Indonesia's Human Capital Divide

A Sub-national Competitiveness Analysis

Gianina Amadira   Adam Romzi   Hilda Kurniawati

Lee Kuan Yew School of Public Policy
Asia Competitiveness Institute
National University of Singapore

Indonesia's Human Capital Divide: A
Sub-national Competitiveness Analysis

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Published by

Asia Competitiveness Institute, Lee Kuan Yew School of Public Policy,
National University of Singapore

469C Bukit Timah Road
Wing A, Level 3, Oei Tiong Ham Building
Singapore 259772

Indonesia's Human Capital Divide: A Sub-national Competitiveness Analysis

ISBN 978-981-17900-3-4 (PDF)

Desk Editor: DW HQ Pte Ltd
Email: hello@dwhq.com.sg

About ACI

The Asia Competitiveness Institute (ACI) was established in August 2006 as a Research Centre at the Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore (NUS). It aims to build the intellectual leadership and network for understanding and developing competitiveness in the Asia region. ACI seeks to contribute to the enhancement of inclusive growth, living standards, and institutional governance through competitiveness research on sub-national economies in Asia. It identifies mitigating issues and challenges for potential public policy interventions through close collaboration with regional governments, business corporations, policy think-tanks, and academics. ACI's three key research pillars include (I) Sub-national economies level competitiveness analysis; (II) The development of digital economy and its implications in 16 Asia economies; and (III) Singapore's long-term growth strategies and public policy analysis.

ACI's value propositions may be encapsulated in its acronym:
Analytical inputs to initiate policies for policy-makers and business leaders in Asia
Capacity building to enable others through improvement in productivity and efficiency
Intellectual leadership to create pragmatic models of competitiveness and inclusive growth

Vision and Mission

- ACI's over-arching vision is to build up its research credibility with policy impact, contributing as a professional, world-class think-tank.
- ACI's mission is to establish our niche as a leading policy think-tank by identifying development trends, opportunities, and challenges among Asian economies and business corporations.
- ACI endeavours to articulate sound recommendations, promote discussion, and shape research agenda in the arena of public policy amongst Asian governments.
- ACI undertakes evidence-based analysis of public policy issues and decisions, in order to provide assessment of their effectiveness as well as economic and societal impact.

Preface

Indonesia's development trajectory is increasingly shaped by regional dynamics. While national performance remained resilient in 2025, with economic growth at 5.1% and inflation contained at 2.9%, economic opportunities, institutional capacity, and human capital outcomes continue to vary significantly across provinces. These differences make sub-national competitiveness a central dimension of the country's long-term development strategy.

For more than a decade, the Asia Competitiveness Institute (ACI) at the Lee Kuan Yew School of Public Policy, National University of Singapore, has examined these regional dynamics through its annual empirical assessment of Indonesia's sub-national competitiveness. The study evaluates and ranks the competitiveness of Indonesia's six regional groupings and 34 provinces, providing policy-makers with comparative insights into regional strengths and structural challenges.

The thirteenth edition of this book continues the ACI's assessment while expanding the analysis to examine how differences in local conditions shape the translation of national education reforms into learning outcomes. Building on ACI's earlier work on the digital divide and the digital economy, this edition's thematic chapter explores how disparities in local conversion capacity influence literacy and numeracy across regions. Within this context, digital readiness, including access to infrastructure, devices, and meaningful digital use emerges as an important enabling condition shaping how effectively education reforms translate into learning gains.

As Indonesia continues to strengthen the foundations of its economic development, this book offers important insights into sub-national competitiveness to support evidence-based policy-making, particularly in advancing inclusive human capital outcomes. I am confident that the findings presented in this edition will serve as a valuable reference for policy-makers and stakeholders seeking to foster a more competitive and inclusive Indonesian economy.

Professor Paul Cheung
Director, Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy
National University of Singapore

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Executive Summary

In 2025, the global economy expanded at a moderate pace, performing better than earlier expectations despite continued geopolitical tensions, rising trade frictions, and policy uncertainty across major economies. The relative resilience of global growth reflected the ability of many economies to adapt to a changing economic environment characterised by supply-chain adjustments, partial trade resets, accelerated digital adoption, and improved financial conditions. Nevertheless, underlying vulnerabilities persisted, as global growth remained below pre-pandemic averages and trade expansion was partly driven by temporary factors rather than sustained improvements in economic fundamentals.

Within this global environment, Indonesia's economy maintained solid performance, recording growth of 5.11% year-on-year in 2025. Economic resilience was supported by robust investment activity, positive contributions from net exports, and strong demand for key commodities such as palm oil, iron, steel, and gold. Accommodative monetary and fiscal policies also contributed to stability, with stimulus measures and multiple central bank rate cuts supporting private credit expansion and household consumption. Inflation remained contained at an annual average of 2.92%, within Bank Indonesia's target range, despite temporary pressures from volatile food prices during the year.

However, several challenges remained. Expansionary fiscal measures, including the implementation of the free nutritious meals programme and the establishment of a new sovereign wealth fund, placed additional pressure on public spending efficiency. At the same time, labour market developments raised concerns regarding job quality, as employment growth remained concentrated in lower value-added sectors, highlighting the continued importance of human capital development as a key driver of long-term economic resilience.

The study by the Asia Competitiveness Institute (ACI) explores the competitiveness of Indonesia's 34 sub-national economies, analysing them at both provincial and regional levels. This book provides an update on Indonesia's recent socioeconomic developments alongside the findings of ACI's annual competitiveness studies. In addition to its flagship analysis and simulation exercises, this edition also presents new perspectives through thematic research on the state of education in Indonesia. In particular, Chapter 4 examines how foundational skills are developed within Indonesia's complex socioeconomic and infrastructural landscape, with a focus on the role of digital readiness in shaping learning outcomes.

This book is organised into four chapters. **Chapter 1** reviews Indonesia's recent socioeconomic developments amid heightened global uncertainty, outlining key policy responses and the near-term outlook. It examines growth drivers—particularly household consumption, investment, and exports—alongside fiscal developments, monetary policy adjustments, exchange rate stabilisation, and sectoral performance.

In 2025, coordinated fiscal stimulus, expanded social assistance, as well as Bank

Indonesia's liquidity expansion and calibrated interest rate adjustments helped contain inflation, stabilise the rupiah, narrow the current account deficit, and sustain labour market recovery. The chapter also assesses poverty trends and human capital progress in relation to Golden Indonesia 2045. Looking ahead to 2026, growth is expected to remain resilient, supported by domestic demand and investment, although risks persist from global fragmentation, geopolitical tensions, and fiscal pressures. Strengthening productivity and human capital will remain central to sustaining inclusive growth.

Chapter 2 presents the annual update of Indonesia's provincial competitiveness analysis, forming part of ACI's flagship research project. The competitiveness index evaluates provincial performance across four key environments: (i) Macroeconomic Stability, (ii) Government and Institutional Settings, (iii) Financial, Business and Manpower Conditions, and (iv) Quality of Life and Infrastructure Development.

The results show that provinces in Java continue to dominate the top rankings, led by DKI Jakarta and East Java, although DKI Jakarta's dominance has weakened compared to previous years. East Kalimantan emerged as the only non-Java province within the top five, improving its ranking from fourth in 2024 to third in 2025. In contrast, provinces in Eastern Indonesia continue to occupy the bottom rankings, particularly those in Sulawesi and the Maluku–Papua region. The gap between the highest- and lowest-ranked provinces widened slightly, driven primarily by disparities in Government and Institutional Settings and Quality of Life and Infrastructure Development.

This chapter also includes a case study examining the structural drivers of unemployment in the Riau Islands. Despite strong economic growth, strategic geographic advantages, and robust investment inflows, the province continues to record persistently high unemployment. The analysis finds that employment outcomes are constrained by a capital-intensive industrial structure, skills mismatches, exposure to external demand fluctuations, and employment volatility associated with project-based activities.

While policy responses such as competency-based training, apprenticeship programmes, industry partnerships, and AI-based job-matching systems have been introduced, the province's archipelagic geography and continued in-migration have limited their effectiveness. The case study concludes that addressing unemployment in the Riau Islands requires a more integrated policy approach linking investment strategies, skills development, and employment continuity to ensure inclusive job creation.

Chapter 3 assesses competitiveness at the regional level by aggregating provincial performance across Indonesia's six major island groupings. The results continue to show a strong concentration of competitiveness in Java, followed by Kalimantan and Sumatra, while Sulawesi, Bali–Nusa Tenggara, and the Maluku–Papua region remain at the lower end of the rankings. The persistence of this ranking structure since 2023 reflects enduring regional disparities across the Indonesian archipelago.

The analysis further highlights differing regional characteristics. Java benefits from strong institutional and economic foundations but faces productivity pressures associated with high population density. Kalimantan performs strongly in infrastructure and institutional quality, yet faces labour market challenges. Sumatra demonstrates balanced performance with moderate strengths in living standards and investment appeal. In contrast, Sulawesi and Bali–Nusa Tenggara show uneven competitiveness linked to infrastructure and productivity constraints. Maluku and Papua remain the least competitive regions, where infrastructure gaps and institutional weaknesses continue to limit development outcomes.

Lastly, **Chapter 4** examines disparities in foundational skills across Indonesian districts, provinces, and regions using literacy and numeracy outcomes from 2021 to 2024. While national averages have improved in the post-pandemic period, substantial spatial variation remains. The chapter argues that these differences are better understood as variations in local conversion capacity rather than in national policy design.

In particular, districts with higher levels of digital readiness prior to the pandemic tend to display stronger improvements in literacy and numeracy outcomes. The association becomes more pronounced over time, and more prominent in low-income districts. By linking specific digital indicators to learning-relevant magnitudes, the analysis illustrates how improvements in access, device availability, and meaningful internet use may translate into measurable differences in foundational skills. The findings highlight digital readiness as a scalable and forward-looking policy lever within Indonesia's highly diverse educational landscape.

Overall, the findings of this book highlight the diverse strengths and challenges shaping Indonesia's socioeconomic landscape across provinces and regions. In an increasingly complex global environment, understanding provincial performance and comparative advantages is essential. By integrating competitiveness assessments with sub-national socioeconomic analysis, this book aims to provide useful insights for policy-makers, academics, and business stakeholders in navigating Indonesia's development trajectory, particularly in the context of ongoing digital transformation. The results underscore the importance of targeted investments, stronger sub-national innovation, and improved economic connectivity to reduce regional disparities and support inclusive and sustainable economic growth.

Acknowledgements

This year's Annual Competitiveness Analysis and Socioeconomic Development of Indonesia's Sub-national Economies is contributed by Gianina Amadira, Hilda Kurniawati, and Adam Bin Romzi.

In this book, we update the sub-national and regional competitiveness indices using the latest available data. Our comprehensive approach to measuring competitiveness considers a range of factors that collectively shape the ability of a nation or region to achieve sustained and inclusive economic development over time. In addition, this edition includes an analysis of trends in foundational learning and regional disparities in Indonesia as part of the book's thematic chapter. This study explores how digital readiness influences the development of foundational skills within Indonesia's complex socioeconomic and infrastructural landscape.

This book would not have been possible without the support of our research and administrative colleagues. In particular, we extend our sincere thanks to the competent and dedicated administrative team at ACI, including Cai Jiao Tracy, Lyne Po Lai Yin, Dewi Jelina Ayu Binte Johari, and Atiqah Binte Rahmat. We also note with great appreciation the contributions from ACI Director Professor Paul Cheung and the research staff—Dr Yi Xin, Dr Banh Thi Hang, Dr Ammu George, Dr Liang Zixuan, Dr Liu Jingting, Dr Song Yunlong, Dr Nguyen Tran Bao Phuong, Dr Bian Tingbin, Tan Kway Guan, Yan Bowen, Brendan Lee Juan Xin, Chew Ze Lin, Parag Dass, Goh Yuh Xian, Mukund Kishore, Huang Yijia, Lian Huiyuan, Lu Weilin, Miranda Lu, Ma Qi Xiang, Ng Wee Yang, Riddhimaa Gupta, and Tran Thi Ngoc My.

