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# Managing Risks, Unlocking Productivity

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# Preface

The Indonesia Economic Prospects (IEP) is a bi-annual World Bank report that assesses recent macroeconomic developments, the outlook, and risks, as well as specific development challenges for the Indonesian economy. The IEP aims to inform the public policy debate and serves a broad audience including the general public, government, private sector, civil society organizations, and other domestic and international stakeholders.

The IEP is a product of the World Bank Jakarta office. The report is co-led by Wael Mansour (Senior Economist), Mehwish Ashraf (Senior Economist), Mochamad Pasha (Senior Economist), and David Knight (Lead Economist), under the guidance of Carolyn Turk (Division Director for Indonesia and Timor-Leste), Lalita Moorty (Regional Practice Director), and Marco Hernandez (Practice Manager).

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Previous report editions:

- December 2025: [Digital Foundations for Growth](#)
- June 2025: [People-First Housing: A Roadmap from Homes to Jobs to Prosperity in Indonesia](#)
- December 2024: [Funding Indonesia's Vision 2045](#)

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# Abbreviations and Acronyms

APBN	<i>Anggaran Pendapatan dan Belanja Negara</i> (State Budget)
ASEAN	Association of Southeast Asian Nations
Bappenas	<i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Agency)
BI	Bank of Indonesia
BP BUMN	<i>Badan Pengaturan Badan Usaha Milik Negara</i> (State-Owned Enterprises Regulatory Agency)
BPS	<i>Badan Pusat Statistik</i> (Central Bureau of Statistics)
CAD	Current Account Deficit
CDS	Credit Default Swap
CTAS	Core Tax Administration System
DTSEN	<i>Data Tunggal Sosial dan Ekonomi Nasional</i> (National Single Social and Economic Data)
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFN	Gross financing needs
GIR	Gross international reserves
ICT	Information and Communication Technology
IMF	International Monetary Fund
JCI	Jakarta Composite Index
MBG	<i>Makan Bergizi Gratis</i> (free nutritious meals)
MoF	Ministry of Finance
mma	3-month moving average
MSCI	Morgan Stanley Capital International
NEER	Nominal Effective Exchange Rate
NLE	National Logistics Ecosystem
NPL	Non-Performing Loans
OECD	Organization for Economic Cooperation and Development
PIM	Public Investment Management
PSN	National Strategic Projects
REER	Real Effective Exchange Rate
RPJMN	<i>Rencana Pembangunan Jangka Menengah Nasional</i> (National Medium Term Development Plan)
RRR	Reserve Requirement Ratio
SAKERNAS	<i>Survei Angkatan Kerja Nasional</i> (National Labor Force Survey)
SNGs	Subnational Governments
SOE	State-Owned Enterprise
SRBI	<i>Sertifikat Rupiah Bank Indonesia</i> (Monetary Securities)
SUSENAS	<i>Survei Sosial Ekonomi Nasional</i> (National Socioeconomic Survey)
TRS	Time Release Study
UNCTAD	United Nations Conference on Trade and Development.
US	The United States of America
VAT	Value Added Tax
yoy	year-on-year

# Executive Summary



# Executive Summary

Indonesia entered 2026 with strong economic momentum, supported by resilient domestic demand. The economy had gained speed through the second half of 2025, and this carry-over propelled GDP growth to 5.6 percent year-on-year in Q1 2026—its strongest quarterly performance since Q2 2021. Household consumption, which accounts for more than half of GDP, remained the primary growth driver. Spending was boosted by an earlier Ramadan and Eid, front-loaded disbursement of public-sector holiday bonuses, and acceleration of the free nutritious meals (MBG) program. Government consumption also rose sharply, contributing its largest share to growth since Q4 2010. On the investment side, gross fixed capital formation grew by 6.0 percent (up from 5.1 percent in 2025), supported by monetary easing, ongoing downstreaming projects, and the rollout of priority programs. High-frequency indicators—including a 9.9 percent rise in motor vehicle and recreational goods sales (3-month moving average)—confirmed broad-based momentum heading into the year.

However, two successive shocks in early 2026 tested this resilience, first through financial markets and then through the real economy.

- **In late January, MSCI announced it is considering freezing Indonesian securities in its emerging-market index, citing opaque ownership structures and low free-float levels.** This announcement, coming on the heels of a larger-than-expected 2025 fiscal deficit (2.9 percent of GDP) and sovereign credit-rating outlook downgrades by Moody's and Fitch, triggered sharp equity sell-offs, a 10 percent drop in the Jakarta Composite Index, and two trading halts. The channel was direct: weaker market confidence reduced capital inflows, depressed asset prices, and tightened domestic financing conditions.
- **Then, on February 28, the escalation of the conflict in the Middle East delivered a second, broader shock.** Brent crude surged above US\$100 per barrel in mid-March—its highest since 2022—transmitting through multiple channels: higher energy costs fed into inflation and fiscal subsidy bills; supply chain disruptions lengthened input delivery times to their longest since October

2021; the post-conflict rise in risk premia widened credit default swap spreads by 23 basis points, while elevated global bond yields kept financing conditions challenging; and a weaker global growth outlook dampened demand for Indonesian exports. Brent crude has eased to around US\$97 per barrel as of June 3 but remains volatile amid uncertainty over oil supply and shipping flows.

**Despite these pressures, domestic demand in Q1 2026 proved largely resilient—though pressures are building for the quarters ahead.** The real-

economy impact of both shocks materialized with a lag, meaning that consumption and investment in Q1 were largely driven by momentum and fiscal stimulus rather than by the emerging external headwinds. Portfolio outflows reached US\$1.7 billion (0.1 percent of GDP) but were largely offset by similar foreign inflows into BI monetary securities (SRBIs), while the Rupiah depreciated by 6.0 percent (year-to-May) and fell to 18,000 per US\$ in early June. These financial-channel effects had not yet fully transmitted to household and firm spending decisions by the end of Q1. On the supply side, services remained the main engine of growth—retail, transport, hospitality, finance, and ICT accounted for 57 percent of Q1 output growth—supported by elevated holiday mobility and an early-year tourism recovery. Manufacturing also contributed, with metal products and electronics expanding by 10.3 and 7.0 percent, respectively. However, by May, Indonesia's PMI had fallen from 53.8 to 50 signaling that supply-chain disruptions and rising input costs were beginning to weigh on the real economy. On May 13, MSCI's decision to impose restrictive measures on selected Indonesian securities added to market pressures, with upcoming index removals expected to reduce Indonesia's MSCI weight and raise the risk of further capital outflows if investor confidence weakens further.

**Inflation rose through early 2026, reflecting the sequential layering of domestic demand pressures and the external oil shock.** Before the Middle East conflict, inflation had already been firming gradually through 2025 and into early 2026, driven by strong domestic consumption dynamics and seasonal food price increases linked to Ramadan and Eid. The oil shock

then added a second layer of pressure through higher fuel, transport, and logistics costs. Headline inflation peaked in February 2026 before moderating to 3.1 percent year-on-year in May—within Bank Indonesia’s 2.5 ± 1 percent target band. Food inflation reached 4.9 percent, while core inflation edged up from 2.2 to 2.3 percent, indicating a gradual firming of underlying price pressures. The government responded with short-term measures—by maintaining subsidized retail fuel prices, capping airfare increases, waiving VAT on domestic economy-class air tickets, and reducing aviation fuel prices—which helped contain near-term pass-through but increased fiscal costs. This illustrates a recurring trade-off: suppressing price adjustment protects household purchasing power today but narrows the fiscal space available for priority spending tomorrow.

**Labor market conditions improved alongside the early-year growth rebound, but job quality remains a persistent structural issue.** Employment rose by 1.9 million between August 2024 and August 2025, and unemployment edged down to 4.9 percent. However, nearly half of the new jobs were absorbed into lower-productivity sectors—agriculture and accommodation/food services—while higher-skill sectors such as financial services stagnated or contracted. Underemployment, defined as workers who are employed but working fewer hours than desired, stands at 32.7 percent and has been gradually rising since 2022, pointing to persistent underlying weaknesses in job quality. Real wages for medium- and high-skilled workers have declined by approximately 1–2 percent per year since 2018, and the share of workers earning middle-class incomes has fallen sharply, from 14.5 percent in 2018 to just over 7 percent in 2025. These trends underscore a structural mismatch: the economy is generating employment, but not enough productive, well-paying jobs needed to sustain upward mobility and expand the middle class.

## Outlook and Risks

**GDP growth is projected to moderate to 5.0 percent in 2026, as external pressures weigh on investment and exports, before recovering to 5.2 percent in 2027–28.** The 2026 projection reflects stronger-than-expected Q1 outcomes and frontloaded public spending, rather than a more benign external environment or assessment of risks. Private consumption is expected to continue growing at

around 5.0 percent, supported by fiscal stimulus, while government consumption rises (8.7 percent). However, reliance on public consumption as a near-term growth cushion carries risks, given limited fiscal space and rising subsidy costs amid the statutory fiscal rule. The baseline assumes that the Middle East conflict remains contained but persistent through 2026, with oil-market disruptions and shipping frictions keeping Brent crude elevated at US\$94 per barrel—US\$24 above 2026 budget assumption. Global monetary conditions are expected to remain relatively restrictive, with elevated bond yields and risk premia sensitive to renewed shocks. External demand is projected to soften in 2026 before gradually recovering in 2027–28.

**Indonesia’s medium-term growth prospects hinge on the successful implementation of structural reforms and the easing of external headwinds.**

The medium-term recovery is predicated on easing commodity-market disruptions, stronger private credit growth, acceleration of Danantara’s investment plans, and reform efforts under the government’s “debottlenecking” agenda. The medium-term forecast should be read against Indonesia’s estimated potential growth of around 4.2 percent. Recent growth has been supported by demand-side impulses, including fiscal stimulus and government-directed spending. Without productivity-enhancing reforms, these impulses may lift growth temporarily but are unlikely to raise the economy’s sustainable growth rate. The projected recovery to 5.2 percent in 2027–28 is therefore reform-contingent. Inflation is projected to remain within Bank Indonesia’s target range, though food and energy price risks remain elevated.

**The outlook is subject to significant risks, predominantly external.** On the downside, a more prolonged disruption to oil supply and shipping flows would transmit through multiple channels: higher energy and fertilizer prices would raise inflation, subsidy costs, and import bills; weaker global demand would reduce exports and FDI; and elevated bond yields and higher risk premia would increase borrowing costs, put pressure on the Rupiah, and compress fiscal space. In this scenario, GDP growth could be 0.2–0.3 percentage points lower in 2027–28. Domestically, limited implementation of structural reforms would exacerbate labor market weaknesses, constrain middle-class job creation, and add pressure on household consumption. Conversely, upside risks would arise mainly from faster-than-expected recovery

in oil supply and shipping flows: lower oil prices, improved terms of trade, and recovering investor sentiment could lift GDP growth by 0.2–0.4 percentage points in 2026. Additional tailwinds could come from higher commodity windfalls, quicker implementation of recently concluded trade agreements, and sustained deregulation reforms.

## Policy Priorities

**Sustaining growth and creating better jobs would require policies that manage near-term risks while unlocking productivity.** Indonesia faces a more challenging external environment, narrower fiscal space, and persistent constraints to job quality. The policy challenge is therefore twofold: preserve macroeconomic stability and investor confidence in the near term, while accelerating reforms that raise productivity, competitiveness, and the quality of job creation over the medium term. These priorities are aligned with the three mutually reinforcing pillars of the 2026 Indonesia Country Growth and Jobs Report: strengthening foundational infrastructure through sound macroeconomic management and expanded fiscal space; enabling business through lower costs and more predictable regulation; and mobilizing private capital through stronger investor confidence and market transparency.

**This edition of the IEP examines three policies in depth: fuel subsidy reform, public investment management, and logistics.** These priorities do not exhaust Indonesia’s reform agenda but are areas where analysis can most directly inform current policy decisions. They span the first two CGJR pillars and are mapped in the summary table below (Table 1).

**Rebuilding fiscal buffers and improving spending quality are essential foundations for sustained growth.** Indonesia’s tax-to-GDP ratio fell to a record low of 9.3 percent in 2025, while the preliminary fiscal deficit reached 2.9 percent of GDP. Revenue mobilization through tax policy and administration reform remains critical. Equally important is rebalancing spending from low-return recurrent expenditure toward high-impact capital investment. A fiscal multiplier measures how much additional economic output each dollar of government spending generates. World Bank analysis finds that Indonesia’s public investment multiplier is approximately 1.4—meaning each additional dollar of capital spending generates about \$1.40 in economic activity after two years—while the multiplier for

recurrent consumption spending is not statistically distinguishable from zero. This reinforces the case for shifting resources toward investment, which also crowds in private sector activity (with a crowding-in multiplier of approximately 1.2).

**Fuel subsidy reform can convert the post-shock fiscal response into a more durable adjustment, if embedded within a broader “national compact.”**

The surge in global oil prices has again exposed the fiscal cost and weak targeting of generalized fuel subsidies: the richest 20 percent of households receive more than half of subsidy benefits. The oil shock simultaneously strains the budget, erodes fiscal buffers, and thus creates a window for reforming the fuel subsidy. A credible reform package would combine three elements: first, gradual, pre-announced price adjustment to narrow the gap between subsidized and market prices; second, targeted cash transfers to the poorest 40 percent of households to fully offset the welfare impact—at a modest fiscal cost of around 10 percent of subsidy savings for a 1-month transfer; and third, transparent reallocation of savings to social protection, public investment, and livelihood support for affected groups. Fiscal savings from this approach would build over time—an estimated 1.3 percent of GDP over the first two years, rising to 2.1 percent once prices fully adjust. Implementation principles matter as much as design: phased sequencing, clear public communication, delivery system readiness through the DTSEN social registry, and transparent accounting of how savings are reinvested would build the trust needed to sustain reform.

**Strengthening public investment management is needed to ensure that higher capital spending translates into stronger growth.**

Indonesia’s public investment challenge is broad, spanning project selection, procurement, land acquisition, safeguards, operations and maintenance, resilience standards, subnational implementation, and financing. This section focuses on selected upstream reforms that can strengthen project discipline and transparency, without implying that other constraints are less important. Indonesia lacks a unified project pipeline, with investment decisions fragmented across multiple institutional pathways. The result is uneven appraisal standards, end-of-year spending surges, and lower efficiency relative to ASEAN and emerging-market peers. Four reform priorities would raise returns: establishing a central PIM unit to strengthen gatekeeping; standardizing project appraisal across

all budget-funded investments; expanding multi-year budgeting and contracts to smooth execution; and building an integrated, transparent project pipeline covering the full investment lifecycle. Stronger PIM would not only raise the quality of public spending but also crowd in private capital—making it foundational for the productivity agenda.

**Logistics reforms would lower costs, improve competitiveness, and support job creation across the economy.**

A dollar increase in final demand for transport services generates two dollars in economy-wide output, reflecting deep linkages with manufacturing, retail, tourism, and e-commerce. Yet Indonesia’s transport services remain among the most restrictive in ASEAN, and vessel turnaround times at major ports lag regional peers. Indonesia’s logistics challenges reflect both investment needs and institutional constraints. While continued investment is required to expand ports, roads, warehousing, cold chain systems, intermodal connections, and digital logistics systems, infrastructure alone will not close the gap. The logistics gap, for instance, will not close if the mandate remains fragmented across at least 15 agencies. Three institutional reforms would close this gap: establishing a permanent, high-level

logistics coordination mechanism with a clear system-wide mandate; extending risk-based approaches and trusted-trader benefits beyond customs to streamline end-to-end clearance; and rationalizing import licensing to reduce the tariff-equivalent burden of non-tariff measures, currently estimated at 60–130 percent on intermediate and capital goods. Digitalization could further raise logistics productivity, especially through interoperable digital documentation, cargo tracking, automated risk management, and data-sharing across agencies.

**In a more challenging external setting, managing risks while unlocking productivity will define Indonesia’s medium-term trajectory.**

Strengthening fiscal buffers through fuel subsidy reform, raising the return on public investment, and lowering logistics costs reinforce each other. Together, they would preserve macroeconomic stability, strengthen policy credibility, improve the quality of growth, and lay the foundations for more productive, better-paid jobs that Indonesia needs to sustain its aspirations.

