

# INDONESIA

PRESENTATION TO INDEPENDENT ECONOMICS

26<sup>TH</sup> MAY 2026

**SAUL ESLAKE**

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

# Indonesia is ...

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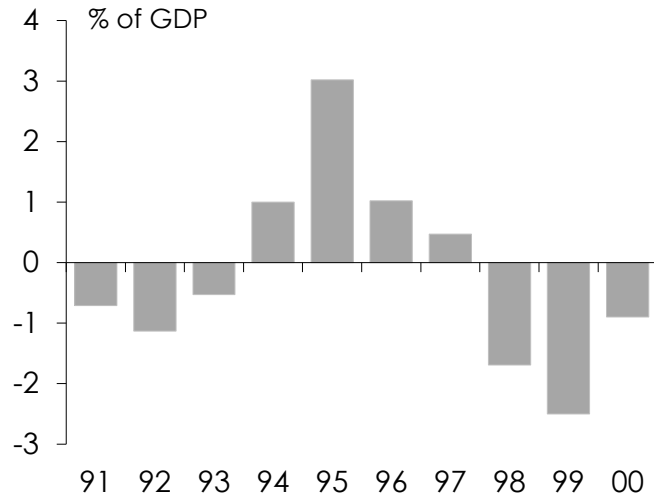
- ❑ an archipelago of 17, 024 islands – including large proportions of the world’s second- and third-largest islands (New Guinea and Borneo), the world’s sixth and eleventh-largest islands (Sumatra and Sulawesi), and the world’s most populated island (Java)
- ❑ the world’s 14<sup>th</sup> largest country by area (between Mexico and Sudan)
- ❑ the world’s fourth largest population (288 million, after India, China and the United States)
- ❑ the world’s largest Muslim population (243 million, ahead of Pakistan, India, Bangladesh and Nigeria)
- ❑ the world’s third largest (by population) democracy, after India and the United States
- ❑ home to more than 1,300 different ethnic groups speaking over 700 languages
- ❑ home to the world’s largest city by population (Jakarta, 41.9 million inhabitants in the ‘city proper’ according to the UN)
- ❑ the world’s 7<sup>th</sup> largest economy (between Germany and Brazil) ranked by GDP at PPPs
- ❑ the world’s 17<sup>th</sup> largest economy (between Türkiye and the Netherlands) ranked by GDP in US\$ at market prices
- ❑ the world’s 8<sup>th</sup> largest exporter of mineral and energy resources – including the largest exporter of thermal coal and nickel

# Indonesia has been through three traumatic upheavals since the end of World War II

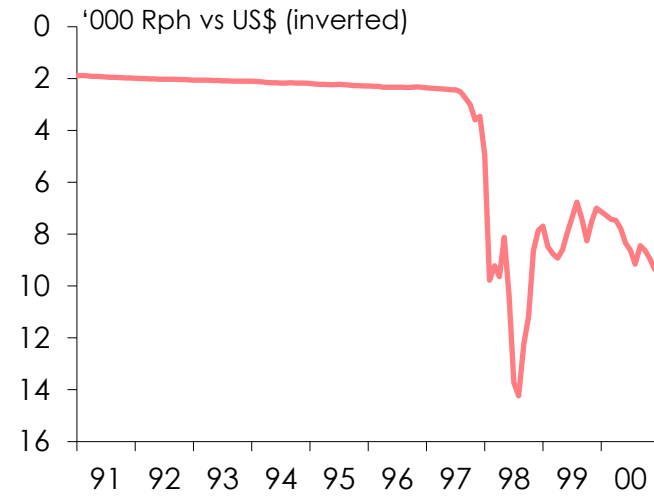
- ❑ Somewhere between 65,000 and 200,000 people were killed during Indonesia's War of Independence from the Dutch (1945-49)
  - of whom at least 100,000 were civilians
- ❑ Between 500,000 and 1 million people (mostly of Chinese descent) were killed during and after the overthrow of Indonesia's inaugural President Soekarno by Soeharto between October 1965 and March 1966
  - a CIA report compiled in 1968 described the massacres which occurred during "The Year of Living Dangerously" (*Tahun vivere pericoloso*) as "one of the worst mass murders of the 20<sup>th</sup> century, along with the Soviet purges of the 1930s, the Nazi mass murders during the Second World War, and the Maoist bloodbath of the early 1950s"
- ❑ Riots in the lead-up to the overthrow of President Soeharto in 1998 (*Kerusuhan Mei*) resulted in at least 1,000 deaths, mostly people of Chinese descent
  - the overthrow of Suharto was also accompanied by economic chaos initially prompted by the Asian financial crisis of 1997-98
- ❑ Additionally, between 60,000 and 308,000 East Timorese were killed during Indonesia's occupation of the former Portuguese colony between 1975 and 1999, and between 100,000 and 300,000 inhabitants of West Papua have been killed since the former Dutch colony was absorbed into Indonesia in 1962

# 1998 was a catastrophic year for Indonesia's economy – in ways that have influenced economic policy ever since

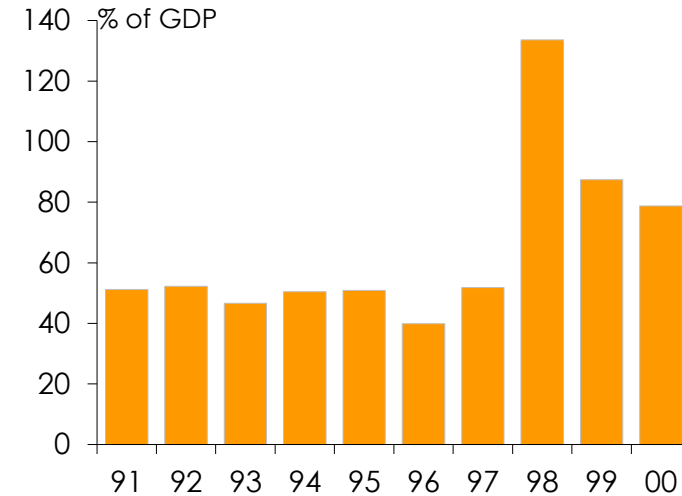
## Budget balances



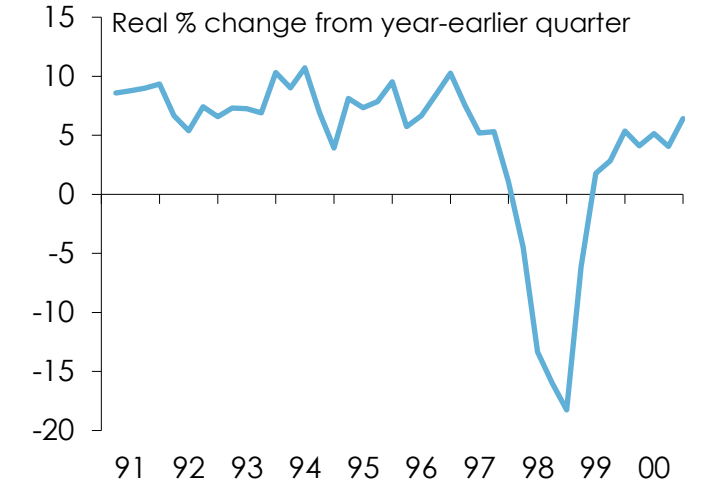
## Rupiah vs US dollar



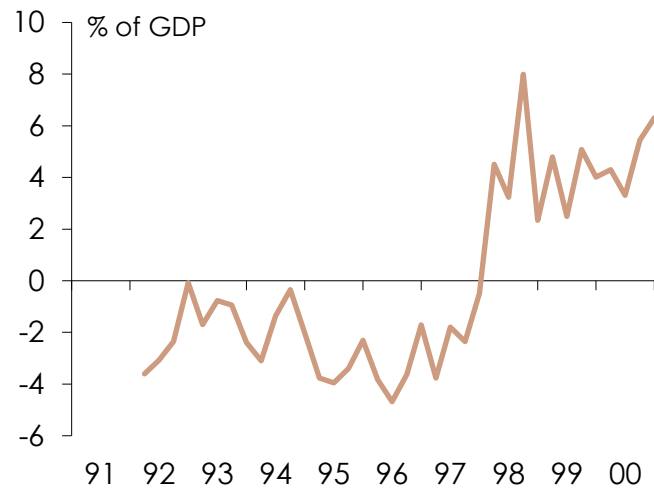
## Net external debt



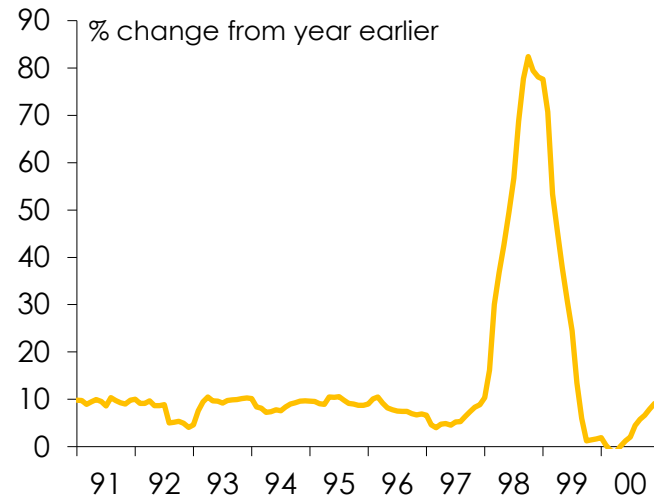
## Real GDP growth



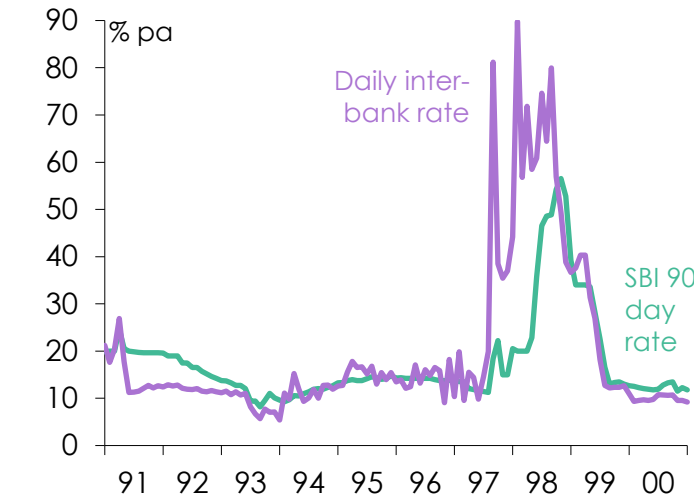
## Current account balance



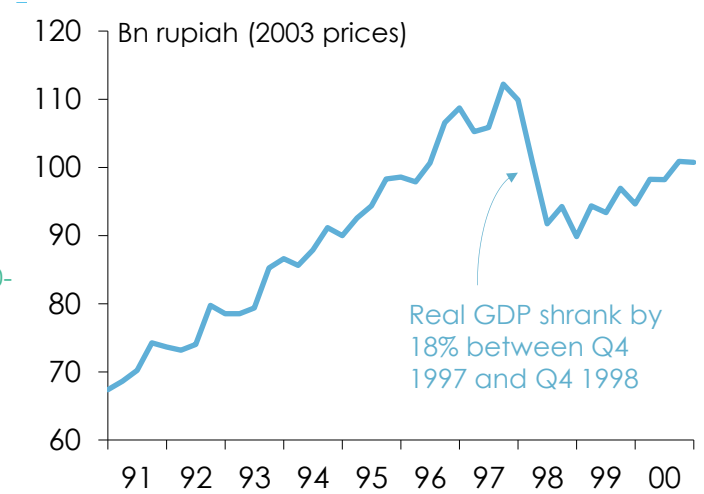
## Consumer prices



## Interest rates



## Level of real GDP



Sources: [BPS-Statistics Indonesia](#); [Bank Indonesia](#); [Kementerian Keuangan \(Ministry of Finance\)](#); LSEG Datastream.

