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# Indonesia's Recent Economic Development and Outlook 2026: Stability Under Strain, Risks on the Horizon

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Indonesia's economic performance in 2025 is best described as a paradox: an economy that appears stable on the surface but is increasingly strained beneath it. The government's headline numbers suggest resilience. Growth remains close to 5 percent. Inflation remains broadly contained, and the fiscal deficit stays within acceptable bounds. Yet, a closer reading of the evidence reveals an economy wrestling with weakening consumption, rising external pressures, intensifying capital outflows, stagnant government revenues, and persistent labour-market vulnerabilities.

These underlying trends matter not only for assessing Indonesia's economic performance in 2025 but also for anticipating the kind of economic conditions the country is likely to face in

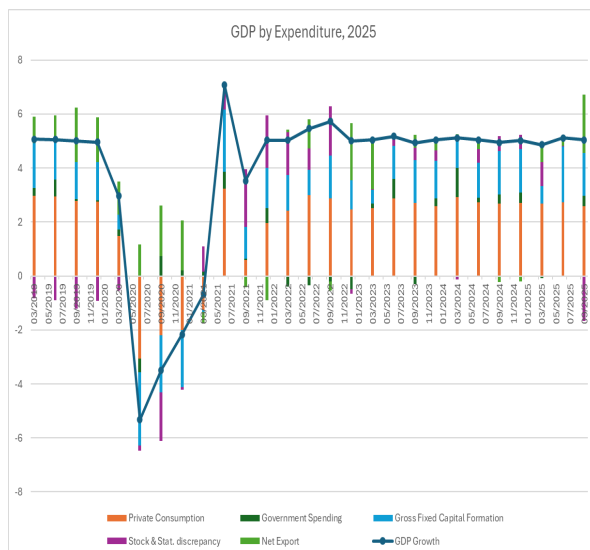
2026. They point to a more complicated picture of Indonesia's economic conditions: a more fragile and uncertain future trajectory. It raises critical questions about the durability of the country's current growth path.

## Stable, Yet Losing Steam

Full-year economic growth in 2025 is expected to remain solid at around 5 percent, but the composition of this growth is shifting in ways that warrant caution. Existing data, as shown in Figure 1a, indicates that household consumption, the bedrock of Indonesia's domestic economy, has begun to soften in recent quarters, suggesting that consumer confidence, job stability, and purchasing power are under pressure. This moderation is partly the result of lingering inflationary pressures and partly due to real wage stagnation in several key sectors. With investments still encountering regulatory bottlenecks and export momentum subdued by declining commodity prices, Indonesia's growth engine is losing torque in 2025.

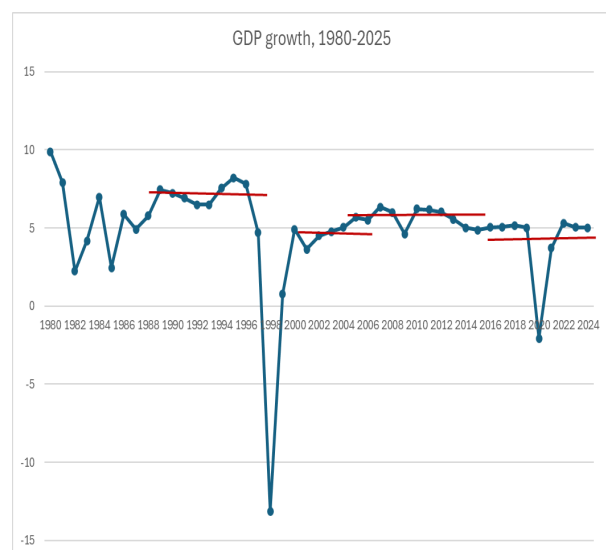
Ahead, the economy continues to expand, but the underlying vitality that once allowed Indonesia to outperform regional peers is no longer evident. Instead, the 5 percent growth rate reflects a structural ceiling, an output level the economy can sustain but seems increasingly unable to exceed. The country's long-term growth potential also appears to be declining, as illustrated in Figure 1b. Without significant improvements in productivity, diversification, and industrial capabilities, Indonesia risks a long-term trajectory of moderate yet uninspiring growth, far below the level needed to achieve its Vision 2045 aspirations.