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**Table 1: Managing Risks and Unlocking Productivity: Priority Reform Areas**

Pillar	Reform Priority
<p><b>Foundational infrastructure:</b>  <i>Sound macroeconomic management and expanded fiscal space</i></p>	<p><b>Policy Priority 1 - Fuel subsidy reform: converting the post-shock fiscal response into durable adjustment</b></p> <ul style="list-style-type: none"> <li>Gradually narrow the gap between subsidized and market prices through a phased and pre-announced <i>price adjustment</i> path.</li> <li>Protect poor and vulnerable households through <i>targeted, time-bound cash transfers</i> to the poorest 40 percent of households, calibrated to offset the welfare impact of higher fuel prices.</li> <li>Transparently <i>reallocate savings</i> toward social protection, public investment, and livelihood support for affected groups, including transport workers, fishers, farmers, and small enterprises.</li> <li>Build a broader <i>national compact</i> through phased sequencing, clear public communication, and transparent accounting of how subsidy savings are reinvested.</li> <li>Use the DTSEN social registry to strengthen <i>delivery readiness, improve targeting</i>, and support a gradual shift from generalized subsidies toward better-targeted social assistance.</li> </ul>
<p><b>Foundational infrastructure:</b>  <i>Higher returns from public spending</i></p>	<p><b>Policy Priority 2 - Public investment management: raising the growth impact of capital spending</b></p> <ul style="list-style-type: none"> <li>Establish a <i>central PIM unit</i> to strengthen gatekeeping, improve project prioritization, and support a unified investment pipeline.</li> <li><i>Standardize project appraisal</i> across all budget-funded investments to ensure consistent quality, fiscal discipline, and alignment with development priorities.</li> <li>Expand <i>multi-year budgeting</i> and contracts to improve execution, reduce end-year spending surges, and strengthen implementation certainty.</li> <li>Build an <i>integrated and transparent project pipeline</i> covering the full investment lifecycle, from project identification and appraisal to budgeting, implementation, and monitoring.</li> <li>Strengthen <i>monitoring of cost overruns and scope changes</i> to improve spending efficiency and crowd in private capital.</li> </ul>
<p><b>Business-enabling policies:</b>  <i>Lower costs and more predictable regulation</i></p>	<p><b>Policy Priority 3 - Logistics reform: lowering economy-wide costs and supporting competitiveness</b></p> <ul style="list-style-type: none"> <li>Establish a permanent, high-level logistics <i>coordination mechanism</i> with a clear mandate to manage logistics as an integrated system across agencies.</li> <li>Adopt a <i>single, actionable national logistics strategy</i> with system-wide service standards, key performance indicators, and clear accountability for implementation.</li> <li>Extend <i>risk-based approaches</i> and trusted-trader benefits beyond customs to streamline end-to-end clearance for low-risk traders.</li> <li>Rationalize <i>import licensing</i> and documentation requirements by aligning them with customs classifications and reducing duplicative procedures.</li> <li>Improve <i>regulatory coherence</i> through structured consultations to avoid inefficient or contradictory rules across agencies and reduce uncertainty for firms.</li> </ul>

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# A. Economic Update



# A. Economic Update

## 1. Recent Economic Developments

*Growth: Strong carry-over momentum was tested by successive shocks.*

**Global economic conditions were improving before the Middle East conflict shifted risk sentiment.**

The global economy entered 2026 with stronger-than-expected momentum, having proved more resilient to trade tensions and policy uncertainty than previously anticipated. Global goods trade volume rose 4.4 percent near year's end, business sentiment was improving, and high frequency indicators pointed to broad based expansion across manufacturing and services (World Bank, 2026a). However, the Middle East conflict, which erupted on February 28, abruptly changed the external environment. Brent crude oil surged above US\$100 per barrel in mid March<sup>1</sup>, global bond yields increased, supply chains came under renewed pressure, and the global growth outlook weakened, now revised downward from 3.3 to 3.1 percent (IMF, 2026). Emerging markets bore additional strain from higher yields, capital outflows, and wider risk premia (UNCTAD, 2026; World Bank, 2026c; IIF, 2026). Indonesia entered this more difficult environment with strong domestic demand, but also with already fragile investor sentiment.

**Indonesia's growth strengthened in Q1 2026, supported by carry over from late 2025, resilient consumption, and front-loaded fiscal support.**

GDP grew by 5.6 percent year-on-year (yoy), its strongest quarterly performance since Q2 2021, on top of a strong Q4 2025 at 5.4 percent yoy (Figure A.1). Household consumption remained the main driver of growth, accounting for 54 percent of growth. Spending was supported by an earlier Ramadan and Eid, and fiscal stimulus. Consumption was particularly

strong in mobility-related sectors, with spending on transportation and accommodation rising by 6.9 and 7.4 percent yoy, respectively, alongside higher sales of motor vehicle parts and recreational goods (up 9.9 percent 3-month moving average, mma). Government consumption also increased sharply, as the disbursement of civil service holiday allowances and the acceleration of the free nutritious meals (MBG) program raised its contribution to growth from 4 to 22.5 percent, the largest contribution since Q4 2010.

**Investment continued to support growth, while external demand softened.**

Gross fixed capital formation grew by 6.0 percent (from 5.1 percent last year) and contributed 32 percent of growth in Q1 2026. Investment was supported by monetary easing<sup>2</sup> and led by domestic investment in construction and vehicle. This reflected ongoing downstreaming projects,<sup>3</sup> particularly in base metals and transport, and the rollout of priority programs including the Red-White Cooperatives.<sup>4</sup> Strong domestic demand pushed import growth to 7.2 percent yoy (from 4.9 percent last year). By contrast, export growth slowed to 0.9 percent yoy, reflecting easing front-loading ahead of U.S. tariffs from last year and subdued coal exports in both value and volume terms. As a result, the contribution of net exports fell to -1.2 percentage points (pp) from 0.7 pp in 2025.

**On the supply side, services remained the main engine of growth, while manufacturing and construction helped offset weaker agricultural performance.**

Retail, transport, hospitality, finance, ICT, and other services grew by 6.8 percent yoy and accounted for 57 percent of Q1 2026 growth (Figure A.2), supported by elevated holiday mobility and an

1. A price unseen since the onset of Russia's war on Ukraine in 2022.

2. BI reports a 20.9 percent yoy growth in private investment credit up to March.

3. In 2026, President Prabowo Subianto officially launched the second phase of Indonesia's national downstreaming program. The rollout comprises 13 strategic projects worth IDR 116 trillion (0.5 percent of GDP): 5 projects in mineral and metal sector (nickel, iron, steel, copper); 5 projects in energy sector (oil refineries, coal-to-DME conversion, energy storage); and 3 projects in agricultural and plantation sector.

4. Red-White Cooperatives is a government initiative under President Prabowo Subianto aimed at establishing community-run, village-level cooperatives across Indonesia. The program envisions setting up approximately 80,000 such cooperatives nationwide, each serving as a hub for local economic activity, providing services such as grocery and fertilizer distribution, subsidized cooking gas, financial services, logistics, healthcare (small clinics and pharmacies), and harvest storage.

early-year tourism recovery. International arrivals increased by 8.9 percent 3-mma by March, bolstering demand for tourism-related and business services; while sales of food, beverages, and tobacco rose by 7.0 percent (3-mma). Manufacturing also supported growth, with metal products and electronics and processed food industries expanding by 10.3 and 7.0 percent, respectively, partly reflecting robust domestic demand. Construction growth climbed to 5.5 percent (up from 3.8 percent last year), supported by continued infrastructure and energy projects. Agriculture continued to benefit from demand linked to the biodiesel blend and the MBG program, particularly for livestock, food crops, and plantation, but its share in growth eased to 10 percent from 12 percent in 2025.

**This momentum was tested by two successive shocks—first through financial markets, then through the broader real economy.** The first shock came in late January, when MSCI announced its decision of temporarily freezing Indonesian securities in its emerging-market index, citing concerns over opaque ownership structures, low free-float levels, and coordinated trading behavior. This announcement came on the heels of a larger-than-expected 2025 fiscal deficit<sup>5</sup> and rating outlook downgrades by Moody's and Fitch.<sup>6</sup> Both rating agencies cited increased policy uncertainty, greater fiscal challenges, and weaker communication around policy decisions as risks to policy credibility. These developments weakened market confidence, triggered sharp equity-market losses, reduced foreign appetite for Indonesian assets, and tightened domestic financing conditions through higher risk premia and bond yields (Figure A.5). The Jakarta Composite Index (JCI) fell over 10 percent in two days and trading was halted twice.

**The second shock came from the escalation of the Middle East conflict, which broadened pressures beyond financial markets.** The conflict transmitted to Indonesia through several channels. Rising global oil prices accentuated inflationary pressures through higher fuel, transport, and logistics costs. Fiscal pressures intensified as higher fuel prices raised the cost of energy subsidies and compensation. Subsidies increased to 0.4 percent of GDP by May, from 0.3 percent of GDP in May 2025.<sup>7</sup> Financial account deficit reached 0.3 percent of GDP in Q1-2026, while 5-year

credit default swap (CDS) spreads widened by 23 basis points (bps, year-to-May). The Rupiah reached a series of record lows since March, falling to 18,000 per US\$ in early June.

**Entering the second quarter, expansion in manufacturing activity stalled amid emerging costs and supply pressures.** In the real sector, supply chain disruptions lengthened input delivery times to their longest since October 2021 and pushed input costs to their highest level in four years, while export shipments slowed. Indonesia's PMI fell from 53.8 to 50 between February and May (Figure A.3), signaling moderation in manufacturing activity. Supply constraints prompted firms to reduce employment and raise output prices particularly for plastics, dairy, and wheat products. These developments suggest that while Q1 growth remained strong, the impact of the two shocks is likely to materialize with a lag through financing conditions, firm margins, investment plans, and household purchasing power. Brent crude has eased to around US\$97 per barrel as of June 3 but remains volatile amid uncertainty over oil supply and shipping flows.

**Policy responses have helped contain near-term price pressures but have added to fiscal costs and distributional trade-offs.** The authorities maintained subsidized retail fuel prices, capped airfare increases, temporarily waived value added tax (VAT) on domestic economy class air tickets, and reduced aviation fuel prices at selected airports.<sup>8</sup> These measures helped limit immediate pass through to households and supported consumption during the first quarter. However, they also increased fiscal costs and illustrate the difficult trade off between near-term stabilization and medium-term fiscal space. Since April, the government has partially raised non-subsidized fuel prices<sup>9</sup> by an average of 64 percent, contributing to an increase in transport inflation from 0.6 to 2.3 percent yoy between March and May. Higher oil prices raised the cost of energy subsidies and compensation, while Rupiah depreciation increased external debt-servicing costs. These pressures are particularly important for poorer households, who spend a larger share of their budgets on food and energy, and for the budget, where broad-based fuel subsidies continue to absorb resources that could otherwise support priority spending.

5. See footnote 19 for further details.

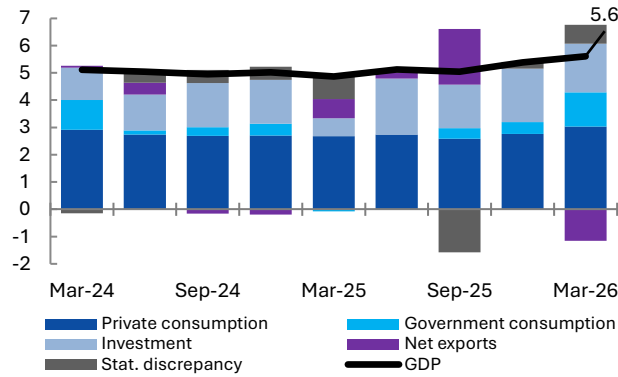
6. <https://ratings.moody.com/ratings-news/458869>, [Fitch Revises Indonesia's Outlook to Negative](#).

7. When compensation—being paid monthly since January 2026 (see footnote 21 for further details)—is included, the subsidy bill surges to 0.8 percent of GDP by May 2026.

8. The government introduced a temporary VAT discount of 6 percent for economy-class fares, cut aviation fuel prices by 10 percent at 37 domestic airports, and capped airfares increase at 9–13 percent (starting April 1).

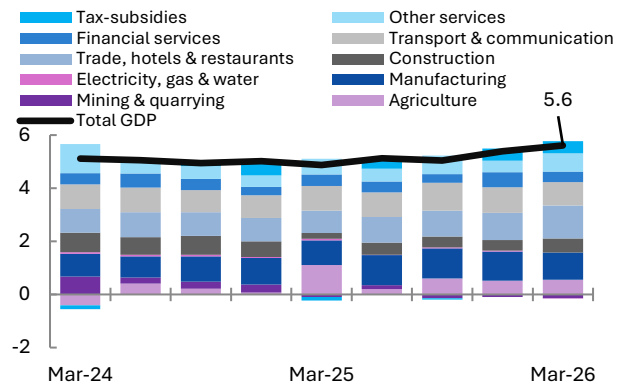
9. Prices of Pertamina Turbo, Dexlite, and Pertamina Dex have been raised twice since April, as these are non-subsidized. However, price of Pertamina, also a non-subsidized fuel, has remained unchanged.

**Figure A.1: Surging government consumption offsets weaker contribution of net exports.**  
(percentage points contributions to yoy change)



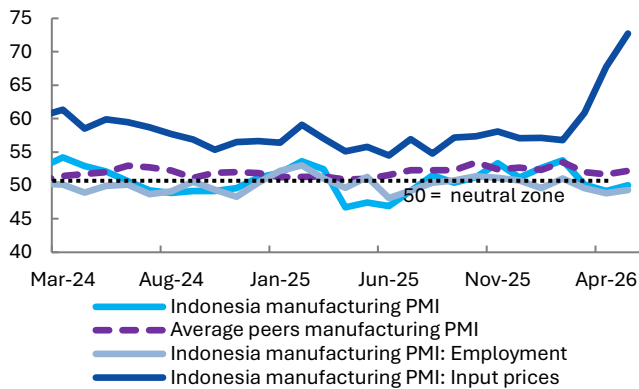
Source: BPS, CEIC, WB staff calculations.

**Figure A.2: Services and manufacturing drove growth while agriculture eased.**  
(percentage points contributions to yoy change)



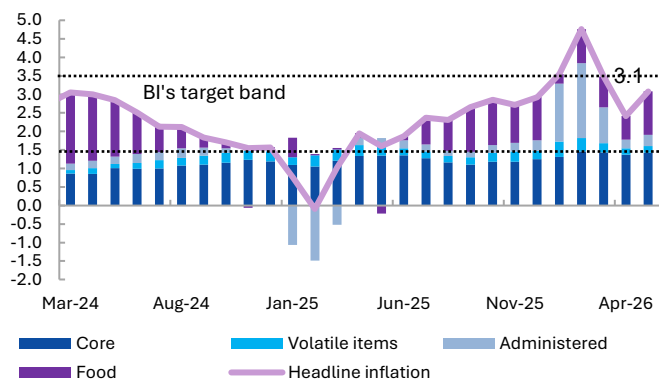
Source: BPS, CEIC, WB staff calculations.

**Figure A.3: Supply constraints foreshadow slowing momentum into May.**  
(50+ expansion, <50 contraction)



Source: Haver, World Bank staff calculations.  
Note: Peers comparators are China, India, the Philippines, Malaysia, Thailand, and Viet Nam.

**Figure A.4: Food and administered prices drove recent inflation dynamics.**  
(percentage points contributions to yoy change)



Source: BPS, CEIC, WB staff calculations.

**Figure A.5: Indonesia faced a two-stage shock in early 2026: domestic financial volatility followed by wider spillovers from the Middle East conflict.**

	Jan	Feb	Mar	Apr	May
	Domestic financial volatility		The Middle East conflict		
External	<ul style="list-style-type: none"> <li>MSCI flagged transparency issues in IDX, triggering portfolio outflows* (US\$0.6 billion ytd)</li> </ul>	<ul style="list-style-type: none"> <li>Rating outlook downgrades from Moody's &amp; Fitch due to heightened fiscal pressure</li> </ul>	<ul style="list-style-type: none"> <li>Other investment outflows year-to-Mar (US\$8 billion)</li> <li>Higher risk premia / elevated bond yields</li> <li>Further portfolio outflows* (US\$3 billion year-to-May)</li> <li>Sustained Rupiah depreciation (↓6.0% year-to-May)</li> </ul>		
Fiscal	<ul style="list-style-type: none"> <li>Concerns over the fiscal deficit in 2025** pressured Rupiah (↓0.5% ytd)</li> </ul>	<ul style="list-style-type: none"> <li>10-year government bond yields increased (↑23 bps ytd)</li> </ul>	<ul style="list-style-type: none"> <li>Rising energy subsidies &amp; compensation: 0.8% GDP in May</li> <li>Higher costs of financing (10-yr govt bond yield ↑69 bps year-to-May)</li> <li>External debt amortization: 16% higher in Mar than 5yr avg</li> </ul>		
Real sector			<ul style="list-style-type: none"> <li>Supply chain disruptions pushed input costs to their highest level in 4 years → PMI fell to 50 in May</li> <li>Exports contracted in Mar (-3.1% yoy)</li> <li>Transport inflation rose (0.6% to 2.3% between Mar &amp; May)</li> </ul>		
Inequality			<ul style="list-style-type: none"> <li>Share of poor household budget on fuel &amp; food</li> <li>Broad-based fuel subsidies</li> </ul>		

Note: \*) Excluding foreign portfolio flows into SRBI (BI monetary securities). \*\*) Preliminary fiscal deficit in 2025 (2.9 percent of GDP) was just below the statutory limit. See footnote 19 for further details.  
Source: World Bank staff elaboration.