# Indonesia emerged from the 1998 crisis as a genuine democracy

## Presidents of Indonesia since the re-establishment of democracy



BJ Habibie  
1998-1999



Abdurrahman Wahid  
(‘Gus Dur’) 1999-2001



Megawati Sukarnoputri  
2001-2004



Susilo Bambang  
Yudhoyono (‘SBY’)  
2004-2011

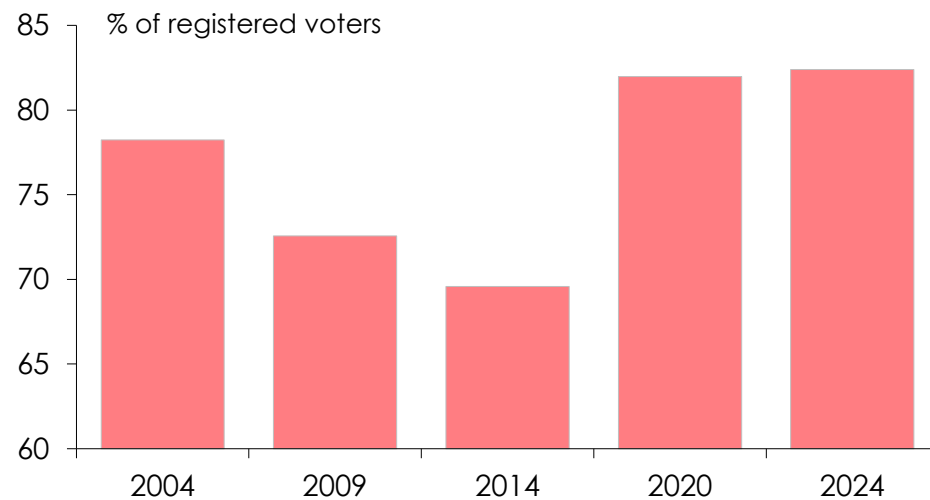


Joko Widodo (‘Jokowi’)  
2014-2024



Prabowo Subianto  
2024 -

## Voter turnout at Presidential elections

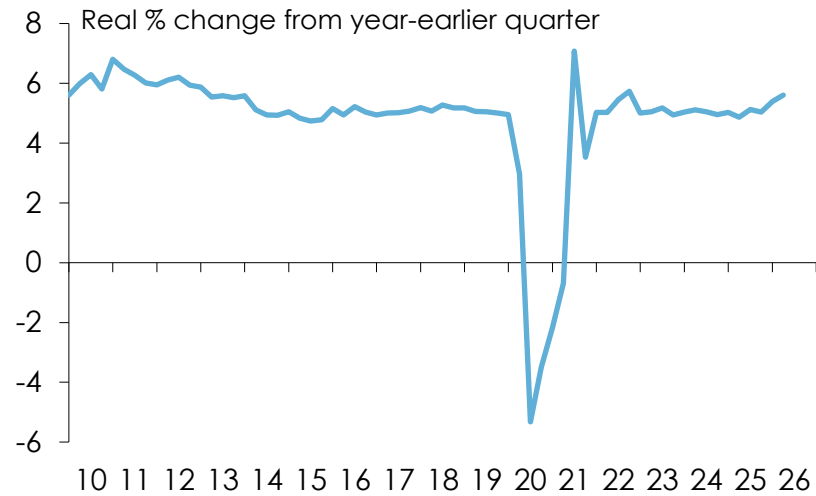


- ❑ Indonesia has had five reasonably peaceful (especially by comparison with, eg, the US in January 2020) transfers of power since the overthrow of Suharto
- ❑ Since 2004 Presidents have been directly elected (using a similar system to that used in France – where if no candidate wins a majority of the vote, the top two candidates compete in a ‘run-off’ election)
- ❑ Voter turnout has been very high compared with other democracies where voting isn’t compulsory – especially in the past two Presidential elections

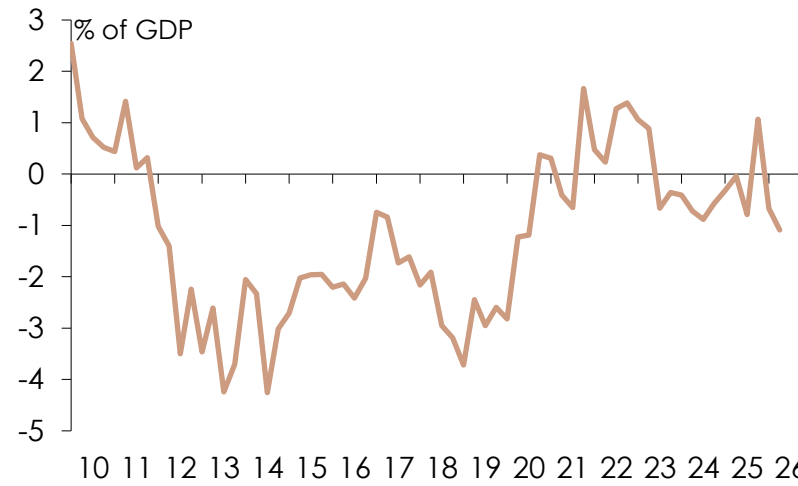
Source: [Komisi Pemilihan Umum](#) (General Elections Commission).

# Since the turn of the century Indonesia policy-makers have prioritized stability in economic growth, inflation, and (especially) the exchange rate

