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Economic QuickView

Indonesia: A young and commodity-backed giant ASEAN economy

- Indonesia features a large and youthful population, abundant resources, strong integration with emerging economies and a track record of prudent macroeconomic management.
- The nation is deepening economic ties with the Chinese Mainland and Hong Kong via fostering mutually beneficial trade, rising investment and forming integrated supply chains.
- Reform initiatives aimed at boosting investment for digital and green transformation are set to propel Indonesia towards high-income status over the medium-to-long term.

A solid domestic market and abundant resources are pillars of growth

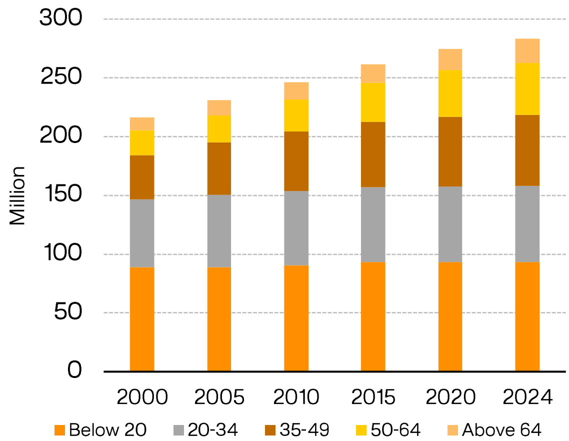
Indonesia is the largest ASEAN economy with promising demographics. Strategically located between mainland Southeast Asia and Australia in the Indian and Pacific oceans, Indonesia is the largest economy within the Association of Southeast Asian Nations (ASEAN). With a population of around 283 million, ranking fourth globally, the nation boasts a notably youthful demographic profile, with 65.1 million individuals aged between 20 and 34 (23.0% of the national total) in 2024. Indonesia's nominal GDP reached USD 1.4 trillion in 2024, making it the world's 16^{th} largest economy. Since 2022, Indonesia has been classified as an upper-middle income economy by the World Bank, with GDP per capita at USD 4,958 in 2024.

Indonesia has achieved sustained and solid economic growth in the past few decades. In the 1990s, Indonesia's economy performed strongly, driven by industrialisation and urbanisation, growing by 7.6% per annum from 1990 to 1997. The Asian Financial Crisis (AFC) paused Indonesia's growth, with a sharp contraction of 13.1% in 1998. The shocks from the AFC prompted the International Monetary Fund (IMF) to offer a bailout package of USD 43.0 billion for Indonesia, with a series of economic reforms, such as optimising banking supervision and a higher level of central bank independence. Since then, Indonesia's economy regained growth momentum in the 2000s, as poverty reduction unleashed its consumption potential. From 2000 to 2009, Indonesia grew at an average rate of 5.3%, up from 4.6% in 1990-1999, with its share of world GDP rising from 0.5% in 1999 to 0.9% in 2009 (global ranking from 27th to 19th). Entering the 2010s, domestic growth momentum continued to strengthen, led by rising incomes and large-scale investment in infrastructure, with growth remaining solid at 5.4% annually during 2010-2019. Accordingly, Indonesia's share of world GDP rose to 1.3% by 2019 (global ranking of 17th). From 2020 to 2024, growth moderated to 3.4% annually. Growth was hampered by the Covid-19 pandemic, but later returned to its trend rate of about 5.0% in the post-pandemic recovery. In 2024, Indonesia's share of world GDP stayed steady at 1.3%. Overall, Indonesia's solid domestic market played a strong stabilising force for growth, with average growth of 4.8% over the years from 1990 to 2024, outpacing the global average of 3.4%.