We also place on record our appreciation for the encouragement by Professor Joseph Liow Chinyong (Dean), Professor Selina Ho Li Ching (Vice Dean, Research and Development), Associate Professor Kadir Suzaina (Vice Dean, Academic Affairs), Associate Professor Francesco Mancini (Vice Dean, Executive Education), and other colleagues at the Lee Kuan Yew School of Public Policy, National University of Singapore, for making this project possible.

List of Abbreviations

3T	Underdeveloped, Frontier, and Outermost (*Terdepan, Terluar, Tertinggal*)
ACI	Asia Competitiveness Institute
ADB	Asian Development Bank
AFI	Attractiveness to Foreign Investors
AI	Artificial Intelligence
AKM	Minimum Competency Assessment (*Angka Minimum Kompetensi*)
AN	National Assessment (*Asesmen Nasional*)
APBD	Regional Budget (*Anggaran Pendapatan dan Belanja Daerah*)
APBN	State Budget (*Anggaran Pendapatan dan Belanja Negara*)
ASEAN	Association of Southeast Asian Nations
BI	Central Bank of Indonesia (*Bank Indonesia*)
BI7DRR	BI 7-Day Reverse Repo Rate
BLKPP	Training and Productivity Development Centre (*Balai Latihan Kerja dan Pengembangan Produktivitas*)
BP	Management Agency (*Badan Pengelola*)
BPI	Investment Management Agency (*Badan Pengelola Investasi*)
BPS	Indonesia's Bureau of Statistics (*Badan Pusat Statistik*)
CI	Competitiveness Index
CKG	Free Preventive Medical Check-Ups Programme (*Cek Kesehatan Gratis*)
CPI	Consumer Price Index
CRSRL	Competition, Regulatory Standards and Rule of Law
CSR	Corporate Social Responsibility
DDI	Direct Domestic Investment
DI	Special Region (*Daerah Istimewa*)
DKI	Special Capital (*Daerah Khusus Ibukota*)
DNDF	Domestic Non-Deliverable Forwards
FBMC	Financial, Businesses and Manpower Conditions
FDBE	Financial Deepening and Business Efficiency
FDI	Foreign Direct Investment
FFR	Federal Funds Rate
FKLPID	Regional Training Institution-Industry Communication Forum (*Forum Komunikasi Lembaga Pelatihan dengan Industri Daerah*)
FKTP	Primary Healthcare Facilities (*Fasilitas Kesehatan Tingkat Pertama*)
FLPP	Housing Financing Liquidity Facility Subsidized Mortgage (*Fasilitas Likuiditas Pembiayaan Perumahan*)

FTZ	Free Trade Zone
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GER	Gross Enrolment Ratio
GIS	Government and Institutional Setting
GPFS	Government Policies and Fiscal Sustainability
GRDP	Gross Regional Domestic Product
HCI	Human Capital Index
HDI	Human Development Index
HIMBARA	Association of State-Owned Banks (*Himpunan Bank Milik Negara*)
ICT	Information and Communications Technology
IDR	Indonesian Rupiah
IGL	Institutions, Governance and Leadership
IKN	Nusantara Capital City (*Ibu Kota Nusantara*)
IMD	International Institute for Management Development
IMF	International Monetary Fund
INDO-DAPOER	Indonesia Database for Policy and Economic Research
IoT	Internet of Things
KEK	Special Economic Zone (*Kawasan Ekonomi Khusus*)
KPR	Mortgage Loan (*Kredit Pemilikan Rumah*)
LMF	Labour Market Flexibility
LKYSPP	Lee Kuan Yew School of Public Policy
MA	Islamic Senior High School (*Madrasah Aliyah*)
MBG	Free Nutritious Meals Programme (*Makan Bergizi Gratis*)
MP3EI	Masterplan for Acceleration and Expansion of Indonesia's Economic Development 2011-2015
MS	Macroeconomic Stability
MSMEs	Micro, Small, and Medium Entreprises
NDF	Non-Deliverable Forwards
NUS	National University of Singapore
OECD	Organisation for Economic Co-operation and Development
OJK	Financial Services Authority (*Otoritas Jasa Keuangan*)
OTS	Openness to Trade and Services
PAD	Regional Original Income (*Pendapatan Asli Daerah*)
PAUD	Pre-school Education (*Pendidikan Anak Usia Dini*)
PBB	Land and Building Tax (*Pajak Bumi Bangunan*)
PI	Physical Infrastructure
PISA	Program for International Student Assessment
PMI	Purchasing Managers' Index
PNBP	Non-tax State Revenue (*Penerimaan Negara Bukan Pajak*)
PP	Productivity and Performance
PPh	Income Tax (*Pajak Penghasilan*)

PPN	Value-added Tax (*Pajak Pertambahan Nilai*)
PSN	National Strategic Project (*Proyek Strategis Nasional*)
PT	Limited Liability Company (*Perseroan Terbatas*)
PUPR	Ministry of Public Works and Housing (*Kementerian Ministry of Public Works and Housing*)
QLID	Quality of Life and Infrastructure Development
QR	Quick Response
RAPBN	State Budge Draft (Rancangan Anggaran Pendapatan dan Belanja Negara)
RDDI	Regional Digital Development Index
REV	Regional Economic Vibrancy
RPJMN	National Medium-Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional*)
RPJPN	National Long-Term Development Plan (*Rencana Pembangunan Jangka Panjang Nasional*)
RRR	Reserve Requirement Ratio
RTKJP	Long-Term Manpower Planning (*Rencana Tenaga Kerja Jangka Panjang*)
SAKERNAS	National Labour Survey (*Survey Angkatan Kerja Nasional*)
SBN	Government Bond Issuance (*Surat Berharga Negara*)
SER	School Enrollment Ratio
SEZ	Special Economic Zone
SD	Elementary School (*Sekolah Dasar*)
SIJORI	Singapore-Johor-Riau
SLB	Special Education School (*Sekolah Luar Biasa*)
SLESS	Standard of Living, Education and Social Stability
SMA	Senior High School (*Sekolah Menengah Atas*)
SME	Small and Medium Entreprises
SMK	Vocational School (*Sekolah Menengah Kejuruan*)
SMP	Junior High School (*Sekolah Menengah Pertama*)
SOEs	State-owned Enterprises
SRBI	Bank Indonesia Rupiah Securities (*Sekuritas Rupiah Bank Indonesia*)
STEM	Science, Technology, Engineering, Mathematics
THR	Holiday Allowances (*Tunjangan Hari Raya*)
TI	Technological Infrastructure
TK	Kindergarten (*Taman Kanak-Kanak*)
TPAK	Labour Force Participation Rate (*Tingkat Partisipasi Angkatan Kerja*)
TPID	Regional Inflation Control Team (*Tim Pengendalian Inflasi Daerah*)
TPIP	Central Inflation Control Team (*Tim Pengendalian Inflasi Pusat*)
TPT	Open Unemployment Rate (*Tingkat Pengangguran Terbuka*)
TVET	Technical and Vocational Education and Training
UN	National Examination (*Ujian Nasional*)
UNCTAD	United Nations Conference on Trade and Development

US	United States
USD	United States Dollar
VAT	Value-added Tax
WCY	World Competitiveness Yearbook
WEF	World Economic Forum
y-o-y	year-on-year

List of Provinces

	Name of Province in English	Name of Province in Bahasa	Region
1	Aceh	Aceh	Sumatra
2	Bali	Bali	Bali-Nusa Tenggara
3	Bangka Belitung Islands	Kepulauan Bangka Belitung	Sumatra
4	Banten	Banten	Java
5	Bengkulu	Bengkulu	Sumatra
6	Central Java	Jawa Tengah	Java
7	Central Kalimantan	Kalimantan Tengah	Kalimantan
8	Central Sulawesi	Sulawesi Tengah	Sulawesi
9	DI Yogyakarta	DI Yogyakarta	Java
10	DKI Jakarta	DKI Jakarta	Java
11	East Java	Jawa Timur	Java
12	East Kalimantan	Kalimantan Timur	Kalimantan
13	East Nusa Tenggara	Nusa Tenggara Timur	Bali-Nusa Tenggara
14	Gorontalo	Gorontalo	Sulawesi
15	Jambi	Jambi	Sumatra
16	Lampung	Lampung	Sumatra
17	Maluku	Maluku	Maluku-Papua
18	North Kalimantan	Kalimantan Utara	Kalimantan
19	North Maluku	Maluku Utara	Maluku-Papua
20	North Sulawesi	Sulawesi Utara	Sulawesi
21	North Sumatra	Sumatera Utara	Sumatra
22	Papua	Papua	Maluku-Papua
23	Riau	Riau	Sumatra
24	Riau Islands	Kepulauan Riau	Sumatra
25	South Kalimantan	Kalimantan Selatan	Kalimantan
26	South Sulawesi	Sulawesi Selatan	Sulawesi
27	South Sumatra	Sumatera Selatan	Sumatra
28	Southeast Sulawesi	Sulawesi Tenggara	Sulawesi
29	West Java	Jawa Barat	Java
30	West Kalimantan	Kalimantan Barat	Kalimantan
31	West Nusa Tenggara	Nusa Tenggara Barat	Bali-Nusa Tenggara
32	West Papua	Papua Barat	Maluku-Papua
33	West Sulawesi	Sulawesi Barat	Sulawesi
34	West Sumatra	Sumatera Barat	Sumatra

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Chapter 1
Year in Review: Indonesia in 2025

1.1 Structure and Content of the Book

This book provides an update on Indonesia's recent socioeconomic developments alongside the findings of the Asia Competitiveness Institute's (ACI) annual studies on Indonesia's economy. It adopts a descriptive analytical approach to elaborate on key insights presented in each chapter. In addition to its annual competitiveness analysis and simulation studies of Indonesia's sub-national economies, this edition also offers new perspectives from the ACI's thematic research on the state of education in Indonesia. In particular, Chapter 4 presents an in-depth examination of how foundational skills are developed within Indonesia's complex socioeconomic and infrastructural landscape.

The book is organised into four chapters. It begins with an introductory chapter that outlines the structure and scope of the study. Chapter 2, which forms part of ACI's flagship research project, presents the annual update of Indonesia's provincial competitiveness analysis. The competitiveness index assesses provincial performance across four key environments: (i) Macroeconomic Stability (MS), (ii) Government and Institutional Settings (GIS), (iii) Financial, Business and Manpower Conditions (FBMC), and (iv) Quality of Life and Infrastructure Development (QLID).

Table 1.1: Highlights of ACI's 2025 Overall Competitiveness Ranking of Indonesian Provinces, (Top 5 and Bottom 5 Provinces)

2025 Overall Competitiveness		Province	Region
Rank	Std. Scores		
1	3.156	DKI Jakarta	Java
2	2.144	East Java	Java
3	1.592	East Kalimantan	Kalimantan
4	1.555	West Java	Java
5	1.117	Central Java	Java
…	…	…	…
30	-0.795	Lampung	Sumatra
31	-0.943	Gorontalo	Sulawesi
32	-1.116	West Papua	Maluku-Papua
33	-1.117	West Sulawesi	Sulawesi
34	-2.127	Papua	Maluku-Papua

Source: ACI

As discussed in Chapter 2, provinces in Java continue to dominate the top five rankings, led by DKI Jakarta and East Java, which record outstanding standardised scores relative to other provinces (Table 1.1). However, DKI Jakarta's dominance weakened this year, as the province led only two of the four competitiveness environments, compared to stronger performance in previous years. East Kalimantan stands out as the only non-Java province in the top five, improving its ranking from fourth in 2024 to third in 2025. In contrast, provinces in Eastern Indonesia continue to dominate the bottom five rankings, particularly those in the Sulawesi and the Maluku–Papua regions. Lampung is the only province from Sumatra in the lower-tier group, ranking 30^{th}. The disparity between the highest-ranked province, DKI Jakarta, and the lowest-ranked, Papua, widened slightly compared to last year, driven mainly by increasing gaps in Government and Institutional Settings and Quality of Life and Infrastructure Development.