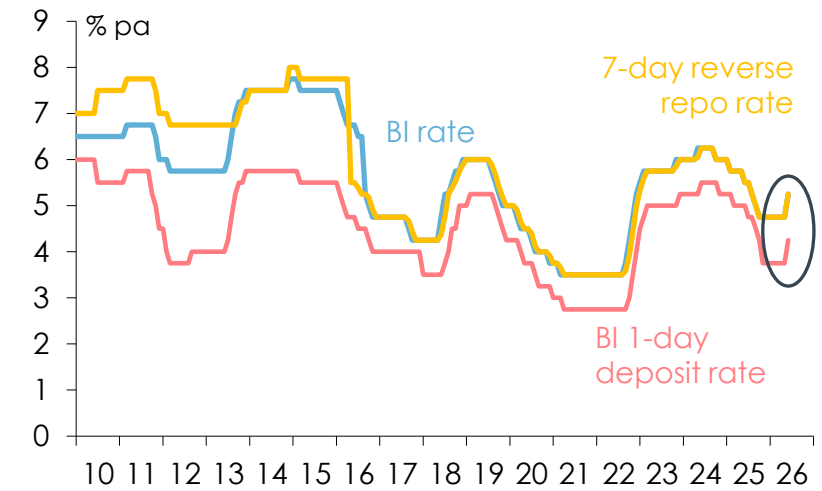
## Real GDP growth



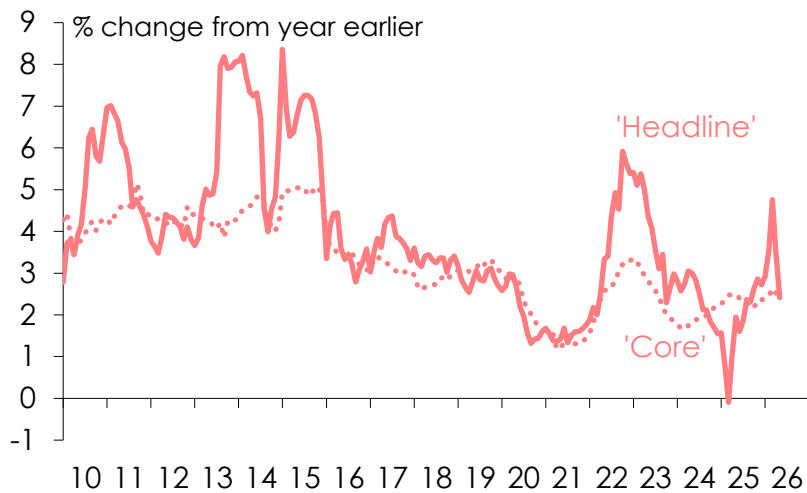
## Current account balance



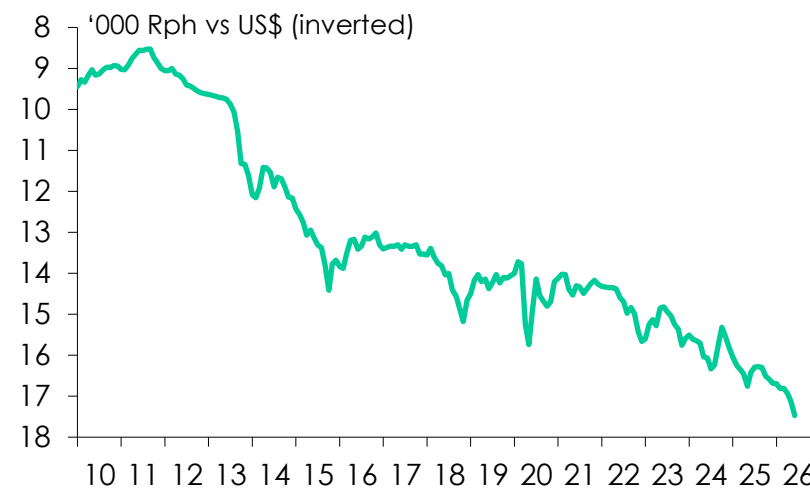
## Interest rates



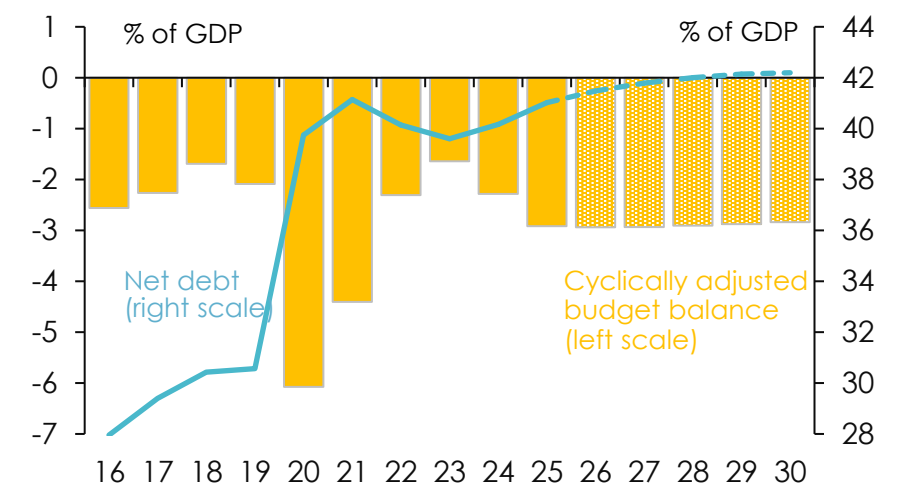
## Inflation



## Rupiah vs US dollar

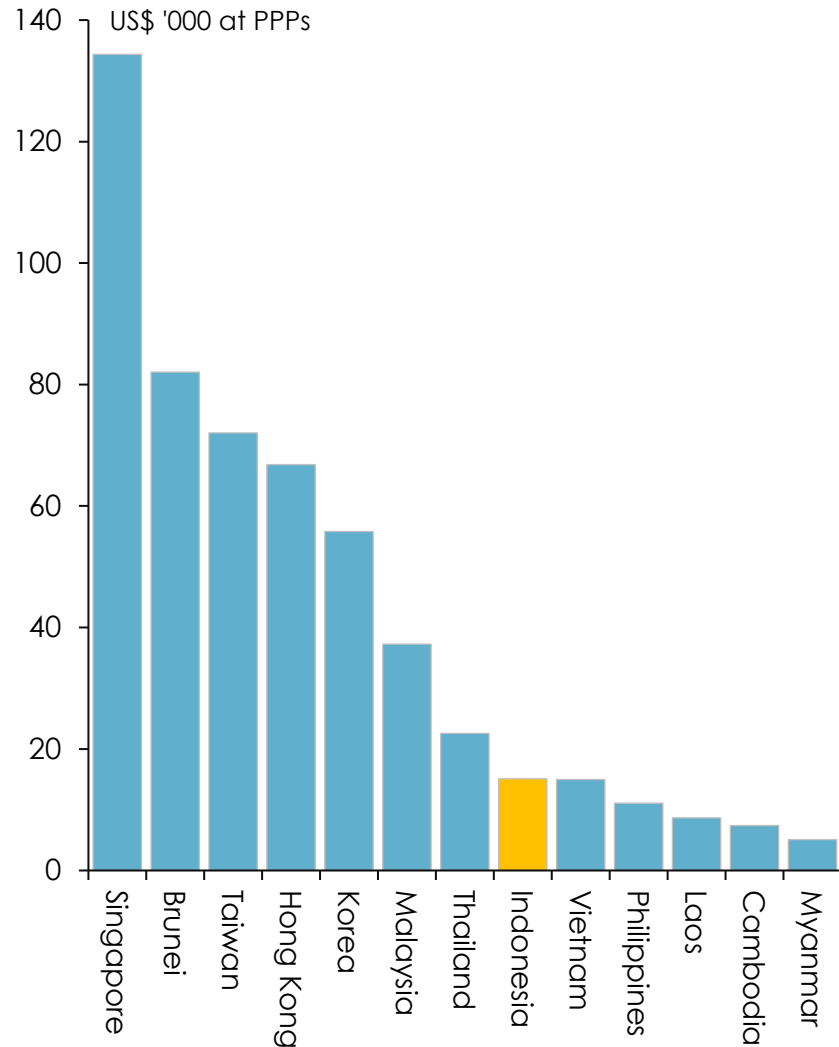


## Fiscal policy

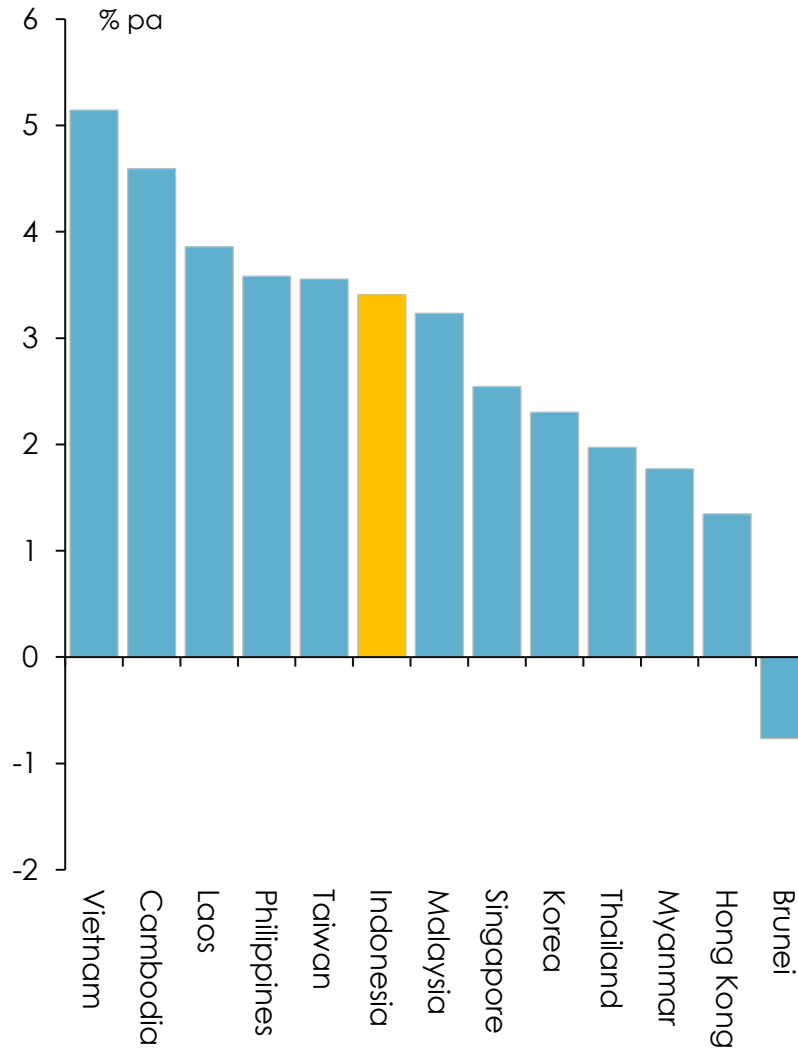


# Indonesia hasn't done as well as many of its Asian peers in raising living standards, although it's expected to do better over the next five years

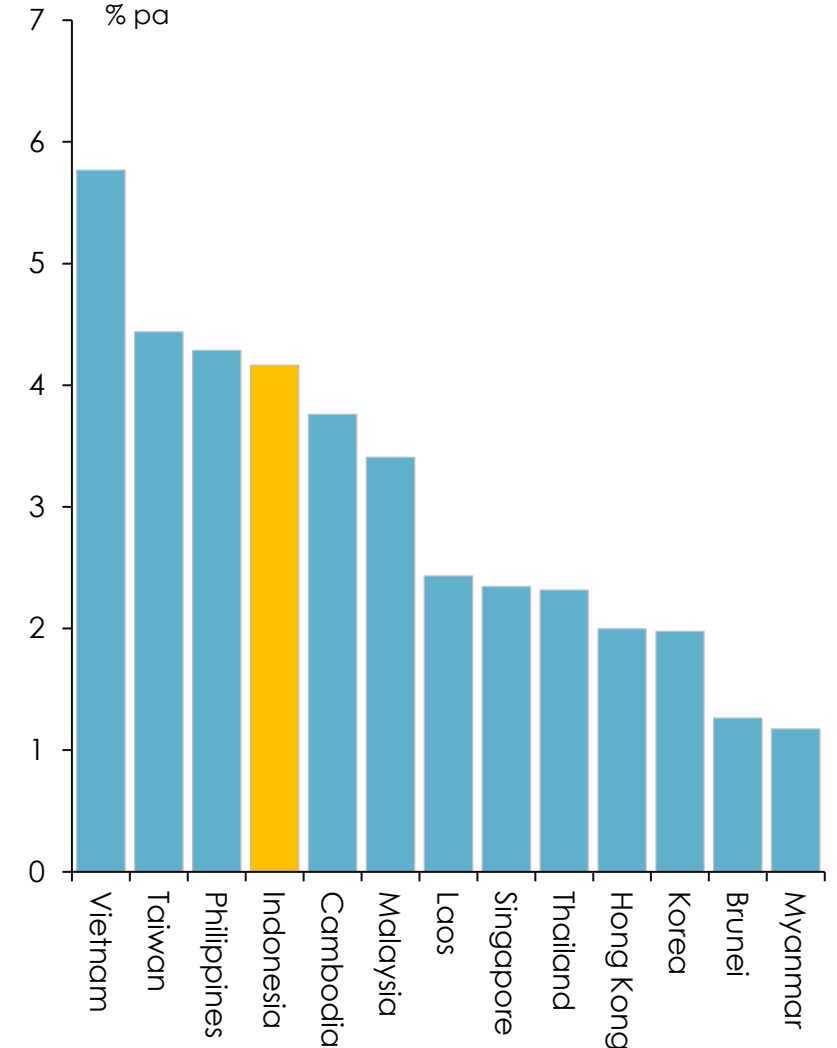
Per capita GDP (at purchasing power parities), 2025



Growth in real GDP per capita, 2010-2025



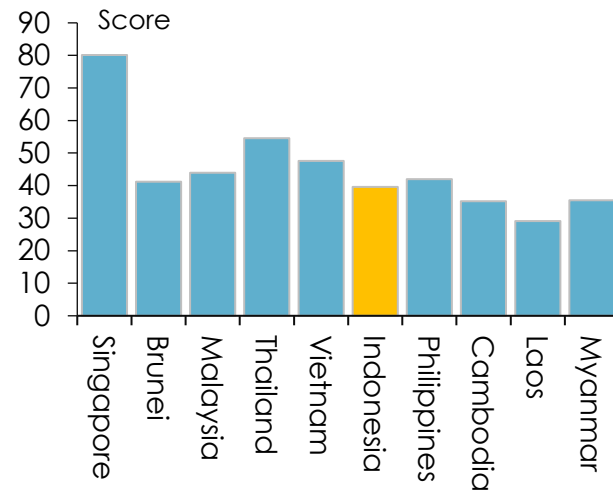
Forecast growth in real GDP per capita, 2025-2030



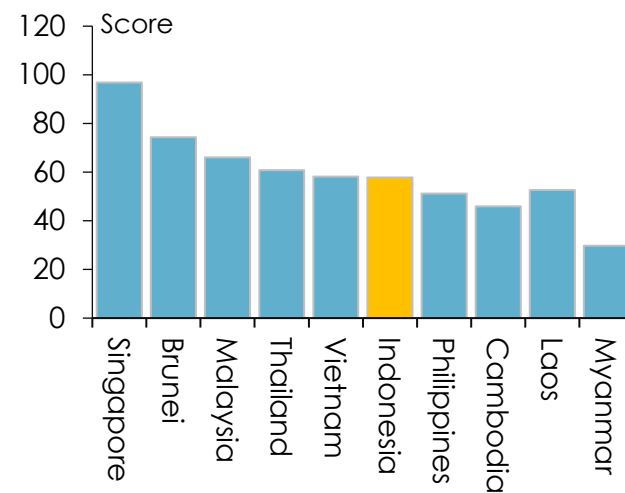
Source: International Monetary Fund, [World Economic Outlook database](#), April 2026.

# Indonesia is well endowed with natural capital, but ranks in the bottom half of South-East Asian countries in other productive capacities