Indonesia's Key Macroeconomic Indicators				
	1990 - 1999	2000 - 2009	2010 - 2019	2020 - 2024
GDP growth (%, average)	4.6%	5.3%	5.4%	3.4%
GDP (USD billions, end of period)	169.2	578.6	1,119.1	1,396.3
GDP per capita (USD, end of period)	829.6	2,469.4	4,192.8	4,958.4
Share of world GDP (%, end of period)	0.5%	0.9%	1.3%	1.3%
GDP ranking in the world (end of period)	27	19	17	16

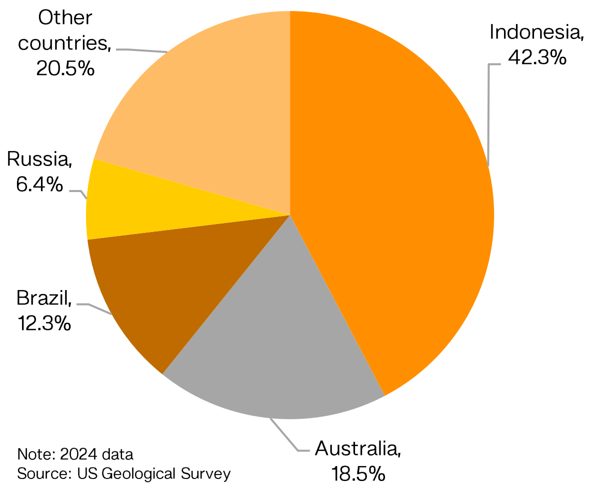
Source: International Monetary Fund

Population by Age Group



Source: United Nations

Share of Nickel Reserves



Note: 2024 data
Source: US Geological Survey

Indonesia is endowed with abundant natural resources. The country possesses vast and diverse natural resources, including coal, gold, copper, palm oil and most notably nickel. Nickel is a critical material widely used in industries from stainless steel to electronic devices and electric vehicle (EV) batteries. Indonesia holds the world's largest nickel reserves (42.3% of the global total in 2024), far exceeding Australia (18.5%) and Brazil (12.3%). Nickel production surged at an average annual rate of 17.2% from 2010 to 2024, reaching 2.2 million tons. Since 2020, Indonesia's government has implemented an export ban on nickel ore in a bid to develop domestic processing capacity, thereby increasing the value-added share of its nickel sector and supporting its position as a key global supplier of refined nickel products, particularly for emerging technologies such as EVs.

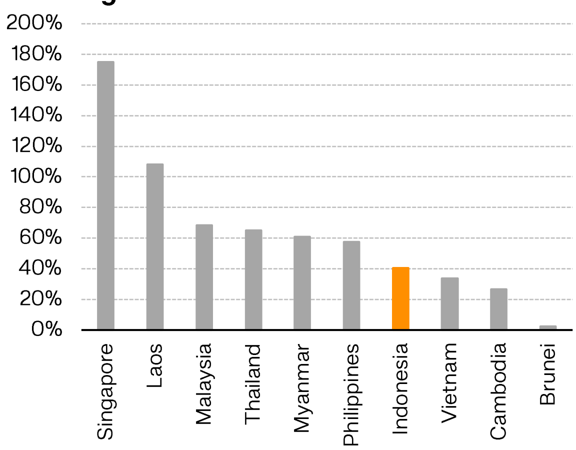
The mining value chain has expanded rapidly in recent years. To capitalise on the opportunities from global green investment, Indonesia's government has implemented downstream policies aimed at increasing the domestic value-added of its mineral resources. In addition to an export ban of raw materials, there are substantial incentives for investment in smelters and process facilities. This has led to a rapid development of the mining value chain. During 2020-2024, the mining and quarrying industry expanded strongly, with its value-added rising by an average annual rate of 12.0%. A faster growth was seen for the downstream basic metals manufacturing industry, which grew by 14.3% per annum. These figures highlighted Indonesia's success in developing a dynamic domestic mining value chain.

Prudent macroeconomic management underpins stability. Indonesia has made significant progress in addressing the historical "twin deficits" challenge, referring to the simultaneous occurrence of fiscal and current account deficits, which previously led to currency and financial market volatility. Effective macroeconomic policy and enhanced economic resilience have played key roles in managing the "twin deficits".