Figure 1a. GDP by Expenditure, 2019-2025



Source: CEIC Database

Figure 1b. GDP Growth, 1980-2025



Source: World Development Indicator

## Calm Headline, Yet Feeling Tight

Inflation dynamics throughout 2025 further illustrate the fragility of Indonesia's macroeconomic environment. Headline inflation remains broadly contained, but the data show a clear upward trend following Bank Indonesia's recent policy rate cuts, while volatile food prices continue to push up inflation for essential goods (see Figures 2a and 2b). Rate cuts intended to stimulate growth have contributed to capital outflows and rupiah depreciation, imported inflation, and rising price volatility in key food commodities. Meanwhile, structural bottlenecks in agriculture and logistics continue to amplify these price swings. The net result is an inflation environment that appears stable from a distance but is in fact highly sensitive to external shocks and domestic supply constraints.

Figure 2a: Inflation, 2019-2025

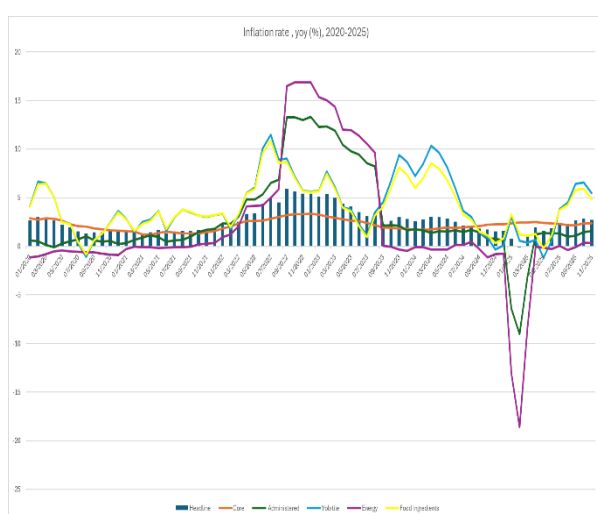
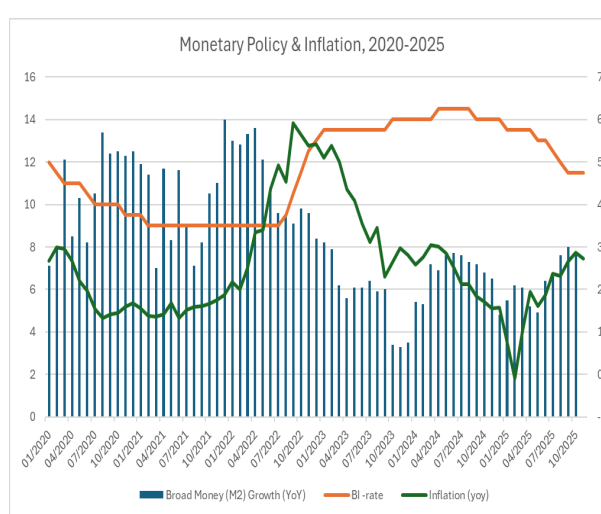


Figure 2b: Money supply, BI rate & Inflation 2020-2025



Source: CEIC Database

This situation exposes the limitations of monetary policy under current conditions. Bank Indonesia's policy space is narrowing, unless capital inflow conditions improve. Looking ahead, 2026 is likely to bring even more difficult trade-offs between currency stability, inflation control, and growth support. Bank Indonesia faces pressure to ease rates to support growth, but doing so risks weakening the rupiah (given ongoing capital outflows) and accelerating inflation. At the same time, the government must rely on fiscal measures, such as subsidies, social assistance, and price stabilization programs, which further stretch an already constrained budget.

