

## Strong Headline Performance amid Structural Challenges

### Growth Performance and Macroeconomic Overview

Indonesia's economic growth in 4Q25 exceeded expectations, reaching 0.86% QoQ or 5.39% YoY (Cons: 0.67% QoQ or 5.10% YoY; KBVS: 0.58% QoQ or 5.10% YoY; Prev: 1.43% QoQ or 5.04% YoY). On an annual basis, the 5.39% YoY figure marked the strongest growth since 3Q22. As a result, full-year 2025 growth reached 5.11% YoY, slightly higher than 5.03% in 2024. In nominal terms, GDP at current prices rose to IDR23,821.1 tn, while GDP per capita increased to IDR83.7 mn (USD5,083.4), up from IDR78.6 mn (USD4,960.3) in 2024.

On a quarterly basis, the strongest expansion from the production side came from **Public Administration, Defence, and Compulsory Social Security**, which grew 13.59% QoQ or 1.63% YoY, likely reflecting disaster-related spending following the late-November 2025 events in Sumatra. This was followed by: **Education Services**: 7.48% QoQ (3.43% YoY); **Other Services**: 7.20% QoQ (8.71% YoY). In contrast, **Agriculture, Forestry, and Fisheries** contracted -18.33% QoQ, though still grew 5.14% YoY; **Water Supply, Waste Management, and Recycling** declined -1.30% QoQ (0.51% YoY). From an annual perspective, **Manufacturing** remained the largest contributor to production-side growth. Accounting for 19.07% of GDP, the sector grew 5.30% YoY in 2025, generating an estimated IDR339 tn in value added, of which IDR51.5 tn was attributable to the realization of the MBG program.

Support from the expenditure side was particularly evident in 4Q25, led by a sharp acceleration in **Government Consumption**, which surged 37.68% QoQ and 4.55% YoY. This reflected a front-loading of fiscal spending toward year-end, with government expenditure realization rising from IDR2,234.8 tn at the end of 3Q25 to IDR3,451.4 tn by end-4Q25, implying an incremental increase of IDR1,216.6 tn. Beyond the MBG program and the IDR45.7 tn stimulus package, government spending was also supported by additional disaster-related transfers to Aceh, North Sumatra, and West Sumatra, amounting to IDR268 bn, including IDR4 bn for 52 affected districts and IDR20 bn per province. A sharp rise in line-ministry (K/L) budget realization further underscored the year-end spending push. For instance, the Ministry of Public Works (PU) accelerated budget realization from 40% by end-Sep '25 to 95.23% by end-4Q25, equivalent to IDR112.13 tn. Similarly, the Ministry of Defence increased spending from IDR167.1 tn in 3Q25 to approximately IDR227.5 tn by end-4Q25.

Meanwhile, **Household Consumption**, which accounts for more than half of GDP, continued to support growth, expanding 1.84% QoQ and 5.11% YoY in 4Q25, or 4.98% YoY for full-year 2025. This performance was partly driven by government priority programs—particularly MBG—which benefited 51.5 million children in 2025 and generated a direct income impact of IDR 43.3 trillion. Seasonal factors, including Christmas, year-end holidays, and school vacations, also boosted mobility and spending. In terms of transportation activity, Rail passengers reached 147.4 mn in 4Q25, while River, Lake, And Ferry Transport carried 12.6 mn passengers, Sea Transport 7.2 mn, and Air Transport 15.6 mn. For full-year 2025, passenger volumes increased by 8.88% YoY for Rail, 12.02% for River/Lake/Ferry, 16.48% for Sea Transport, and 8.14% for Air Travel compared with 2024.

### Growth Yet To Translate Into Stronger Demand And Tax Revenue

Despite the stronger headline GDP growth, several indicators suggest that underlying demand remains moderate. Deposit growth accelerated to 13.83% YoY in Dec '25, equivalent to an increase of approximately IDR1,222.3 tn, bringing total deposits to IDR8,837 tn. However, this expansion was partly driven by the placement of government SILPA funds into commercial banks, estimated at around IDR247.0 trillion. In contrast, credit growth is estimated to slow to 9.69% YoY in 2025, down from 10.39% in 2024.

Moreover, stronger economic growth has yet to be reflected in tax revenue performance. Tax collections in 2025 reached IDR1,917.6 tn, below IDR1,932.4 tn in 2024. This implies a further decline in Indonesia's tax ratio, based on our estimates, from around 8.73% of GDP in 2024 to approximately 8.05% in 2025, well below the OECD average of 34.2%.