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*Inflation: Price pressures eased in headline terms, but risks from second-round effects remain elevated.*

**Inflationary pressures were already firming before the Middle East conflict, and the subsequent oil shock added a second layer of cost pressure.** Headline inflation rose steadily through 2025 and early 2026, peaking in February 2026, before moderating to 3.1 percent yoy in May, within BI's 2.5 ± 1 percent target band (Figure A.4). The pre-shock increase reflected stronger domestic demand, seasonal food-price pressures linked to Ramadan and Eid, and base effects from electricity-tariff discounts in Q1 2025. Food inflation rose 4.9 percent yoy in May from 3.1 percent yoy in the previous month, while core inflation edged up from 2.2 to 2.3 percent, indicating a gradual firming of underlying price pressures.

**The Middle East conflict added cost-push pressures through fuel, transport, logistics, and imported inputs.** Higher global oil prices increased the cost of fuel and transport services, with potential second-round effects on food, fertilizer, logistics, and manufacturing inputs. Wholesale price inflation for transportable goods, food, beverages, tobacco, and textiles also increased, suggesting that cost pressures had begun to broaden. While headline inflation remained within BI's target range, risks remain elevated given the combination of stronger domestic demand, higher energy prices, and supply-chain disruptions.

*External accounts: A wider current account deficit and resident capital outflows added to pressures.*

**Strong domestic demand and softer external demand narrowed the goods trade surplus and widened the current account deficit (CAD).** Goods imports growth outpaced exports (Figure A.6), with broad-based increases across consumption, intermediate, and capital goods. Capital goods rose sharply by 24.0 percent yoy cumulatively in Q1 2026 from a low base, and supported by purchases of aircraft, machinery, and equipment (Figure A.7). Conversely, export volumes slowed (Figure A.8),

mainly for coal, nickel, and gold, reflecting production quotas<sup>10</sup> and new gold export tariffs.<sup>11</sup> In March, higher logistics and transportation costs linked to the Middle East conflict also began to weigh on selected exports, with crude palm oil exports declining by 28.7 percent yoy. As a result, the goods trade surplus narrowed to 0.5 percent of GDP in Q1 2026,<sup>12</sup> from 0.9 percent of GDP a year earlier. The services deficit narrowed slightly to 0.3 percent of GDP, supported by smaller deficits in insurance and telecommunications services while the income account deficit remained stable at 0.5 percent of GDP. Together these developments widened the CAD to 0.3 percent of GDP in Q1 2026, from a balanced position a year earlier. Beyond these near-term dynamics, Indonesia's trade performance will increasingly depend on structural features of its trade and investment regime, including recently concluded trade agreements (Box A.1).

**Portfolio outflows from equities and corporate bonds were offset by inflows into BI monetary securities (SRBI), but the financial account moved into a deficit due to weaker FDI and other investments outflows (Figure A.9).** Investor sentiment had already deteriorated before the conflict because of: (i) a higher-than-expected 2025 fiscal deficit; (ii) MSCI warning on the transparency of free-float and ownership structures in Indonesian equities; and (iii) rating outlook downgrades by Moody's and Fitch. The Middle East conflict then added a global shock to an already fragile market backdrop. Portfolio outflows from the stock market and corporate bonds reached 0.1 percent of GDP in Q1 2026, but foreign inflows into SRBIs of a similar magnitude nearly balanced the portfolio investment account. The larger pressure came from other investments, which recorded a deficit of 0.5 percent of GDP, up from 0.3 percent of GDP in Q1 2025, driven by residents' net acquisition of foreign assets, particularly currency and deposits (Figure A.10). Net FDI also halved to 0.1 percent of GDP, its lowest since Q3 2020, mainly due to lower inflows from ASEAN, US, and Europe, partly offset by higher inflows from China and Japan. Consequently, the overall balance-of-payment deficit widened to 0.6 percent of GDP.

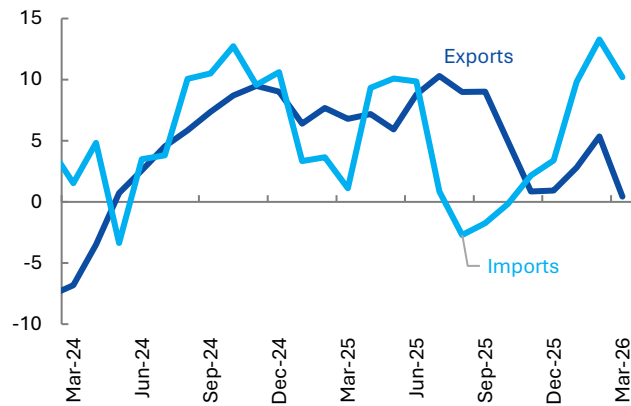
10. The authorities announced plans to reduce the coal production quota, from 790 million tons in 2025 to 600 million tons in 2026. Similarly, the nickel ore production quota has been set at 260-270 million tons in 2026, lower than 379 million tons in 2025. These policies aim to help support global prices, as Indonesia is the largest producer for both commodities.

11. In late December 2025, Indonesia introduced a 7.5-15 percent export tariffs on gold products as prices surged. Gold bar exports dropped 99 percent between 2025 and 2026 (year-to-March).

12. April goods trade was balanced (0 percent of GDP), keeping the cumulative goods trade surplus at 0.5 percent of GDP year-to-April.

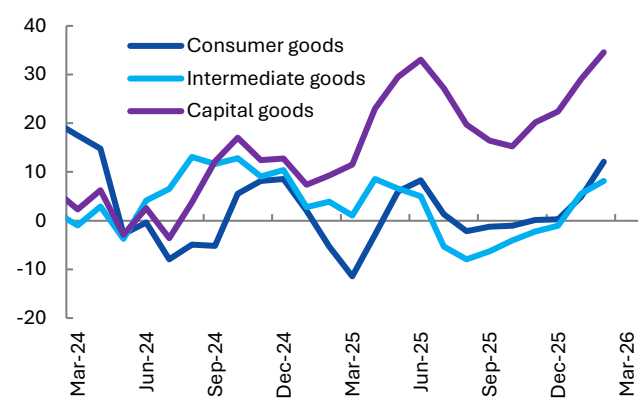
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**Figure A.6: Goods imports grew at a faster pace than exports...**  
(percent yoy growth, 3MMA)

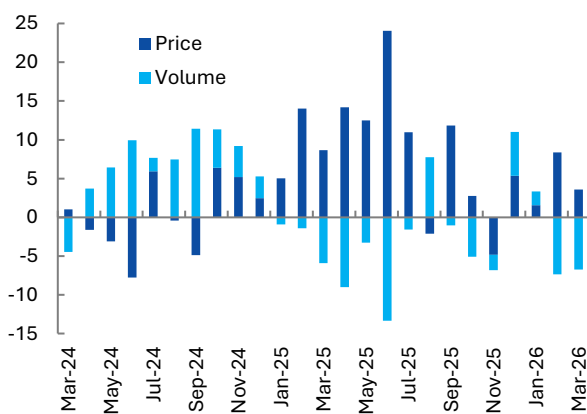


Source: BPS, World Bank staff calculations.

**Figure A.7: ...primarily driven by acceleration in capital goods.**  
(percent yoy growth, 3MMA)

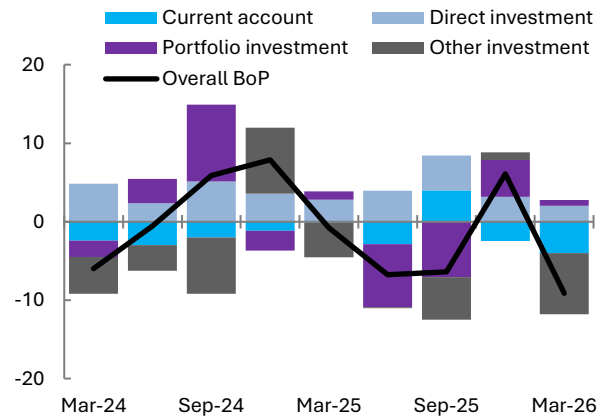


**Figure A.8: Slowing goods exports in 2026 was due to lower volumes.**  
(contribution to percent yoy growth)

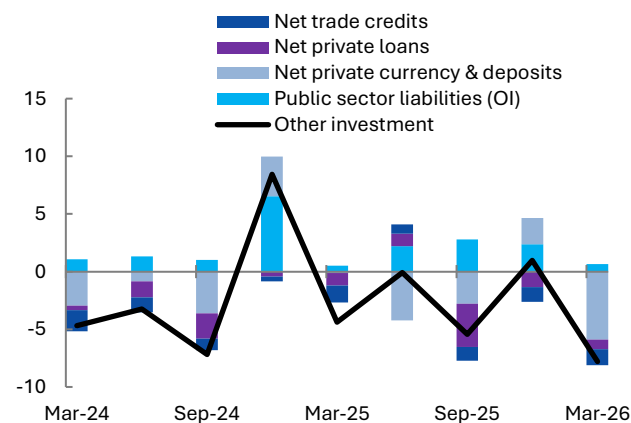


Source: BPS, BI, MoF, World Bank staff calculations.

**Figure A.9: The BoP deficit widened on a larger CAD and other investment outflows.**  
(US\$ billion)



**Figure A.10: Other investment outflows were driven by higher residents' savings abroad in cash and deposits.**  
(US\$ billion)



Source: BI, CEIC, World Bank staff calculations.

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## BOX A.1: Indonesia's Recent Trade Agreements

Between September 2025 and February 2026, Indonesia concluded trade agreements with Canada, the EU, and the United States, revealing a dual track strategy of deep integration and immediate market access. While the comprehensive European and Canadian Comprehensive Economic Partnership Agreements (IEU and ICA CEPAs) emphasize rules-based cooperation and sustainability, the narrower US Agreement on Reciprocal Trade (ART) prioritizes economic security and supply chain reciprocity. Collectively, these agreements expand Indonesia's global reach but mandates rigorous domestic coordination and industrial upgrading.

**Table B.1: Key Features of Indonesia's Recent Trade Agreements**

	Indonesia–Canada CEPA (Sep 2025)	Indonesia–EU CEPA (Sep 2025)	Indonesia–US ART (Feb 2026)
Status	Expected in force 2026	Pending ratification (expected in 2027)	Enters into force 90 days after domestic formalities <sup>13</sup>
Tariff liberalization	90.5% tariff lines by Canada; 85.8% by Indonesia	98.5% tariff lines by Indonesia; over 98% by EU	Over 99% tariff lines by Indonesia; US applies 19% tariff with exemptions/TRQs
Services & investment	The agreement liberalizes services and eases business travel. Notably, it introduces the first dedicated critical minerals dialogue.	Deep services liberalization; strategic investment sectors (EVs, renewables, electronics, pharmaceuticals), and separate Investor Protection Agreement (IPA) to guarantee fair treatment and dispute settlement.	Limited depth and scope; focused on market access rather than a framework for trade liberalization.
Regulatory cooperation	The agreement mandates regulatory and sustainability standards (SPS, TBT) while eliminating redundant testings for key sectors through the recognition of EU certifications.	The agreement governs non-tariff measures and includes provisions for labor, environment, gender, and SMEs	The agreement addresses non-tariff measures and regulatory issues case-by-case rather than through a broad institutional framework.

Note: SPS = Sanitary and Phytosanitary measures; TBT = Technical Barriers to Trade; TRQs = Tariff-Rate Quota  
 Source: World Bank staff compilation from the Government of Canada, the European Commission, and the USTR.

### Implications of these new trade deals on Indonesia:

#### i. Export structure and market efficiency

**These trade agreements expand Indonesia's preferential market access across distinct sectors.** The IEU CEPA targets labor-intensive manufactures, ICA CEPA diversifies resource-based exports, and ART provides selective market access and secures commodity quotas for apparel. By reducing tariffs and regulatory friction, these trade agreements lower consumer prices and increase variety while improving firm efficiency through superior inputs and improve allocative and productive capacity.

#### ii. FDI and value chains

**IEU CEPA and ICA CEPA can generate medium term FDI gains by improving legal certainty, services market access, and regulatory transparency.** IEU CEPA anchors Indonesia in European green industry value chains. The ART may draw mineral investment but lacks safeguards for downstream value addition and technology transfer.

#### iii. Industrial policy and regulatory space

**The agreements shape Indonesia's industrial policy differently.** While the EU and Canada CEPAs preserve flexibility for domestic strategy, the ART establishes a specific framework for the local content and export measures central to Indonesia's downstream agenda.

13. The agreement's legal foundation is uncertain following the US Supreme Court's decision in February 2026. The International Emergency Economic Powers Act (IEEPA) is a US Federal law that grants the US president broad authority to regulate international trade in response to a declared national emergency. It has historically been used to impose economic sanctions, freeze foreign assets, and restrict financial transaction. In February 2026, the US Supreme Court ruled that IEEPA does not authorize the president to impose tariffs and that the power to tax imports is a core congressional authority.

**While these agreements expand market access and investment potential, realized gains depend on implementation.** IEU-CEPA integrates Indonesia into European value chains if it meets sustainability standards, while ICA-CEPA and ART require domestic coordination and regulatory reform. Without sustained effort and policy alignment, these agreements may fall short of their potential.

*Financial sector: Banking buffers remain strong, while capital markets face volatility and external risks.*

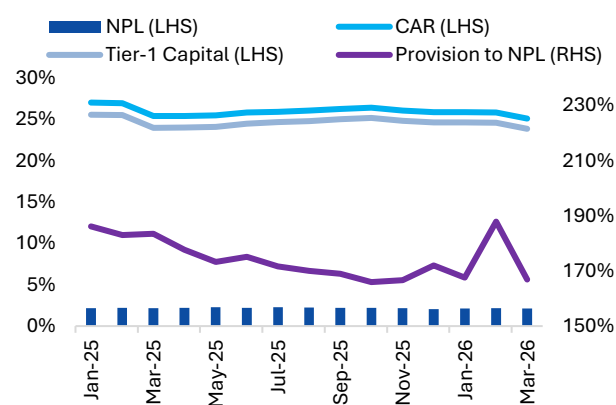
**Banking sector buffers remain adequate, despite rising macro-financial risks.** The system-wide non-performing loans ratio (NPLs) remains low at 2.1 percent as of March 2026 (Figure A.11), although pockets of vulnerabilities exist among lending to low-income borrowers and weaker SMEs. The capital adequacy was well above the regulatory requirements, and provisioning continued to offer ample loss-absorption capacity against potential declines in credit quality, such as those stemming from lower infrastructure spending or trade disruptions. Favorable profitability has been supported by high interest margins, partially reflecting dominance of top banks and low intermediation efficiency, and private sector credit growth. However, the banking system remains exposed to a deterioration in corporate balance sheets if exchange-rate pressures, higher borrowing costs, or trade disruptions persist. Foreign-currency debt among non-financial corporates remains a source of vulnerability, even though hedging has increased.

**Capital markets have been more directly affected by the first-stage shock to investor confidence.** Indonesia’s financial markets weathered domestic political turmoil relatively well in late August-early September 2025 (Figure A.12). However, MSCI’s January 2026 announcement triggered a sharp market downturn, reflecting concerns over free float, ownership transparency, and the investability of Indonesian equities. Rating outlook downgrades and the Middle East conflict added pressure by weakening risk sentiment, contributing to capital outflows, raising risk premia, and tightening financing conditions. By end of April, the JCI had fallen by roughly 19 percent (ytd). On May 13, 2026, MSCI announced restrictive measures on certain Indonesian securities. Effective end-May 2026, six Indonesian stocks will be removed from the MSCI Global Standard (Indonesia) Index and 13 from the MSCI Global Small Cap Index. These adjustments are expected to reduce Indonesia’s aggregate weight

in MSCI indexes by about 16 bps, from 0.72 to 0.56 percent. If sustained, these pressures could transmit to the real economy through higher financing costs, lower equity valuations, delayed investment plans, and weaker corporate balance sheets, particularly among firms with foreign-currency liabilities or near-term refinancing needs.