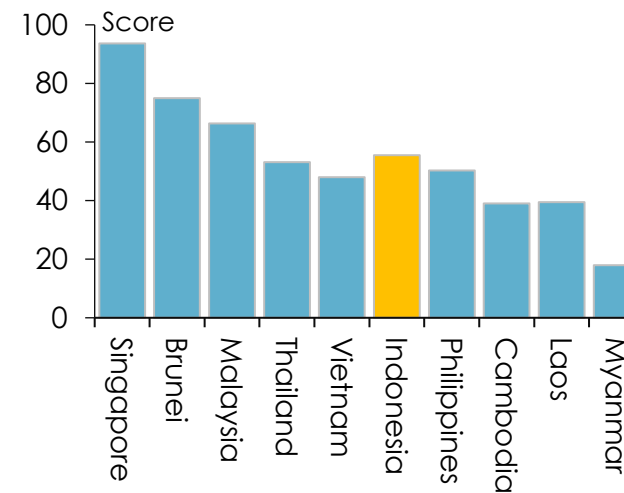
## Human capital



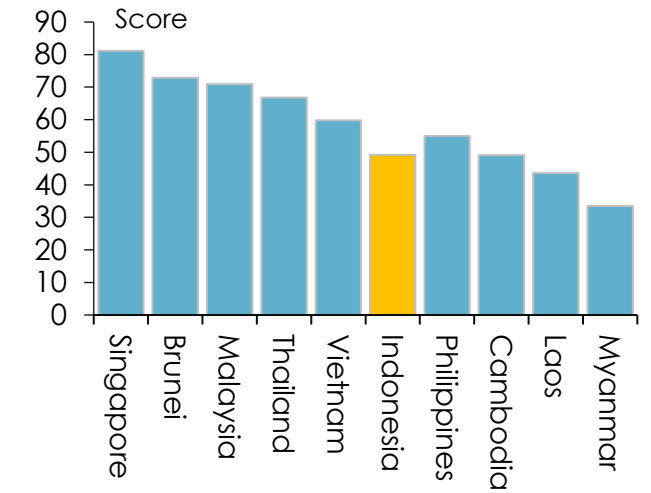
## Institutions



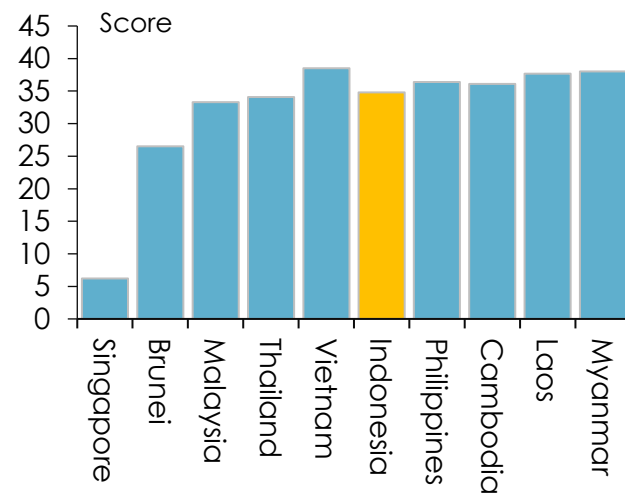
## Energy



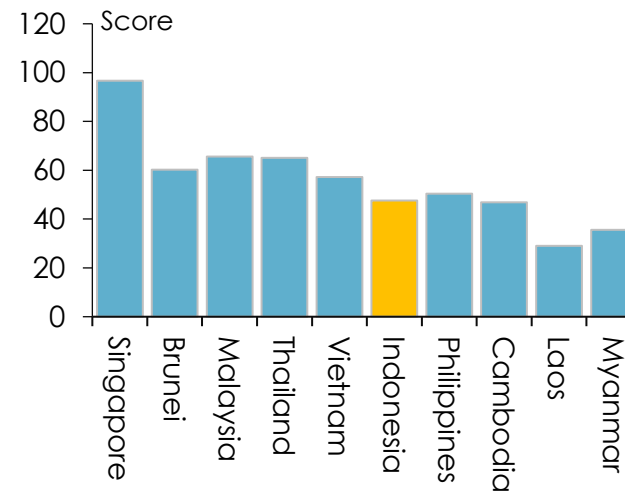
## ICT



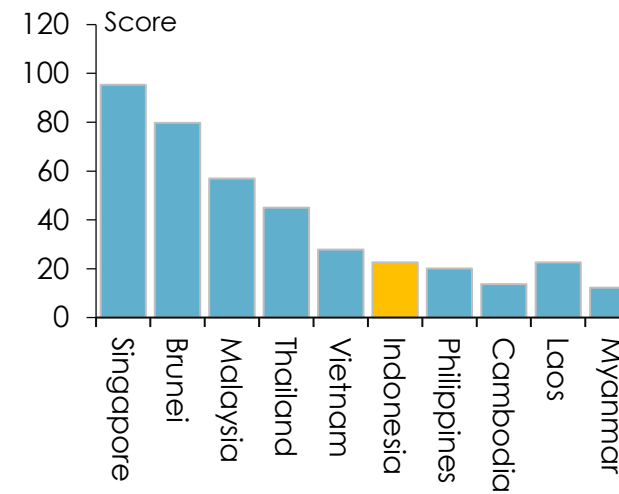
## Natural capital



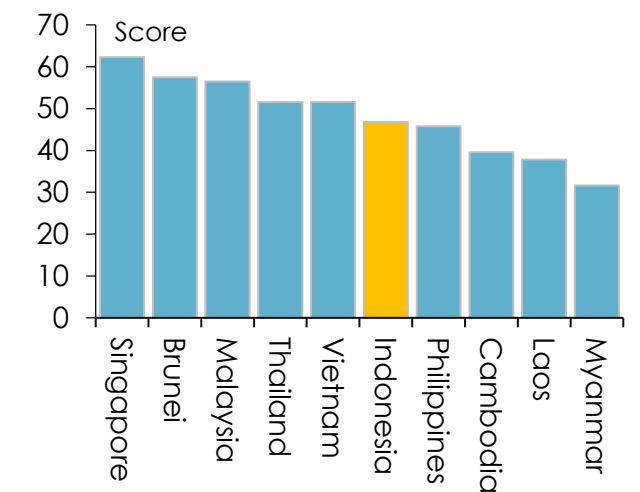
## Private sector



## Transport



## Productive capacities index

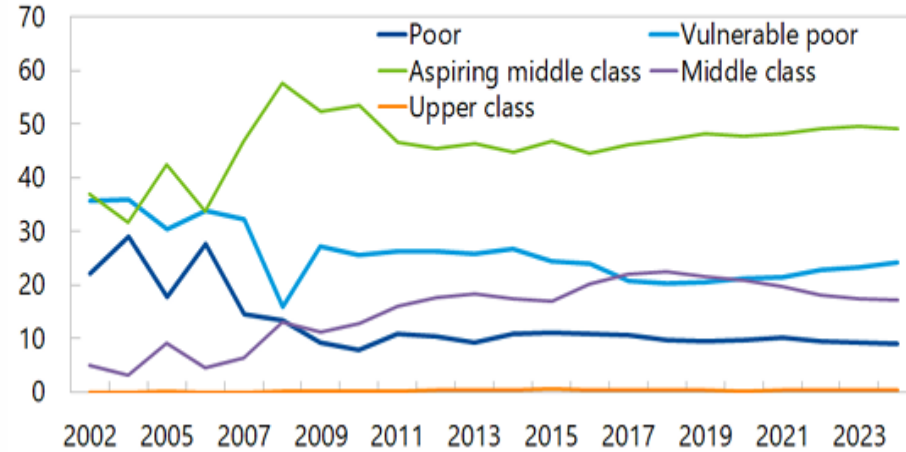


Sources: United Nations Conference on Trade and Development (UNCTAD), [Productive capacities index, 2000-2024 \(analytical\)](#), 31<sup>st</sup> October 2025.

# Indonesia hasn't been able to foster a strong and growing "middle-class" as more successful Asian nations have done

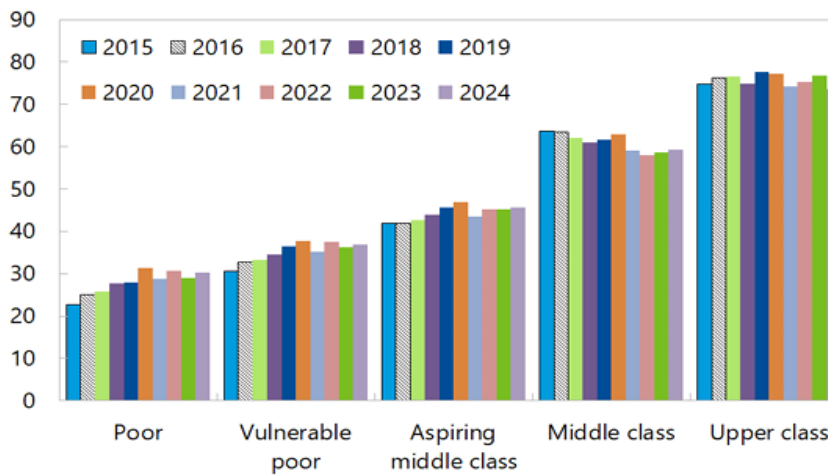
## Economic Classes in Indonesia

(In percent of total population)



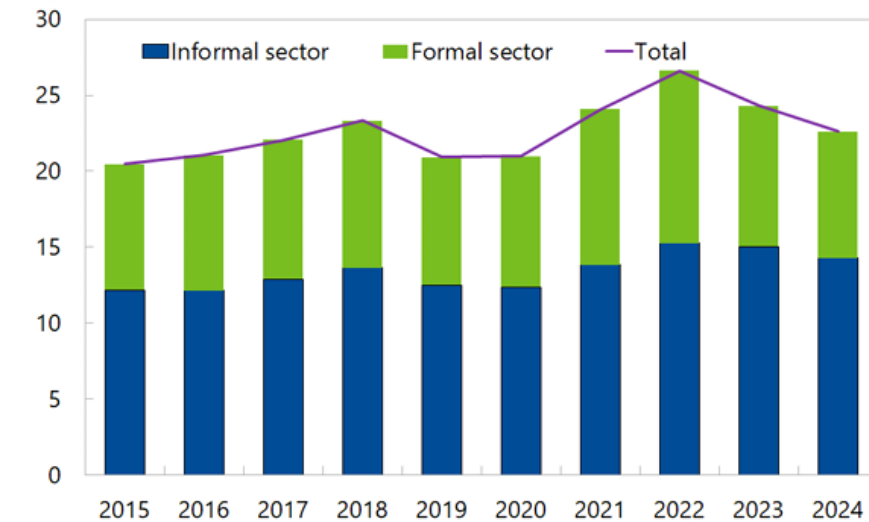
## Formal Work by Economic Class

(In percent of total workers of each economic class)



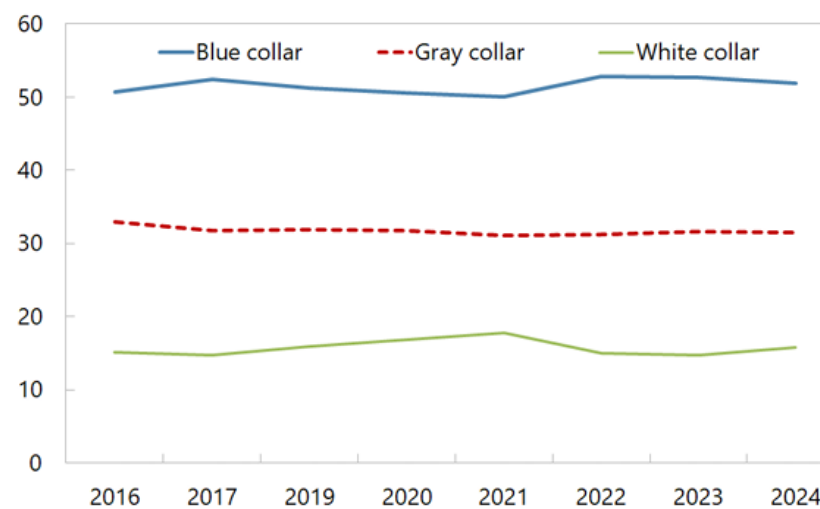
## Middle Class Underemployment Rate

(In percent of middle class workers.)



## Middle Class Job Position Type

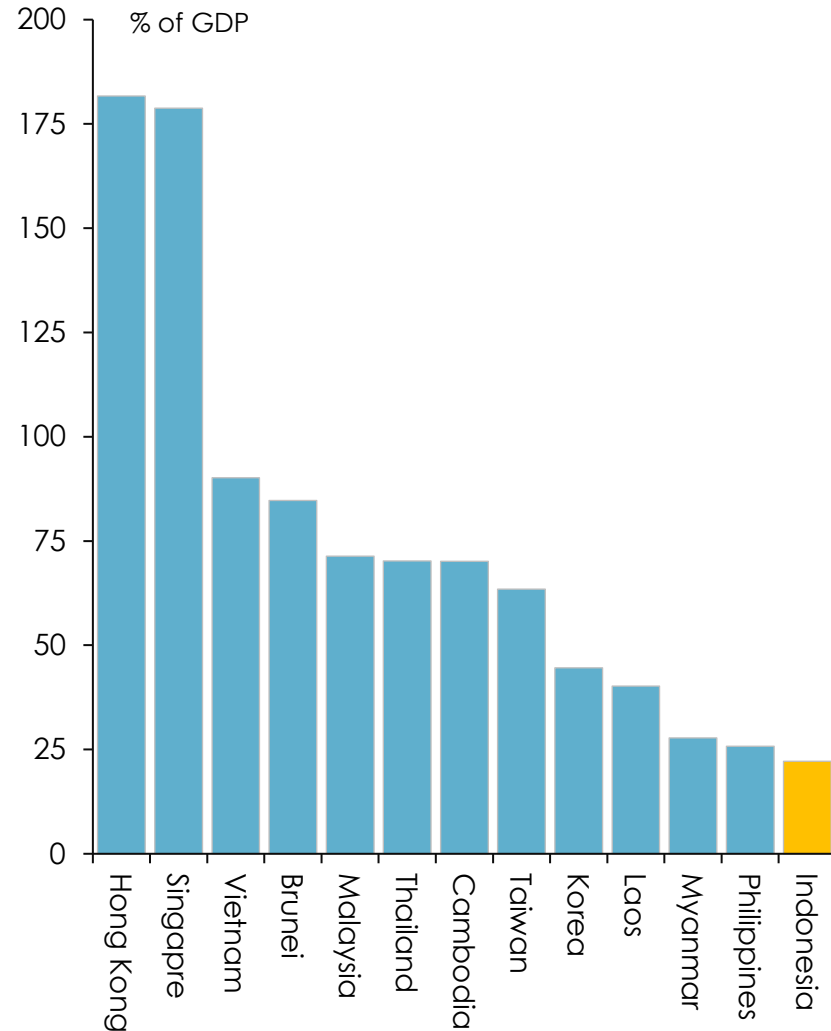
(In percent of middle class workers)