Against this backdrop, we view Moody's decision on 5 February 2026 to revise Indonesia's sovereign outlook from stable to negative, while maintaining the **Baa2 rating**, as understandable. The declining tax ratio highlights a potential mismatch between aggregate economic performance and tax compliance, which may reflect limited effectiveness of ongoing tax intensification and extensification efforts. For fixed-income markets, this development is likely to translate into a higher risk premium, particularly for future global bond issuances. At the same time, it may also affect the risk-free rate of rupiah-denominated government bonds, especially given the elevated SUN issuance target of IDR832.2 tn this year.

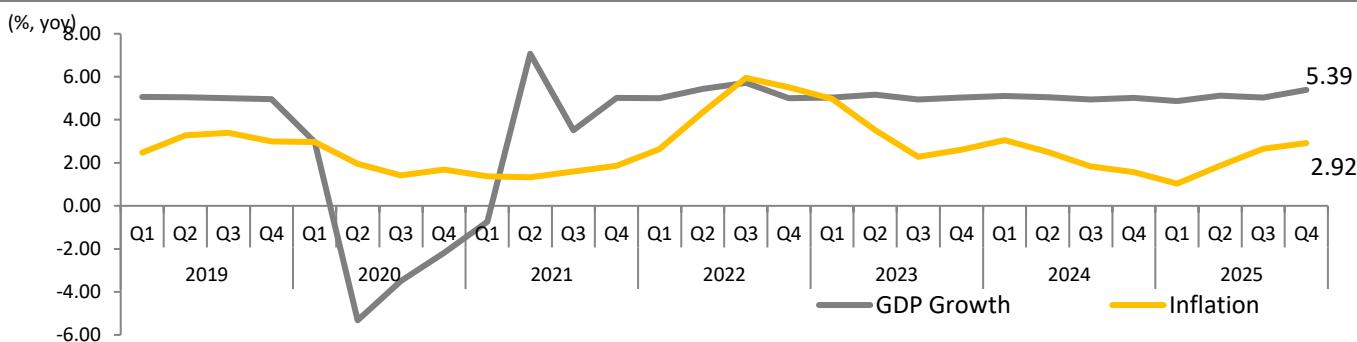
### Outlook and Implications

Looking ahead, government policy commitments to support household consumption, particularly through fiscal spending and social programs, are expected to remain key growth drivers. On the production side, Public Administration, Defence, and Compulsory Social Security is likely to continue providing support, while seasonal consumption momentum during Lunar New Year and Ramadan should offer additional tailwinds. However, Bank Indonesia's Consumer Confidence Index (CCI) for Dec '25 suggests potential headwinds. The average expenditure proportion increased slightly from 74.1% in Dec '24 to 74.3% in Dec '25, accompanied by a decline in the saving proportion from 15.5% to 14.9%, which could limit discretionary spending during upcoming festive periods. In addition, consumer expectations weakened, as reflected in declines in the income expectation index (from 143.3 to 140.8), job availability index (from 137.6 to 135.1), and business activity expectation index (from 137.4 to 130.8).

On the investment front, activity is expected to gradually improve, supported by resilient manufacturing indicators. New orders have extended a six-month expansion streak, suggesting sustained demand that is increasingly domestically driven. Nevertheless, inflation risks stemming from a low base effect—particularly related to electricity subsidies in early 2025—could weigh on purchasing power. Externally, improving manufacturing conditions among key trading partners may support Indonesia's export outlook. China's PMI returned to expansion at 50.3 in Jan '26, while India and the US rose to 55.4 and 52.4, respectively. This improvement should help sustain Indonesia's trade surplus, encourage export-proceeds repatriation, and support foreign exchange reserves. That said, heightened global geopolitical risks remain a key downside risk, potentially increasing commodity prices, raising global funding costs, and delaying policy rate cuts by major central banks—thereby weighing on financing conditions and real-sector credit demand. This view is partially confirmed by improvements in the Business Activity Expectation Index, which rose to 12.93 in 1Q26, particularly in Financial Services; Agriculture, Forestry, and Fisheries; Manufacturing; Wholesale and Retail Trade; and Transportation and Warehousing.

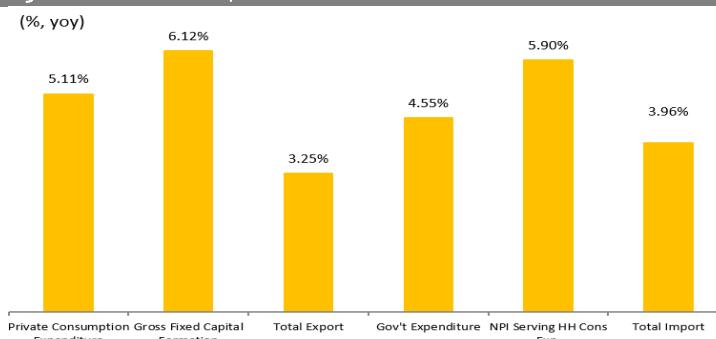
Finally, the divergence between consumer expectations, manufacturing PMI, and business activity surveys suggests uneven economic gains across income groups. This raises concerns over a potential widening of the Gini ratio, alongside the risk of an expiring or shrinking middle class. Such a trend could undermine the sustainability of long-term growth, as the middle class plays a critical role in supporting consumption, investment, and improved tax compliance in the future.

