crude Price/ICP) in Q3-2024 stood at USD77.68 per barrel, down from USD82.23 per barrel in the previous quarter, primarily due to weaker demand from China. In contrast, consumer credit was the only component to show an acceleration in growth, increasing to 10.89% (y.o.y) in Q3-2024 from 10.54% (y.o.y) in the previous quarter. Stable growth in consumer credit was supported by a 25 bps reduction in the BI Rate to 6.00% and increases in housing loans, automotive loans, and multipurpose loans, which grew by 10.8% (y.o.y), 8.8% (y.o.y), and 10.8% (y.o.y), respectively in September 2024.

Figure 7: Shares of GDP Components, 2018Q1-2024Q3 (%)



Source: CEIC

Figure 8: Credit Growth by Purposes, 2018Q1-2024Q3 (y.o.y, %)



Source: CEIC

Third-party funds from commercial banks and rural banks rose by 7.04% (y.o.y) in Q3-2024, slowing from 8.45% (y.o.y) growth in the previous quarter. This slowdown was driven by a decline in growth for demand deposits and time deposits, which accounted for 32.05% and 38.55% of total third-party funds. Demand deposits recorded growth of 9.38% (y.o.y) in Q3-2024, slower than the 13.48% (y.o.y) growth in the previous quarter. Meanwhile, time deposits grew by 4.95% (y.o.y) in Q3-2024, down from 6.63% (y.o.y) in the prior quarter. The slower growth in demand deposits and time deposits was driven by a significant decline in individual account deposits. Individual demand deposits experienced a sharp contraction, falling by 30.98% (y.o.y) in Q3-2024, compared to a 23.39% (y.o.y) contraction in the previous quarter. Similarly, individual time deposits contracted by 2.66% (y.o.y) in Q3-2024, reversing from a 0.69% (y.o.y) growth in the previous quarter. This decline in individual account deposits may have been influenced by the availability of alternative investment instruments offering higher returns, encouraging depositors to seek better yields.

The decline in demand deposits can also be linked to the weakening of real sector, as reflected in the contraction of the PMI in Q3-2024. Demand deposits, commonly used by businesses for large transactions, experienced a drop, indicating reduced demand for significant business transactions. Furthermore, the decline in time deposits aligns with the growth in savings deposits, which accelerated to 7.30% (y.o.y) in Q3-2024 from 5.91% (y.o.y) in the previous quarter. This trend reflects lower purchasing power among depositors, as funds that were previously allocated to long-term instruments are now being redirected toward daily needs or precautionary savings. Although the BI Rate was reduced by 25 bps to 6.00% in September 2024, the average interest rates for demand deposits and time deposits increased in Q3-2024 compared to the previous quarter. This adjustment was likely made to narrow the interest rate spread with other instruments and attract funds in a competitive market.

Closing 2024 with The Lowest Inflation Since 1958

"… weakened purchasing power may have also played a role in suppressing inflation."

Headline inflation in December 2024 edged up slightly to 1.57% (y.o.y) from 1.55% (y.o.y) in November 2024 (**Figure 9**). This level remained near the lower bound of Bank Indonesia's target range of 1.5%–3.5% and marked the lowest annual inflation rate since 1958. Two main factors contributed to this historically low inflation. First, the impact of El Niño had subsided since March 2024, when volatile good inflation peaked at 10.33% (y.o.y). From that point, volatile good inflation declining, reaching just 0.12% (y.o.y) by December 2024. Second, weakened purchasing power may have also played a role in suppressing inflation. This was indicated, for example, in five consecutive months of monthly deflation in 2024.

In December 2024, the slight uptick in headline inflation from November 2024 was primarily driven by a rebound in volatile good inflation, which rose to 0.12% (y.o.y) from -0.32% (y.o.y) in the previous month. This increase reflected heightened demand ahead of the Christmas and New Year holidays. Meanwhile, core inflation remained stable at 2.26% (y.o.y), the same level as in November 2024, halting the upward trend observed since July 2024. In contrast, administered price inflation continued to ease, falling to 0.56% (y.o.y) in December 2024 from 0.82% (y.o.y) in November. This decline was attributed to adjustments in nonsubsidized fuel prices and the Government of Indonesia's (GoI) decision to reduce airfares by 10% during the Christmas and New Year holiday period.