Chapter 2 also presents a case study on the structural drivers of unemployment in the Riau Islands. Despite strong economic growth, a strategic location, robust investment inflows, and relatively high educational outcomes, the Riau Islands continue to record persistently high unemployment—the second highest nationally. The analysis finds that employment outcomes are constrained by a capital-intensive industrial structure, persistent skills mismatches, high exposure to external demand shocks, and employment volatility arising from project-based activities. Both provincial- and city-level governments have introduced various policy responses, including competency-based training, apprenticeship programmes, industry partnerships, and AI-based job-matching systems. However, the province's archipelagic geography has left some areas isolated and characterised by high poverty, limiting their ability to benefit from these programmes. At the same time, high in-migration from outside the province has further intensified labour market pressures. The chapter concludes that reducing unemployment in the Riau Islands requires a more tailored approach that better integrates investment strategies, skills development frameworks, and employment continuity, ensuring that externally driven growth translates into stable and inclusive job creation.

Chapter 3 applies a competitiveness framework similar to that used in Chapter 2, in which each region represents an aggregation of several provinces based on their major island groupings. This approach provides a comprehensive assessment of competitive dynamics across Indonesia's six regions. The 2025 regional competitiveness results continue to show a strong concentration of competitiveness in a small number of regions (Java, Kalimantan, and Sumatra), with Java scoring substantially higher than all other regions. In contrast, Sulawesi, Bali–Nusa Tenggara, and Maluku–Papua consistently occupy the bottom three positions. Sulawesi and Bali–Nusa Tenggara record closely clustered scores, indicating comparable levels of socioeconomic development, while the Maluku–Papua region remains significantly behind. This ranking order has remained unchanged since 2023, highlighting the persistence of regional disparities across the Indonesian archipelago.

Chapter 3 further reveals more specific underlying factors shaping Indonesia's regional competitiveness disparities. Java remains the country's most competitive region, supported by strong institutions and economic foundations, although pressures from high population density weigh on productivity and social outcomes. Kalimantan follows with broadly strong performance, particularly in infrastructure and institutional quality, yet faces ongoing challenges in sustaining labour market dynamism and attracting investment. Sumatra presents a more balanced profile, with most indicators clustered around the national median and notable strengths in living standards and investment appeal, but weaker financial depth and business efficiency. Sulawesi's competitiveness is more uneven, combining relatively strong social outcomes with clear gaps in regulatory quality, competition, and physical infrastructure. Bali–Nusa Tenggara shows early signs of progress in technological readiness and labour market flexibility, though limited productivity and trade openness continue to constrain performance. Maluku–Papua remains the least competitive regions, where comparatively stable macroeconomic conditions are overshadowed by deep-seated deficits in infrastructure, governance, and institutional capacity.

Lastly, Chapter 4 presents an in-depth examination of disparities in foundational skills across regions, islands, and provinces in Indonesia, measured by literacy and numeracy scores from 2021 to 2024. Although the national average scores have been improving, regions, islands, and provinces have starkly different levels of improvement, widening the gap of foundational skills within the country. The analysis of digital readiness shows that districts with higher pre-period digital readiness experienced significantly higher levels and faster improvements in numeracy and literacy between 2021 and 2024, even after accounting for income differences and fixed effects. These gains are persistent over time and most pronounced in low-income districts, indicating that digital readiness plays an important role in shaping learning outcomes and may contribute to reducing regional educational disparities in Indonesia.

The findings of this book highlight the diverse strengths and challenges shaping Indonesia's socioeconomic landscape across provinces and regions. In a rapidly evolving global context, tracking provincial performance and comparative advantages is increasingly important. By bringing together competitiveness assessments and sub-national socioeconomic analysis, this book aims to inform policy-makers, academics, and business stakeholders as they navigate Indonesia's development path, particularly in the era of digitalisation. The results point to the importance of targeted investments, stronger sub-national innovation, and improved economic connectivity to address regional disparities and support inclusive, sustainable growth.

1.2 Indonesia in 2025

1.2.1 Sustaining Growth in a Moderating Economy

The global economy grew at a moderate pace in 2025, yet performed better than expected, expanding by around 3.2% (IMF, 2025; OECD, 2025). Global growth exceeded earlier forecasts despite a series of shocks and persistent turbulence throughout the year, including heightened geopolitical tensions, rising tariffs and trade frictions, policy uncertainty, and elevated debt burdens. This relative resilience reflects the capacity of many economies to adapt to a new global landscape characterised by greater protectionism and economic fragmentation. Partial tariff rollbacks and trade resets, supply-chain reconfiguration, rapid adoption of digital technologies—particularly artificial intelligence—and improved financial conditions helped cushion the impact of these shocks (The World Bank, 2025a; IMF, 2025).

Despite this apparent resilience, underlying challenges persisted. Global growth showed no clear signs of acceleration, stagnating at around 2.6% in 2025—below the pre-pandemic average of approximately 3% and well under the 4.4% average recorded prior to the 2008–2009 global financial crisis. Global trade initially appeared to rebound, with growth reaching about 4% at the beginning of the year. However, this increase was largely driven by temporary factors rather than a strengthening of underlying fundamentals (IMF, 2025). These included the front-loading of imports in the first quarter of 2025, as firms accelerated purchases ahead of higher United States tariffs introduced in February, alongside continued expansion in digital and AI-related activities. Absent these factors, underlying trade growth was estimated to have slowed to around 2.5–3% (UNCTAD, 2025). As a result, many economies continued to face significant risks, including the possibility of further trade barriers, persistent geopolitical instability, financial market repricing, and ongoing fiscal pressures, particularly in developing economies, where debt-service payments exceeded new financing inflows (UNCTAD, 2025; The World Bank, 2025a; McKinsey, 2025).

Within this global environment, the Asia–Pacific region remained the primary engine of global growth, contributing approximately 60% of global expansion in 2025 and recording growth of about 4.5%. Similarly, economies in the Association of Southeast Asian Nations (ASEAN) grew by an estimated 4.3%, supported by strong domestic demand and relatively resilient external trade (IMF, 2025).

Against this backdrop, Indonesia's economy demonstrated continued resilience in 2025, recording growth of around 5.11% year-on-year, the third highest among G20 economies (UNCTAD, 2026; OECD, 2025). This figure was slightly lower than the government's forecast in its 2025 State Budget Plan (RAPBN 2025) at 5.2% (Ministry of Finance, 2025a). Growth was supported by robust investment and a positive net export contribution, alongside strong global demand for key commodities such as palm oil, iron, steel, and gold. Accommodative monetary and fiscal policies also played a supportive role, with stimulus measures, including multiple central bank rate cuts, helping to boost private credit and consumption (World Bank, 2025). Moreover, the direct impact of the 19% tariff imposed by the United States on Indonesian exports remained limited, as goods exports to the United States accounted for less than 2% of Gross Domestic Product (GDP) (OECD, 2025). Inflationary pressures were largely contained throughout the year. Despite a temporary increase to 2.65–2.86% in September–October 2025 due to higher food prices, Indonesia's average inflation rate stood at 2.92% in 2025, well within Bank Indonesia's target range of 1.5 to 3.5% (BPS, 2026).

Nevertheless, several challenges persisted. Indonesia's fiscal stance in 2025 remained expansionary, with increased expenditure on the free nutritious meals programme

(*Makan Bergizi Gratis* or MBG) and the establishment of a new sovereign wealth fund, Danantara, only partially financed through spending reallocations elsewhere. As a result, improving the efficiency and effectiveness of public spending remains a key policy priority, including through better targeting of social assistance to vulnerable households (OECD, 2025).

Labour market conditions also posed challenges to household welfare. The contribution of private consumption to economic growth declined slightly, from 2.8 percentage points in 2024 to 2.7 percentage points in 2025, reflecting emerging concerns over job quality. Although total employment increased by 1.3% between August 2024 and August 2025, job creation was concentrated primarily in lower-paying, lower value-added sectors. This trend was compounded by a 1.1% annual decline in real wages between 2018 and 2024, underscoring structural weaknesses in labour productivity and earnings growth (World Bank, 2025). These developments highlight the central importance of human capital quality, which constitutes a core theme of this book.

1.2.2 Indonesian Government Policy Review in 2025

To advance inclusive and sustainable economic growth in line with Indonesia's Vision 2045, the government articulated a development strategy centred on strengthening the foundations of growth while accelerating long-term structural transformation, as outlined in the RAPBN 2025. In the near term, the policy direction emphasises improvements in education quality, healthcare delivery, poverty reduction, and more equitable welfare outcomes to support economic resilience and social stability. Over the medium to long term, this strategy is complemented by efforts to upgrade human capital, promote inclusive economic participation, and support broader structural transformation aimed at sustaining growth and reducing disparities (Ministry of Finance, 2025a).

Within this framework, the government has prioritised a set of flagship transformative programmes that shape policy implementation during the year. These initiatives reflect a sequenced and people-centred approach, beginning with investments in human capital formation through education and healthcare reforms, followed by efforts to strengthen basic welfare and living conditions through affordable housing provision, and extending to grassroots economic participation through cooperative development. Programmes such as *Sekolah Rakyat* and *Sekolah Garuda*, Free Preventive Medical Check-Ups (*Cek Kesehatan Gratis* or CKG), Public Housing (*Perumahan Rakyat*), and the Merah Putih Cooperative (*Koperasi Merah Putih*) constitute the core of this social transformation agenda in 2025 (Ministry of Finance, 2026a).

1.2.2.1 *Sekolah Rakyat* and *Sekolah Garuda* as Catalysts of Education Transformation

As part of Indonesia's broader education reform agenda under the 2025 State Budget, the government introduced *Sekolah Rakyat* and *Sekolah Garuda* as flagship initiatives aimed at strengthening human capital development in support of Indonesia's Vision 2045. These programmes reflect a dual policy approach: expanding access to education for children from economically vulnerable households while simultaneously nurturing high-potential students to accelerate talent development and global competitiveness. Rather than serving as substitutes for one another, *Sekolah Rakyat* and *Sekolah Garuda* are positioned as complementary instruments within the national education strategy, addressing different dimensions of equity and excellence.

Sekolah Rakyat, officially implemented on 14 July 2025, focuses primarily on promoting education access and social equity, targeting children from the most economically disadvantaged households, particularly those in extreme poverty. Implemented under the coordination of the Ministry of Social Affairs, the programme spans multiple education levels from elementary to high school and is closely linked to broader social protection objectives. Its core mandate is to ensure that vulnerable children are not excluded from formal education due to economic constraints, reinforcing education as a key pathway out of poverty (CNA Indonesia, 2025).

In contrast, *Sekolah Garuda* is designed to accelerate education quality and talent development, aiming specifically at the senior secondary level (SMA/MA). Focusing on excellence and merit-based talent acceleration, it aims to nurture high-achieving and high-potential students at this level (SMA/MA), preparing them to compete at national and global standards. Officially launched on 8 October 2025, Sekolah Garuda comprises two complementary schemes. *Sekolah Garuda Baru* aims to establish high-quality schools built from the ground up in underserved areas, including underdeveloped, frontier, and outermost (3T) regions, to address gaps in access to high-quality education. Meanwhile, *Sekolah Garuda Transformasi* focuses on strengthening existing senior secondary schools through improvements in curriculum, teacher capacity, student development, and school management, with the aim of progressively aligning outcomes with global education standards (Ministry of Higher Education, Science, and Technology, 2025a). The government plans to establish 20 *Sekolah Garuda Baru* and 80 *Sekolah Garuda Transformasi* schools by 2029, with initial implementation beginning at 16 locations nationwide, including 12 transformation schools and four new school sites. Funding for the programme is allocated through APBN 2025, including provisions for an endowment fund to support long-term sustainability (Ministry of Finance, 2025d).

Throughout 2025, 159 *Sekolah Rakyat* have started to operate across Indonesian provinces, while early implementation of *Sekolah Garuda* has focused on expanding geographic coverage and strengthening institutional readiness (Ministry of Finance, 2025d). The simultaneous launch across 16 locations signals an effort to ensure national reach, including in eastern Indonesia. One illustrative case is Averos Sorong High School in Southwest Papua, where the *Sekolah Garuda Transformasi* programme has been introduced to build on the school's existing strengths in STEM education and student achievement. Local stakeholders have highlighted the programme's potential to reduce regional disparities by providing students in Papua with opportunities comparable to those available in more developed regions. The initiative has also generated enthusiasm among students and communities, with expectations that it will open pathways to further study and global exposure (Ministry of Higher Education, Science, and Technology, 2025b).