**The government is implementing a series of capital market reforms to bolster transparency, corporate governance, and the resilience of financial markets.** The financial sector regulator (OJK) established a Capital Market Integrity Reform Task Force to accelerate reforms and restore investor confidence. The IDX amended its exchange regulation to double the minimum free float requirement to 15 percent of total listed shares, lower the disclosure threshold for shareholding from 5 percent to 1 percent, enhance granularity of shareholder categorization, and establish a staged compliance deadline through 2027–2029. The reforms also aim to strengthen corporate governance through mandatory certification requirements and ongoing education for company boards, with the IDX committing to support listed companies through the transition.

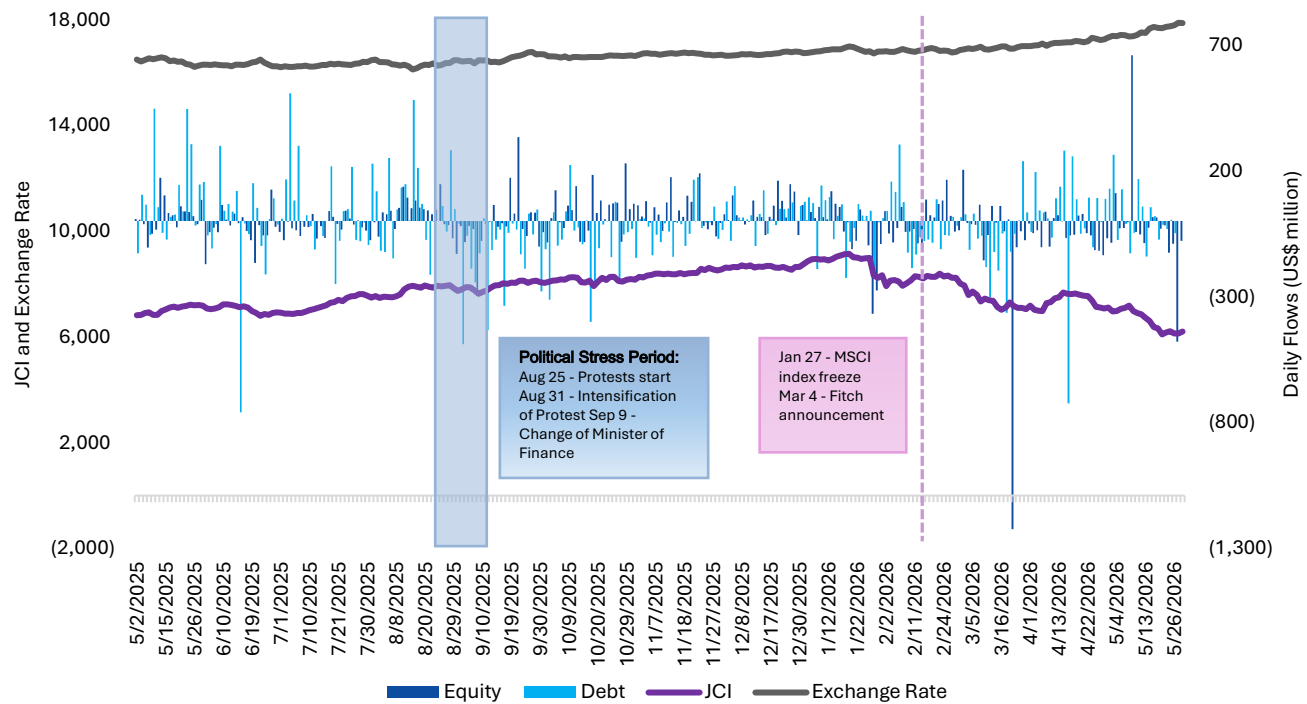
**Figure A.11: With low NPL and high Capital Adequacy Ratio, bank asset quality remains healthy.**  
(percent)



Source: The Financial Services Authority (OJK), World Bank staff calculation.

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**Figure A.12: Volatility in the equity market and portfolio flows have increased lately.**  
(debt and equity flows with JCI)



Source: The Financial Services Authority (OJK), World Bank staff calculation.

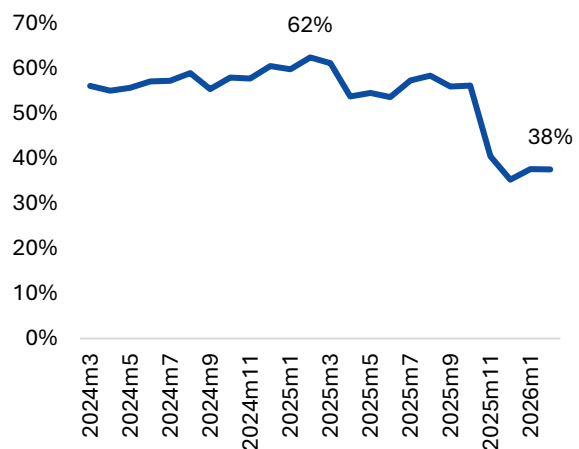
**Labor markets improved with the growth momentum, but limited gains in job quality remain a structural constraint.**

**Labor force participation improved over the last year.** The number of employed people rose by 1.9 million between August 2024 and August 2025,<sup>14</sup> while the unemployment rate edged down to 4.9 percent—a decline of 0.06 percentage points (ppts). Women account for more of the gain with female labor force participation up by 0.2 ppts to 56.7 percent over the same period. Yet this headline improvement masks shifts in the composition of employment.

**Despite the overall gains, job quality improvements remain limited.** Most of the new employment was absorbed into lower-productivity sectors—agriculture added 490 thousand workers and accommodation and restaurants another 420 thousand.<sup>15</sup> In contrast, high-skilled sectors had little or no growth: the financial services sector shed around 60 thousand workers, and other professional services stagnated. The underemployment rate sits at 32.7 percent and has been gradually rising since 2022, pointing to

persistent underlying weaknesses in job quality. Layoffs reported to the industrial relations courts climbed from 78 thousand in 2024 to 89 thousand in 2025, with February 2025 alone registering 18.5 thousand cases—the largest single month on record and roughly three times the 2024 monthly average.

**Figure A.13: People are relatively less worried about losing jobs.**  
(percent of survey respondents)



Source: Listening to Indonesia survey (March 2024 – February 2026)

14. Labor market data (SAKERNAS) are collected twice a year in February and August. In 2025, the Statistics agency increased data collection frequency and added a third survey in November. The data is published though around 6 months after collection.

15. Combined these two sectors added around 48 percent of all jobs created in 2025.

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**Layoff pressures eased in early 2026, but structural constraints persisted.** Reported layoffs, which peaked in February 2025, fell sharply in the months that followed and stabilized at a much lower level through late 2025, before easing further into early 2026. By February 2026, monthly layoffs had dropped to 3.3 thousand cases—roughly on par with early-2024 levels. The turnaround is also reflected in how workers

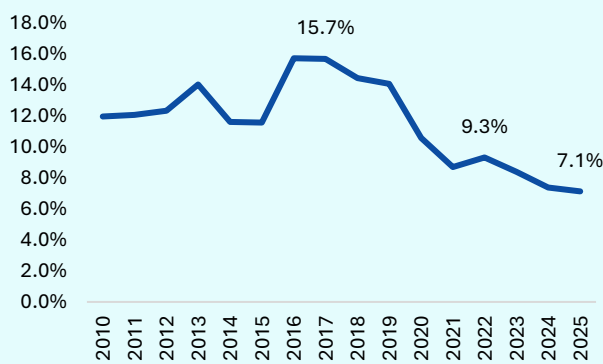
perceive their own prospects. The share of employed individuals worried about losing their jobs fell from 62 percent in early 2025 to 38 percent in February 2026, a 24-percentage-point improvement (Figure A.13). This suggests that near-term labor-market stress has eased. However, structural concerns around job quality and wage stagnation remain unresolved (Box A.2).

### BOX A.2: Labor Market Structural Long-Term Trends

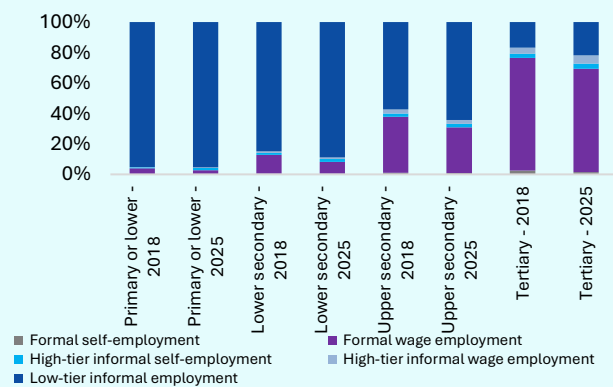
**Real wages have been declining for medium- and high-skilled employment,<sup>16</sup> further eroding the supply of jobs capable of supporting middle-class livelihoods.** Between 2018 and 2025, wages in medium and high-skilled employment fell by about 1 and 2 percent per year, pulling the overall wage trend down by around 0.5 percent annually (compound annual growth rate of median real wage). Low-skilled occupations moved in the opposite direction, gaining about 1.7 percent a year. This divergence has steadily eroded the share of middle-class workers<sup>17</sup>, falling from 14.5 percent in 2018 to 7.1 percent in 2025 (Figure B.1.1). The share of middle-class population—using official definition<sup>18</sup>—has followed the same trajectory, declining since 2018.

**Limited formal employment opportunities have increasingly pushed higher skilled and educated individuals into informal employment.** Among tertiary-educated workers, the share in formal wage employment fell from 74.1 percent in 2018 to 67.8 percent in 2025. Upper-secondary graduates followed a similar pattern, with formal wage employment dropping nearly 7 ppts. Tertiary-educated workers at least managed to move into higher-tier informal roles—rising from 6.7 percent in 2018 to 8.9 percent in 2025—but workers with lower education had no such option, landing almost entirely in low-tier informal work (Figure B.1.2). This reversal of the conventional trajectory, in which rising education should move workers into formal jobs, indicates a broader scarcity of better jobs in Indonesia which is driven by weak employer demand, forcing better educated workers into positions that underutilize their skills. More broadly, a growing share of educated workers is being absorbed into arrangements with lower job security, weaker social protection, and limited earnings ceilings, making it harder to build stable welfare gains. The pattern is consistent with the broader erosion of middle-class wages and the stagnation of hiring in high-value service sectors.

**Figure B.1.1: Fewer workers are earning middle-class livelihoods.**  
(percent of middle-class workers)



**Figure B.1.2: More educated workers are being absorbed into informal employment.**  
(percent of employment)



Source: SAKERNAS. World Bank Staff calculation. Source: SAKERNAS. World Bank Staff calculation. The definition of informal jobs follows the new formality definition by the International Conference of Labor Statistics (ICLS)-17

16. According to the International Standard Classification of Occupations (ISCO) classification, high-skilled employment refers to: managers, professionals, technicians and associate professionals, and clerical support workers. Medium-skilled employment: services and sales workers, skilled agriculture workers, craft and related trades workers, and plant and machine operators and assemblers. Low skilled employment is elementary occupations.

17. Middle class workers are defined as workers who have wage or income level that pays the amount needed by a middle-class family of four, comprising one full-time adult worker, one part-time adult worker (since only 50 percent of Indonesian women work, and two dependent nonworkers). Minimum MIDDLE-CLASS income threshold = (3.5 \*poverty line\* 4)/1.5. The definition is used in "Pathways to Middle-Class Jobs in Indonesia" report (World Bank, 2021)

18. SUSENAS defines the middle class as households with per capita expenditure between 3.5 and 17 times the national poverty line.

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## 2. The Policy Stance

*Fiscal policy is balancing near-term support with credibility under tighter constraints.*

**The preliminary fiscal deficit in 2025 stood at 2.9 percent of GDP, just below the statutory threshold.<sup>19</sup>**

The high deficit was driven primarily by weak revenues, which fell by 1.3 ppts of GDP to 11.6 percent. The tax-to-GDP ratio hit a record low of 9.3 percent, reflecting a limited implementation of a planned VAT rate hike,<sup>20</sup> core tax administration system (CTAS) rollout disruptions, the payment of a backlog of tax refunds, lower commodity prices, and the diversion of state-owned enterprise (SOE) dividends to Danantara. Expenditure fell from 15.2 to 14.5 percent of GDP, as planned spending on priority programs was partially offset by budget cuts, including lower subnational transfers, though unbudgeted stimulus measures of 0.5 percent of GDP added pressure. Public debt rose from 39.8 percent of GDP in 2024 to 40.5 percent, driven by the fiscal deficit and currency depreciation.

**Fiscal conditions remained tight in early 2026 due to more proactive spending.**

The fiscal deficit stood at 0.7 percent of GDP in the first five months of 2026 (5M 2026), 0.6 ppts weaker than in the same period last year (Figure A.14). Revenues grew by 19 percent yoy from a low base, supported by stronger tax and non-tax revenues (Figure A.15). However, expenditure expanded faster, by 34 percent yoy, reflecting the MBG program, monthly disbursement of energy compensation,<sup>21</sup> front-loaded spending, and rising subsidy pressures. The frontloading reflects a shift in the government's spending strategy this year to support private sector activity earlier in the fiscal cycle. Budget financing reached 55 percent of the annual financing need, slightly above the 53 percent recorded a year earlier, despite larger early year spending pressures.

This suggests a more calibrated financing strategy, with lower excess financing (SILPA), in the early months of the fiscal year (see [IEP December 2025](#)).

**Revenue collection improved, but the gains partly reflect temporary and catch-up factors.**

Tax revenue increased by 19 percent yoy in 5M 2026, supported by improvements in the CTAS, whose rollout disruptions in 2025 had delayed tax payments. Lower tax refunds also helped, with refunds declining by around 15 percent yoy after surging by 36 percent last year. Non-tax revenues rose by 20 percent yoy despite the continued retention of SOE dividends within Danantara, supported by higher commodity prices and forestry sector administrative fines.<sup>22</sup> Recent tax administration reforms provide a useful basis for stronger compliance.<sup>23</sup> Meanwhile, tax policy measures remain limited<sup>24</sup> and further reforms will be needed to durably raise revenue mobilization.

**The MBG program and a shift in the timing of energy subsidy compensation payment drove the increase in spending.**

Spending on the MBG program reached 0.3 percent of GDP in 5M 2026, accounting for around one-third of the increase in total expenditure.<sup>25</sup> Energy-related spending also rose: higher energy prices increased subsidy spending by 0.1 pp of GDP, while the revised compensation payment scheme raised compensation spending by 0.4 pp compared to last year (Figure A.16). Combined, energy subsidies and compensation were 0.5 pp of GDP higher than in 5M 2025, contributing around half of the increase in total expenditure. Capital spending was also front-loaded to support early-year activity. Transfers to local governments contracted slightly by 5 percent yoy, despite a budgeted full-year decline of 18 percent, reflecting additional transfers related to the 2025 Sumatra floods.

19. The preliminary 2025 fiscal data is based on the Ministry of Finance's January 8, 2026 budget realization press conference. Unaudited 2025 financial report submitted to the Supreme Audit Institution (BPK) on March 31, 2026 show a slightly lower fiscal deficit of 2.8 percent of GDP, mainly due to lower spending than initially reported. Detailed unaudited fiscal components are not public, and audited figures are expected to be released in Q3 2026.

20. In 2025, a VAT tax rate hike, from 11 to 12 percent, was implemented only on luxury goods, while other items were exempt.

21. Starting in 2026, PMK No. 73/2025 allows 70 percent of verified energy compensation claims from PLN and Pertamina to be paid monthly, with the balance paid after final audit. Previously, compensation was paid quarterly; in 2025, the first payment was made in June.

22. Satgas PKH (Forest Area Control Task Force), established in February 2025 under Presidential Regulation No. 5/2025, aims to improve governance and recover revenues from forest area activities. It has transferred around 0.16 percent of GDP to the treasury, including 0.08 percent of GDP in 2025 and 0.08 percent of GDP in 2026 (year-to-May).

23. The CTAS is broadly operational, though further improvements and socialization are needed. Recent regulations—including PMK 111/2025 and PMK 8/2026—expand third-party data use for compliance, while staff rotations and stepped-up monitoring of illicit cigarettes and illegal imports aim to improve revenue administration.

24. MOF introduced a gold excise tax that is estimated to bring around IDR3 trillion (0.01 percent of GDP). MOF also tightened the eligibility criteria for the Alternative Final Tax on MSMEs; the revenue impact is estimated at 0.04 percent of GDP.

25. The MBG program spending fell to IDR 13 trillion in May from IDR 20 trillion in April, reflecting efficiency measures. The program administrator (BGN) plans to further improve efficiency by refocusing beneficiary targeting, freezing new kitchen sites, improving existing operations, and expanding coverage to remote and underserved areas (3T regions) via alternative implementation schemes to reduce burden on the budget.