## Revenue Slips, Spending Grows

Fiscal developments in 2025 paint a similarly mixed picture. The implementation of Coretax and declining commodity prices have reduced state revenue by around 6 percent, while the expansion of government ministries and the rollout of Prabowo-Gibran's high-profile programs have pushed expenditure up by roughly 1.4 percent. As a result, the fiscal deficit is

expected to widen modestly in 2025, reaching around 2.78 percent of GDP, still within statutory limits but indicative of growing pressure on the budget (see table 1).

**Table 1: Overall Fiscal Conditions as of Oct 2025**

Component	Budget (IDR tn)		Realization (IDR tn)		Growth (% yoy)		Realization (% to Budget)	
	2024	2025	Oct-24	Oct-25	Oct-24	Oct-25	Oct-24	Oct-25
Government Revenue	2,802	3,005	2,247	2,113	0.3	-6	80.2	70.3
Tax and Excise Duties Revenue	2,310	2,491	1,749	1,708	0.3	-2.3	75.7	68.6
I. Tax Revenue	1,989	2,189	1,518	1,459	-0.4	-3.9	76.3	66.6
II. Excises Duties	321	302	232	249	4.9	7.6	72.2	82.7
Non Tax Revenue	492	514	478	402	-3.4	-15.7	97.1	78.3
Grant	0	1	21	-	-	-	-	-
Government Expenditure	3,325	3,621	2,557	2,593	14.1	1.4	76.9	71.6
Central Govt Expenditure	2,468	2,701	1,834	1,880	16.7	2.5	74.3	69.6
I. Spending K/L	1,091	1,160	933	961	21.4	3.0	85.6	82.9
II. Spending Non-K/L	1,377	1,541	901	918	12.1	1.9	65.4	59.6
Regional Transfer and Village Funds	858	920	722	713	8.0	-1.2	84.2	77.6
Primary Balance	-26	-63	97	-45	-73.4	-146.3	-	-
Surplus/Deficit	-523	-616	-309	-480	-	-	59.2	77.8
% to GDP	-2.29	-2.53	-1.37	-2.02	-	-	-	-
Govt Financing	523	616	383	533	127.3	39.1	73.3	86.5

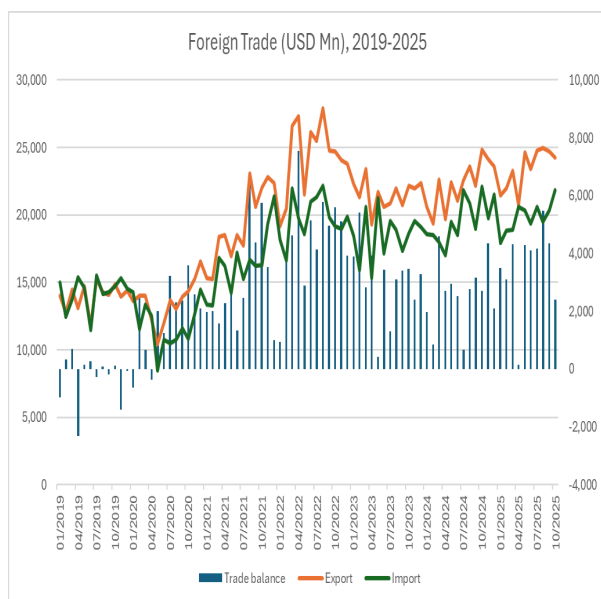
Source: Ministry of Finance

Looking ahead, the fiscal outlook is less reassuring even if the deficit remains manageable. Expenditure pressures are mounting, as debt maturities rise and the tax ratio stays persistently low. With a structurally weak revenue base, many ambitious, yet politically important, programs would be financed more through borrowing than through sustainable revenue growth. This tension will intensify in 2026. Without significant improvements in tax administration and compliance, the government will struggle to finance its programs without compromising macroeconomic stability.