Despite its strategic intent, both *Sekolah Rakyat* and *Sekolah Garuda* have attracted critical scrutiny regarding their potential implications for equity and inclusion. Some observers argue that the creation of differentiated education tracks—one targeting high-achieving students and another focusing on economically vulnerable groups—risks reinforcing educational stratification rather than reducing disparities. Concerns have been raised that Garuda schools may enjoy privileged access to resources, facilities, and future opportunities, potentially fostering perceptions of elitism or socioeconomic segregation within the education system (CNA Indonesia, 2025).

Critics further caution that concentrated investment in selected flagship schools could divert attention and resources from improving the quality of regular public schools, which continue to face challenges related to infrastructure, teacher competency, and learning outcomes. Without complementary measures to raise overall education quality nationwide, such differentiation may widen gaps between elite and non-elite institutions. These debates reflect a broader meritocracy–equity trade-off in education policy, highlighting the need to balance talent acceleration with inclusive and system-wide improvements (Kusumaningrum et al., 2025).

1.2.2.2 Strengthening Preventive Healthcare through Free Medical Check-Ups

As articulated in the 2025 State Budget Plan, the Indonesian government positions education and healthcare as two interlinked pillars for improving welfare and reducing poverty. Within this framework, the government introduced the Free Preventive Medical Check-Ups programme (*Cek Kesehatan Gratis* or CKG) as part of its broader transformative policy agenda in 2025. Officially launched in February 2025, CKG aims to strengthen healthcare quality and population health by shifting the health system's focus from curative treatment toward prevention and early detection. By expanding access to basic health screening for the population at large—particularly for low-income and vulnerable groups—the programme seeks to improve health outcomes, reduce long-term disease burdens, and contain future healthcare costs (Ministry of Health, 2025c; Ministry of Foreign Affairs, 2025).

The implementation of CKG is governed by the Minister of Health Decree No. HK.01.07/MENKES/33/2025, which provides technical guidelines for all stakeholders involved in programme delivery, including central and local governments, primary healthcare facilities, public health laboratories, and professional health organisations. Under this framework, free routine health check-ups are made available at participating *puskesmas* and affiliated clinics or hospitals across all districts and cities in Indonesia.

The programme adopts a life-cycle approach, with screening packages tailored to four population groups: newborns; toddlers and preschool children; adolescents and adults; and the elderly, each receiving age-appropriate examinations. Registration and service access are facilitated through the SATUSEHAT Mobile application, which allows users to register, receive reminders, and access their health screening results digitally (Ministry of Health, 2025a).

By 29 December 2025, the CKG programme had reached more than 70 million participants across all 38 provinces, delivered through 10,588 healthcare facilities nationwide (Ministry of Health, 2025b). Participation rates have been notably high. General CKG services recorded an attendance rate of 96.97%, with 45.96 million out of 47.39 million registered individuals utilising the free health check-ups. Similarly, the school-based CKG component demonstrated strong uptake, with an attendance rate of 94.56%, reaching 24.34 million students from primary to senior secondary levels, including *madrasah* and special education schools.

These participation levels suggest growing public awareness of the importance of early detection and routine health screening, and indicate that preventive healthcare services can achieve broad uptake when financial barriers are removed and services are made widely available.

Despite its rapid expansion, the CKG programme faces several implementation challenges. First, programme socialisation remains uneven, particularly in remote and peripheral regions. Limited public understanding of the programme and concerns about potential screening results have discouraged participation among some population groups. Second, while digitalisation through the SATUSEHAT Mobile application has improved efficiency and data integration, it has also raised inclusion challenges. Registration via digital platforms remains less accessible for persons with disabilities, older populations, and residents of geographically isolated areas, where digital infrastructure and access to communication devices are limited. These constraints risk creating participation gaps if not addressed through complementary offline registration mechanisms and targeted outreach (Frayoga, Deni and Yunita, Nadia and Hasiholan, Theodorus Agustinus, 2025).

1.2.2.3 Addressing Housing Backlogs through the Three Million Homes Program

In line with the government's broader objective of improving social welfare and reducing economic inequality, expanding access to affordable housing has emerged as a key policy priority. The Three Million Homes (*3 Juta Rumah*) programme is a flagship initiative aimed at addressing Indonesia's long-standing housing backlog while narrowing spatial and socioeconomic disparities across urban, rural, and coastal areas. The programme targets households in extreme poverty, poverty, and low-income groups, through both the construction of new housing units and the renovation of substandard dwellings. This policy response is grounded in the scale of the challenge, as an estimated 9.9 million households remain without housing, while an additional 26.9 million housing units require renovation to meet basic standards of habitability. Beyond addressing housing shortages, the government also seeks to stabilise land and housing prices through targeted subsidies, zoning arrangements, and proximity-based planning to ensure access to economic centres (Ministry of Public Works and Public Housing, 2025a).

The programme adopts a multi-scheme design to support implementation, combining direct public intervention with market-based financing mechanisms. These include housing transformation schemes, optimisation of state-owned land assets, and innovative financing instruments, complemented by regulatory support such as the easing of mortgage requirements by the Financial Services Authority (Central Kalimantan Office of Housing, Settlement Areas and Land, 2025). A central component is the KPR Sejahtera FLPP, a subsidised mortgage scheme financed through the state budget and managed by BP Tapera, which enables low-income households to access affordable housing with fixed interest rates of 5% for up to 20 years (Kantor Staf Presiden, 2025). Thus, the programme is expected to generate multiplier effects for local economies by stimulating demand across construction-related sectors, including banking, building labour, architecture, design services, and property development (Palembang City Government, 2025).

By December 2025, early progress indicates measurable momentum in programme delivery. The government facilitated 50,030 mass mortgage signings (*akad massal*) for subsidised housing, accompanied by symbolic handovers to beneficiaries from diverse occupational backgrounds, including teachers, informal workers, persons with disabilities, soldiers, fishermen, and micro-entrepreneurs. Of these, 300 mortgage agreements were conducted onsite, while 49,730 agreements were executed digitally, involving 39 participating banks across 33 provinces and 110 districts and cities, reflecting efforts to expand financing access nationwide. As of 19 December 2025, disbursement under the FLPP scheme reached 263,017 subsidised housing units, with a total financing value of IDR 32.67 trillion. Programme delivery involved 39 lending banks, 22 housing developer associations, and nearly 8,000 developers, with housing projects spread across 12,981 residential areas in 401 districts and cities, signalling broad geographic coverage (Ministry of Public Works and Public Housing, 2025b).

Despite these achievements, the Three Million Homes programme continues to face structural and implementation challenges that may constrain its effectiveness. Key risks stem from limited fiscal space and financing capacity, as only a portion of housing targets can be supported directly through public funding, necessitating reliance on bank financing, corporate social responsibility schemes, and private or foreign investment, which introduces additional coordination and execution risks. Land availability remains a persistent bottleneck, particularly in urban areas where land is scarce, costly, or subject to legal disputes, while high land and construction costs continue to undermine affordability for lower-income households. On the implementation side, coordination gaps between central and local governments persist, particularly in permitting and regulatory processes, despite incentives such as fee waivers. Addressing these challenges will be critical to ensuring that the programme delivers not only on its numerical targets but also sustainable, inclusive housing outcomes that effectively reduce inequality and improve living standards (Subagio, 2025; SKHA Consulting, 2025).

1.2.2.4 Enhancing Welfare through *Koperasi Merah Putih*

Improving social welfare has become a central focus of the Indonesian government over the past year. Beyond strengthening access to education, healthcare, and housing, the government introduced the Merah Putih Cooperative (*Koperasi Merah Putih*) programme in 2025 as part of its broader effort to reinforce people-centred economic development. The establishment of this programme is grounded in Article 33 of the 1945 Constitution, which mandates that Indonesia's economy be organised as a collective endeavour based on the principles of mutual cooperation (*gotong royong*), familial solidarity, and community participation (Ministry of Cooperatives and SMEs, 2025). Within this framework, cooperatives are positioned as key institutional vehicles to promote a democratic economy, particularly in rural and village-level economies.

On 12 July 2025, in conjunction with National Cooperative Day, the President officially launched the formation of approximately 80,000 *Koperasi Merah Putih* across villages and urban communities throughout Indonesia. According to the Ministry of Cooperatives and SMEs (2025), the programme adopts three main establishment models: the creation of new cooperatives, the development of existing cooperatives, and the revitalisation of inactive or underperforming cooperatives. Through these models, *Koperasi Merah Putih* are expected to function as local hubs for production, distribution, and economic services within each village or neighbourhood.

The government envisions *Koperasi Merah Putih* as a mechanism to improve village-level welfare by shortening supply chains, reducing dependence on intermediaries, increasing farmers' terms of trade, and lowering consumer prices. In addition, the programme seeks to modernise cooperative governance and management systems, while positioning cooperatives as accelerators, consolidators, and aggregators for local micro, small, and medium-sized enterprises (MSMEs). Over the longer term, these functions are expected to contribute to inflation control, job creation, and the reduction of extreme poverty by strengthening local economic participation and resilience.

To support implementation, the government plans to optimise existing Village Funds (*Dana Desa*), amounting to approximately IDR 1 billion per village per year, as a key financing source for cooperative activities. In addition, state-owned banks grouped under the Association of State-Owned Banks (*Himpunan Bank Milik Negara* or HIMBARA) are expected to participate by providing medium-term financing with repayment tenors of three to five years to support the establishment and operationalisation of cooperatives (Cabinet Secretariat of Indonesia, 2025). This blended financing approach is intended to strengthen financial viability while reducing initial capital constraints at the village level.

By the end of 2025, the *Koperasi Merah Putih* initiative had achieved substantial institutional and administrative progress, as the government rapidly established the legal and organisational foundations for the planned 80,000 village and urban cooperatives, signalling strong political commitment and cross-agency coordination. However, this rapid expansion has largely translated into formal establishment rather than substantive economic performance. Many cooperatives have yet to become fully operational, with limited physical infrastructure, commercial activity, and measurable economic benefits for members. Recognising these challenges, the government issued Presidential Instruction No. 17 of 2025 to accelerate the development of cooperative facilities, including retail outlets, storage, and logistics infrastructure (Ayudiana, 2025).

Despite these corrective measures, many highlight persistent risks related to the top-down rollout, tight implementation timelines, and the sheer scale of the programme, which may undermine long-term sustainability if cooperatives remain administratively compliant but economically weak. Fragmented coordination across institutions, limited data systems to capture cooperative activity, and uneven access to markets, financing and digital and logistics infrastructure further constrain productivity and business viability. Addressing these constraints will be critical to ensure that *Koperasi Merah Putih* evolves into a functioning economic institution that generates durable income, strengthens local supply chains, and contributes meaningfully to village-level economic inclusion rather than remaining nominal entities (Dwijayanti, 2025).

1.2.3 Prospects and Challenges of Indonesia's Economy in 2026

1.2.3.1 Outlook and Challenges

Indonesia's economic growth is forecast to remain resilient at around 5% in 2026 and is expected to strengthen further in 2027. The OECD (2025) projects that Indonesia's real GDP could grow by 5.1% in 2027, while the The World Bank (2025b) presents a slightly more optimistic outlook, estimating growth at 5.2% in the same year. This robust growth outlook is supported by low inflation and easing financial conditions, which are expected to boost private consumption, alongside continued strong investment and positive contributions from net exports. Reflecting a more optimistic domestic outlook compared to global forecasts, the Indonesian government projects in its 2026 State Budget Plan (Ministry of Finance, 2026a) that the economy will grow by 5.4% in 2026, with a targeted inflation rate of 2.5% $\pm$ 1% and an exchange rate assumption of IDR 16,500 per USD (Table 1.2).

Table 1.2: Macroeconomic Indicators Forecast in 2026

Macroeconomic Indicators	
Indicator	**2026 Forecast**
Economic Growth (%)	5.4
Inflation (%)	2.5
10-Year Bond Yield (SBN) (%)	6.9
Exchange Rate (IDR/USD)	16,500
Crude Oil Price (USD/barrel)	70
Oil Lifting (rpbh)	610
Gas Lifting (rbsmph)	984

Source: 2026 State Budget (APBN 2026), Ministry of Finance

The acceleration of economic growth is expected to be more inclusive, as reflected in the development indicators presented in Table 1.3. The government aims to reduce the poverty rate to a range of 6.5–7.5% and narrow the Gini ratio to 0.377–0.380. Given that human capital has been one of the government's main priorities in recent years, the Human Capital Index (HCI) is projected to improve to 0.57, which is expected to have positive implications for job absorption and employment creation. In 2026, the open unemployment rate is targeted to decline to 4.44–4.96%, while the proportion of formal employment is expected to reach 37.95%.