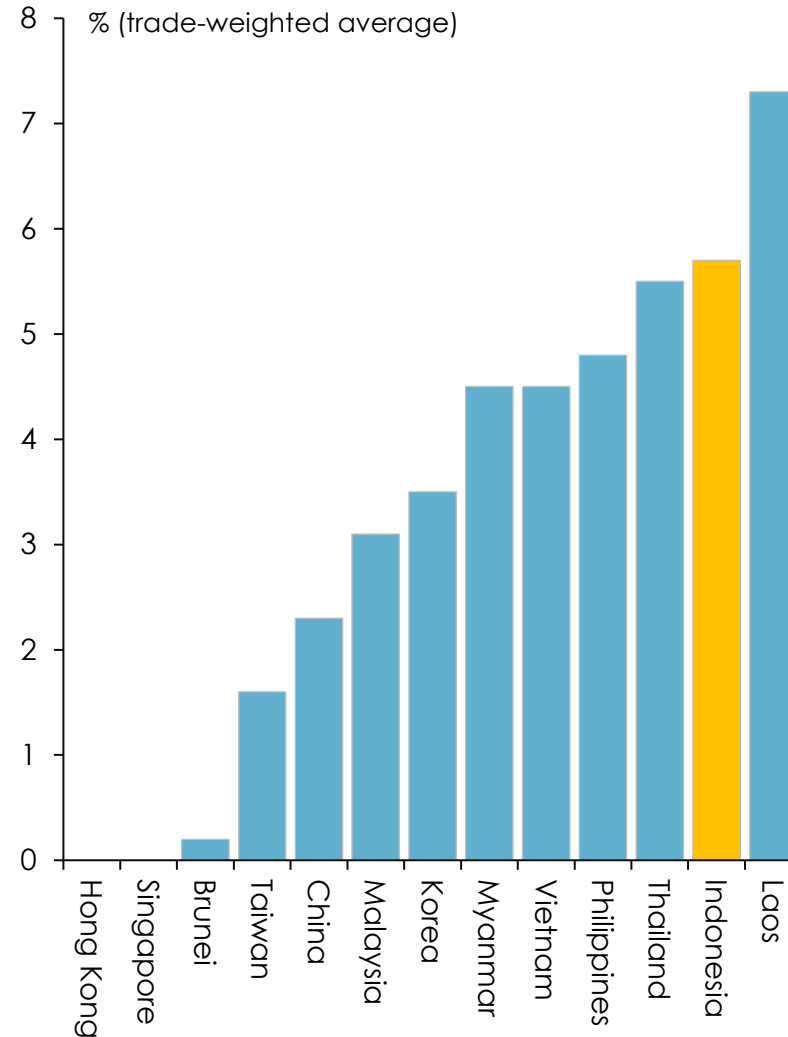
- ❑ Indonesia's "middle class" has shrunk as a share of the population by almost 5½ pc points since 2018 – mirrored by increases in the "aspiring middle class" and "vulnerable poor"
- ❑ Indonesia's "middle class" population has struggled to achieve 'high quality' (ie, formal) employment – other economic classes have maintained or increased employment formality levels
- ❑ Middle-class workers are mostly in low- and medium-skilled jobs, are vulnerable to low wages and technological disruption, and less likely to benefit from productivity increases
- ❑ More than half of middle-class employment is in blue-collar occupations, and less than 20% to white collar occupations

# Indonesia is a relatively closed economy by Asian standards, and in some respects becoming more so

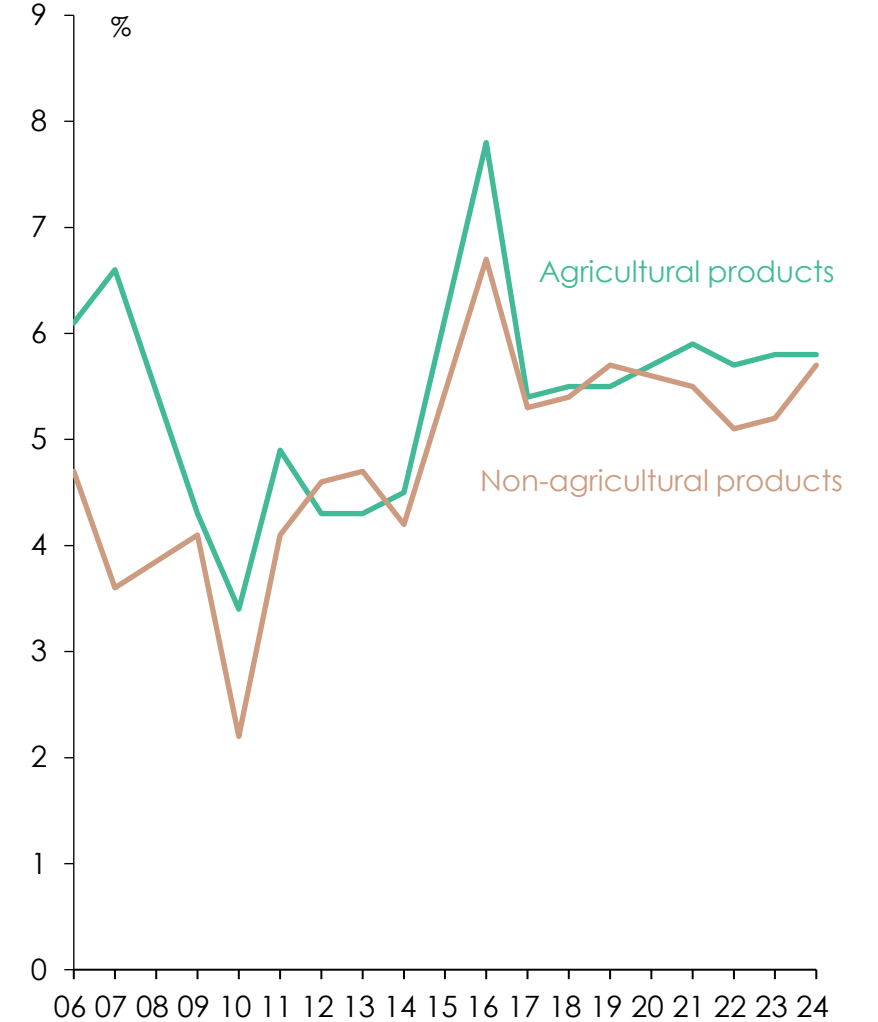
## Exports of goods and services as a pc of GDP, 2024



## Average MFN applied tariffs, non-agricultural products, 2024



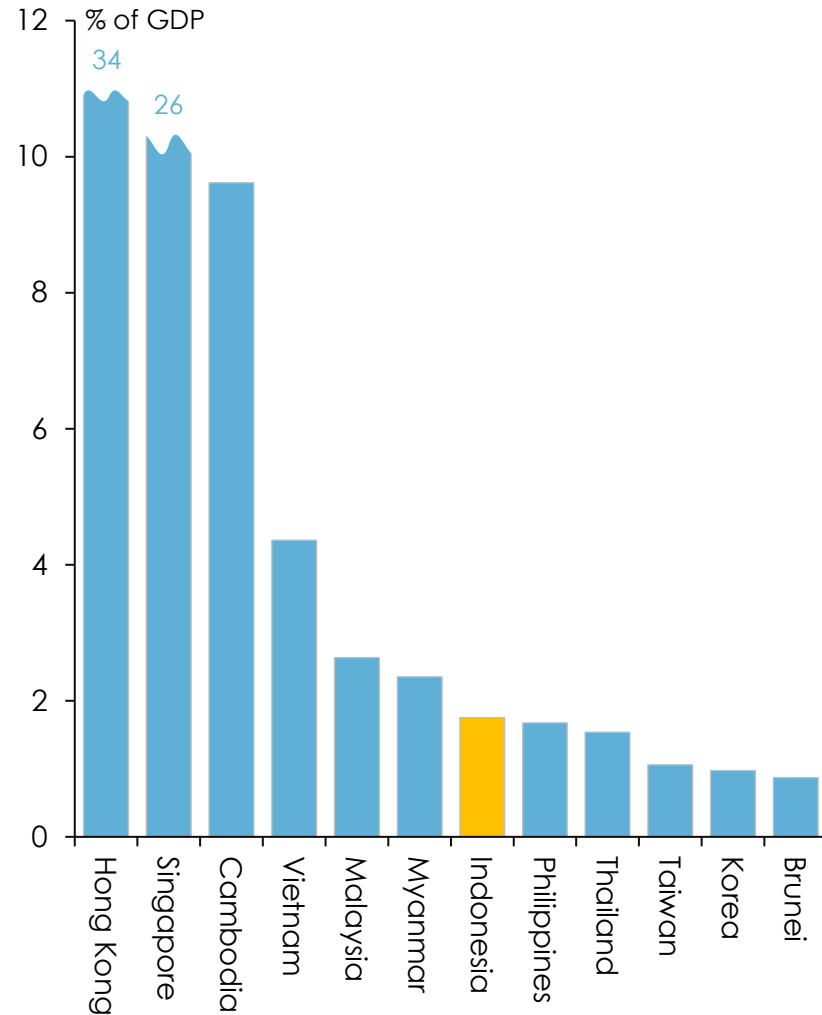
## Indonesia's average MFN applied tariffs, 2006-2024



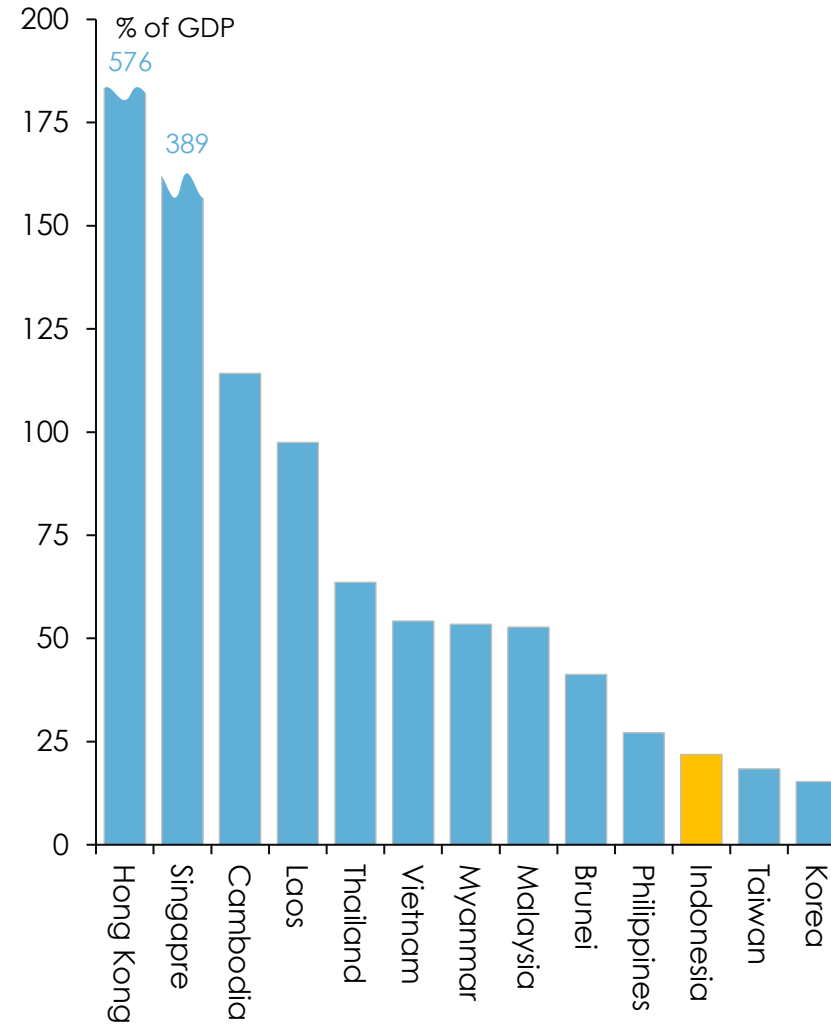
Sources: Asian Development Bank, [Basic Statistics 2026](#); World Trade Organization, [WTO Stats](#).