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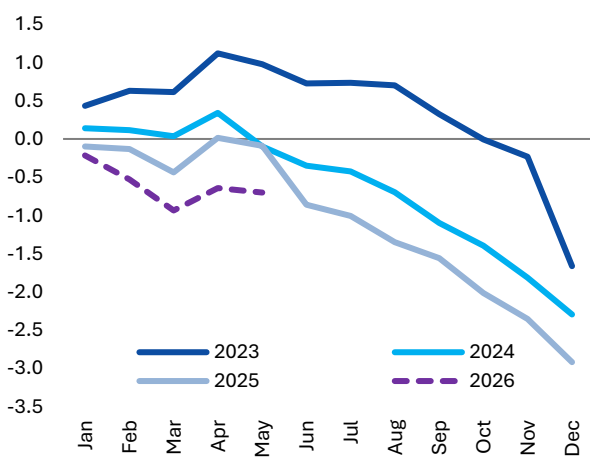
**The deliberate front-loading of spending could be balanced with fiscal caution.** Government expenditure reached 36 percent of the initial budget in 5M 2026, around eight percentage points higher than last year. While this supports near-term economic growth, rapid expansion raises the risk of later-year overruns. Recent shocks, including the 2025 Sumatra floods and the Middle East conflict, highlight the importance of preserving adequate fiscal buffers.

**The government’s decision to adhere to the fiscal rule during the Middle East conflict is evidence of fiscal discipline that can support market confidence.** In the face of budget pressures, the government announced expenditure efficiencies of around 0.6 percent of GDP to ensure adherence to the fiscal rule. These measures include cuts to business travel, non-operational expenditures, ceremonial activities, and savings within the MBG program. The government also introduced measures to limit fuel consumption, which could generate savings of around 0.4 percent of GDP on the fuel subsidy bill.<sup>26</sup> The consolidated adjustment of 1.0 percent of GDP, if executed in full, would materially ease fiscal pressures for the remainder of 2026.

**Higher oil prices and Rupiah depreciation create a fiscal feedback loop.** Because fuel subsidies are linked to the gap between administered domestic prices and import-parity costs, a weaker Rupiah raises the local-currency cost of oil imports and increases the subsidy burden. Higher subsidy spending can widen the deficit or force cuts to other spending, weakening fiscal credibility and adding to exchange-rate pressure. This loop—depreciation, higher subsidy costs, wider fiscal pressures, and renewed currency pressure—can be broken through a credible package that combines gradual price adjustment, targeted compensation, expenditure reprioritization, and clear communication (see Policy Priorities).

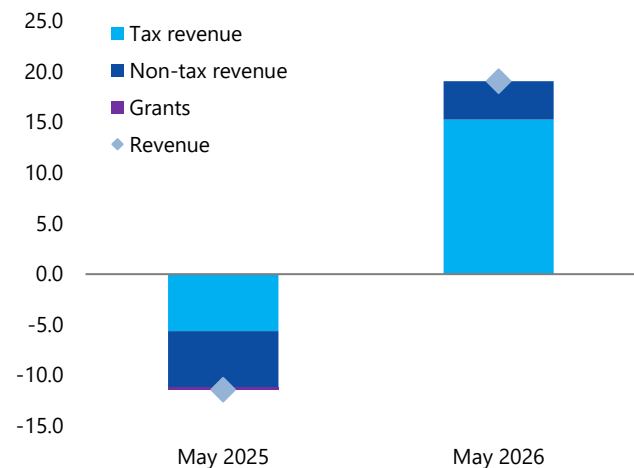
**Strengthening fiscal policy credibility is crucial, as Indonesia faces tighter financing conditions.** Yields on 10-year government bonds have risen by 78 bps year-to-date (as of June 5), and demand for government bonds has weakened, with the bid-to-cover ratio falling from 3.2 in May 2025 to 1.6 in May 2026. Market concerns were triggered by the announcement of the 2025 fiscal deficit, then compounded by the rating outlook downgrades and the Middle East conflict (Figure A.17). Preserving credibility will require adherence to the fiscal rule, clear communication, and continued efforts to shift spending toward higher-return uses (see Policy Priorities).

**Figure A.14: The fiscal position remains tighter than in recent years.**  
(Fiscal balance (percent of GDP))



Source: Ministry of Finance, CEIC, World Bank staff calculations.

**Figure A.15: Revenue collection rebounded from a low base, supported by both tax and non-tax revenue.**  
(Revenue collection growth (percent))

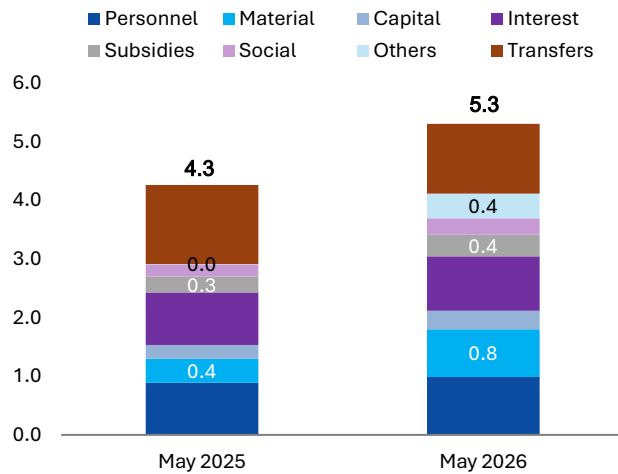


Source: Ministry of Finance, World Bank staff calculations.

26. These include the one per week work from home arrangement, daily limit on subsidized fuel purchase (50 liters per day for car), and the B50 program (50 percent biodiesel blend mandate) starting July 1.

**Figure A.16: Meanwhile, expenditure grew at a faster pace, driven by MBG program, energy compensation, and front-loaded spending.**

(Government spending (percent of GDP))



Source: Ministry of Finance, World Bank staff calculations.

*Monetary policy has tightened to support currency stability and preserve external buffers.*

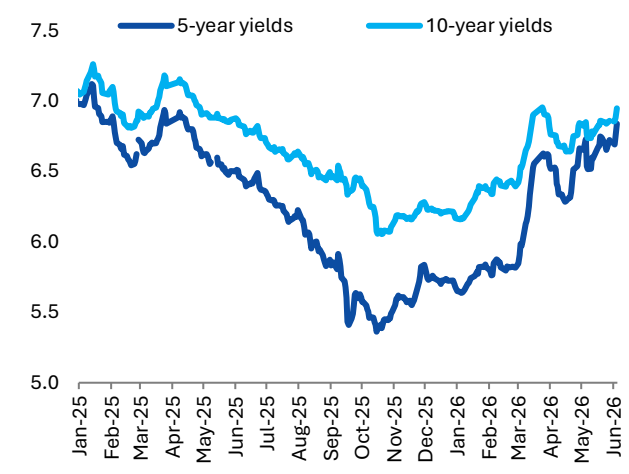
**BI raised the policy rate by 50 bps to 5.25 percent in May in response to rising exchange rate pressures.**

After cutting rates by 125 bps and introducing reserve requirement ratio (RRR) incentives,<sup>27</sup> BI had paused monetary easing in September 2025 as inflation began to firm and the Rupiah weakened. Pressures intensified in early 2026 as the conflict in the Middle East persisted and global risk sentiment deteriorated. The Rupiah reached successive record lows from March, falling to 18,000 per US\$ in early June, prompting BI's first rate hike since April 2024. By May, the Rupiah had dropped 6.0 percent against the US\$, following a 2.6 percent decline in 2025. The NEER and REER depreciated by 1.7 and 1.0 percent, respectively (by March, latest available data). The Rupiah underperformed other emerging market currencies, with the JP Morgan Emerging Market Currency Index appreciating by 1.3 percent in 2026 (Figure A.18). To mitigate excess volatility, BI also intervened in the secondary government securities market, purchasing IDR 73.3 trillion (0.3 percent of GDP), between January and May.

**Reserve drawdowns point to the growing trade-offs facing monetary policy.** Gross international reserves (GIR) dipped from US\$156.5 to 144.9 billion year-to-

**Figure A.17: Bond yields rose amid fiscal concerns and external pressures.**

(Local currency government bond yield (percent))



Source: CEIC, World Bank staff calculations.

May, the lowest level since June 2024. The GIR import coverage ratio also steadily declined, from 6.4 months to 5.6 months of imports of goods and services over the same period, though this remains above the international adequacy standard of 3 months of imports.

**BI has introduced a range of measures to strengthen external buffers and support the Rupiah, including some unconventional capital flow management tools.**

In May, BI reduced the monthly limit on US\$ purchases without underlying documents to US\$25,000;<sup>28</sup> doubled the forward and swap US\$ selling caps to US\$10 million; expanded FX monetary operations to include spot and swap in offshore Chinese Renminbi; and relaxed offshore non-deliverable forward (NDF) FX rules by allowing primary dealers to sell transactions against the Rupiah. It also announced tighter export-proceeds rules. Effective June 2026, natural resource exporters will be required to keep all export proceeds in state-owned banks (SOBs) for at least one year, replacing the previous requirement that allowed placement in any commercial bank (see [IEP June 2025](#)).<sup>29</sup> The government also set a 50 percent cap on US\$-to-IDR conversions of export proceeds, previously uncapped. This measure is classified as a capital flow measure (IMF, 2025).

27. BI has implemented RRR incentives since 2024. With this incentive, banks benefit from a lower effective RRR (as low as 3.5 percent), compared to the official rate (9 percent) depending on banks' eligibility criteria. As of March 2026, the RRR incentives have unlocked IDR 427.1 trillion of liquidity (equivalent to 5.0 percent of credit to the private sector).

28. This came after BI halved the monthly limit on US\$ purchases in April, from US\$100,000 to US\$50,000.

29. Under the Regulation PP 21/2026, the US is exempt from this export proceeds retention rule. The government is also evaluating to make exceptions for several countries that implement bilateral and free trade agreements with Indonesia.

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**These steps aim to strengthen oversight of cross-border transactions and support foreign-exchange liquidity, but their effectiveness remains uncertain.**

International experience suggests that retention requirements are difficult to enforce, have mixed evidence of effectiveness, and are typically used temporarily before being phased out once external pressures ease (see [IEP December 2023](#)). In parallel, BI resumed issuing high-yield monetary securities (SRBI) targeted at foreign investors in early 2026 (Figure A.19), attracting inflows of around 0.5 percent of GDP. The 1-year SRBI yields rose from 4.9 to 6.8 percent between January and May. While these are open market operations, they carry balance-sheet costs for BI. By May, the outstanding SRBI stock, including expected interest payments, reached nearly 4.0 percent of GDP. These measures form part of BI’s seven-strategy package announced on May 6 to stabilize the Rupiah (Table A.1).

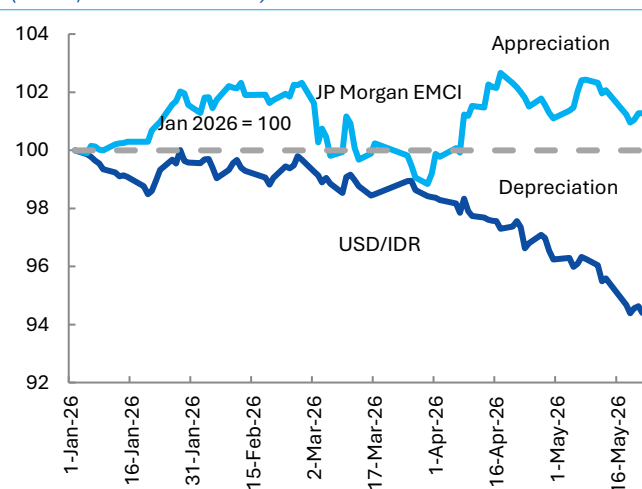
**Exchange rate pressures have also increased the policy trade-offs facing BI.** Intervention has helped smooth excess volatility, but it has also reduced reserves from their recent peak, underscoring the importance of preserving external buffers. While reserves remain adequate, continued capital-flow volatility, higher oil import needs, and persistent foreign exchange demand could narrow the room for intervention if global risk sentiment deteriorates further. This places a premium on credible macro-fiscal policy, clear communication, and FX management tools that remain transparent, targeted, and temporary, so that short-term stabilization does not weaken longer-term investor confidence.

**Table A.1: BI’s Seven Strategies to Support Rupiah**

No.	Strategies
1	Increase foreign portfolio inflows through SRBI
2	Tighten capital control rules through lower FX purchase limits
3	Strengthen FX intervention in onshore & off-shore (NDF) markets
4	Increase offshore (NDF) intervention
5	Strengthen fiscal-monetary coordination through government bond purchases
6	Tighten supervision of FX activities
7	Maintain sufficient liquidity of Rupiah

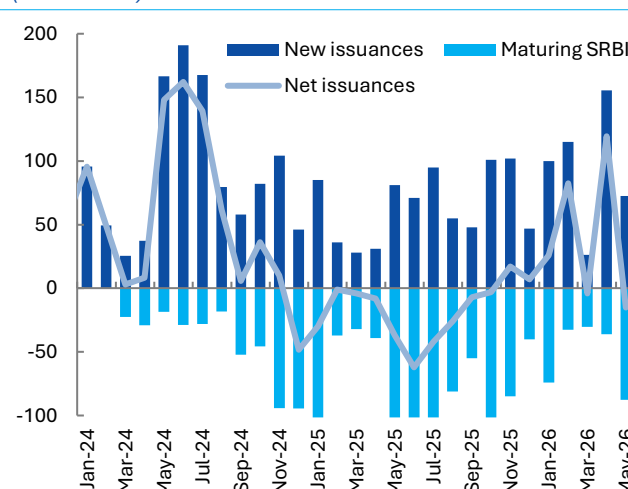
Source: BI, Cabinet Secretary.

**Figure A.18: The Rupiah underperformed its emerging market peers year-to-May.**  
(index, Jan 2026 = 100)



Source: BI, JP Morgan, World Bank staff calculations.

**Figure A.19: SRBI posted positive net issuances between Nov-25 and May-26.**  
(IDR trillion)



Source: BI, CEIC, World Bank staff calculations.

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### 3. Outlook and Risks

**Indonesia's growth is projected to moderate in 2026 but remain resilient, supported by domestic demand.** GDP growth is forecast to ease to 5.0 percent in 2026, as higher oil prices, elevated global bond yields, heightened risk sentiment, and softer demand from trading partners weigh on exports and foreign investment. The upward revision relative to the April 2026 East Asia Pacific Update reflects new information from the Q1 national accounts, which showed stronger than expected Q1 domestic demand notably front-loaded public spending, rather than a more benign external environment. Resilient private consumption, continued public spending, and ongoing domestic investment are expected to provide near-term cushion. However, reliance on public consumption carries risks, given limited fiscal space and rising subsidy costs amid the statutory fiscal rule. Private consumption is projected to grow at around 5.0 percent, supported by household spending momentum and targeted fiscal measures. Government consumption is expected to increase more strongly, reflecting the implementation of priority programs. Investment growth is projected to moderate to 4.9 percent, while export growth is expected to slow to 5.0 percent (Table A.2).

**The baseline assumes that the Middle East conflict remains contained but persistent throughout 2026.** Under this scenario, oil-market disruptions and shipping frictions keep Brent crude elevated at US\$94 per barrel,<sup>30</sup> global monetary conditions remain relatively restrictive in the near term, with elevated bond yields and risk premia sensitive to renewed shocks, and external demand softens<sup>31</sup> before gradually recovering in 2027–28. The baseline also assumes that domestic policy credibility is maintained, the fiscal deficit remains within the statutory ceiling, inflation expectations remain anchored, and ongoing investment programs, including Danantara-linked projects, continue to advance.

**GDP growth is projected to recover to 5.2 percent in 2027 and 2028 as external disruptions ease and domestic reforms support investment.** The recovery is expected to be supported by easing commodity-market pressures, stronger private credit growth, the acceleration of Danantara's investments, and reform efforts under the government's "debottlenecking" agenda.<sup>32</sup> This three-pronged investment drive should

offset a weaker contribution of net exports to GDP growth caused by deteriorating terms of trade and rising global trade policy uncertainty. On the supply side, commodity-based manufacturing, agribusiness, construction, services and digital sectors are expected to remain key drivers of growth. However, the strength of the recovery will depend on the pace of reform implementation and the ability to crowd in private investment.

**Inflation is expected to remain within Bank Indonesia's target range, but risks remain tilted upward.** Higher global oil prices are expected to generate cost-push pressures through fuel, transport, logistics, and food prices, while Rupiah depreciation would raise the local-currency cost of imported energy. However, anchored inflation expectations, monetary-policy credibility, and continued use of selected administered price measures (for rice, fertilizers, Peralite gasoline, public transport, and electricity) are expected to contain second-round effects. Resilient domestic demand, coupled with rising investment levels and higher oil prices, is expected to increase imports and contribute to a widening CAD (up to 1.1 percent of GDP in 2028). The Q1-2026 BoP outturn already points to these pressures. The CAD is expected to be financed by FDI and portfolio inflows over the projection horizon, although capital-flow volatility remains an important risk. GIR levels are projected to remain adequate at around 6 months of imports of goods and services.