Table 1.3: Development Indicators Target in 2026

Development Indicators	
Indicator	**2026 Target**
Unemployment Rate (%)	4.44 - 4.96
Human Capital Index (HCI)	0.57
Poverty Rate (%)	6.5 - 7.5
Gini Ratio	0.377 - 0.380
Extreme Poverty (%)	0 - 0.5
Farmer's Exchange Rate	0.7731
Proportion of formal job creation (%)	37.95

Source: 2026 State Budget (APBN 2026), Ministry of Finance

Nevertheless, Indonesia continues to face a range of challenges and risks stemming from ongoing global economic uncertainty and unresolved domestic issues. Climate change, food and energy security concerns, price volatility, supply disruptions, and geopolitical conflicts may negatively affect the Indonesian economy in 2026 (Ministry of Finance, 2025g). Policy uncertainty could also trigger persistent capital outflows, exerting pressure on the exchange rate and increasing import costs, which may lead to a temporary widening of the current account deficit. Domestically, overlapping regulations and limited coordination across government agencies continue to hamper the investment climate, despite recent reforms that have successfully eased some restrictions on foreign investment (OECD, 2025).

In response, the Indonesian government will continue to pursue structural reforms to address these challenges and achieve its socioeconomic targets in 2026. Several key strategies are prioritised, including economic diversification, productivity enhancement, industrial sector development, acceleration of exports and global connectivity, and strengthening Indonesia's position within global value chains. In this context, Indonesia's recently established Daya Anagata Nusantara Sovereign Investment Management Agency (BPI Danantara) is expected to serve as a key engine for productive investment (Ministry of Finance, 2025g).

1.2.3.2 2026 State Budget Priorities

The State Budget has become increasingly significant in mitigating external pressures while continuing to advance the national development agenda. The 2026 State Budget adopts the theme of "Food, Energy, and Economic Sovereignty" based on the Asta Cita Programme, which outlines eight strategic agendas of the Prabowo Subianto–Gibran Rakabuming Raka administration (2024–2029), underpinning the vision 'Together Towards an Advanced Indonesia and Golden Indonesia 2045.'

Table 1.4: 2026 State Budget Expenditure by Sector and Main Priorities

Priority Sectors	Policy Priorities
Food Security (IDR 164.4 trillion)	- Intensification and extensification of agricultural land - Modernisation of agricultural and fisheries systems - Strengthening agricultural infrastructure - Development of the national salt industry - Strengthening national food reserves and food storage systems - Strengthening effective supply chains and distribution networks - Provision of agricultural and fisheries facilities and equipment - Improving access to financing and business protection
Energy Security (IDR 402.4 trillion)	- Increasing oil and gas lifting - Price stabilisation - Development of renewable energy (EBT / new and renewable energy)
Free Nutritious Meals Programme/MBG (IDR 335 trillion)	- Enhancing the nutritional quality of children - Strengthening the quality of Indonesia's future human capital - Empowering MSMEs and the local economy to grow more resilient and robust
Education (IDR 757.8 trillion)	- Expanding access to and improving the quality of education across all levels through education assistance programmes - Strengthening the quality and availability of early childhood education (PAUD) services - Progressive, targeted, and affirmative fulfilment of basic education rights - Strengthening vocational education and its alignment with labour market demand (link and match) - Improving learning quality through the provision of nutritious meals - Development of integrated flagship schools and revitalisation of schools and madrasahs
Healthcare Services (IDR 244 trillion)	- Improving access, quality, and financial protection in the health sector through the effectiveness of the National Health Insurance programme - Expanding coverage of free health screenings (Cek Kesehatan Gratis, CKG) - Accelerating tuberculosis (TB) elimination - Increasing the quantity and quality of primary healthcare facilities (FKTP) and revitalising fully equipped, high-quality hospitals in the regions - Providing scholarships and expanding as well as equalising medical and health workforce education - Preventing and accelerating the reduction of stunting prevalence
Rural Development, Cooperatives, and MSMEs Enhancement	- Enhancing the productivity of MSMEs and cooperatives through the development of productive sectors - Strengthening institutional capacity and human resources of MSMEs, alongside reinforcing supervisory and monitoring systems - Expanding access to business licensing, financing, competency-based training, and the digitalisation of MSMEs and cooperatives - Promoting improvements in product quality and fostering a conducive entrepreneurship ecosystem - Supporting business incubation, the provision of digital platforms, and continuous training and mentoring
Security, Law and Defence (IDR 185 trillion)	-Modernisation and maintenance of defence equipment (Alutsista) and main equipment and systems (Almatsus), alongside the development of the domestic defence industry - Strengthening main, reserve, and supporting defence components - Prevention and enforcement against terrorism, cyber threats, cryptography, and signal-related crimes - Prevention of narcotics and illicit drugs - Prevention and enforcement against corruption and money laundering - Prevention and enforcement of general and special criminal offences, including administrative court (PTUN) cases
Acceleration of Investment and Global Trade Integration	- Accelerating productive investment and global trade through Danantara Indonesia - Implementation of downstreaming projects valued at USD 38 billion - Development of three million affordable housing units - Strengthening Indonesia's position within global supply chains
Social Protection (IDR 508.2 trillion)	- Improving the accuracy of benefit targeting through the utilisation of the Integrated Social Welfare Data (DTSEN). - Ensuring integrated delivery of social assistance and stronger synergy with empowerment programmes. - Promoting economic self-reliance through access to financing, training, business mentoring, and partnerships. - Advancing adaptive and inclusive social protection.
Subsidy (IDR 318.9 trillion)	- Maintaining fuel subsidies for diesel (solar) and price-gap subsidies for kerosene, while continuing the transformation toward well-targeted LPG 3 kg subsidies. - Providing electricity subsidies to poor and vulnerable households, based on the Integrated Social Welfare Data (DTSEN). - Delivering fertiliser subsidies to farmer groups and fish farmers for priority commodities. - Enhancing business competitiveness for MSMEs, farmers, and fishers through interest subsidies under the People's Business Credit (KUR) scheme and housing subsidies for low-income households (MBR). - Supporting improvements in public service delivery in the public transportation sector and the provision of public information. - Providing tax incentives through government-borne taxes to businesses and households. - Advancing targeted energy subsidy reforms based on DTSEN.

Source: 2026 State Budget (APBN 2026), Ministry of Finance

As stated in the 2026 State Budget (APBN 2026), the fiscal strategies in the short term will focus on the following areas:

1. Strengthening economic and fiscal resilience to cushion external shocks;
2. Protecting businesses and household purchasing power;
3. Maintaining a sound and credible APBN 2026 by controlling the fiscal deficit, pursuing innovative and sustainable financing, and optimising state revenues.

Meanwhile, the medium-term fiscal strategy is directed toward strengthening economic and social self-reliance, supported by sustained policy consistency and prudent, sustainable fiscal management to enable structural transformation. To achieve these objectives, the strategy prioritises eight key pillars from the Asta Cita Programme, namely: (1) food security; (2) energy security; (3) the free nutritious meals programme; (4) improving the quality of education; (5) enhancing healthcare services; (6) advancing rural development, cooperatives, and MSMEs; (7) reinforcing national defence; and (8) accelerating investment and global trade integration.

The APBN 2026 reflects the government's effort to balance macroeconomic stability with continued support for economic transformation amid a moderating global environment. Total state expenditure is projected to reach IDR 3,786.5 trillion, comprising IDR 3,136.5 trillion in central government spending and IDR 650 trillion in transfers to regional governments. Central government expenditure is allocated between institutional spending amounting to IDR 1,498.3 trillion and non-institutional spending of IDR 1,638.2 trillion. Institutional spending is directed toward advancing the national development agenda across seven priority areas, including food and energy security, education and health, national defence, social protection, and the acceleration of investment and global trade.

Spending priorities in 2026 underscore the government's emphasis on human capital development and social resilience. As presented in Table 1.4, state expenditure is directed toward seven priority sectors, with the largest allocations channelled to education (IDR 757.8 trillion), social protection (IDR 508.2 trillion), and energy security (IDR 402.4 trillion). These allocations signal a fiscal orientation that remains growth-supportive and reform-oriented, while seeking to address structural challenges related to inequality, productivity, and economic resilience.

On the financing side, the government adopts a cautious yet flexible fiscal stance. The fiscal deficit for 2026 is set at IDR 689.1 trillion, equivalent to 2.68% of GDP, remaining within Indonesia's statutory fiscal framework. To finance the deficit, the budget financing is planned at IDR 781.9 trillion of debt financing, alongside IDR 203.1 trillion in investment financing and IDR 60.4 trillion from other financing sources. This financing mix reflects the government's intention to support long-term development while maintaining fiscal sustainability.

State revenue in 2026 is projected at IDR 3,147.7 trillion, equivalent to 12.24% of GDP. Revenue policy focuses on optimising collection while preserving a favourable investment climate, supporting environmental sustainability, and remaining adaptive to evolving global economic conditions. Total revenue consists of tax revenue (IDR 2,357.7 trillion), customs and excise (IDR 334.3 trillion), non-tax revenue (IDR 445 trillion), and grants (IDR 0.7 trillion). Within tax revenues, income tax (PPh) remains the primary source, contributing 51.3%, followed by value-added tax (42.2%), with land and building tax (PBB) and other taxes accounting for the remaining 6.5%.

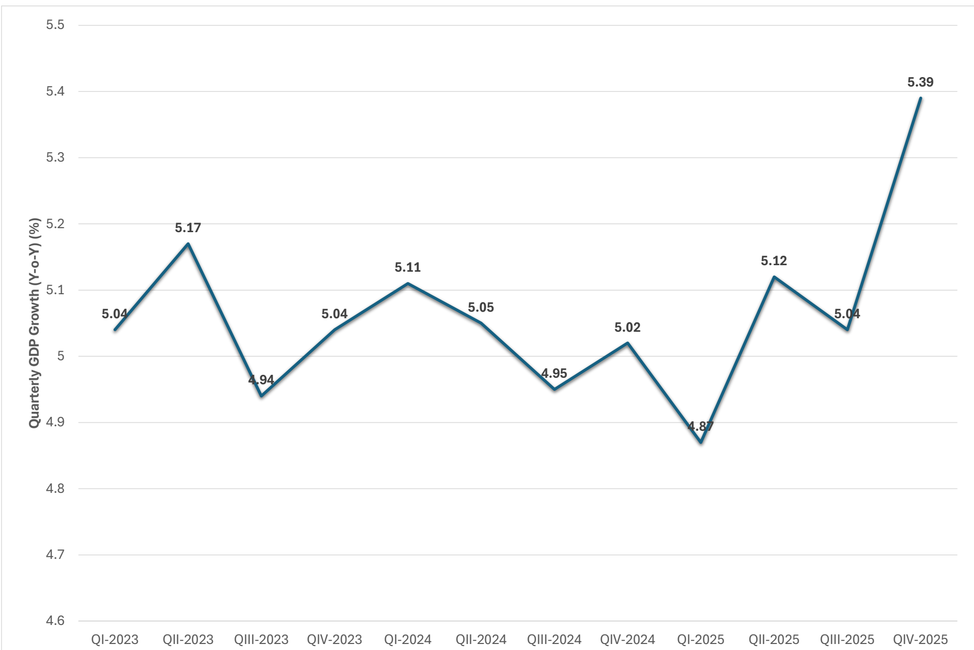
1.3 Overview of Indonesia's Recent Economic Developments

This section reviews Indonesia's recent economic developments over the past few years, focusing on growth trends and prospects, fiscal and monetary conditions, trade performance, as well as labour market and social developments. It also provides an analysis of the country's socioeconomic performance in the context of heightened global uncertainty.

1.3.1 Growth Trends and Prospects

Figure 1.1 shows Indonesia's quarterly GDP growth (year-on-year) from the first quarter of 2023 to the fourth quarter of 2025, while Figure 1.2 presents the breakdown of GDP growth by expenditure components. Over the past two years, economic growth has fluctuated around 5%, with the highest rate recorded in Q4 2025 at 5.39% and the lowest in Q1 2025 at 4.87%.