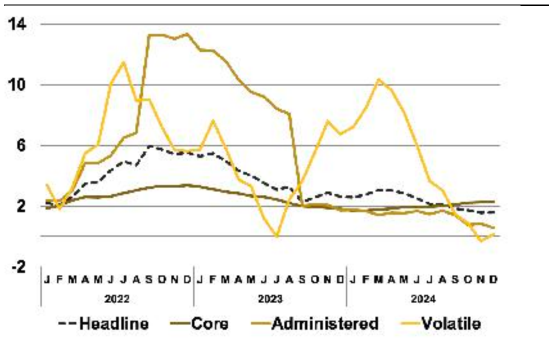
On a monthly basis, headline inflation stood at 0.44% (m.t.m) in December 2024, marking the highest level recorded throughout the year (**Figure 10**). One key development in 2024 was the occurrence of five consecutive months of monthly deflation from May to September, driven by the normalization of food prices following the subsiding impact of El Niño. Weakened demand also contributed

"The rise in gold prices emerged as the primary contributor to core inflation, fueled by increased demand for gold as a safe-haven asset."

to this trend, as reflected by five instances of monthly declines in core inflation, indicating reduced demand pressures and weakening purchasing power.

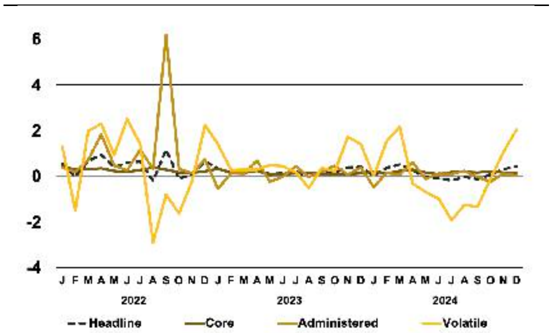
Volatile good inflation surged to 2.04% (m.t.m) in December 2024, up from 1.07% (m.t.m) in November, following seven months of consecutive monthly deflation. This increase was attributed to higher prices of chicken eggs, various types of chilies, and shallots, driven by increased demand during the Christmas and New Year holidays. Additionally, rising prices for chilies and shallots were influenced by the start of the planting season. Monthly core inflation remained stable at 0.17% (m.t.m) in December 2024, the same level as in November. This was driven by higher prices for gold jewellery, ground coffee, housing rents, and education, reflecting sustained demand and supply-side cost pressures at year-end. The rise in gold prices emerged as the primary contributor to core inflation, fuelled by increased demand for gold as a safe-haven asset.

Figure 9: Inflation Rate (%, y.o.y)



Source: CEIC

Figure 10: Inflation Rate (%, m.t.m)



Source: CEIC

Looking ahead, inflation in 2025 is anticipated to increase from the historically low levels seen in 2024. This rise can largely be attributed to the low-base effect, where comparisons with 2024's subdued inflation amplify the appearance of higher price levels. The planned implementation of an excise tax on sugary beverages in the second half of the year is also expected to contribute to inflation, as producers are likely to pass the additional costs onto consumers. Bank Indonesia's unexpected decision to lower its benchmark interest rate during the first Board of Governor's meeting in 2025 may further influence inflation by stimulating domestic demand, potentially adding upward pressure on prices. Globally, although oil prices are projected to decline in 2025 due to increased supply, the depreciation of the Rupiah is likely to negate these benefits. A weaker currency raises the cost of imports, including essential goods and raw materials, adding to inflationary pressures.