**With the output gap projected to close in 2026, addressing supply side constraints will be critical to avoid overheating.** Demand stimulus—including low quality investment—could temporarily raise growth, but without productivity enhancing reforms it would heighten macroeconomic risks. With limited spare capacity, higher government directed spending is more likely to translate into inflation than higher real activity, eroding household purchasing power, weakening consumer demand, and reducing export competitiveness through real exchange rate appreciation. Managing these pressures could require tighter monetary policy, which would dampen credit growth and domestic investment. Together, these dynamics could drag growth back toward its estimated

30. Oil prices are assumed to average US\$94 per barrel, which is US\$24 above Indonesia's 2026 budget assumption and US\$34 above the World Bank's pre-conflict baseline. Oil production cut of 20 percent is also assumed reflecting losses in the strait of Hormuz.

31. Because of growth downgrades in Indonesia's largest trading partners such as China, India and Japan

32. As a result, FDI is projected to pick-up to almost its pre-COVID level of around 1.3 percent of GDP by 2028.

potential of around 4.2 percent.<sup>33</sup> Structural reforms that raise productivity and increase returns to capital and labor can expand economic capacity, allowing the economy to absorb higher demand without triggering inflation. Supply-side reforms that lower logistics costs, strengthen regulatory predictability, and crowd in private investment will therefore be central to sustaining growth without adding to macroeconomic imbalances.

**The fiscal deficit is projected to remain close to the statutory limit over the medium term.** For 2026, the deficit is expected to remain elevated at 2.8 percent of GDP, reflecting the combined pressures of higher subsidy spending and large priority programs. The deficit is projected to hold at 2.8 percent of GDP in 2027 before edging down modestly to 2.7 percent in 2028. Revenue is expected to recover as the tax refunds backlog clears and ongoing tax administration reforms begin to yield results. In the near term, elevated commodity prices for coal, Liquefied Natural Gas, nickel, gold, and palm oil will temporarily support revenues (net effect of 0.4 percent in GDP),<sup>34</sup> partly offsetting subsidy pressures. The interest-to-revenue ratio is projected to rise from 18.7 percent in 2025 to 19.2 percent in 2028. A persistent primary deficit averaging 0.4 percent of GDP over 2026–28 will place gradual upward pressure on public debt.

**Public debt is forecast to remain sustainable.** The public debt-to-GDP ratio is projected to rise modestly from 40.5 percent in 2025 to 41.2 percent in 2028, reflecting the cumulative impact of primary deficits. It is projected to stay well below the 60 percent of GDP debt ceiling with 95 percent probability even amid the standard macroeconomic volatility (Figure A.20).<sup>35</sup> Gross financing needs (GFN) are forecast to remain stable at slightly below 7 percent of GDP by 2028. Compared to other countries, GFN levels are relatively contained relative to GDP. The average GFN in the next 5 years is at the 30th percentile of non-commodity exporter emerging markets. Analysis confirms a manageable path, with GFN peaking at 11.3

percent of GDP in the harsh stress scenario (Figure A.21).<sup>36</sup> However, expressed as a share of revenue, the GFN is elevated—at 59 percent in 2025—though it is expected to decline gradually to 54 percent by 2028, as revenue collection improves and the fiscal deficit declines. While quantified contingent liabilities remain small, risks linked to SOE debt and to potential future liabilities related to the Danantara investment program warrant close monitoring.<sup>37</sup>

**The outlook is subject to significant downside risks, mainly from a more prolonged disruption to oil supply and shipping flows.** Higher energy and fertilizer prices would raise inflation, subsidy costs, and the import bill. Weaker global demand would reduce export revenues and weigh on FDI. Elevated bond yields and higher risk premia would raise borrowing costs, put pressure on the Rupiah, and compress fiscal space. Supply-chain disruptions would increase input costs and weigh on manufacturing activity. In this scenario, GDP growth could be 0.2–0.3 percentage points lower in 2027–28.

**Domestic risks could amplify external pressures.** Limited progress on structural reforms, weaker policy communication, or uncertainty around fiscal credibility could further affect investor confidence. Continued reliance on broad-based subsidies would protect households in the near term but would also reduce fiscal space for public investment, social protection, and productivity-enhancing reforms. Weak job quality and declining real wages among medium- and high-skilled workers could also constrain household consumption and limit the expansion of the middle class.

**A faster normalization of oil supply and shipping flows would improve the outlook.** Lower oil prices would reduce inflationary pressures, ease subsidy costs, improve the terms of trade, and support investor sentiment. More favorable global monetary conditions could also lower borrowing costs and reduce exchange rate pressures. Under this scenario, GDP growth could be 0.2–0.4 percentage points higher in 2026.

33. The potential output is calculated using the Cobb-Douglas production function with two production factors (capital and labor), the labor share is set at 46 percent following the Penn-World Table (PWT) and capital depreciation rate is set at 6 percent annually. The historical data of labor, capital, and output dates to 1960 and spans until 2028, where 2026–2028 are forecasts. The parameters are smoothed using the Hodrick Prescott (HP) Filter.

34. The net effect considers the deceleration in economic activity (GDP) and production cuts of coal and nickel.

35. The analysis is based on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries (MAC-SRDSF) tool.

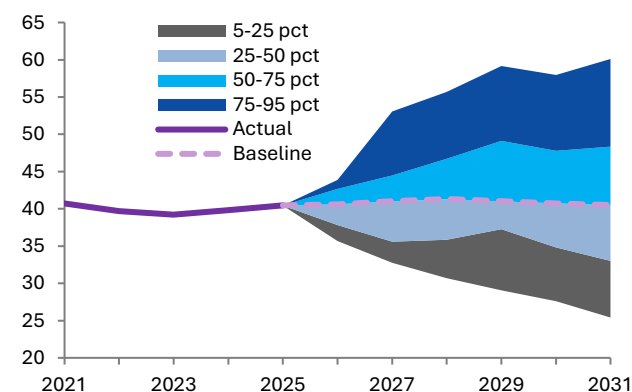
36. The GFN module's stress scenario combines three elements: macro-fiscal, maturity-shortening, and debt-holder shocks. The macro-fiscal part models weaker growth, higher interest rates, exchange-rate and inflation shocks, and a primary-balance shock. The maturity shock shifts issuance toward shorter maturities. The debt-holder shock assumes foreign private creditors only partially roll over existing holdings for a period and provide no new financing, with domestic commercial banks acting as the residual financiers.

37. Danantara is expected to commence investments in 2026, amounting to about 0.8 percent of GDP, with plans for additional investments of around 2 percent of GDP. While these investments do not constitute contingent liabilities, some could materialize as such over time. Given the evolving institutional set-up and the division of responsibilities between Danantara and its regulator, BP BUMN, governance and accountability risks remain. BP BUMN is taking steps to clarify roles, strengthen coordination, and operationalize OECD aligned governance practices through a draft SOE Policy Direction and Roadmap (2026–35). Continued progress will be critical to mitigate these risks.

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**Additional upside could come from stronger reform delivery.** Faster implementation of recently concluded trade agreements, sustained deregulation under the debottlenecking agenda, improved logistics coordination, and credible fiscal reforms could lift investment and productivity. These would

**Figure A.20: Public debt is projected to remain below the statutory debt ceiling.**  
(percent of GDP)



Source: World Bank projections.

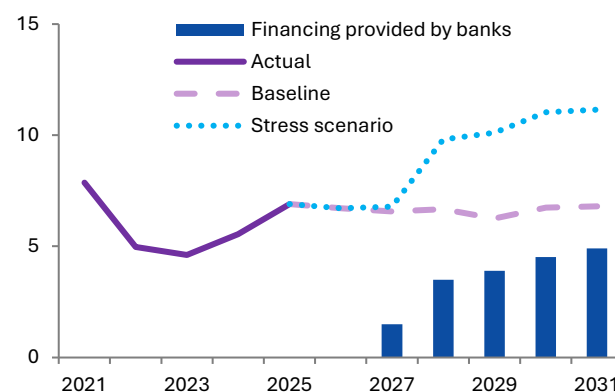
## 4. Policy Priorities

**Sustaining growth and creating better jobs will require policies that manage near-term risks while unlocking productivity.** Indonesia enters a more difficult external environment with resilient domestic demand but narrower fiscal space, tighter financing conditions, and persistent structural constraints to job quality. The policy challenge is therefore twofold: preserving macroeconomic stability and investor confidence in the near term, while accelerating reforms that raise productivity, competitiveness, and the quality of job creation over the medium term. These priorities are aligned with the three mutually reinforcing pillars of the 2026 Indonesia Country Growth and Jobs Report (World Bank, 2026b): strengthening foundational infrastructure through sound macroeconomic management and expanded fiscal space; enabling business through lower costs and more predictable regulation; and mobilizing private capital through stronger investor confidence and market transparency.

**This edition of the IEP focuses on three policy areas where analysis can directly inform current policy decisions: fuel subsidy reform, public investment management, and logistics.** These areas do not exhaust Indonesia’s reform agenda, but they are central to the theme of Managing Risks, Unlocking Productivity. Fuel subsidy reform would help rebuild fiscal buffers and reduce exposure to oil-price shocks.

support investor confidence and help raise potential growth rather than only supporting demand. Higher commodity revenues could also provide temporary fiscal relief, although these gains would be most beneficial if used to rebuild buffers and finance high-return spending.

**Figure A.21: Gross financing needs are expected to stay manageable.**  
(percent of GDP)



Stronger public investment management would raise the growth impact of public spending and crowd in private capital. Logistics reform would lower economy-wide costs, support competitiveness, and improve the productivity of firms across sectors. Together, these reforms would support resilience, productivity, and better jobs. These reforms would also strengthen investor confidence by reducing policy uncertainty.

**Beyond the three focus areas, revenue mobilization remains an essential part of the foundational infrastructure.** At 14.6 percent of GDP in 2024, general government revenue remains among the lowest in upper middle-income economies (Figure A.22). Strengthening revenues will require a balanced package of policy and administration reforms. On the policy side, priorities include systematically reviewing and rationalizing tax expenditures to broaden the base, reduce distortions, and improve equity. Reforms to the Micro, Small and Medium Enterprises income tax regime and VAT registration threshold will support formalization and graduation to the standard system while limiting arbitrage. On the administration side, deepening risk-based compliance through third-party data, e-invoicing, and analytics, alongside continued IT modernization and stronger audit and dispute resolution, will be critical to lift compliance.

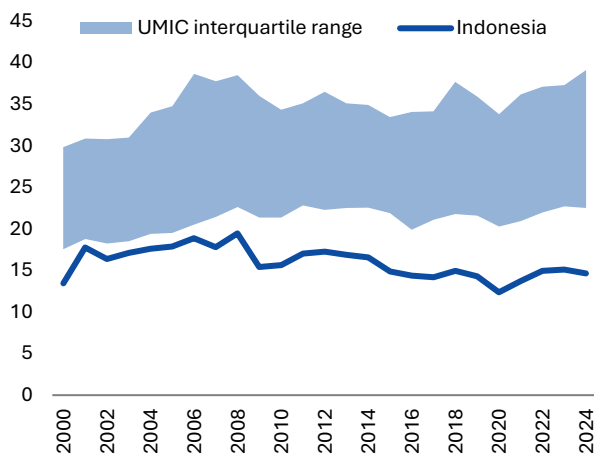
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**On the expenditure side, there is scope to improve spending quality.** Energy subsidies have accounted for roughly 11 percent of total central government expenditure (including subnational transfers) over the past three years, and this share is expected to rise in 2026 as budgets are reallocated to absorb higher subsidy costs. This crowds out more productive uses of public resources. World Bank analysis shows that the consumption spending multiplier is not statistically significantly distinguishable from zero, while the capital spending multiplier is about 1.4 after two years (Figure A.23).<sup>38</sup> The low consumption multiplier likely reflects Indonesia’s high informality (see World Bank 2026d and Colombo et al 2022), while the stronger investment multiplier is consistent with a relatively low public capital stock, 37 percent of GDP against a median of 57 percent for Emerging Market and Developing Economies (Adarov, Clements, and Jalles,

2024).

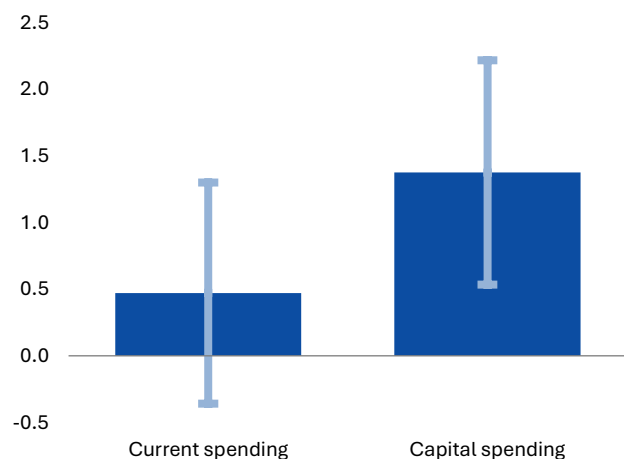
**The case for rebalancing toward capital expenditure is reinforced by evidence of private sector complementarity.** The same analysis finds a private sector crowding-in multiplier of approximately 1.2, suggesting that public investment stimulates, rather than displaces, private sector activity. This impact could be further enhanced by improving public investment efficiency. Reducing low-return recurrent spending, particularly energy subsidies, in favor of high-return capital investment would strengthen both short-term growth and long-term productive capacity.

**Figure A.22: Indonesia’s revenue remains low compared with upper-middle-income peers.**  
(Revenue, percent of GDP)



Source: WEO April 2026 database, World Bank staff calculation.  
Note: The sample includes all countries classified as upper middle-income by the World Bank for FY 2025/26, based on 2024 calendar year data.

**Figure A.23: Indonesia’s public investment multiplier is higher than that of public consumption.**  
(Current and capital spending multiplier (unit))



Source: World Bank staff calculations.  
Note: Current spending is non-capital spending. The estimate is based on Bayesian regression model using annual data, 1970–2024. The whiskers reflect 95 percent credible interval.

38. The fiscal multipliers are estimated using Bayesian regression applied separately across components of government spending. Fiscal shocks are identified as the deviation between actual and budgeted outturns, controlling for domestic and external demand conditions, using annual Indonesia data spanning 1970–2024. To address identification challenges, each fiscal variable is purified by regressing it on contemporaneous output growth, the planned (budgeted) fiscal variable, and world GDP growth, as well as lags of GDP growth and the fiscal variable itself; the residual from this regression serves as a proxy for exogenous fiscal shocks. These purified shocks are then used as regressors, with priors on multiplier coefficients informed by the empirical literature and economic theory. Post-estimation MCMC diagnostics confirm model stability. The analysis will be published in the World Bank Public Finance Review (forthcoming).

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## Foundational Infrastructure: Building Fiscal Buffers through Fuel Subsidy Reform

**Rising global oil prices have renewed pressures on Indonesia's fiscal position, creating a window to reform generalized fuel subsidies.** As a net oil importer, Indonesia is exposed to higher import costs, with oil and gas imports reaching 2.2 percent of GDP in 2025. Energy subsidy<sup>39</sup> spending remains a significant and volatile component of public expenditure, at 1.6 percent of GDP. With the fiscal deficit near the statutory ceiling, sustained increases in oil prices could push subsidy spending above budgeted levels, further strain the budget, and erode fiscal buffers (Figure A.24). The oil shock therefore underscores the fiscal risks of the current subsidy framework.

**Generalized fuel subsidies are costly, with benefits concentrated among higher-income households.** Analysis using Susenas 2025 shows that the richest 20 percent of households receive more than half of fuel subsidy benefits, reflecting higher vehicle ownership and fuel consumption (Figure A.25). As a result, the current system absorbs scarce fiscal resources while providing limited support to the poor and vulnerable.

**A credible reform package would combine gradual price adjustment, targeted compensation, and transparent reallocation of savings.** The first element would be a gradual, pre-announced adjustment path to narrow the gap between subsidized and market prices. This would reduce fiscal risks while giving households and firms time to adjust. The second element would be targeted cash transfers to protect poor and vulnerable households from the welfare impact of higher fuel prices. The third element would be a transparent mechanism to reallocate savings toward social protection, public investment, and livelihood support for affected groups.