On the fiscal side, Indonesia established strict fiscal rules in 2003, capping the deficit-to-GDP and debt-to-GDP ratios at 3.0% and 60%, respectively. The government emphasised efficiency of tax administration and spending reallocation to ensure fiscal resources for spending in targeted areas such as energy and education, while ensuring compliance with the fiscal rules. From 2000 to 2024, Indonesia's deficit-to-GDP ratio mostly stayed below 3.0%. Meanwhile, the gross government debt-to-GDP ratio declined gradually since the early 2000s and hovered within a healthy range of 25% to 40%. In 2024, Indonesia's gross government debt-to-GDP ratio was around 40.5%, well below other ASEAN peers such as Thailand (65.0%), the Philippines (57.6%), and Malaysia (68.4%), providing ample policy space for countercyclical fiscal support.

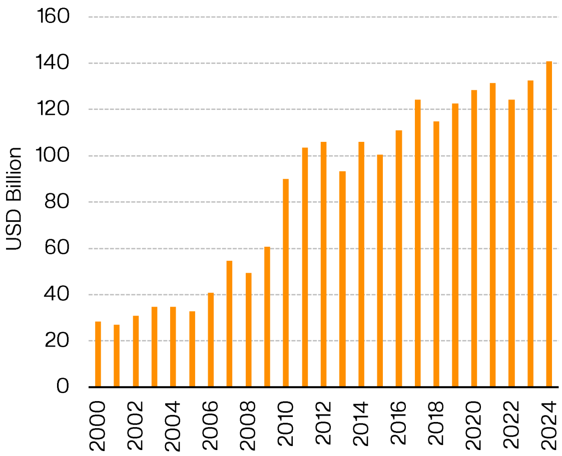
On the monetary front, Bank Indonesia (BI) adopted the inflation-targeting monetary policy regime, using the 7-day reverse repo rate (BI-rate) as the primary tool for controlling inflation within the 1.5%-3.5% target corridor. Moreover, Indonesia's foreign exchange reserves also increased substantially, reaching USD 140 billion in 2024, providing a strong buffer for foreign exchange market intervention against external shocks. These offered policy tools for BI to contain inflation and exchange rate volatility, mitigating their impacts on the current account deficit.

Gross government debt-to-GDP ratio



Note: 2024 data
Source: International Monetary Fund

Foreign Exchange Reserves



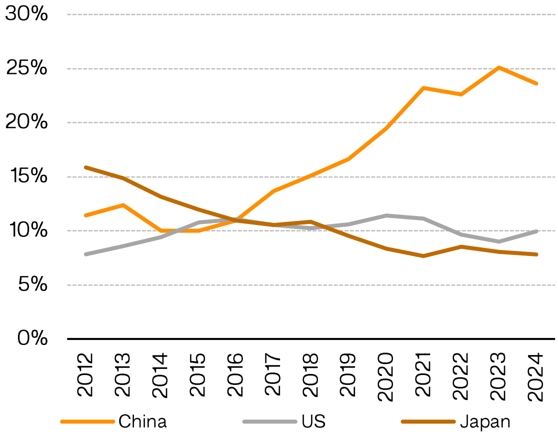
Source: CEIC

Strengthening integration with a regional value chain

Indonesia has attracted persistent investment inflows. Underpinned by Indonesia's economic resilience and growth prospects, Indonesia continues to attract multinational corporations to increase investment. This is as the government offers generous incentives for foreign investors, such as tax holidays, reduced tax rates, full foreign ownership in most sectors, and streamlined licensing processes. The development of the new capital city, Nusantara, in East Kalimantan presents further opportunities for infrastructure and industrial investment. Among the ASEAN member states, Indonesia ranked as the third largest destination for foreign direct investment (FDI), following Singapore and Thailand. Its FDI stock reached USD 291.9 billion by 2023, 31.3% larger than in 2015, with Singapore, Japan and the US as the top three largest sources of investment.