# Indonesia has not been a particularly appealing (or welcoming) destination for foreign direct investment

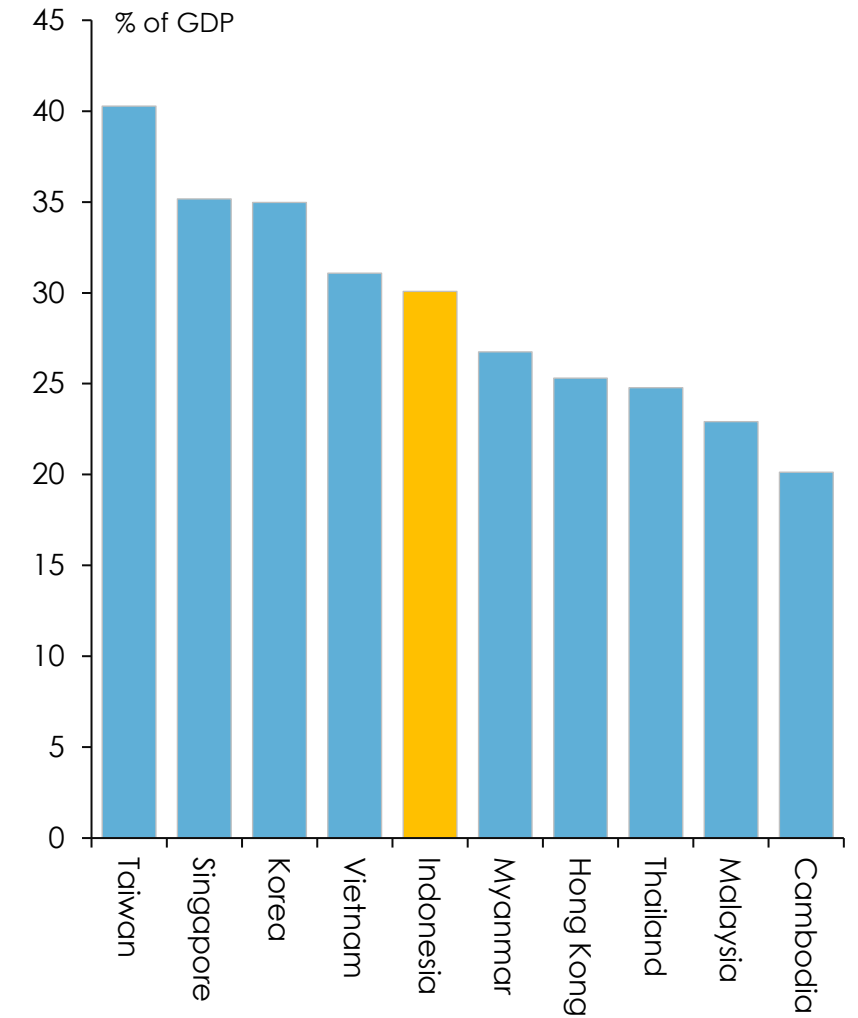
Foreign direct investment inflows as a pc of GDP, 2020-24



Stock of inward foreign direct investment as a pc of GDP, 2024



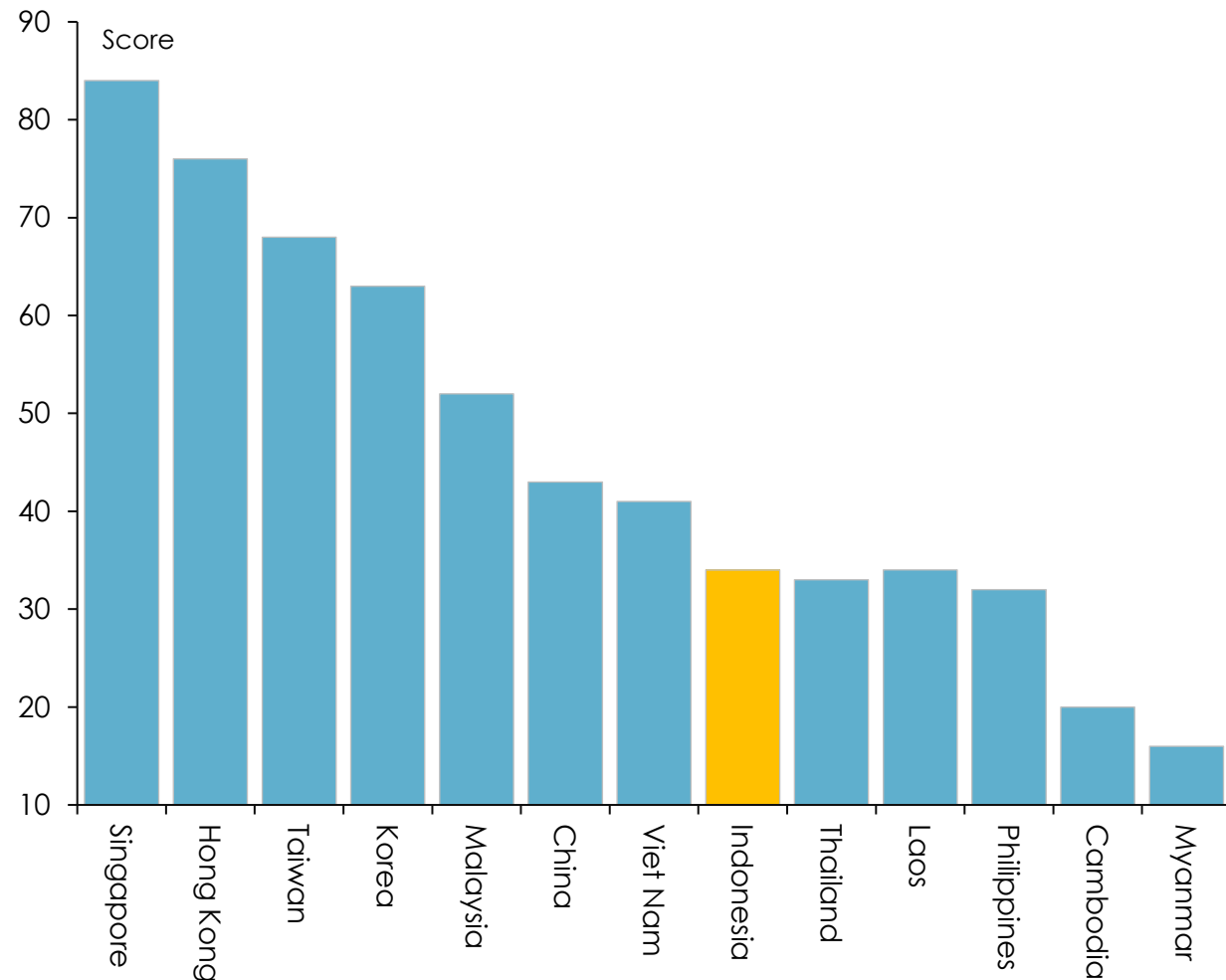
Gross national saving as a pc of GDP, 2024



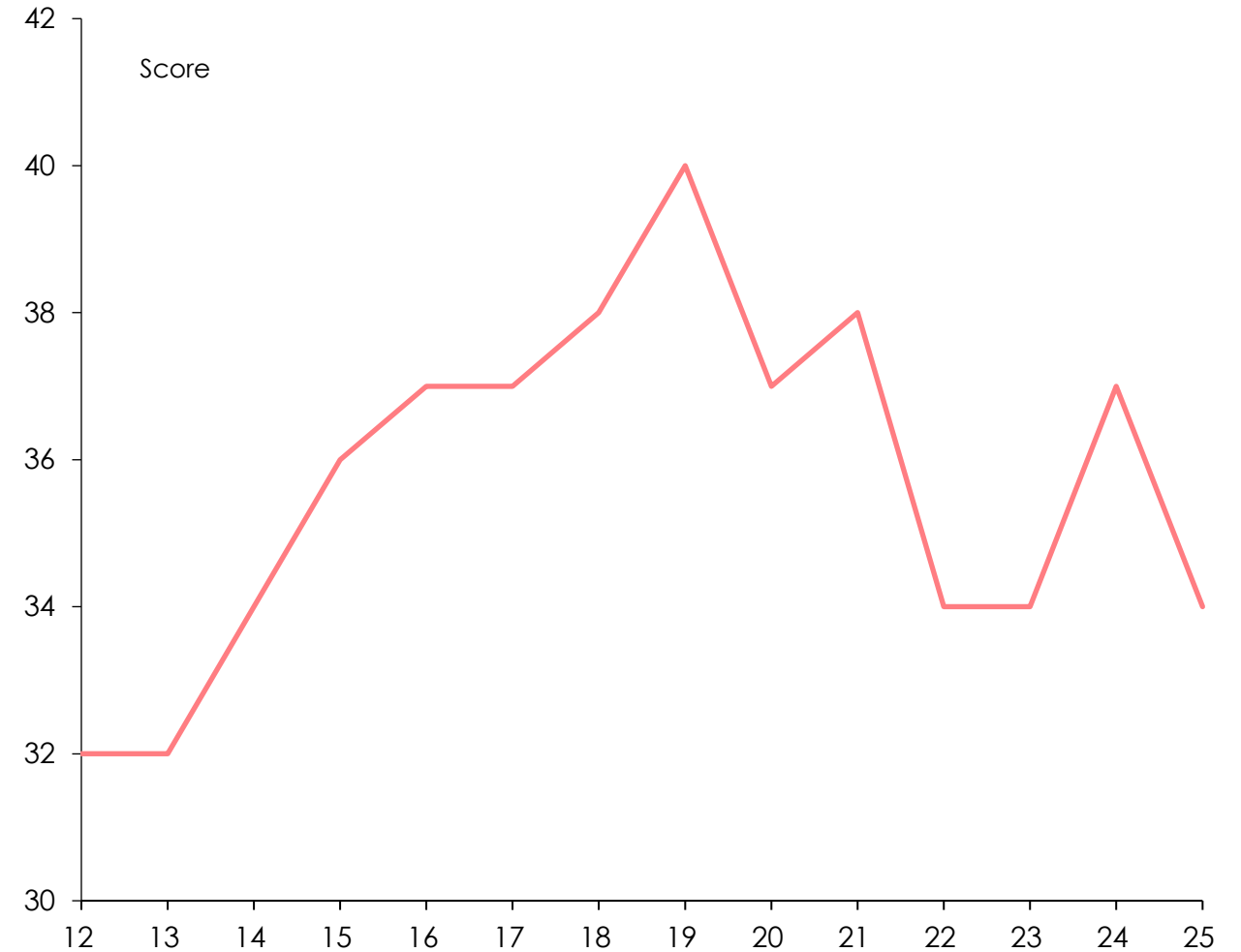
Sources: United Nations Conference on Trade & Development (UNCTAD), [Foreign direct investment: Inward and outward flows and stock, annual](#), September 2025, and International Monetary Fund, [World Economic Outlook database](#), April 2026.