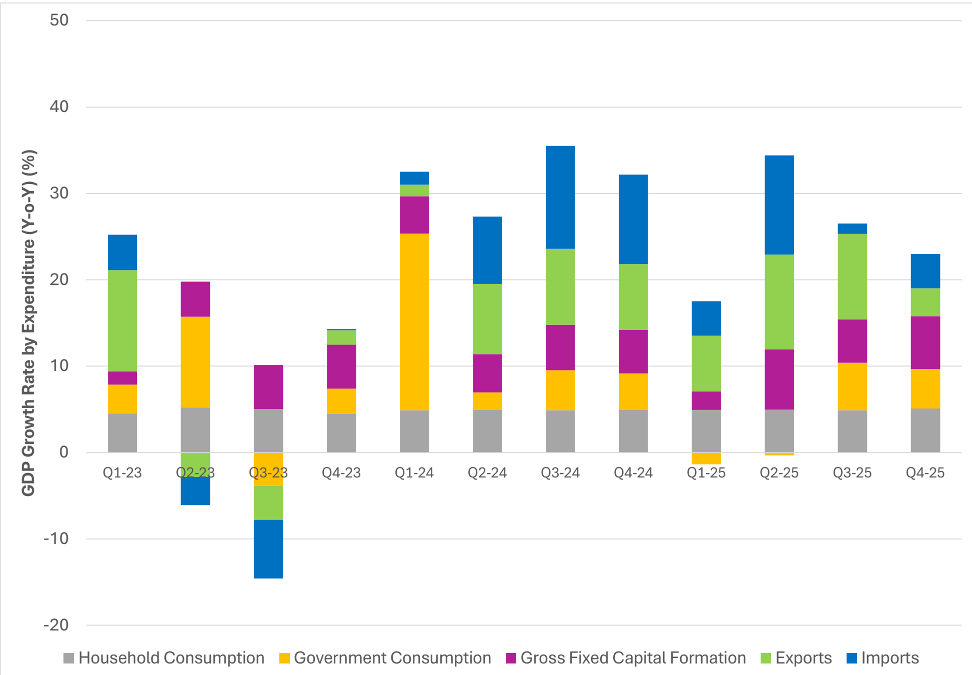
Figure 1.1: Quarterly GDP Growth (Y-o-Y), 2023–2025



Source: Central Bureau of Statistics (BPS)

As shown in Figure 1.2, the subdued performance in Q1 2025 was mainly driven by a 1.37% contraction in government expenditure, reflecting a high base effect from the 2024 presidential election cycle and expanded social assistance to mitigate the impacts of El Niño (Ministry of Finance, 2025b). Exports in the first quarter grew strongly by 6.44%, supported by significant increases in palm oil and iron and steel exports, which rose by 36% and 6.6%, respectively. Household consumption, which accounts for the largest share of GDP (54.5%), grew by 4.89% in Q1 2025. However, Idul Fitri-related spending was not fully captured in this quarter, as most holiday-related consumption occurred in April and was therefore reflected in Q2 figures.

Figure 1.2: GDP Growth Rate by Expenditure (Year on Year Percentage), Q1 of 2023–Q4 of 2025



Source: Central Bureau of Statistics (BPS)

Consequently, Q2 2025 recorded a sharp rebound in growth to 5.12%, supported by stronger domestic consumption, which grew by 4.97%. This reflected robust purchasing power, reinforced by government stimulus packages amounting to IDR 24.4 trillion, including transportation discounts, increased social assistance, and income subsidies for low-wage workers. Nevertheless, government expenditure remained contracted in the subsequent quarter, declining by 0.33%, mainly due to continued weakness in goods expenditure, which fell by 9.7%. In contrast, gross fixed capital formation in Q3 2025 recorded strong growth of nearly 7%, supported by high absorption of capital spending, particularly on machinery and equipment. This was aligned with a surge in capital goods imports, which contributed to overall import growth of 11.48%. Exports also expanded significantly by 10.95%, driven by higher non-oil and gas exports and increased tourist arrivals.

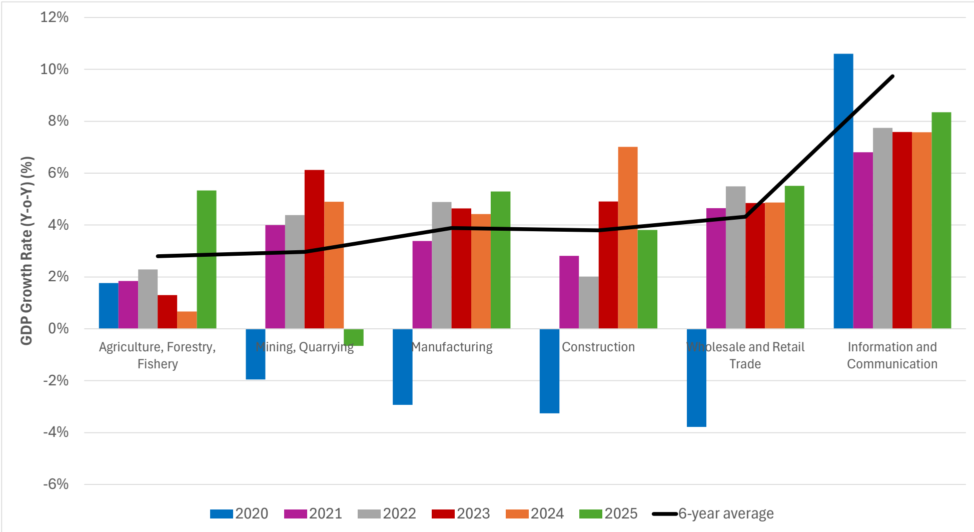
In Q3 2025, GDP growth moderated slightly to 5.04% year-on-year, with all expenditure components recording positive growth for the first time in 2025. Household consumption remained stable at 4.89%, supported by increased population mobility, growth in digital transactions, and continued government policy support. Government expenditure recovered strongly, growing by 5.49%, driven by higher goods and personnel spending, which increased by 19.3% and 9%, respectively. This reflected the government's efforts to sustain economic momentum and strengthen purchasing power through accelerated and optimised fiscal spending (Ministry of Finance, 2025c). Gross fixed capital formation also grew by 5.04%, supported by rising public investment and state-owned enterprise spending, which helped crowd in private investment, particularly following the establishment of Danantara. Exports remained a key growth driver, expanding by 9.91%, supported by strong domestic industrial activity, demand from major trading partners, and rising tourist arrivals. Meanwhile, imports grew modestly by 1.18%, driven by goods imports for domestic production (0.92%) and service imports (2.82%).

Lastly, Indonesia's quarterly GDP growth in the fourth quarter of 2025 reached 5.39% year-on-year, marking the highest growth rate recorded over the past three years. This performance was largely driven by strong household consumption, which expanded by 5.11%, supported by various government policies aimed at maintaining purchasing power and encouraging domestic consumption, as well as increased mobility during the Christmas and New Year holiday period in December 2025 (Bank Indonesia, 2026a). Gross fixed capital formation recorded the strongest growth among expenditure components at 6.12%, reflecting robust investment activity, particularly in machinery and equipment, which grew by 22.16%. Meanwhile, government consumption (4.55%), exports (3.25%), and imports (2.95%) grew at a more moderate pace. The positive export performance was aligned with stronger demand from major trading partners and an increase in foreign tourist arrivals during the holiday season.

Figure 1.3 presents Indonesia's GDP growth by the six largest industries over the past six years. Overall, most of these sectors continued to record positive growth in 2025. Based on sectoral performance, the Information and Communication sector remained the fastest-growing industry, expanding by 8.3% year-on-year. This was followed by Wholesale and Retail Trade (5.5%), as well as Agriculture, Forestry and Fishery and Manufacturing, both of which grew by 5.3%. In contrast, Mining and Quarrying was the only sector to record negative growth in 2025, contracting by 0.7%. This decline was largely attributed to weaker performance in the oil and gas, coal, and metal ore sub-sectors toward the end of the year. Coal mining was affected by declining global demand for exports, while metal ore mining contracted due to disruptions in gold and copper ore production, particularly in the Papua region, caused by adverse weather conditions and force majeure events (ANTARA News, 2025).

When viewed over a longer horizon, the six-year average growth rate shows that Information and Communication recorded the strongest performance at 9.7%, reflecting the government's continued policy emphasis on accelerating digitalisation

Figure 1.3: GDP Growth Rate for Top 6 Largest Industries (Year on Year Percentage), 2020–2025



Source: Central Bureau of Statistics (BPS)

and expanding digital infrastructure nationwide. In 2025, growth in this sector was further supported by increased data traffic to meet rising demand from households and businesses, as well as higher internet penetration across Indonesia (Ministry of Finance, 2025f). Wholesale and Retail Trade (4.3%), Manufacturing (3.9%), and Construction (3.8%) recorded moderate average growth over the same period. Meanwhile, Agriculture, Forestry and Fishery recorded the lowest six-year average growth at 2.8%, largely due to reduced staple crop production resulting from the prolonged effects of El Niño during 2023 and 2024.

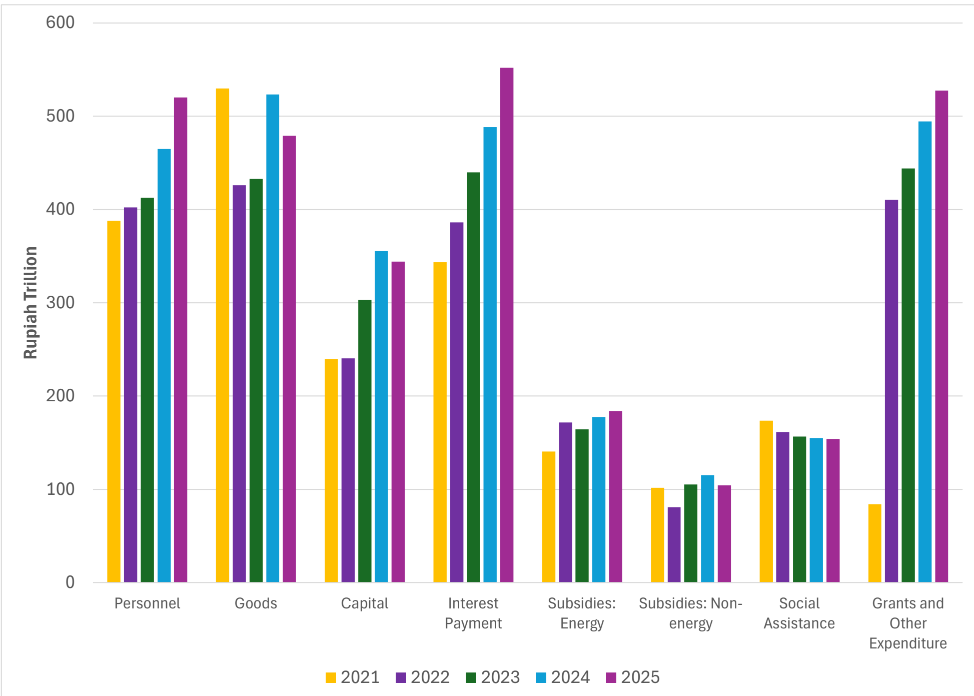
1.3.2 Fiscal and Monetary Trends

The previous sub-chapter examined Indonesia's fundamental growth trends and prospects, focusing on GDP performance over recent years. This sub-chapter extends the analysis by assessing how fiscal and monetary indicators respond to current government policies and evolving global dynamics.

Figure 1.4 presents government expenditure by component in 2025. As shown in the figure, interest payments constitute the largest expenditure component, amounting to IDR 552.1 trillion. Compared to other spending categories, this component also recorded the highest growth, increasing by 13% from the previous year. This rise was driven by outstanding interest obligations as well as exchange rate volatility, which significantly affected debt servicing costs (Ministry of Finance, 2026a). Grants and other expenditures form the second-largest component, totalling IDR 527.6 trillion, an increase of 6.7% from 2024. This growth was largely attributable to the expansion of social assistance spending, which rose by 50% from IDR 216.1 trillion in 2024 to IDR 324.9 trillion in 2025, reflecting the government's efforts to support economic stimulus measures, strengthen social protection, and implement flagship programmes in 2025. Meanwhile, personnel expenditure ranked as the third-largest spending component, increasing by 11.9% from IDR 464.9 trillion in 2024 to IDR 520.2 trillion in 2025. This rise was aligned with ongoing bureaucratic reforms, particularly the expansion of digital public services, performance-based compensation schemes, and the optimisation of staffing in the education and health sectors (Ministry of Finance, 2025a).