## Surplus Down, Outflow Up

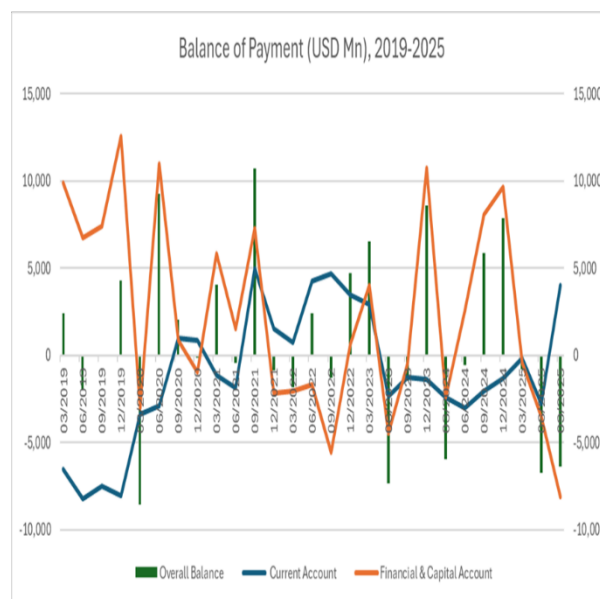
External sector developments in 2025 add another layer of complexity. Indonesia's trade surplus (Figure 3a) continues to narrow as imports outpace exports. After the large 2021–2023 surpluses driven by coal, palm oil, nickel, and other extractive commodities, the trade cushion is shrinking as commodity prices normalize, and Trump's reciprocal tariff policies begin to take effect. At the same time, Indonesia remains heavily dependent on imports for capital goods, intermediate inputs, and certain food items. Downstreaming has even increased import needs, as processing industries require sophisticated equipment and inputs not produced domestically.

Figure 3a: Foreign Trade, 2019-2025



Source: CEIC Database

Figure 3b: Balance of Payment, 2019-2025



In addition, the balance of payments has remained in deficit for much of the year due to significant capital outflows (see Figure 3b). Foreign investors remain cautious about Indonesia's macroeconomic fundamentals, especially amid fiscal pressures, governance uncertainties, and tight global interest rates. Bank Indonesia's recent rate cuts have reinforced this caution by widening the interest rate differential, making domestic assets less attractive and increasing the risk of capital outflows.

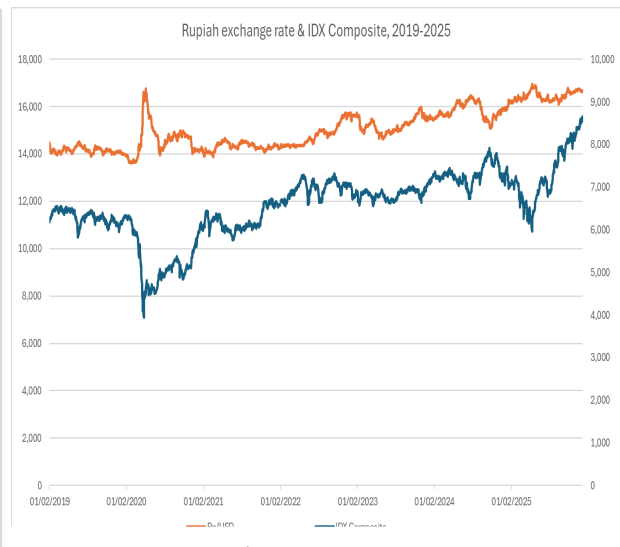
### Stocks Surge, Money Leaves

What is striking is that, as seen in Figure 4a, these outflows have intensified even as the composite stock index reached record highs, revealing a disconnect between domestic asset market performance and foreign investor sentiment. While domestic retail investors and institutions are driving equity gains, foreign investors appear increasingly cautious, whether due to external conditions (higher global interest rates, slower global demand) or domestic uncertainty (governance issues, policy coordination challenges, and perceived political risks).