**Targeted cash transfers can offset the welfare impact on lower-income households while preserving most fiscal gains.** Simulation analysis suggests that removing subsidies would reduce household welfare across all income groups by between 1.7 to 2.4 percent of disposable income, leading to an increase in the poverty rate of about 0.5 ppts. However, time-bound cash transfers targeted to the poorest 40 percent

households could fully compensate lower-income groups and reduce the poverty rate by 0.3 ppts (Figure A.26). The fiscal cost is modest: a 1-month transfer would absorb around 10 percent of subsidy savings, allowing reform to generate substantial net fiscal savings.

**Fiscal savings will build over time and could support medium-term growth if redirected to high-return spending.** Simulations suggest that gradually removing subsidies over two years could generate savings of 1.3 percent of GDP (Figure A.27). Once prices fully adjust, fiscal space is projected to expand to 2.1 percent of GDP over the following two years. These savings would create room for targeted transfers, public investment<sup>40</sup>, and current spending. These gains could be larger if global oil prices rise further.

**Transparent recycling of these savings would make reform more progressive and strengthen public acceptance.** Reallocating savings toward targeted cash transfers and public investment would reduce the concentration of benefits among higher-income households. Households in the bottom deciles (1-4) are projected to gain on net as transfers and other social spending more than offset higher fuel prices, while middle-income households (deciles 5-6) are broadly unaffected. Higher-income households (deciles 7-10) would incur net losses, reflecting both their higher energy consumption and limited access to transfers (Figure A.28). Transparent reporting on how savings are used would help build trust and reduce the risk of reform reversal.

**Implementation principles matter as much as reform design.** A durable reform would need phased sequencing, clear public communication, and strong delivery-system readiness. Compensation could be delivered through existing social protection systems, supported by the DTSEN social registry, which already covers 85–90 percent of the population. As data quality improves, DTSEN could support a gradual shift from generalized fuel subsidies toward better-targeted social assistance. To contain leakage during the transition, the reform could also be accompanied by tighter eligibility rules, digital verification at the point of sale, and quantity limits where full price adjustment is not immediately feasible.

39. This includes direct subsidies as well as compensation, which is an implicit subsidy paid to energy SOEs, i.e., Pertamina and PLN due to deviation of assumptions or policies from what have been set forth in the APBN law, for example, oil price assumption.

40. The impact would depend on execution quality, import leakages, and project selection, reinforcing the importance of stronger public investment management.

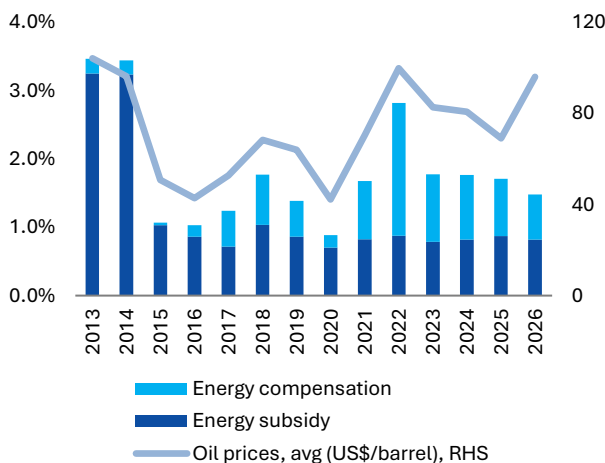
**A broader “national compact” would help sustain reform.** International experience shows that subsidy reform is more durable when embedded in a wider package of social protection and public spending reforms. Morocco combined gradual subsidy phase-out with the expansion of a unified, better-targeted social assistance system, supported by improvements in delivery and beneficiary identification. Fiscal savings were reinvested into direct cash transfers with stronger impacts on poverty reduction and human capital development, extending coverage to around half of the population. Ghana paired subsidy reform with visible improvements in public services, using savings to abolish school fees and strengthen basic education. These examples highlight the importance of linking subsidy savings to tangible benefits that households can see and trust.

**Reform design can also protect livelihood groups affected by higher fuel prices.** In addition to transfers for poor and vulnerable households, part of the savings

could support groups whose livelihoods are fuel-intensive, including transport workers, fishers, farmers, and small enterprises. This support should be time-bound, targeted, and designed to preserve incentives for efficient energy use. International examples also suggest that quantity-based or allowance-based approaches can reduce fiscal costs while maintaining efficiency incentives where immediate full price adjustment is not feasible.

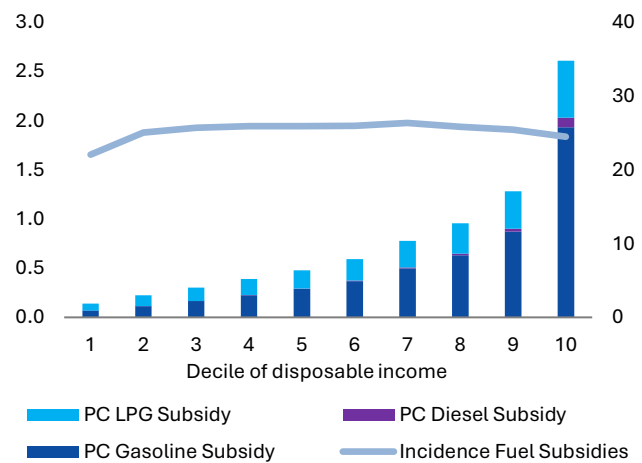
**Taken together, a compact reform package would reduce fiscal risks, improve equity, and strengthen the credibility of Indonesia’s post-shock fiscal adjustment.** Gradual price adjustment would reduce the budget’s exposure to oil-price shocks; targeted compensation would protect poor and vulnerable households; and transparent reinvestment of savings would support social protection, public investment, and livelihood adjustment. Embedding these elements in a broader national compact would help build the trust needed to sustain reform.

**Figure A.24: Energy subsidy and compensation spending rises with oil prices.**  
(percent of GDP, LHS; US\$ per barrel, RHS)



Source: Ministry of Finance, WB Commodity Price Data the Pink Sheet, WB staff calculations.  
Note: Data for 2013-24 are actual; 2025 is a preliminary realization; 2026 is budget.

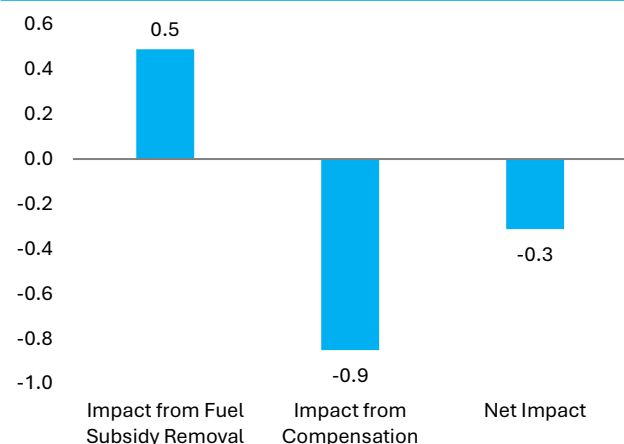
**Figure A.25: Fuel subsidies disproportionately benefit higher-income households.**  
(percent of disposable income, LHS; percent of fuel subsidies; RHS)



Source: Susenas 2025, World Bank staff calculations.  
Note: PC is per capita.

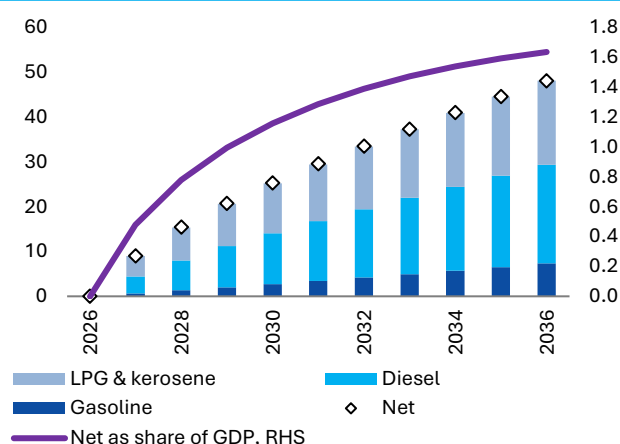
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**Figure A.26: Targeted cash transfers can offset the poverty impact of subsidy reform.**  
(percentage point change)



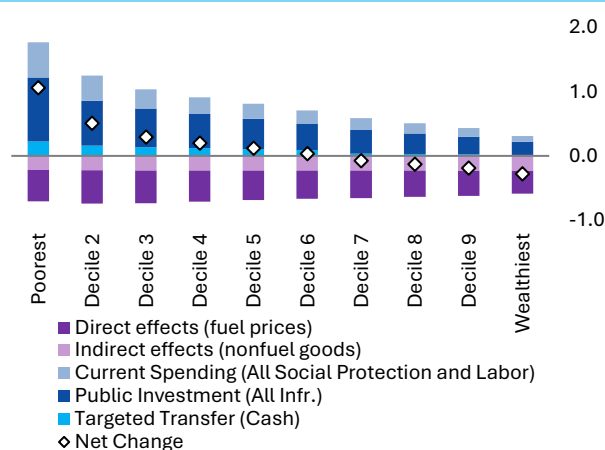
Source: Susenas 2025, World Bank staff calculations.

**Figure A.27: Fiscal savings from fuel subsidy reforms build over time.**  
(US\$ billion, 2026=100, LHS; percent of GDP, RHS)



Source: CPAT, World Bank staff calculations.

**Figure A.28: Recycling savings makes subsidy reform progressive across income groups.**  
(percent of total consumption by decile)



Source: CPAT, World Bank staff calculations.

### Foundational Infrastructure: Strengthening Public Investment Management

**Capital spending is predominantly led by central government with subnational governments (SNGs) and SOEs also providing notable contributions.** SNGs investment mainly rely on central government transfers while SOEs receive capital injections, subsidies, and external funding (Figure A.29). Most central government capital spending targets general public services and economic functions (Figure A.30), while investment in social sectors like education and health remains limited due to decentralized service delivery responsibilities.

**Budget execution weaknesses undermine the effectiveness of public investment.** Between 2010 and 2019, capital spending was characterized by systematic underspending relative to approved budgets (88 percent on average), reflecting weaknesses in project readiness, procurement, and coordination. More recently (2022-2025), capital expenditure outturns have exceeded initial budget allocations (138 percent on average), signaling greater flexibility but also raising concerns about planning discipline. A recurring issue is the concentration of capital spending toward the end of the fiscal year. The bulk of capital expenditure is typically executed in the final quarter, increasing the risk of rushed implementation and suboptimal project outcomes (Figure A.31). International experience shows that end-of-year spending surges are associated with lower value-for-money, cost overruns, and weaker project quality (Liebman and Mahoney, 2017; Baumann and Klymak, 2024; Eichenauer, 2020). Underspending and bunching can be attributed to several factors including the limited use of multi-year contracts for capital spending projects (World Bank 2020).

**SNGs face similar constraints.** While execution rates at the aggregate subnational level appear relatively high (97.7 percent), performance varies widely across provinces and districts (Figure A.32). A substantial number of local governments consistently underexecute their capital budgets, while others exceed planned allocations, pointing to weaknesses in planning and budget discipline.<sup>41</sup> These challenges

41. In 2024, 5 or 13.2 percent of provinces and 80 districts or 16.1 percent had capital budget execution rates below 85 percent. Meanwhile, 6 or 15.8 percent of provinces and 118 or 23.7 percent districts had budget execution rates more than 115 percent. International best practice on budget reliability provides that the difference between planned expenditures and executed expenditures at the end of the fiscal year should not be greater than 5 percent (PEFA Framework).

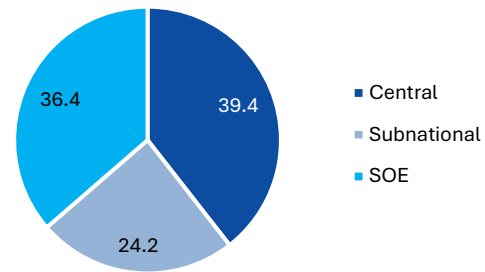
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reflect broader public financial management (PFM) constraints at the SNG level, including limited project preparation capacity, weak prioritization frameworks, and insufficient monitoring of implementation. Given the scale of subnational capital spending, addressing these constraints is key to improving overall public investment outcomes.

**Beyond issues of execution, public investment efficiency remains below that of other ASEAN and Emerging Markets peers.** In a cross-country assessment, Batsuuri, Tsendsuren et.al (2026) show a sizeable efficiency gap—the difference between actual infrastructure and service outcomes and what could be achieved with the same level of public investment under best practice. Closing this efficiency gap could yield large economic dividends. International evidence suggests that improving public investment management (PIM), alongside a gradual increase in public investment, could significantly raise Indonesia’s long-run GDP. Despite progress in strengthening parts of the PFM framework, core weaknesses in public investment management have persisted over time. These include limited use of rigorous project appraisal, weak links between strategic planning and project selection, inadequate multiyear budgeting, fragmentation of investment projects, and absence of systematic ex post evaluation.

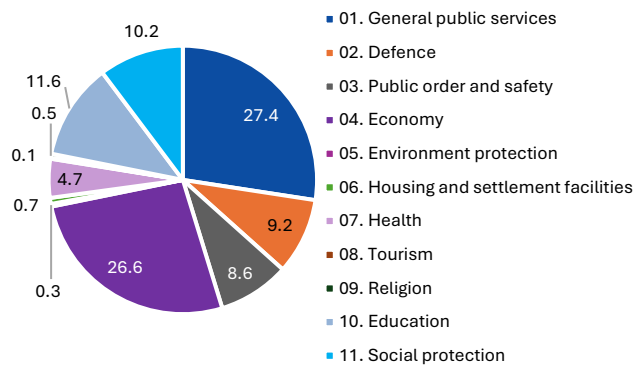
**Indonesia lacks a unified public investment project pipeline due to fragmented institutional processes.** The selection of public investment project follows different but parallel pathways depending on the financing and designation. APBN-funded projects are primarily selected through the national planning and budgeting process led by Bappenas, where proposals from line ministries are screened for alignment with the RPJMN and sector priorities before being financially approved by Ministry of Finance to be incorporated into the annual budget. National Strategic Projects (PSN) are a subset of high-priority investments designated through a more centralized and politically endorsed process coordinated by Bappenas as well but through different mechanisms. PSN are selected based on criteria such as economic impact, regional balance, and implementation readiness, with final approval typically formalized through presidential regulations. Meanwhile, other major projects including those financed by state-owned enterprises or public-private partnerships enter the pipeline through sectoral planning and are selected by combining technocratic screening with varying degrees of political prioritization.

**Figure A.29: Central government accounts for the largest share of public capital expenditure.**  
(Percent of total, 2024)



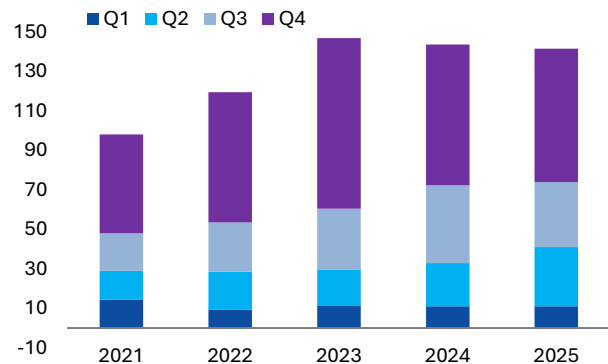
Source: APBN, APBD/SIKD, SOE annual report (2024).

**Figure A.30: Central government capital spending is concentrated in infrastructure-related functions.**  
(Percent of total, 2025)



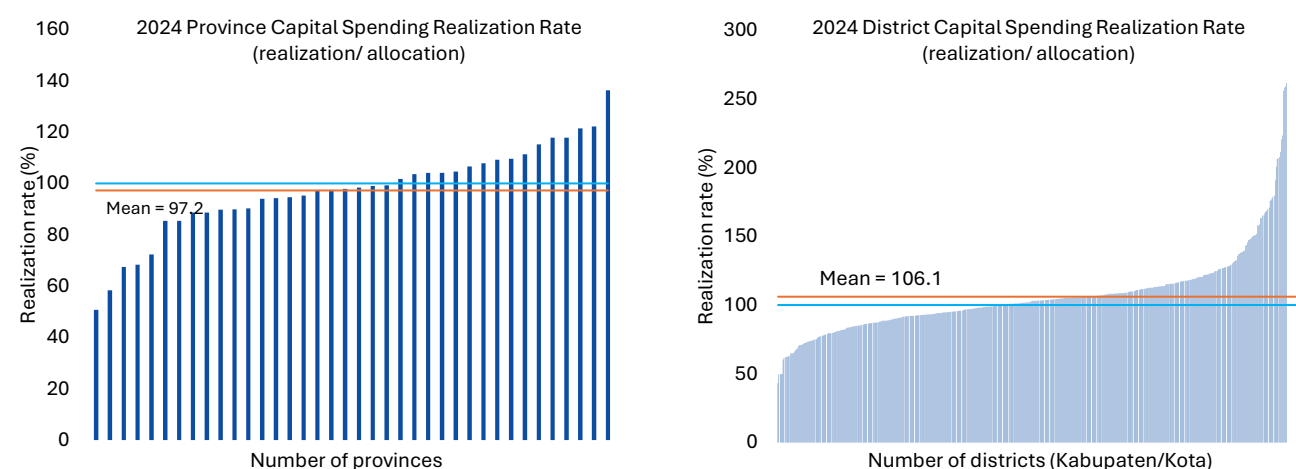
Source: APBN data.