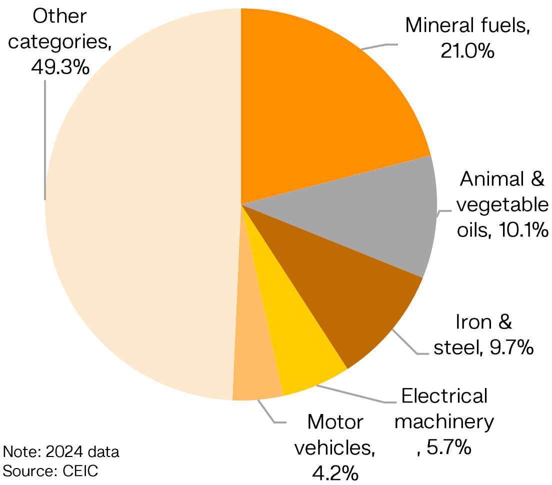
Supply chain integration unlocks trade potential. According to the World Trade Organisation, Indonesia ranked as the fifth largest exporter in ASEAN, following Singapore, Vietnam, Malaysia and Thailand. Between 2015 and 2024, Indonesia's merchandise exports grew at an average rate of 4.2%, accounting for 19.0% of GDP in 2024. Among Indonesia's major trading partners, the Chinese Mainland has rapidly advanced to be its largest export market, with its share rising from 10.0% in 2015 to 23.6% in 2024. Exports to other ASEAN economies also remained significant at 20.0% in 2024, compared to 22.0% in 2015. In contrast, the share of exports to Japan and the US declined from 12.0% to 7.8% and from 10.8% to 9.9%, respectively. Indonesia's top five export categories, mineral fuels, animal & vegetable oils, iron & steel, electrical machinery and motor vehicles, collectively made up 51.0% of total exports in 2024. In particular, the share of iron & steel exports rose significantly from 1.0% in 2015 to 10% in 2024, reflecting increased investment and production capacity. Similarly, the Chinese Mainland has been the largest source of imports for Indonesia, with its import share rising from 19.6% in 2015 to 27.5% in 2024. Certain top import categories coincided with that of exports, such as mineral fuels, electrical machinery and iron & steel, suggesting close supply chain cooperation between the Chinese Mainland and Indonesia.

Share of Indonesia's Major Export Destinations



Source: CEIC

Share of Major Export Categories



Note: 2024 data
Source: CEIC

Global trade uncertainty is set to present a major headwind for Indonesia's economy. Foreign investment has been a major contributor to Indonesia's industrial development. From 2015 to 2024, capital investment grew by an average rate of 6.5%, boosting Indonesia's manufacturing capacity.

However, the growth trend is likely to be disrupted amid rising worries over global trade policies. Since February 2025, the US has escalated tariffs on steel, aluminium and autos and announced reciprocal tariffs on trading partners (32% for Indonesia), which currently falls into a 90-day negotiation window from 9 April. At present, Indonesia is having bilateral trade negotiations with the US, with proposals like increasing US imports and reducing non-tariff barriers in return for removal of all tariffs. While recent global financial market sentiment has improved on hopes of trade negotiation progress, an ongoing reshuffling of the global trade order will continue to present uncertainties and opportunities for Indonesia's trade and investment ahead.

Deepening ties with the Chinese Mainland and Hong Kong

The Indonesia-Chinese Mainland economic relationship is highly complementary. Driven by reduced trade barriers and liberalised market access from regional trade agreements such as the China-ASEAN Free Trade Agreement and the Regional Comprehensive Economic Partnership, commercial ties between the Chinese Mainland and Indonesia have deepened significantly. At present, Indonesia is the Chinese Mainland's third-largest trading partner among ASEAN economies, with total bilateral trades reaching USD 148 billion in 2024. The Chinese Mainland's major imports from Indonesia are primarily energy and industrial materials, with mineral fuels, iron, steel and nickel products as the top three categories, collectively comprising 60.0% of total imports from Indonesia. Meanwhile, the Chinese Mainland exports technical equipment to Indonesia. Specifically, nuclear reactors & mechanical appliances, electrical machinery and motor vehicles accounted for 42.7% of its exports to Indonesia. This trade structure underscores a mutually beneficial relationship that leverages the Chinese Mainland's strengths in advanced manufacturing and Indonesia's natural resource endowment.