Figure 4a: IDX Index &amp; Foreign Flow, 2019-2025



Figure 4b: IDX Index &amp; Exchange Rate, 2019-2025



This erosion of external buffers weakens the rupiah, complicates monetary policy, and raises debt-servicing costs. The narrowing of the trade surplus, combined with persistent capital flight, will likely carry over into 2026 unless Indonesia can generate new export momentum or restore foreign investor confidence.

### Falling Rates, Vulnerabilities Remain

Labour-market dynamics further complicate the economic picture. The headline unemployment rate has fallen in 2025, but this improvement masks deeper vulnerabilities. As Figure 5a and 5b highlight, unemployment remains high in absolute terms and is heavily concentrated in the informal sector. Moreover, youth unemployment is the highest in Asia, particularly among upper secondary graduates, and even university graduates have experienced rising unemployment in recent years (see Figure 6a & 6b).

Figure 5a: Unemployment, 2015-2025

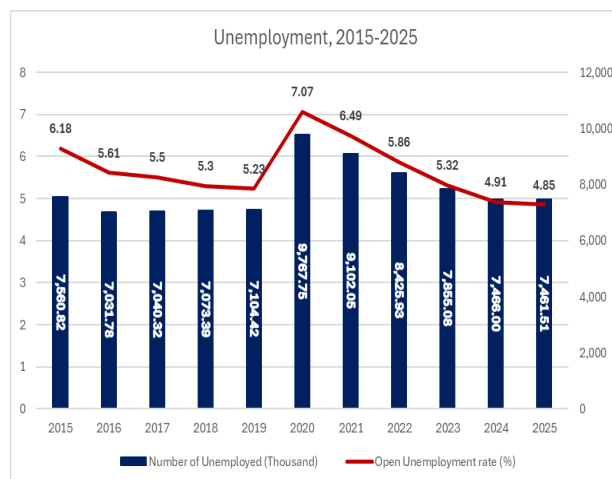
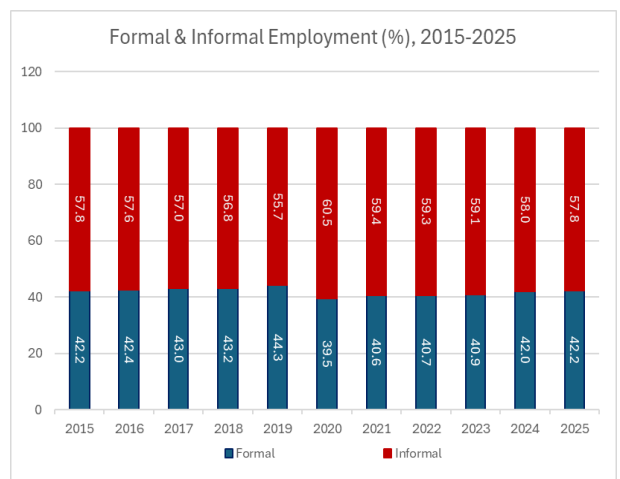
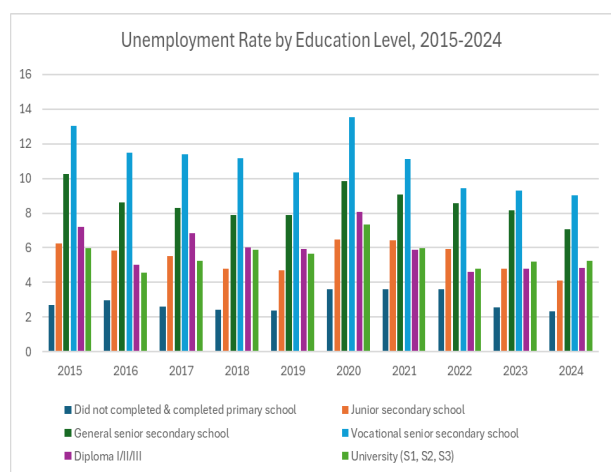