FDI Soars, Investment Target Surpassed

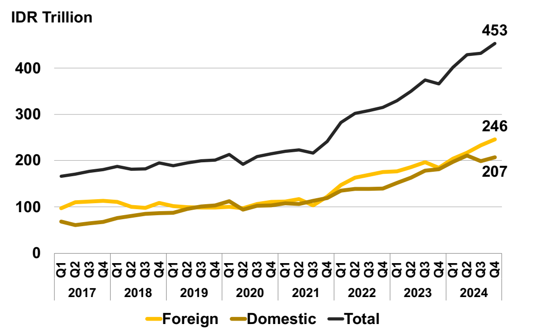
Indonesia's investment encounters a record-high figure in 2024, with its fourth quarter realization reaching IDR452.8 trillion, representing 27.4% of the IDR1,650 trillion investment target in 2024 (**Figure 11**). Investment realization in Q4-2024 grew by 23.8% (y.o.y), leaping from 15.3% (y.o.y) growth in the previous quarter. Both Domestic Direct Investment (DDI) and Foreign Direct Investment (FDI) has also shown substantial growth compared to the previous period. DDI realization equaled IDR207.0 trillion, contributing 45.7% to the total investment realization in Q4-2024. Domestic investment grew by 14.1% (y.o.y) in Q4-2024, slightly higher than growth of 11.6% (y.o.y) in the third quarter.

While domestic investment has shown favorable results, FDI performed even better. FDI realization totaled IDR245.8 trillion in Q4-2024, representing 54.3% of total investsstment. FDI grew by 33.3% (y.o.y) in Q4-2024, surging from 18.6% (y.o.y) in Q3-2024. FDI also maintained an upward trend throughout 2024, culminating in its highest growth of the year in the fourth quarter. Cumulatively, investment realization from January to December 2024, reached IDR1,714.2 trillion, exceeding IDR1.650 trillion investment target by 103.9%. This figure represents an increase of 20.8% (y.o.y) compared to the previous year.

Indonesia's investment realization in 2024 was primarily driven by three key subsectors: the basic metal industry, including metal goods, nonmachinery, and related equipment; the mining sector; and the transport, storage, and communication sector. In the fourth quarter, the basic metal industry and related subsectors accounted for the largest share of investment, contributing 13.3% of the total with IDR60.4 trillion. The mining sector followed, attracting IDR52.2 trillion, or 11.5% of total investment. Meanwhile, the transport, storage, and communication sector, which had led in the previous quarter, slipped to third place with IDR42.7 trillion, representing 9.4% of the total. On an annual basis, these three sectors continued to dominate overall investment realization in 2024. The basic metal industry and mining sectors played a particularly strong role in driving FDI growth, supported by favorable policies promoting downstream industries.

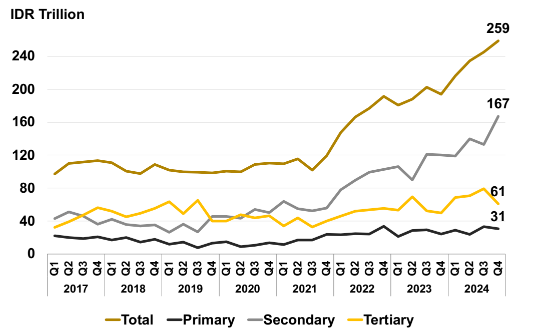
"Investment realization outside Java in Q4-2024 reached its highest proportion in the past decade, totaling IDR260.4 trillion and accounting for 57.5% of the total."

Figure 11: FDI and DDI (Nominal)



Source: CEIC

Figure 12: FDI Realization by Sectors (Nominal)



Source: CEIC

"While maintaining strong ties with a long-standing investor like Singapore is advantageous, Indonesia must also explore diversification strategies to reduce dependency and enhance investment resilience."

Investment realization outside Java in Q4-2024 reached its highest proportion in the past decade, totaling IDR260.4 trillion and accounting for 57.5% of the total. Meanwhile, investment in Java stood at IDR192.4 trillion, making up 42.5% of the total. A clear disparity emerged in annual growth, with investment in Java rising by just 6.4% (y.o.y), while investment outside Java grew significantly by 40.8% (y.o.y). The surge in investment beyond Java was not solely driven by Central Sulawesi but also by South Sumatra, where the paper and printing industry, along with the electricity, gas, and water supply sector, played a key role. These two provinces joined West Java, Jakarta, and East Java among the top five regions with the highest investment realization.