Fig 1. Indonesia's Economic Growth & Inflation



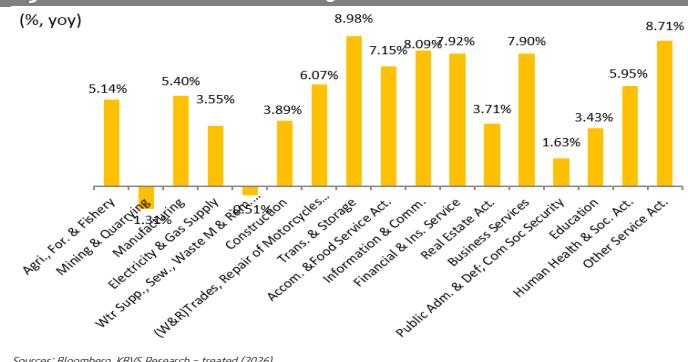
Sources: BPS, KBVS Research – treated (2026)

Fig 2. GDP Based On Expenditure on 4Q25



Sources: Bloomberg, KBVS Research – treated (2026)

Fig 3. GDP Based On Industrial Origin on 4Q25



Sources: Bloomberg, KBVS Research – treated (2026)

Table 3. Indonesia's GDP at Current Price and at Constant Price (2010) – in IDR TN

Types	Current Price			Constant Price (2010)		
	2024	3Q25	2025	2024	3Q25	2025
<b>Based On Expenditure</b>						
Private Consumption Expenditure	11,965.40	3,220.00	12,834.80	6,806.90	1,786.70	7,145.80
Gross Fixed Capital Formation	6,452.50	1,762.80	6,852.60	4,001.70	1,084.80	4,205.40
Total Export	4,939.10	1,432.40	5,442.30	3,106.50	870.80	3,325.00
Total Import	4,538.60	1,222.30	4,894.00	2,585.50	677.80	2,708.80
Government Consumption Expenditure	1,714.60	434.80	1,794.30	958.00	237.90	982.00
NPI Serving Household Consumption Expenditure	300.10	78.10	321.50	173.10	44.00	182.00
Changes in Inventories	498.30	102.50	441.10	127.70	49.60	214.20
<b>Based On Industrial Origin</b>						
Manufacturing	4,202.90	1,160.60	4,541.50	2,618.90	704.60	2,757.60
Agri., For. & Fishery	2,791.70	869.40	3,120.50	1,464.40	424.00	1,542.40
(W&R) Trades, Repair of Motorcycles & MC	2,893.30	799.10	3,136.60	1,682.60	451.20	1,775.00
Mining & Quarrying	2,026.60	515.60	2,048.60	955.30	237.20	948.90
Construction	2,233.50	595.00	2,340.90	1,262.80	333.60	1,311.00
Transportation & Storage	1,358.10	369.90	1,466.30	603.10	166.70	656.00
Information & Comm.	960.00	266.60	1,048.70	868.40	238.80	940.90
Financial & Ins. Service	922.80	237.90	979.70	519.70	130.80	540.30
Education	621.40	166.10	666.90	372.30	97.60	390.90
Public Adm. & Def; Com Soc Security	673.50	156.20	715.10	403.40	92.10	419.00
Accom. & Food Service Act.	583.90	162.60	639.00	415.00	113.10	445.80
Real Estate Act.	520.70	138.40	534.80	352.50	92.10	365.10
Other Service Act.	454.30	125.60	508.90	266.70	72.10	293.20
Business Services	424.20	138.40	471.70	251.50	92.10	274.40
Human Health & Soc. Act.	278.20	75.90	299.70	182.70	48.90	192.90
Electricity & Gas Supply	227.50	60.80	238.70	134.60	35.20	138.80
Wtr Supp., Sew., Waste M & Rem. Activities	14.20	3.80	14.90	10.90	2.80	11.00
<b>Indonesia's GDP</b>	<b>22,139.00</b>	<b>6,060.00</b>	<b>23,821.10</b>	<b>12,920.50</b>	<b>3,444.80</b>	<b>13,580.50</b>

Sources: BPS, KBVS Research – treated (2026)

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