**Figure A.31: Capital budget execution remains backloaded toward year-end.**  
(Quarterly capital budget execution against budget)



Note: 2025 is estimated (unaudited). Source: Ministry of Finance

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**Figure A.32: Capital budget execution varies widely across provinces and districts.**
*(Budget execution rates, 2024)*


Source: World Bank Staff calculation based on DJPK, Ministry of Finance.

**Addressing Indonesia’s PIM challenges requires a focused set of institutional and governance reforms across both central and subnational governments.**

The issues are wide-ranging, spanning project selection and appraisal, procurement, land acquisition, safeguards, operations and maintenance, climate resilience standards, and the enabling framework for private and PPP financing. This section therefore does not present a comprehensive PIM reform agenda. Instead, it focuses on a selective set of upstream institutional and governance entry points where the evidence points to clear opportunities for improving project discipline, transparency, and execution. These reforms should be viewed as a foundation for a broader, longer-term reform agenda, not as a substitute for deeper work on implementation, maintenance, resilience, and financing.

**First, reinforce gatekeeping and coordination across the investment cycle through the creation of a central PIM unit.** Currently, there is no single “gate” through which all public investment projects must pass. The process is fragmented across multiple institutions, weakening accountability and consistency. Establishing clearer gatekeeping functions—backed by enforceable standards—would help ensure that only well-prepared projects proceed to budgeting and implementation. Improved coordination between strategic planning and economic appraisal would also reduce the risk of misaligned investment decisions.

**Second, strengthen and standardize project selection and appraisal, building on Bappenas’ current role in reviewing the PSN.** Public investment decisions could be guided by systematic economic and fiscal analysis to ensure that limited public resources are allocated to projects with the highest social and economic returns. While PSN are subject to rigorous review,<sup>42</sup> most state-budget funded projects prepared by line ministries focus on administrative compliance rather than project quality. Appraisal practices across line ministries and SNGs remain uneven, with many projects entering the budget process without robust feasibility analysis. Strengthening appraisal standards, establishing a clear regulatory framework, and ensuring consistent application through capacity building are critical to improving project quality and value for money.

**Third, improve implementation discipline and multiyear planning.** Weak links between annual budgets and multi-year investment commitments contribute to delayed execution and end-year spending surges. Expanding the use of multiyear budgeting and contracts, alongside stronger monitoring of project implementation, would help smooth execution and reduce incentives for rushed spending. Enhanced oversight of cost overruns and scope changes are also needed to protect fiscal sustainability.

42. Based on Coordinating Ministry of Economic Affairs Performance Report (LAKIP) 2025: a total of IDR 63.71 trillion PSN were completed in 2025. The overall financing scheme for PSN is largely contributed by the private sector, while national government budget funding accounting for only 11.7 percent.

**Fourth, develop an integrated and transparent public investment pipeline.** A comprehensive project database covering the full investment lifecycle—from identification to completion—would improve transparency, coordination, and monitoring. Such a system could also support better project prioritization, facilitate financing decisions (including through public-private partnerships), and improve accountability for results. Strengthening the legal and regulatory framework underpinning PIM would support compliance with agreed standards and clarify institutional roles.

**These reform priorities are also critical at the subnational level, where PIM weaknesses are compounded by institutional and capacity constraints.** Many local governments lack dedicated project preparation units, rely on small and fragmented projects, and have limited systems for prioritizing capital investments against development needs. Monitoring is also weaker, meaning implementation problems are often identified too late to be corrected within the budget cycle. Fiduciary risks can be higher, where internal audit functions and accountability mechanisms are less developed. Addressing these constraints requires more than cascading central level standards downward. It calls for differentiated capacity building support across provinces and districts, stronger incentives embedded in intergovernmental transfer mechanisms, and national standards that are both enforceable and realistic. Given the scale of subnational capital spending and its direct link to service delivery, improving local-level PIM is integral to the broader reform agenda.

**Public investment has the potential to play a transformative role in Indonesia’s development aspirations.** Realizing this potential will require not only mobilizing additional resources, but also ensuring that public investment is well chosen, well executed, and well managed. Strengthening PIM could therefore be a central element of Indonesia’s structural reform agenda, supporting higher productivity and more resilient growth. Stronger PIM could build critical infrastructure, crowd in private financing, and be foundational for private sector development and job creation with the logistics sector a case in point.

## *Business Enabling Policies: Closing Logistics Gap through Institutional Reform to Support Competitiveness*

**Logistics services are a foundational network sector, underpinning productivity and competitiveness across the economy.** A dollar increase in final demand for transport services generates two dollars in economy-wide output reflecting strong linkages with manufacturing, retail, tourism, and e-commerce (Lakatos, Valiant, and Pasha, 2026). As logistics costs and reliability increasingly shape firms’ ability to access inputs and compete in export market, Indonesia’s restrictiveness in logistics services stands out among ASEAN peers and continues to weigh on overall logistics performance (Figure A.33).

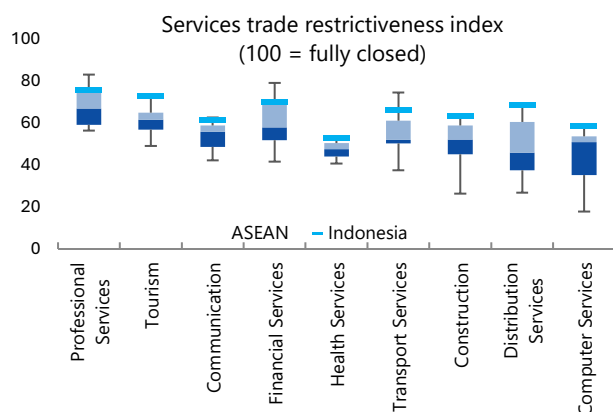
**Weak governance has limited infrastructure and digitalization gains from translating into strong logistics performance.** Based on the 2025 LPI 2.0, Indonesia performs competitively on the average dwell time for imported containers (around 3.1 days),<sup>43</sup> but vessel time in port (turnaround time) remains longer and more variable than regional peers (Figure A.34). The latter suggests persistent inefficiencies in waterside port processes, increasing inventory and working capital costs.

**Indonesia’s logistics gap reflects both infrastructure needs and institutional coordination challenges.** Significant investment gaps remain, with only about 60 percent of needs expected to be financed under the RPJMN, and private participation still below target. Indonesia has made important progress in strengthening physical and digital logistics foundations, including expanding the national road network, modernizing major ports, and rolling out digital single submission systems for trade and transport documentation under the National Logistics Ecosystem (NLE). These reforms enabled long-delayed improvements including cross agency single submission processes. However, infrastructure and digital platforms alone will not close the logistics gap if the system remains fragmented. Logistics continues to be managed through multiple institutional mandates rather than as an integrated system, limiting the returns from past infrastructure and digital investments and weakening the impact of future ones.

43. Ministry of Transportation regulation (PM 116/2016) caps container storage in major international ports at 3 days, after which containers must be moved to off-port bonded facilities. Hence, part of cargo waiting time may not be captured in port-level import dwell time figures.

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**Figure A.33: Indonesia’s transport services are among the most restrictive in ASEAN.**

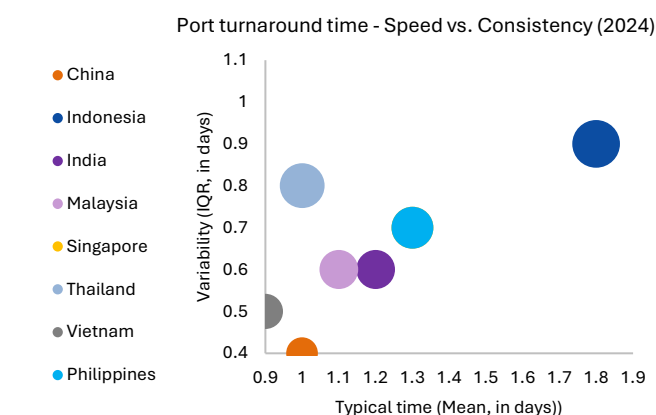


Source: Lakatos, C.; Valiant, I.; Pasha, M. 2026.

### Reform 1. Strengthen High Level Institutional Coordination to Manage Logistics as a System

The government could consider establishing a permanent, high-level logistics coordination mechanism, with a clear mandate to manage logistics as a system, across modes and agencies. Logistics institutional responsibilities are dispersed across at least 15 ministries, national agencies, SOEs, and subnational authorities, with no permanent mechanism to align logistics strategy, regulations, investments, and operational regulations across the whole logistics chain. The result is uneven implementation, policy uncertainty, and high costs, especially for domestic logistics. In April 2025, the lifting of a 16-day holiday truck ban triggered severe

**Figure A.34: Delays for ships in port are long and uneven relative to regional peers.**



Source: World Bank Staff calculation based on 2025 Logistics Performance Index (LPI) 2.0 data.

congestion at Tanjung Priok, causing two-day delays and estimated losses of IDR 120 billion (US\$7.4 million)<sup>44</sup> alongside broader unquantified costs from the absence of a National Logistics Strategy for 2025–2029 and repeated regulatory post-ponements.<sup>45</sup> To address this the government could establish a permanent, high-level coordination mechanism with a clear mandate to manage logistics as a system across modes and agencies, focusing on a unified national logistics strategy, systemwide standards and KPIs, and regulatory coherence. The NLE program (2020 and 2024) shows that well-defined coordination can drive joint agency action, while international examples such as India’s PM Gati Shakti and South Korea’s regulatory impact assessments framework underscore the value of integrated planning and rigorous pre-adoption review of major regulatory changes (OECD, 2017).

### BOX A.3: Monitoring Logistics with KPIs: Building Indonesia’s Logistics Performance Dashboard

**Indonesia has stronger data for international logistics than for domestic logistics, leaving major blind spots in performance monitoring.** For cross-border flows, the Indonesia National Single Window and selected port performance indicators have improved visibility and supported reforms, including the single submission process for Quarantine and Customs. However, domestic logistics, especially road<sup>46</sup> and inter-island transport, lack data, limiting policy makers’ ability to assess systemwide performance.

**To close this gap, the Coordinating Ministry for Economic Affairs has initiated the development of a National Logistics Performance Dashboard (LPD).** The LPD will bring together key indicators on time and reliability into a government platform to support coordination and data-driven decision-making.

44. Jakarta Globe. 2025. “Severe Two Day Traffic Jam at Tanjung Priok Port Causes Rp120 Billion Losses for Truck Operators.” April 18th.

45. The enforcement of Zero ODOL (Over Dimension Over Load) in Indonesia has been repeatedly deferred, with official implementation targets shifted from 2023 to 2026, and most recently to 2027, reflecting persistent implementation constraints and stakeholder resistance (<https://setkab.go.id/en/govt-to-ban-over-dimension-and-overload-vehicle-in-2023/> <https://auto.katadata.co.id/news/ahy-ensures-odol-truck-enforcement-begins-in-2027-not-postponed-20523>).

46. In 2024, road transportation represents the largest component of logistics transport costs. In 2024, the breakdown of logistics transportation cost as a share of GDP was: Land transport (excl. rail) at 2.66%, Sea transport at 1.02%, Air transport at 0.89%, Rail transport at 0.04%, and River, lake & crossing at 0.10%. (National Medium Term Development Plan (RPJMN) 2025–2029)

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## Reform 2. Extend Risk-Based Approaches and Trusted Trader Programs Beyond Customs

Extending risk based approaches and trusted-trader benefits beyond Customs can streamline end-to-end clearance for low-risk traders. While customs clearance times declined, the 2024 Time Release Study shows that pre clearance increased about 10 hours compared to 2023, reflecting coordination challenges among other border agencies (Directorate General of Customs and Excise, TRS 2024). While Trusted Trader and Authorized Economic Operator (AEO) frameworks are well established in Indonesia,<sup>47</sup> benefits are largely limited to Customs. The EU's trusted-trader authorizations separate Customs facilitation from security and safety authorizations, allowing facilitation to be recognized across agencies.<sup>48</sup> Korea has extended risk based approaches beyond customs through coordinated assessments and targeted support for firms, including small and medium sized enterprises, generating measurable benefits.<sup>49</sup> Strengthening institutional coordination across agencies is critical to support the National Single Window rollout of process automation and digitally integrated risk management.

## Reform 3. Streamline Import Licensing to Reduce Uncertainty and Trade Costs

The government could consider streamlining import permits, aligning documentation requirements with customs classifications, and publishing a consolidated import framework. Non-tariff measures (NTMs) on import licensing, remain a major structural barrier to Indonesia's trade competitiveness. The import licensing regime imposes significant costs on firms reliant on imported intermediate and capital goods. Tariff equivalents are estimated to be between 60 and 130 percent for these inputs, raising production costs and weakening the competitiveness of firms. These steps would complement ongoing reforms to improve predictability in permit processing, including time-bound and automated processing and issuance for eligible permits.<sup>50</sup> Institutional coordination will be critical to support these processes and digital reforms.

Indonesia has been investing heavily to support logistics performance, but the unfinished reform agenda remains critical alongside continued infrastructure investment and digitalization. Institutional reform would strengthen the foundation for current and planned investments in logistics infrastructure. It would also help address persistent digitalization challenges in cross-border and domestic logistics, which require consensus among key government agencies as well as budget support. Completing institutional reforms, combined with logistics infrastructure and digital systems, would help investments deliver greater reliability, lower costs, and more predictable outcomes for firms, and translate logistics improvements into stronger productivity, better jobs, and more resilient growth.



47. There are 178 AEO certified firms and 551 priority importers.

48. AEOC (Customs simplifications), AEOS (security and safety), or both authorization at the same time under the abbreviation AEOF. Source: The Finnish Customs website.

49. Asiae.co.kr. 2025. "AEO Certified Companies Generated Nearly 300 Billion Won in Economic Benefits Last Year." October

50. The Ministry of Trade, has mandated maximum processing times and automatic clearance for import licenses, as evidenced by Regulation No. 16/2025, as amended by Regulation No. 37/2025.

Table A.2: Selected Macroeconomic Indicators

	2023	2024	2025	2026	2027	2028
	Actual			WB projections		
<b>Real GDP growth and inflation, percent change</b>						
Real GDP	5.0	5.0	5.1	5.0	5.2	5.2
Private Consumption	4.9	5.1	5.0	5.0	5.0	5.0
Government Consumption	3.0	6.8	2.5	8.7	3.3	3.5
Gross Fixed Investment	3.8	4.6	5.1	4.9	6.3	6.4
Exports	1.7	6.9	7.0	5.0	6.2	6.4
Imports	-1.2	8.1	4.8	5.7	6.3	6.8
Consumer Price Inflation (average, %)	3.7	2.3	1.9	3.4	2.9	3.1
<b>Fiscal accounts, central government, percent of GDP</b>						
Revenues	13.3	12.9	11.6	12.3	12.1	12.4
of which Tax Revenue	10.3	10.1	9.3	9.7	9.8	10.1
Expenditures	14.9	15.2	14.5	15.1	14.9	15.1
Primary Balance	0.5	-0.1	-0.8	-0.5	-0.5	-0.4
Fiscal Balance	-1.6	-2.3	-2.9	-2.8	-2.8	-2.7
Central Government Debt	39.2	39.8	40.5	40.6	40.9	41.2
<b>Balance of Payments, percent of GDP unless indicated otherwise</b>						
Current Account Balance	-0.1	-0.6	-0.1	-0.7	-0.9	-1.1
Exports, Goods and Services	21.2	21.6	22.4	21.9	22.3	22.6
Imports, Goods and Services	19.2	20.1	20.3	20.1	20.6	21.1
Net Foreign Direct Investment	1.1	1.1	1.0	1.0	1.2	1.3
Gross Reserves (months of imports of goods and services)	6.7	6.6	6.0	6.3	6.4	6.3
<b>Memorandum items</b>						
Nominal GDP (IDR trillion)	20,892	22,139	23,821	25,579	27,178	28,884
Nominal GDP growth	6.7	6.0	7.6	7.4	6.2	6.3

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