In contrast, non-energy subsidies recorded the largest decline in expenditure in 2025, decreasing by 9.5% from IDR 115.1 trillion in 2024 to IDR 104.3 trillion. This contraction was driven by reductions in interest rate subsidies by 13%, government-borne tax subsidies by 11%, and fertiliser subsidies by 8%, reflecting the government's reallocation of budget resources toward new priority programmes. In addition, goods expenditure also declined, falling by 8.4% from IDR 523.4 trillion in 2024 to IDR 479.2 trillion in 2025. This decline was attributed to the government's efforts to improve the efficiency of non-priority goods spending through greater use of digital technologies (Ministry of Finance, 2025a).

Figure 1.4: Components of Actual Government Expenditure by Type (Rupiah Trillion), 2021–2025



Source: Ministry of Finance

Figure 1.5 presents Indonesia's government revenue by source over the period 2021–2025. Overall, government revenue increased by 7.5% in 2025 compared to the previous year, with most revenue components recording growth, except for income tax, non-tax revenue, and grants. This overall performance was supported by the continued implementation of tax reforms by the Indonesian government, which strengthened revenue mobilisation despite ongoing global uncertainty.

Among revenue components, other domestic taxes recorded the most significant improvement, rising sharply by 36% from IDR 267.6 trillion in 2024 to IDR 363.0 trillion in 2025. This increase was largely driven by higher receipts from stamp duties and tax collection interest. In particular, the introduction of tax deposit mechanisms as a payment facilitation for taxpayers helped boost collections under this category. Additional gains were observed in taxes on international trade and value-added tax, which grew by 11% and 8%, respectively. These increases reflected resilient domestic consumption and higher volumes of both exports and imports amid global uncertainty (Ministry of Finance, 2025a,e).

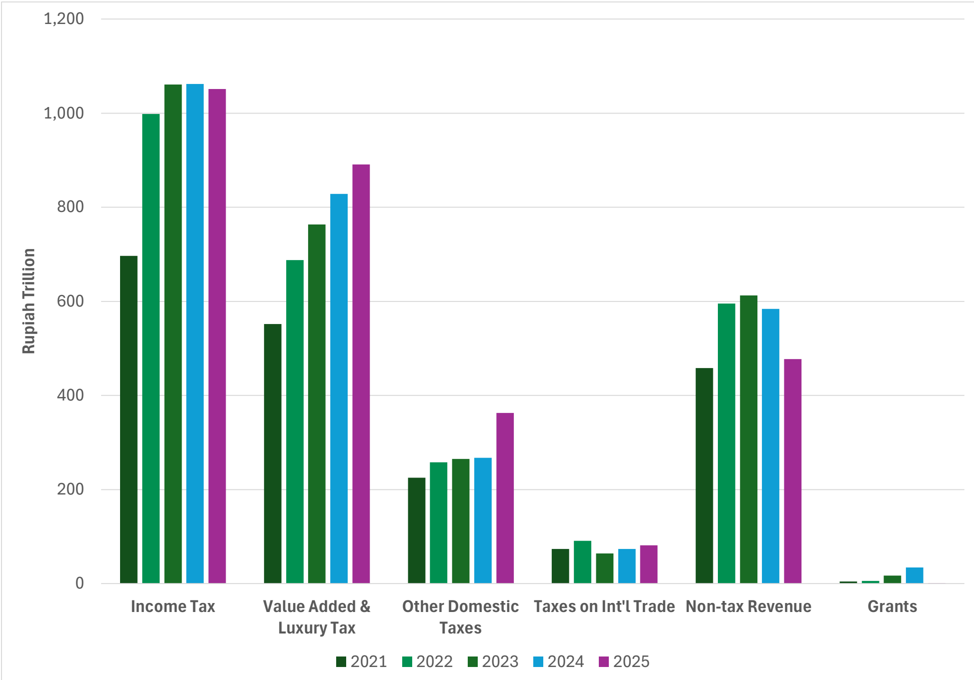
In contrast, grant revenue declined sharply in 2025, falling by 97% from IDR 34.4 trillion in 2024 to IDR 0.99 trillion. Grant receipts have fluctuated over the past five years, influenced by both domestic and international factors. Domestically, grants are closely linked to funding for democracy, governance, and security-related activities, while foreign grants depend on intergovernmental cooperation aligned with national priority programmes. As shown in Figure 1.5, grant receipts were significantly higher than usual in 2023 and 2024 due to preparations for and implementation of the 2024 regional elections. With no elections taking place in 2025, grant allocations declined substantially and were redirected toward other national priorities, including infrastructure development, healthcare services, and food security (Ministry of Finance, 2025a).

Non-tax revenue also recorded a notable decline of 18%, decreasing from IDR 584.4 trillion in 2024 to IDR 477.2 trillion in 2025. This was mainly driven by commodity price volatility, particularly in oil and mineral and coal commodities, which weakened revenue performance in early 2025. In addition, the transfer of state-owned enterprise dividend management to BPI Danantara exerted downward pressure on non-tax revenue realisation in the first half of the year. Meanwhile, income tax revenue remained relatively stable but declined slightly by 1%, from IDR 1,061.9 trillion in 2024 to IDR 1,051.7 trillion in 2025. This marginal decline reflected the implementation of the average effective tax rate, reducing profitability in commodity-related sectors, and the temporary recording of some revenues as deposits under other domestic tax components (Ministry of Finance, 2025a).

Figure 1.6 illustrates the trend of inflation and the Bank Indonesia (BI) policy rate over the period 2022–2025. As shown in the figure, inflation remained elevated from 2022 to early 2023, reaching its peak at 5.95% in September 2022. This surge was driven by geopolitical tensions, rising global commodity prices, and heightened global economic uncertainty, which collectively exerted upward pressure on domestic prices. In response, BI gradually tightened monetary policy by raising the BI policy rate from 3.5% at the beginning of 2022 to 5.5% in December 2022, followed by a further increase to 5.75% in January 2023, and eventually reaching a peak of 6.25% in April 2024. These tightening measures proved effective in curbing inflationary pressures, with inflation declining significantly to 1.57% by the end of 2024.

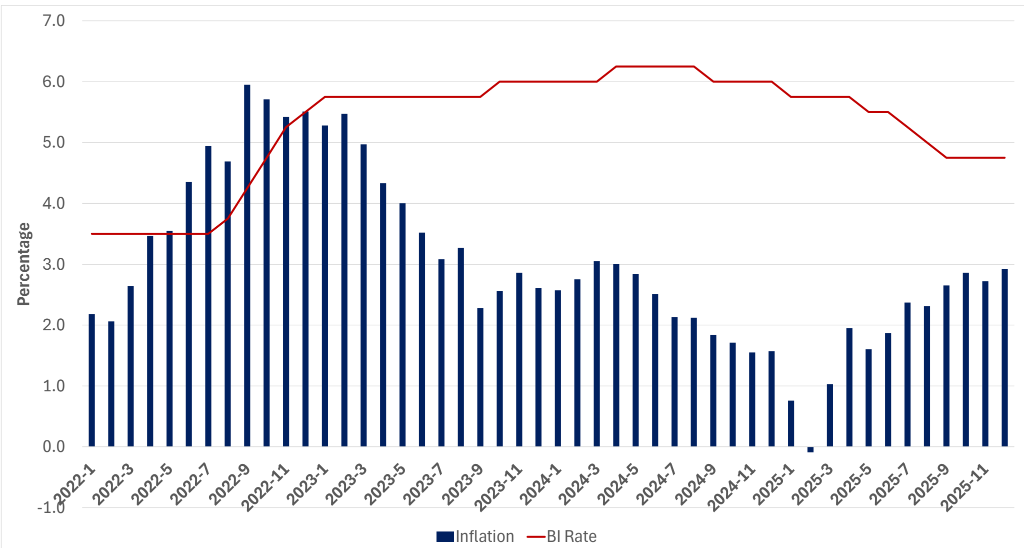
In early 2025, inflation declined further and reached its lowest point at -0.09%,

Figure 1.5: Sources of Actual Government Revenue (Rupiah Trillion), 2021–2025



Source: Ministry of Finance

Figure 1.6: Inflation and Central Bank Policy Rate (percent), 2022–2025



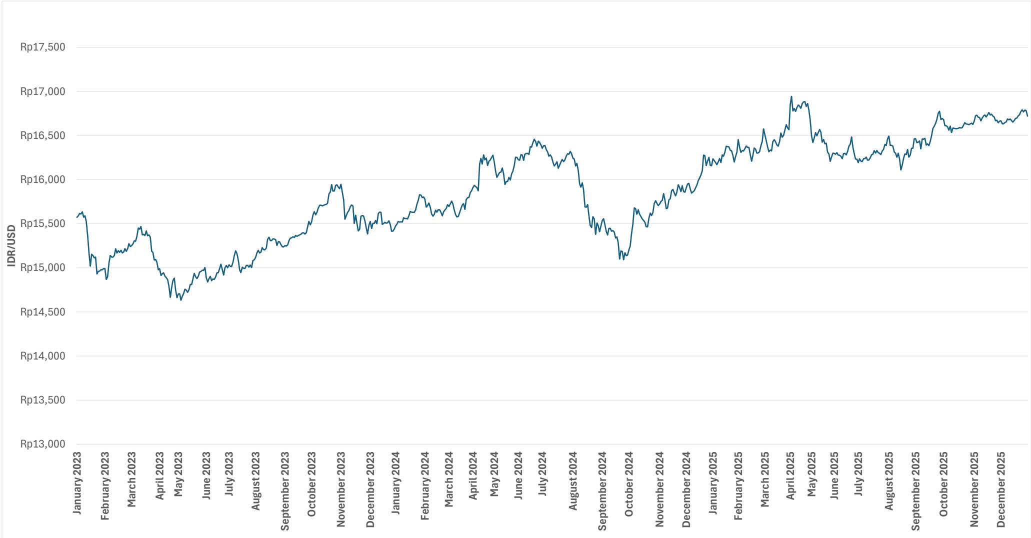
Source: Central Bank of Indonesia

marking the first episode of year-on-year deflation in the past three years. According to BPS (2025a), this deflation was mainly driven by a sharp decline in the housing, water, electricity, and household fuel group (-12.08%), as well as a contraction in the information, communication, and financial services group (-0.26%). In line with its mandate to maintain macroeconomic stability while supporting economic growth, BI responded by implementing a more accommodative monetary stance through liquidity expansion and pro-market monetary operations aimed at strengthening interest rate transmission, increasing liquidity, and deepening money and foreign exchange markets. As part of this policy shift, BI gradually reduced the policy rate by a cumulative 150 basis points over six adjustments since September 2024, lowering it from 6.25% to 4.75% by September 2025, the lowest level since 2022 (Bank Indonesia, 2026b). At the same time, the Deposit Facility rate was maintained at 3.75% and the Lending Facility rate at 5.50% to encourage banks to channel liquidity to the real sector. As a result, inflation recovered to 1.03% in March 2025 and further increased to 2.92% by December 2025, remaining within BI's inflation target range of 2.5 ± 1%.

Global economic uncertainty has also contributed to heightened exchange rate volatility over the past few years. As shown in Figure 1.7, the rupiah experienced a general depreciation trend from 2023 to 2025. The currency depreciated from IDR 15,572 per U.S. dollar in January 2023 to IDR 16,435 per U.S. dollar in June 2024. It then appreciated to around IDR 15,100 per U.S. dollar in September 2024, reflecting increased global risk aversion and concerns over a potential recession in the United States, which temporarily supported capital inflows into emerging markets. Toward the end of 2024, the rupiah weakened further to IDR 15,157 per U.S. dollar in December 2024, partly following the United States Federal Reserve's decision to cut the Federal Funds Rate by 25 basis points to a range of 4.25–4.50%, which altered global capital flow dynamics. In early April 2025, the rupiah depreciated further to nearly IDR 17,000 per U.S. dollar, driven by domestic political uncertainty, heightened global risk sentiment, and increased speculative pressures in financial markets (Hale, 2025).