# Corruption is a bigger problem in Indonesia than in most other Asian countries, and it appears to have been getting worse in recent years

## Corruption perceptions index – Asian economies, 2025



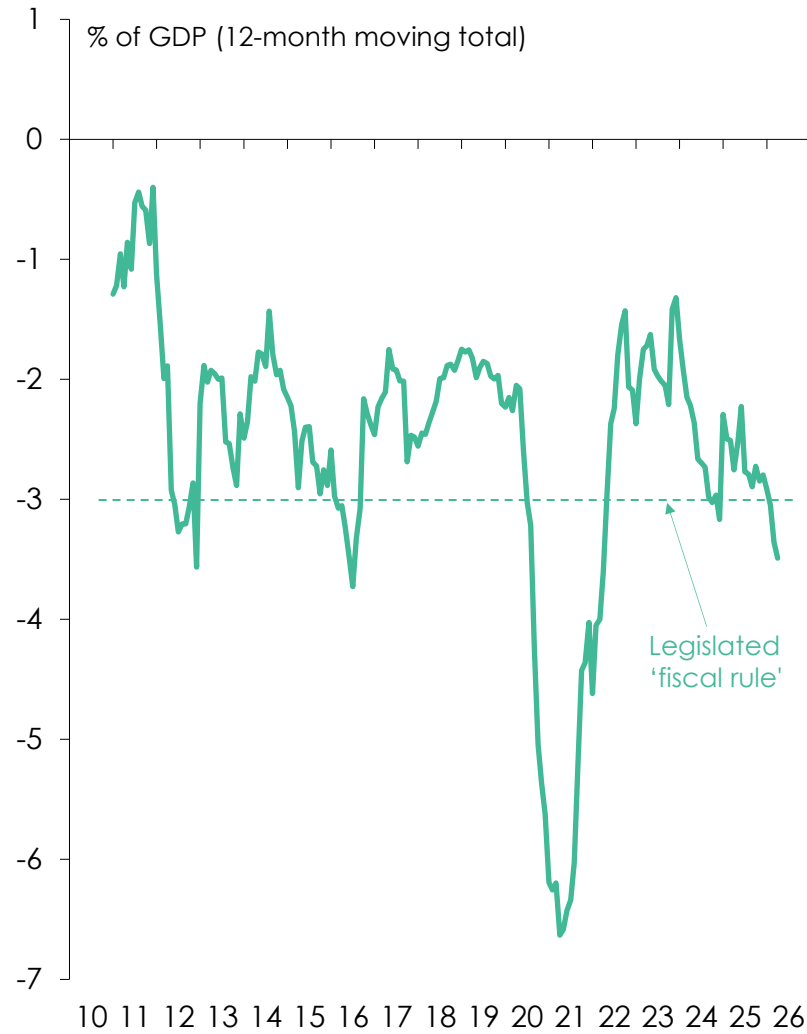
## Indonesia's corruption perception index score, 2012-2025



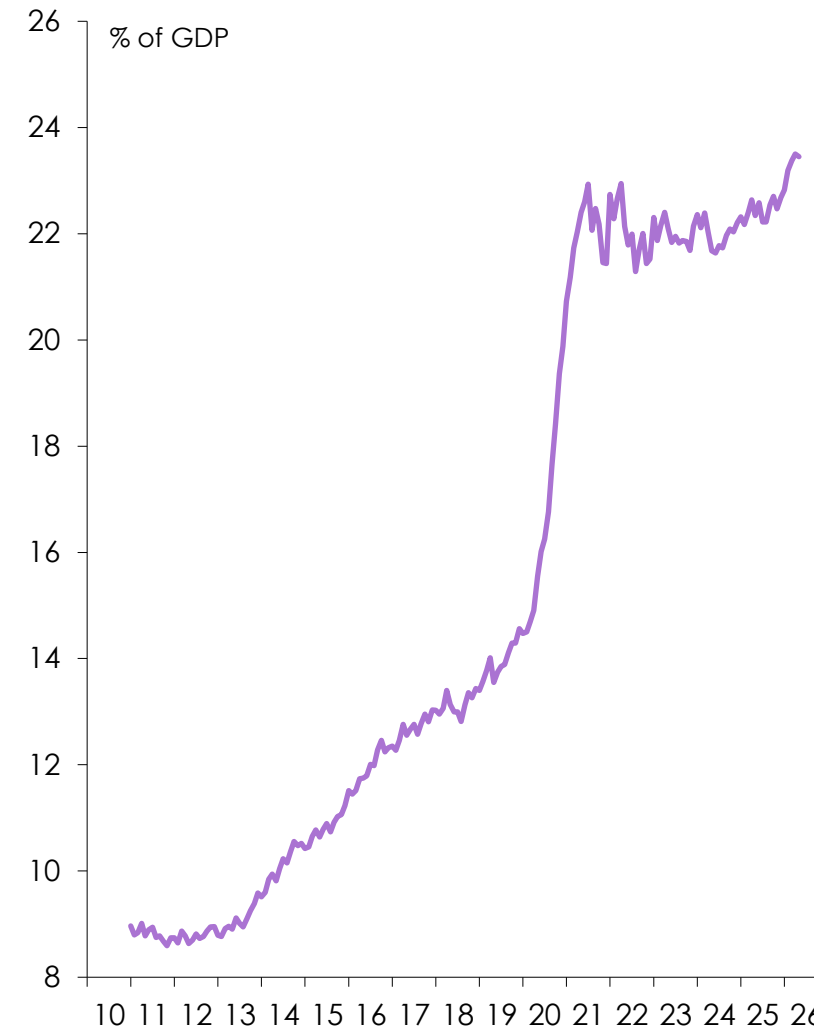
Note: The Corruption Perceptions Index measures perceived levels of public sector corruption based on 13 independent data sources, using a scale from 0 (highly corrupt) to 100 (very clean). Source: Transparency International, [Corruption Perceptions Index 2025: Global Scores](#).

# Doubts are growing about the government's willingness and ability to adhere to its deficit targets – and the way those deficits are being financed

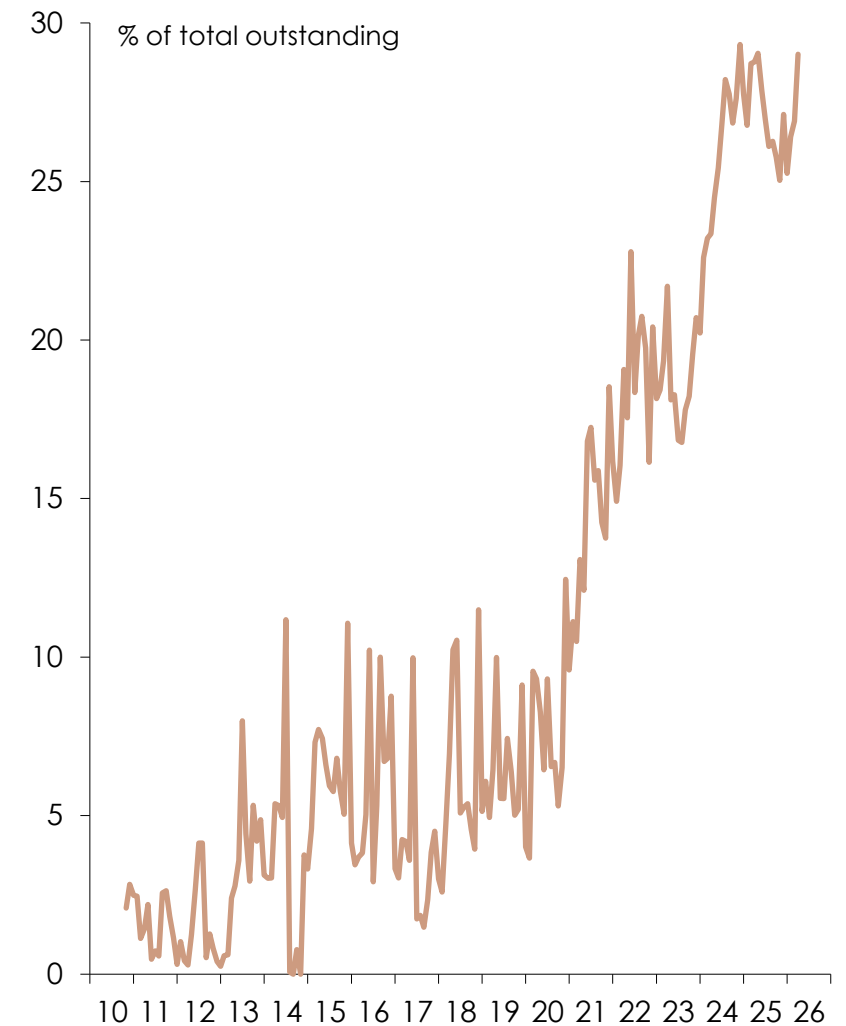
## Central government budget deficit



## Central government debt securities on issue



## Bank Indonesia holdings of central government securities



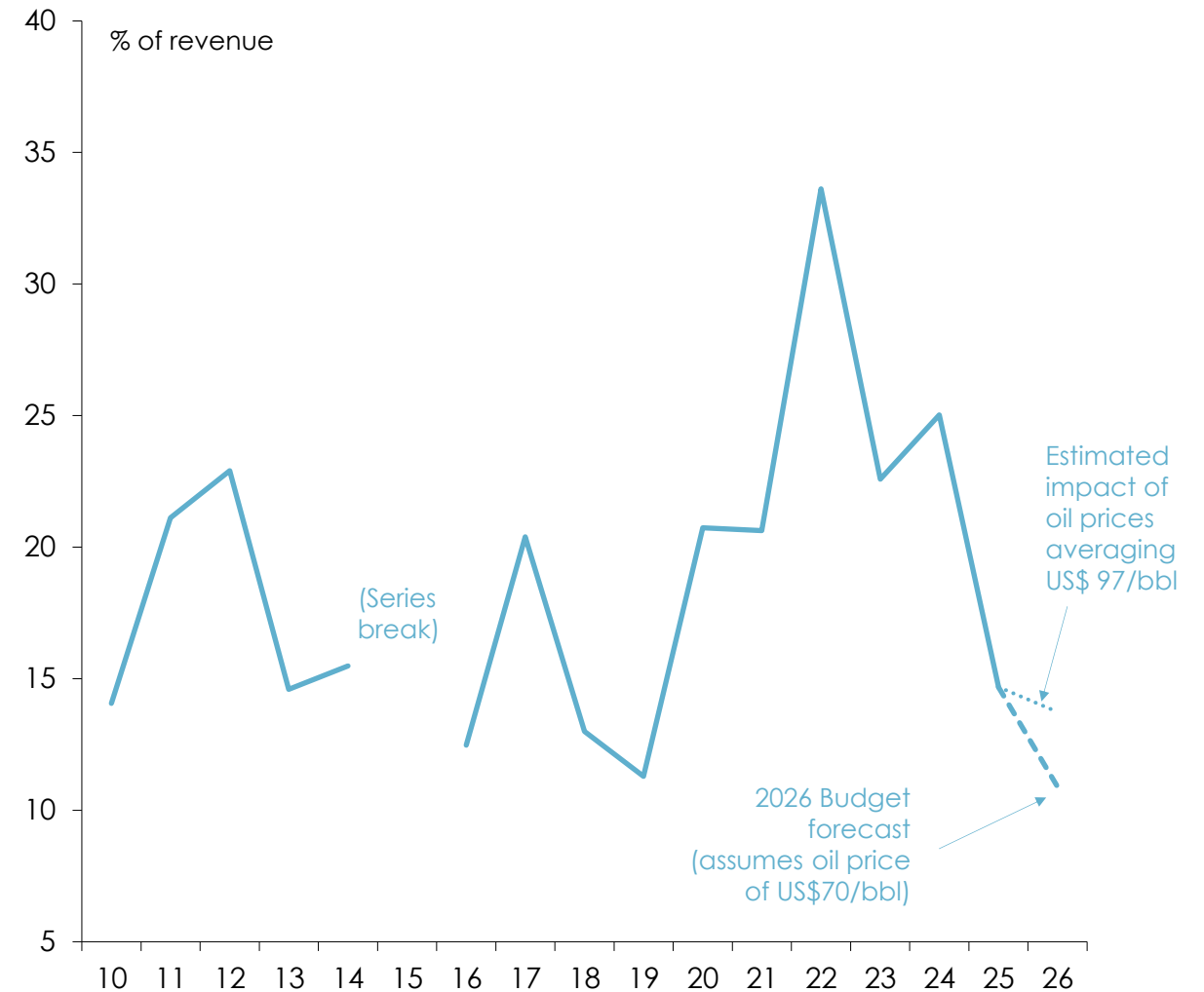
Sources: [Kementerian Keuangan \(Ministry of Finance\)](#); [Bank Indonesia](#).