Singapore remained the largest source of FDI in Indonesia in Q4-2024, with total investment reaching USD5.7 million. China and Hong Kong followed, with investments of USD2.3 million and USD2.2 million, respectively. On an annual basis, Singapore's total investment amounted to USD20.1 million in 2024, more than double the second-largest investment from Hong Kong, which stood at USD8.2 million. For the past decade, Singapore has consistently ranked as Indonesia's top investor, with a strong presence in five key sectors: the basic metal industry, including metal goods, nonmachinery, and related equipment; transport, storage, and communication; the food industry; real estate; and the paper and printing industry. While maintaining strong ties with a long-standing investor like Singapore is advantageous, Indonesia must also explore diversification strategies to reduce dependency and enhance investment resilience.

Indonesia's Trade Surplus Declines as Imports Outpace Exports and Rupiah Weakens

In the final quarter of 2024, Indonesia recorded a trade surplus of USD9.09 billion, extending its streak to 20 consecutive quarters of surplus. This figure, however, reflects a 0.89% (y.o.y) decline from the same period in 2023 (**Figure 15**). The contraction in the trade surplus was driven by a faster pace of import growth relative to export growth. Exports rose by USD5.24 billion or 8.03% (y.o.y), bolstered primarily by higher palm oil export values, which benefited from rising prices. Notably, palm oil prices increased by 39.14% (y.o.y) in October 2024 and 49.04% (y.o.y) in November 2024. Meanwhile, imports surged by USD5.43 billion or 9.46% (y.o.y), propelled by a significant increase in import volumes, particularly in October, which saw a 39.85% (y.o.y) rise. The depreciation of the Rupiah further amplified the value of imports during this period. For the full year of 2024, Indonesia's trade surplus amounted to USD31.04 billion, a 15.9% decline compared to FY2023. This negative annual growth in the trade surplus mirrored the trends observed in Q4-2024, with imports growing at a faster rate than exports. Total imports increased by 5.31% (y.o.y) to USD233.66 billion, while exports grew by only 2.23% (y.o.y) to USD264.70 billion.

Examining export data, the increase in export value was primarily driven by the non-oil and gas sector, which recorded exports totalling USD67.68 billion in Q4-2024, representing an 8.46% (y.o.y) growth and a 5.83% (q.o.q) increase. Key contributors to this growth included vegetable and animal fats, mineral fuels, footwear, and nickel and its derivatives (**Figure 13**). As previously highlighted, the rise in palm oil prices played a central role in sustaining the growth in export values. Nickel exports also performed well despite declining global nickel prices in October and November 2024, which fell by 19.89% (y.o.y) and 8.03% (y.o.y), respectively. This performance was driven by a sharp increase in nickel export volumes, particularly in November 2024, which saw a substantial 73.81% (y.o.y) growth. The surge in volumes offset the impact of lower prices, resulting in an overall increase in nickel export earnings for the quarter. Meanwhile, oil and gas exports totaled USD4.20 billion in Q4-2024, reflecting a 1.62% (y.o.y) growth compared to the previous year and a 11.17% (q.o.q) rise from Q3-2024. The limited growth in this sector was largely attributed to declining oil prices, which dropped by over 10% (y.o.y) on average during October to December 2024, dampening the sector's overall contribution to export performance.

"… the depreciation of the Rupiah increased the cost of imported goods, adding pressure to sectors reliant on foreign raw materials. However, this was insufficient to offset the broader growth in nonoil and gas imports during the quarter."

On the import side, the increase was entirely driven by nonoil and gas imports, which rose by 12.60% (y.o.y) to USD53.26 billion in Q4-2024. This growth was primarily attributed to higher imports of animal and vegetable fats and oils, precious metals and jewelry, and electrical machinery and parts. The rise in imports can be partly explained by the depreciation of the Rupiah, which made imports more expensive, along with the higher prices of palm oil, gold, and industrial needs. The increase in industrial demand is further supported by Indonesia's Purchasing Managers' Index (PMI), which showed improvement, rising from 49.2 in October 2024 to 51.2 in December 2024, signaling expansion in the manufacturing sector. In contrast, oil and gas imports recorded a negative annual growth of 5.31% (y.o.y), totaling USD9.53 billion in Q4-2024. This decline was largely attributed to falling oil prices, which had been on a consistent downward trend since August 2024 and continued to show negative annual growth through December 2024. Additionally, the depreciation of the Rupiah increased the cost of imported goods, adding pressure to sectors reliant on foreign raw materials. However, this was insufficient to offset the broader growth in nonoil and gas imports during the quarter.