In response to these developments, rupiah exchange rate stabilisation policies were implemented as part of BI's broader liquidity expansion strategy to safeguard external resilience amid global financial volatility. BI strengthened the rupiah through foreign exchange interventions in offshore markets via Non-Deliverable Forwards and in domestic markets through spot transactions and Domestic Non-Deliverable Forwards. In parallel, BI pursued rupiah liquidity expansion by reducing the outstanding stock of its monetary instruments, particularly Sekuritas Rupiah Bank Indonesia (SRBI), and by purchasing government securities, including through secondary market operations and debt switching programmes, reflecting close coordination between BI's monetary policy and the government's fiscal policy (Bank Indonesia, 2026b). Liquidity in the money market and banking system was further enhanced by reducing the outstanding stock of Sekuritas Rupiah Bank Indonesia from IDR 916.97 trillion at the beginning of 2025 to IDR 730.90 trillion by 31 December 2025. As a result, the rupiah gradually appreciated and stabilised within the range of IDR 16,300–16,700 per U.S. dollar toward the end of 2025, although the level remained weaker compared to the 2023–2024 period.

Figure 1.7: Indonesia's Exchange Rate against USD (IDR/USD), 2024–2025



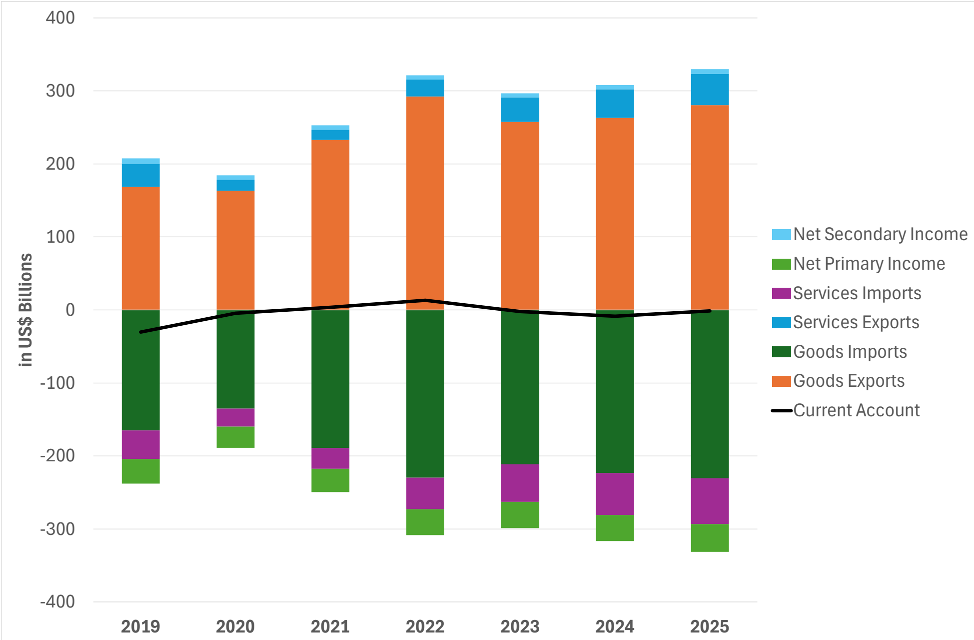
Source: Central Bank of Indonesia

1.3.3 Trade Performance Outlook

Global economic conditions in 2025 remained highly uncertain, driven by rising United States protectionist measures and ongoing geopolitical tensions, which heightened trade barriers and risks, particularly for critical inputs affecting global supply chains and output. Despite these headwinds, the global economy remained relatively resilient in 2025, underpinned by front-loaded production and trade activity, robust investment in artificial intelligence-related sectors, and continued fiscal and monetary policy support (OECD, 2025). Indonesia also demonstrated external resilience during this period, as reflected in the significant narrowing of its current account deficit. As shown in Figure 1.8, Indonesia's current account deficit declined to USD 1.45 billion (0.1% of GDP) in 2025, compared to USD 8.58 billion (0.6% of GDP) in 2024.

The improvement was primarily driven by stronger net secondary income, which increased by 14% from USD 5.88 billion in 2024 to USD 6.72 billion in 2025, supported by higher remittance inflows from Indonesian migrant workers. Services exports also grew by 10%, rising from USD 39.09 billion to USD 42.80 billion, largely reflecting the robust performance of the information and communication sector. In addition, goods exports expanded by 7%, increasing from USD 263.09 billion in 2024 to USD 280.43 billion in 2025, supported by solid growth in manufactured exports (Bank Indonesia, 2026c).

Figure 1.8: Current Account Components of Indonesia (US$ Billion), 2020–2025



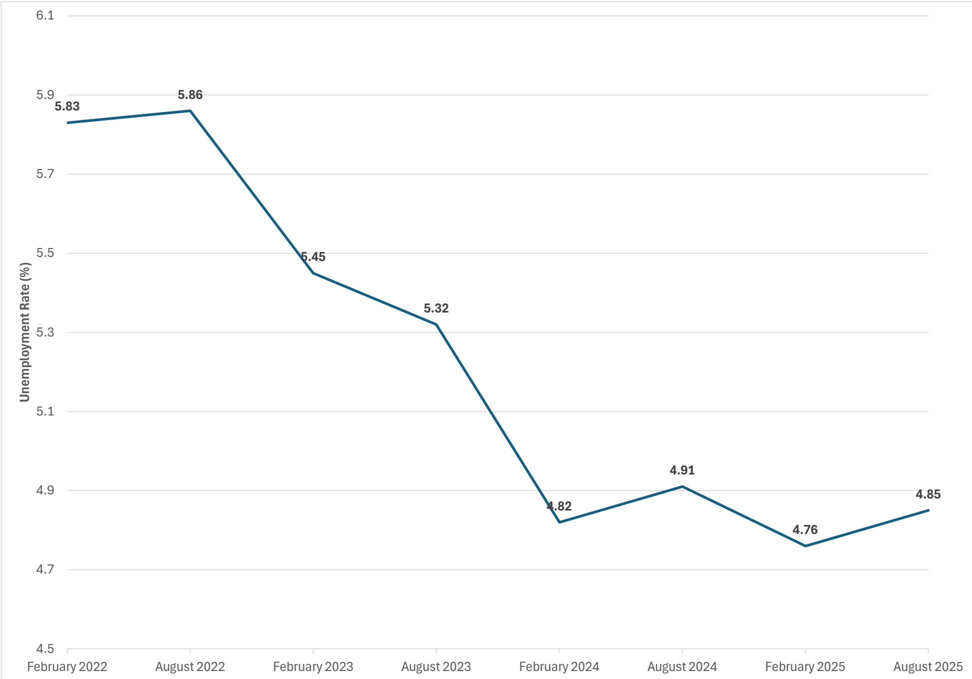
Source: Central Bank of Indonesia

1.4 Labour Market and Social Development

Figure 1.9 illustrates the trend in Indonesia's unemployment rate from 2022 to 2025. As shown in the figure, the lingering impacts of the COVID-19 pandemic continued to affect labour market conditions, with the unemployment rate remaining relatively high at 5.86% in August 2022. In response, the government implemented a range of policy measures to reduce unemployment, including the expansion of the Kartu Prakerja programme, strengthening vocational training schemes, enhancing coordination with industries, and leveraging digital platforms to improve linkages between labour supply and industry demand. These interventions contributed to a gradual decline in unemployment, reaching its lowest level in February 2025 at 4.76%. Despite minor fluctuations thereafter, the unemployment rate remained broadly stable at 4.85% in August 2025. Throughout 2025, one of the key initiatives to support job creation was the MBG programme, which the government estimates to have generated multiplier effects and created approximately 290,000 new jobs in community kitchens while engaging around one million farmers, fishers, livestock producers, and MSMEs. However, although the magnitude and sustainability of these impacts remain subject to ongoing debate (State Secretariat of Indonesia, 2025).

According to the National Labour Force Survey (Sakernas) by BPS (2025b), the total labour force in August 2025 reached 154 million people, an increase of 1.89 million compared to August 2024. The Labour Force Participation Rate stood at 70.59%, slightly

Figure 1.9: Unemployment rate (Percentage), 2022–2025



Source: Central Bureau of Statistics (BPS)

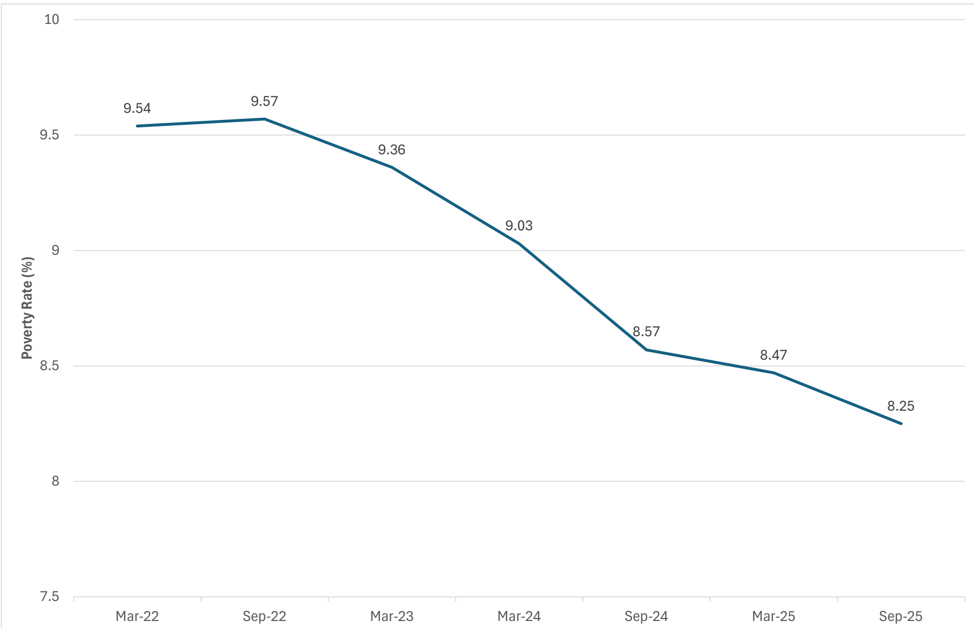
declining by 0.04 percentage points year-on-year. The number of employed persons rose to 146.54 million, an increase of 1.90 million from the previous year, with the largest employment gains recorded in the agriculture, forestry, and fisheries sector, which added 0.49 million workers. The Open Unemployment Rate in August 2025 was 4.85%, representing a decline of 0.06 percentage points from August 2024. These trends indicate a continued recovery in employment levels, although participation dynamics remain relatively stable.

Looking ahead, Indonesia's long-term labour market transformation is guided by the Long-Term Manpower Plan 2025–2029, which outlines key human capital targets in support of the Indonesia Emas 2045 vision. Between 2025 and 2045, the average years of schooling for the population aged 15 and above is expected to increase from 9.46 years to 12.0 years, reflecting efforts to improve educational attainment and workforce quality. In parallel, the Gross Enrolment Ratio for higher education is targeted to rise from 33.94% in 2025 to 60.0% in 2045, highlighting the importance of expanding access to tertiary education in building a more skilled and competitive workforce. In addition, female labour force participation is projected to increase from 56.05% in 2023 to 58.38% in 2045, signalling a sustained policy commitment to reducing gender gaps in labour market participation and strengthening the economic role of women in national development (Ministry of Manpower, 2024).

Meanwhile, Figure 1.10 shows the trend in Indonesia's poverty rate from 2022 to

2025. The highest poverty rate in recent years was recorded at 9.57% in September 2022, reflecting the lingering economic impacts of the COVID-19 pandemic on household income, employment, and economic activity. In response, the Indonesian government implemented various policy measures to reduce poverty over the subsequent years. Throughout 2025, the government introduced four economic stimulus packages aimed at maintaining household purchasing power and supporting poverty reduction, including expanded social assistance, electricity discounts, direct cash transfers, and wage subsidies (Ministry of Finance, 2026b). As a result, the poverty rate continued to show a downward trend during this period, reaching its lowest level of 8.25% in September 2025, equivalent to approximately 23.36 million people.

Figure 1.10: Poverty Rate (Percentage), 2022–2025



Source: Central Bureau of Statistics (BPS)

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