# Two areas of particular concern are the rising interest burden, and the on-going cost of fuel subsidies

## Central government interest payments as a percentage of revenues



## Fuel (oil, gas and coal) subsidies as a percentage of revenues



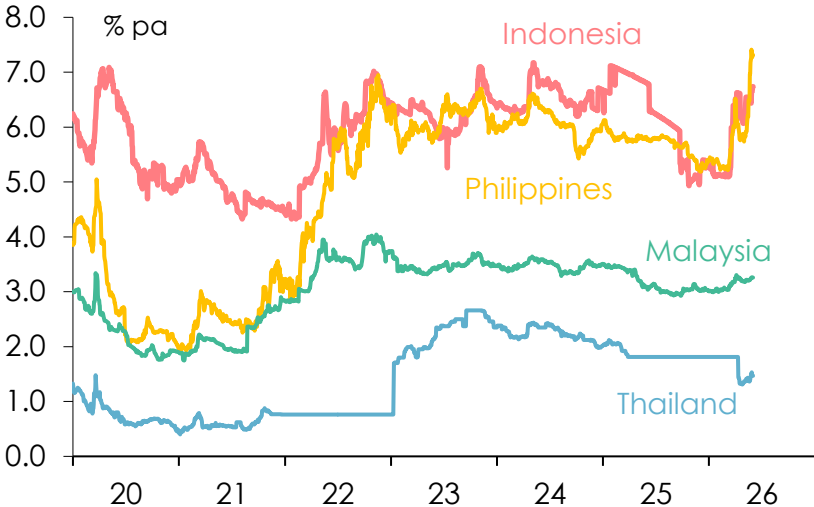
Sources: [Bank Indonesia](#); [Kementerian Keuangan \(Ministry of Finance\)](#); Anissa Suharsono et al, [Indonesia's Energy Support Measures](#), International Institute for Sustainable Development, Winnipeg, 9<sup>th</sup> February 2026; [Indonesia estimates up to \\$5.9 billion needed for extra energy subsidies due to Iran war](#), Reuters, 1<sup>st</sup> April 2026.

# Concerns are also growing about the direction of Prabowo's economic policies and potential erosion of democratic and economic institutions

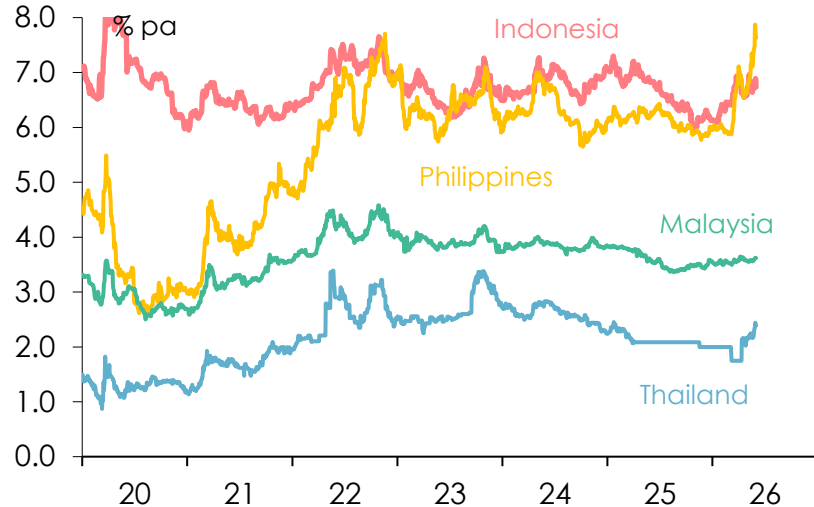
- ❑ **Prabowo is neutralizing political opposition by absorbing it into the government**
  - although Prabowo's Gerindra Party only holds 86 seats in the DPR (lower house of the Indonesian Parliament), with formal coalition partners it commands 427 seats, and most of the remaining parties have informal understandings with the Government – there is effectively no opposition in Parliament
  - Prabowo has garnered support from other parties by bringing their leaders into the Ministry – his administration has 7 coordinating ministers, 41 departmental ministers, 5 other cabinet-level officials and 56 vice-ministers
  - Prabowo is seeking to end direct elections for provincial governors
- ❑ **In September last year Prabowo sacked the widely-respected Finance Minister Sri Mulyani Indrawati (who had also served in that role under Presidents Yudhoyono and Widodo) replacing her with the populist Purbaya Yudhi Sadewa**
  - in January this year he appointed his nephew Thomas Djiwandono as Deputy Governor of Bank Indonesia
  - Prabowo's brother Hashim Djojohadikusumo's business interests (in telecoms, digital infrastructure, mining, energy and property) appeared to have prospered significantly since Prabowo assumed the Presidency
- ❑ **Prabowo's signature (*Asta Cita*) policies – free lunches for school-children and the establishment of 80,000 agricultural co-operatives (Agrinas) – are adding to budget pressures, costing an estimated 10% of government revenues**
  - he has also established a new sovereign wealth fund (Danantara) which reports directly to him, and two which the management of all of Indonesia's SOEs has been transferred
- ❑ **Bank Indonesia has entered into a 'burden-sharing arrangement' with the Finance Ministry under which BI buys government bonds in the secondary market, a portion of which supports 'Asta Cita' programs, and pays higher interest rates of government deposits at BI**

# Financial markets are flashing some warning signals

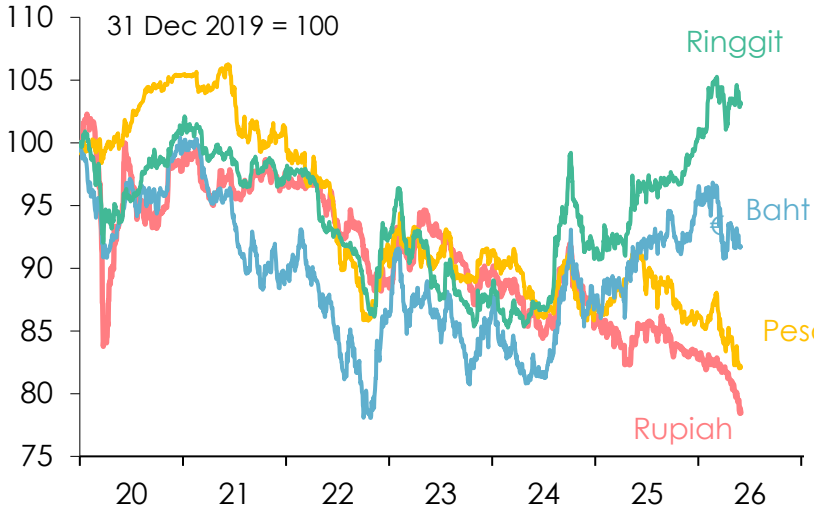
## 3-year bond yields



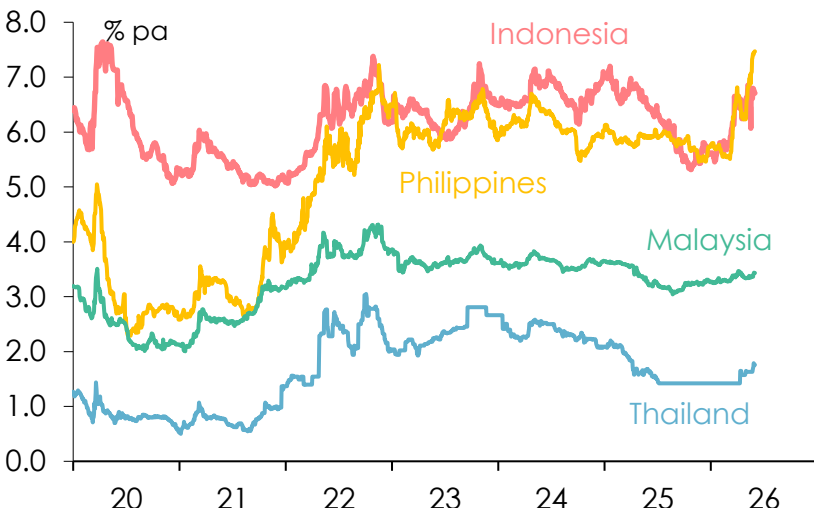
## 10-year bond yields



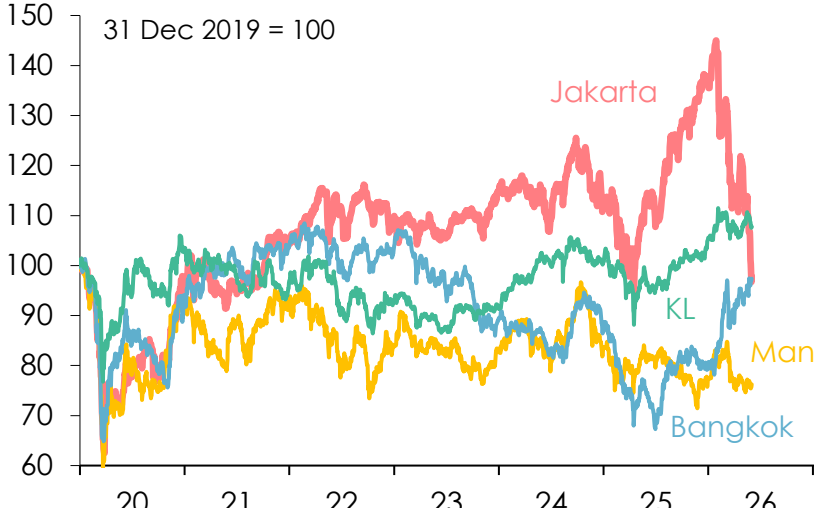
## Currencies vs US dollar



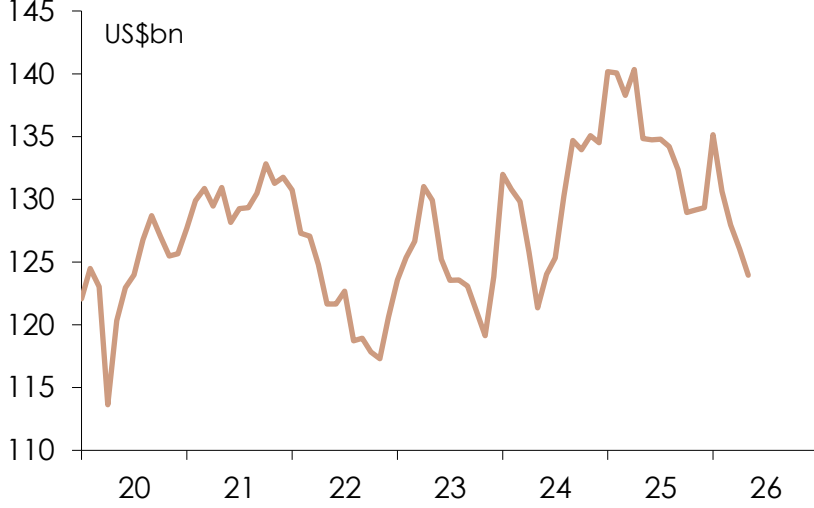
## 5-year bond yields



## Stockmarket indices



## BI FX reserves



Source: LSEG Datastream.

## Important information

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