Figure 5b: Informal &amp; Formal Employment, 2015-



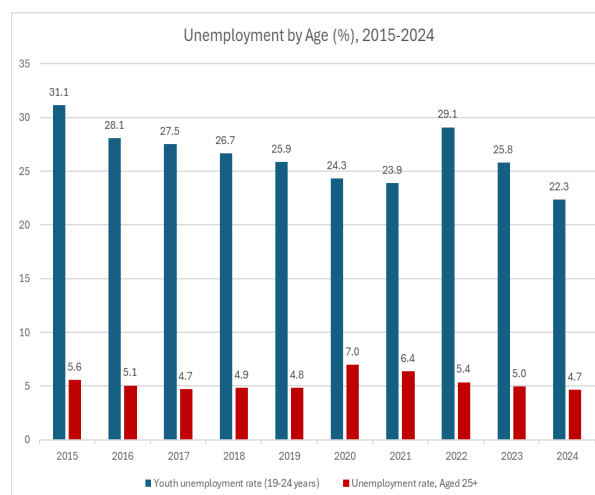
These trends underscore enduring structural mismatches between the skills produced by Indonesia's education system and those demanded by industry. They also reflect a labour market that has not fully benefited from Indonesia's industrialization push. Downstream industries, while generating investment, remain capital-intensive and create relatively few high-quality jobs. Thus, even as GDP expands, many young Indonesians continue to struggle to find meaningful work, a trend that holds implications for social cohesion, productivity growth, and long-term economic competitiveness.

Figure 6a: Unemployment rate by Education, 2015-2025



Source: CEIC Database

Figure 6b: Unemployment rate by Age, 2015-2025



## Way Forward

Taken together, the economic trends of 2025 show an economy that remains stable but is increasingly hard to sustain without structural reform. Beyond resilience to global headwinds, Indonesia is approaching the limits of what incremental policies can achieve. Slowing consumption, fragile inflation, narrowing surpluses, capital outflows, weak revenues, and labour-market mismatches all point to fading momentum. With weakening external buffers and tightening fiscal space, the labour market is also struggling to absorb the demographic dividend. These pressures set up a cautious 2026 outlook, shaped by tighter policy room, global uncertainty, and the rising cost of postponed reform

Looking ahead, Indonesia's 2026 outlook is increasingly fragile as softening consumption, weak investment confidence, and a fading commodity cycle limit growth momentum. Moreover, slow export diversification and persistent capital outflows are likely to keep the rupiah under pressure, raise imported inflation, and narrow Bank Indonesia's policy space. At the same time, fiscal room will tighten as high spending commitments meet sluggish revenue growth, rising debt maturities, and potential subsidy pressures, heightening medium-term risks. Meanwhile, labour-market prospects will depend on whether reforms in skills, education, and industry linkages progress. Without progress, youth unemployment and structural underemployment will remain elevated, further eroding Indonesia's demographic dividend.

Given these structural realities, Indonesia's outlook for 2026 is cautious. The country is not heading toward crisis, but it is also not on a path to high, inclusive, or sustainable growth. The most likely scenario is moderate expansion of around 4.8–5.1 percent, marked by persistent pressures in fiscal space, labour markets, inflation, and external stability. Stability remains possible, but it will demand increasingly delicate policy trade-offs: Bank Indonesia must balance growth and currency stability, the Ministry of Finance must stretch limited fiscal room under rising political commitments, and the broader government must pursue industrial ambitions while tackling regulatory and governance bottlenecks.

All in all, Indonesia's trajectory toward 2026 will be defined not only by external shocks but also by the country's own policy choices. Stability is still within reach, but without transformation, stability alone will not be enough.

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