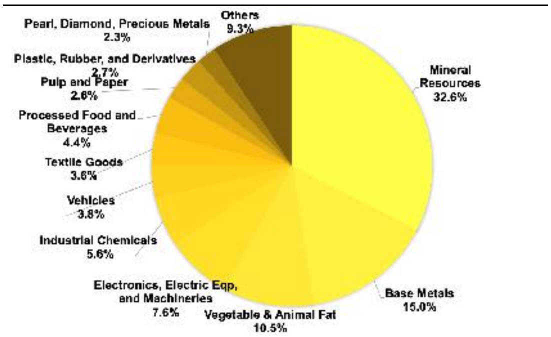
Indonesia's trade outlook for 2025 is shaped by various global trends and challenges. Crude oil prices, which experienced a significant decline last year due to weakened demand from China and oversupply, are expected to remain under pressure. The International Energy Agency (IEA) projects that global oil demand will grow by less than one million barrels per day in 2025, a sharp contrast to the two million barrels per day increase recorded in 2023. Additionally, Goldman Sachs and the Commonwealth Bank of Australia forecasts Brent oil prices to fall to as low as USD70 per barrel, driven by rising supply from non-OPEC+ countries outpacing global consumption growth. This sustained pressure on oil prices is likely to dampen Indonesia's oil and gas export revenues. Conversely, the outlook for gold is considerably more optimistic, with prices potentially reaching new highs. JPMorgan projected gold prices to climb to as much as USD3,000 per ounce in 2025, buoyed by heightened investor demand as a hedge against geopolitical uncertainty and

"The decline in the service trade deficit was supported by a higher travel service surplus, in line with the increase in foreign tourist arrivals."

rising government debt levels. This presents an opportunity for Indonesia's mineral export sector, particularly for gold and other precious metals, to benefit from strong global demand. In the palm oil sector, challenges remain as Indonesia continues to navigate the European Union's deforestation regulation (EUDR), which imposes stricter sustainability standards on exports. However, demand from BRICS nations and other emerging markets may offset some of the impact, providing alternative growth avenues.

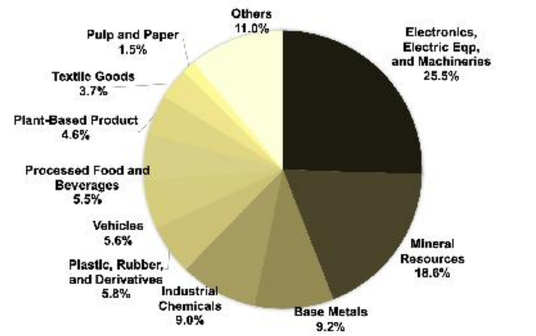
Driven by a non-oil and gas trade surplus, a reduced service trade deficit, a smaller primary income deficit, and an improved secondary income deficit, the current account deficit in the third quarter of 2024 improved to USD2.2 billion (0.6% of GDP) from USD3.2 billion (0.9% of GDP) in Q2-2024. Growth in non-oil and gas exports aligned with rising commodity prices, despite higher import growth due to increased domestic economic activity. The decline in the service trade deficit was supported by a higher travel service surplus, in line with the increase in foreign tourist arrivals. The primary income deficit also decreased, reflecting lower investment return payments to nonresident investors. Furthermore, the increase in the secondary income surplus, driven by higher remittance receipts, contributed to the performance of the current account balance.

Figure 13: Indonesia Exports Profile (Q4-2024)



Source: CEIC

Figure 14: Indonesia Imports Profile (Q4-2024)



