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Indonesia's Q2 2025 Growth: Strong Numbers, Fragile Foundations

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Indonesia's latest economic figures offer what appears to be an encouraging headline. According to official data from Badan Pusat Statistik (BPS), GDP grew 5.12% year-on-year in Q2 2025, up from 4.87% in Q1, with a sharp 4.04% quarterly jump, figures that would normally be interpreted as a sign of momentum building. Yet, beneath these promising aggregates lies a more complicated reality. While the top-line growth rate exceeds both pre-pandemic averages in several peer economies and Indonesia's own 10-year post-commodity boom mean, its composition, sustainability, and policy implications warrant deeper scrutiny.

From the expenditure side, household consumption, the backbone of Indonesia's economy, grew 4.97% YoY, a respectable pace but still softer than the pre-pandemic average of around 5.2–5.4%. The more striking surge came from investment, or gross fixed capital formation (GFCF), which jumped 6.99% YoY, its fastest pace in four years. Exports recorded a double-

digit increase of 10.67%, buoyed by strong demand for certain commodities and manufactured goods, while imports surged even faster at 11.65%, reflecting robust domestic demand for capital goods and raw materials. Government consumption, by contrast, fell 0.33% YoY, indicating a subdued fiscal push in the quarter. The often-overlooked consumption by non-profit institutions serving households (NPISH) grew a notable 7.82% YoY, partly reflecting increased activity by community and civil society organisations.

On the production side, agriculture slowed sharply to 1.65% YoY growth, after a strong previous quarter. In contrast, manufacturing sector expanded 5.68%, above its recent trend but still below the high single-digit growth of the early 2010s. Trade and construction expanded at 5.37% and roughly 4.98% respectively, while mining posted only around 2% growth amid commodity price volatility. Other services grew 11.31%, and the information & communications sector maintained a healthy 7.92% growth, underscoring the ongoing digitalisation.

At first glance, the combination of robust investment, double-digit export growth, and strong manufacturing output suggests an economy firing on multiple cylinders. However, many analysts have raised flags about the durability of this performance.

Several leading indicators during Q2 paint a less reassuring picture. Automotive sales contracted in April and May before stabilising in June. Revenue growth in key listed companies has softened, particularly in consumer goods and retail, which are usually early warning signals for domestic demand cooling. Manufacturing PMIs in the quarter hovered around the neutral-to-marginal expansion threshold rather than signalling a robust boom. FDI realisation slowed compared to late 2024. Moreover, part of the investment surge may be front-loaded due to specific infrastructure and industrial projects, rather than a broad-based revival of private sector capital expenditure. Exports, too, carry risks. Much of the export windfall appears linked to front-loaded shipments ahead of anticipated U.S. tariffs, making it vulnerable to external shocks. Commodity prices, from coal to CPO, remain volatile and global demand is uncertain.

Compared with Indonesia's pre-pandemic growth trajectory (2015–2019), when GDP averaged around 5.03% annually, the Q2 figure does represent a modest acceleration. But the underlying composition differs significantly. In the pre-pandemic years, growth was more evenly distributed between household consumption and manufacturing expansion, with less reliance on commodity swings or one-off investment spikes.

On the contrary, today's growth profile is more uneven, with front-loaded investments and exports playing outsized roles, raising questions about resilience if those sectors lose steam. Regionally, meanwhile, Indonesia's Q2 growth compares favourably with some ASEAN peers: Vietnam grew around 7.5%, the Philippines about 5.5%, and Malaysia around 4.5% in the same quarter. However, those economies show stronger manufacturing export linkages and higher productivity growth in tradable sectors.

Indonesia's structural challenge remains the same: how to translate commodity revenues, investment flows, and domestic consumption into sustained productivity gains and formal-sector job creation. What makes this moment particularly risky is the political temptation to

interpret the Q2 numbers as proof that the current policy mix is working, and therefore requires no substantial adjustment.

This would be a mistake. The economy still faces multiple structural bottlenecks: stagnant productivity in labour-intensive manufacturing, slow diversification of export products beyond commodities, and insufficient integration into global value chains. The uneven geographical distribution of investment, concentrated in Java, Batam, and mining hubs, continues to exacerbate regional inequality, limiting the growth dividends for the outer provinces.

Meanwhile, weak government spending, amid tightening fiscal space, signals a shrinking policy buffer against future shocks. The absence of a clear industrial policy to channel investment into high-multiplier, high-productivity sectors risks misallocation of capital into low-return or politically connected projects, rather than building a long-term competitive foundation.

In this context, the Q2's strong performance should be seen as a window of opportunity for reform, not a justification for complacency. The investment surge must be directed toward sectors that generate formal jobs, raise productivity, and deepen technological capabilities. Fiscal policy should be recalibrated to support such priorities, through targeted public investment and incentives for private innovation and job creation.

At the same time, trade policy should focus on integrating Indonesia more deeply into global and regional supply chains. This requires not only tariff and regulatory facilitation but also major improvements in logistics, port efficiency, and standards compliance.

Finally, the government must strengthen economic monitoring and data transparency. Overreliance on GDP alone can mislead both the public and policymakers about the true state of the economy. A broader dashboard, including employment quality, wage growth, investment quality, and productivity metrics, would provide a more accurate basis for policy decisions.

Indonesia's Q2 2025 growth outpaces many peers and its own recent averages, with gains in investment, exports, and manufacturing. But the foundation remains fragile, narrowly based, and vulnerable to shocks. This is the time to turn a quarter of good fortune into a decade of durable progress, not self-congratulation.

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