Chinese Mainland's Top Five Export/Import Commodities to/from Indonesia (2024)			
Export Commodities	**Share**	**Import Commodities**	**Share**
Nuclear reactors & mechanical appliances	19.5%	Mineral fuels and oils	28.3%
Electrical machinery & equipment	18.4%	Iron and steel	22.5%
Plastics and articles	5.3%	Nickel and articles	9.2%
Iron and steel	5.2%	Animal, vegetable or microbial fats	7.3%
Vehicles	4.8%	Pulp of wood	4.9%

Source: CEIC

Regional supply chain integration has led to a surge in investment from the Chinese Mainland. Despite coming from a relatively low base, Chinese investment in Indonesia has risen sharply, with the Chinese Mainland becoming the fifth largest source of FDI in 2023 (USD 19.8 billion), up from a 2.2% share in 2015 to 6.8% in 2023. Indonesia's reserves of critical minerals, large labour supply, domestic market potential and infrastructure investment needs have increasingly attracted Chinese investors to set up businesses in the nation. Notable investors include stainless-steel processing firms (e.g. Tsingshan Holding Group), high-tech smartphone manufacturers (e.g. Xiaomi, OPPO, VIVO) and EV makers (e.g. BYD). Landmark projects like the Jakarta-Bandung High-Speed Railway, built under the Belt and Road Initiative, also exemplify this deepening integration.

Hong Kong plays a central role in linking the Chinese Mainland and Indonesia. Indonesia and Hong Kong have long established economic ties. In 2024, Indonesia was Hong Kong's sixth largest trading partner among ASEAN economies, with trade totalling USD 4.8 billion. Around 80.0% of Hong Kong's exports to Indonesia were re-exports from the Chinese Mainland, and were mostly comprised of high-tech products such as telecommunication equipment, electrical machinery and computers. Hong Kong is also a major source of FDI for Indonesia, ranking sixth in 2023 (USD 17.3 billion in Indonesia's FDI stock, up from a 1.4% share in 2015 to 5.9% in 2023), primarily in basic metals, utilities, real estate, and warehouse sectors. In addition, given the growing funding needs to support Indonesia's economic development, Hong Kong, as an international financial centre, is well positioned to facilitate fundraising for Indonesian corporates, infrastructure and green projects in future cooperation.

Golden Indonesia 2045 Vision aims for a competitive and high-income economy

Indonesia aims to join the ranks of high-income countries through digital and green transformation. The government's Golden Indonesia 2045 Vision, launched in 2019, outlines a strategic roadmap for Indonesia to attain the status of a high-income country, with a target of per capita income above USD 23,000 by 2045. The IMF estimates this target will require a sustained GDP growth of 6% - 7% per annum over the next two decades. Besides, the 2025 – 2045 National Long-term Development Plan, approved in 2024, further identifies several strategic priorities, including innovation & efficiency, green economy, digital transformation, economic integration, and balanced development between urban and rural areas. The Plan lists several key targets, such as increasing sci-tech innovation expenditure from 0.3% to 2.2–2.3% of GDP, raising the renewable energy share in the energy mix from 20% to 70%, and lowering logistic costs from 13.5% to 8.0% of GDP. These reform initiatives are expected to boost investment in high-tech and green infrastructure, fostering a more competitive, productive, efficient and sustainable economy. In the long term, Indonesia has the potential to become one of world's most competitive economies, supported by rising household incomes and continued industrial upgrades.

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