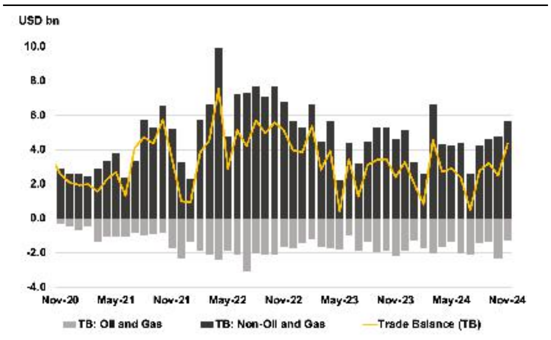
Source: CEIC

During the final three months of 2024, capital movements and Rupiah dynamics were primarily shaped by market expectations surrounding U.S. policy developments. Key factors included the U.S. presidential election, the Fed's monetary decisions, and the anticipated policy direction of Donald Trump's incoming administration. In the first half of Q4-2024, capital flows were heavily influenced by the election, with heightened attention on Trump's proposed economic policies. His plans to raise import tariffs, cut taxes, and deport millions of migrant workers fueled concerns about inflationary pressures, which could constrain the Fed's ability to maintain an accommodative monetary policy stance. In the latter half of Q4-2024, market dynamics shifted as investors began adjusting their positions based on expectations of U.S. policy direction following Trump's victory. The prospect of his policy agenda, particularly its potential inflationary effects, was seen as limiting the Fed's flexibility to further lower benchmark interest rates, adding uncertainty and pressure to global markets.

Amid these developments, Indonesia's capital markets experienced contrasting trends between October and December 2024. The stock market recorded a substantial outflow of USD2.47 billion, reflecting investor apprehension about global economic uncertainty, changes in U.S. monetary policy, and the anticipated policies of the new U.S. administration. In contrast, the bond market attracted an inflow of USD0.40 billion, highlighting investor interest in Indonesian bonds despite the challenging global environment. The inflow into the bond market amid global uncertainty underscores Indonesia’s continued appeal to fixed-income investors, reflecting a degree of confidence in Indonesia’s economic fundamentals, even as external pressures weighed heavily on broader market dynamics. Overall, this resulted in a net outflow of USD2.07 billion from Indonesia’s capital markets during the quarter (**Figure 16**).

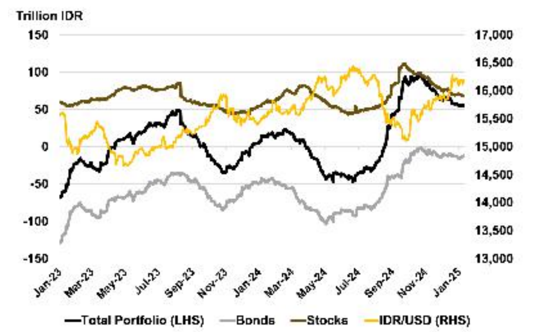
Due to the outward capital flow in the final three months of 2024, Rupiah depreciated to IDR16,090 per USD by the end of the year, representing a decline of 6.31% compared to its value in September 2024, or 4.51% (y.t.d). Despite this depreciation, foreign exchange reserves saw an uptick, rising to an all-time high of USD155.7 billion in December 2024, up from USD149.9 billion in September 2024. This increase was largely driven by a USD5.48 billion surge in December, attributed to higher tax and service revenues, disbursements from government foreign loans, and oil and gas income. The rise in foreign exchange reserves provides Indonesia with a crucial buffer against external shocks, helping the country manage potential future challenges such as capital outflows and fluctuations in the exchange rate.

Figure 15: Monthly Trade Balance (Nominal)



Source: CEIC

Figure 16: Exchange Rate and Accumulated Short-Term Capital Inflow



Source: CEIC

“In the early weeks of 2025, Rupiah continued its downward trend, driven by a revision in market expectations that the Fed would only cut interest rates twice in 2025…”

In the early weeks of 2025, Rupiah continued its downward trend, driven by a revision in market expectations that the Fed would only cut interest rates twice in 2025, a shift from the previous forecast of four cuts. This adjustment stemmed from persistently high inflation, which remained at 2.7% in November 2024, according to the latest data. Further contributing to inflationary pressures were the policy proposals from the incoming Donald Trump administration, such as broad tariff measures and stricter immigration policies. These developments led the Fed to signal a more cautious approach moving forward, as reflected in the minutes released in early January. Consequently, the U.S. dollar strengthened, with the U.S. DXY Index rising to 109.17 on January 10, 2025, up from 106.40 a month earlier, marking a 2.6% increase in just one month. With the Rupiah under pressure and the revised outlook on the Fed's actions, Bank Indonesia's ability to cut interest rates remained limited. Given these dynamics, Bank Indonesia should wait to cut interest rates until there is greater stability in the global economic environment.