

CHAPTER 4

POLICY MIX FOR NATIONAL ECONOMIC TRANSFORMATION: SYNERGY TO FOSTER HIGHER AND RESILIENT GROWTH

Real-sector transformation is essential to achieve stronger and more resilient economic growth. In this context, synergies within the national economic policy mix must be directed toward five key areas. First, synergy to strengthen macroeconomic and financial-system stability. Second, synergy between the national economic policy mix and real-sector transformation to support higher and more resilient economic growth. Third, synergy among the Government, the Financial System Stability Committee (KSSK), and Bank Indonesia to expand and strengthen various sources of economic and financial-market funding. Fourth, synergy to accelerate digitalization of Indonesia's economy and financial system. Fifth, synergy to enhance the effectiveness of bilateral and regional trade and investment cooperation.





The strong performance and robust national economic policy mix achieved thus far provides a solid foundation for advancing toward higher and more resilient growth. As highlighted in previous sections, Indonesia's economy has demonstrated strong resilience with relatively high growth. Macroeconomic and financial system stability has been maintained despite successive waves of global turmoil. Indonesia's economic growth ranks among the best in Emerging Market Economies (EMEs), in line with expansionary economic and financial cycles. The strength of the national economic policy mix, through close synergy between the Government's fiscal policy and Bank Indonesia's policy, complemented by coordination within the Financial System Stability Committee (KSSK), has been internationally recognized. Real sector transformation also continues through industrial policies, including downstreaming of natural resources, and structural reforms to improve the investment climate and accelerate infrastructure development, supported by social protection programs for low-income households. This strong synergy within the national economic policy mix must be further reinforced moving forward.

Looking ahead, several global and domestic challenges must be anticipated to strengthen synergy and achieve higher and more resilient national economic growth. From a global perspective, as outlined in the first chapter above, at least five challenges warrant close attention. First, persistent protectionist policies in the United States and ongoing geopolitical tensions, which are widening trade and investment fragmentation, shifting patterns toward bilateral and regional arrangements rather than multilateral cooperation. Second, slowing global economic growth accompanied by spatial shifts in growth patterns, including from the US and China toward the European Union, India, and several other EMEs. Third, high public debt and elevated interest rates in advanced economies, which cause a heavy burden on Emerging Market and Developing Economies (EMDEs) in terms of fiscal and monetary policy space to maintain stability and stimulate growth, even for financing social programs. Fourth, heightened vulnerabilities and systemic risks

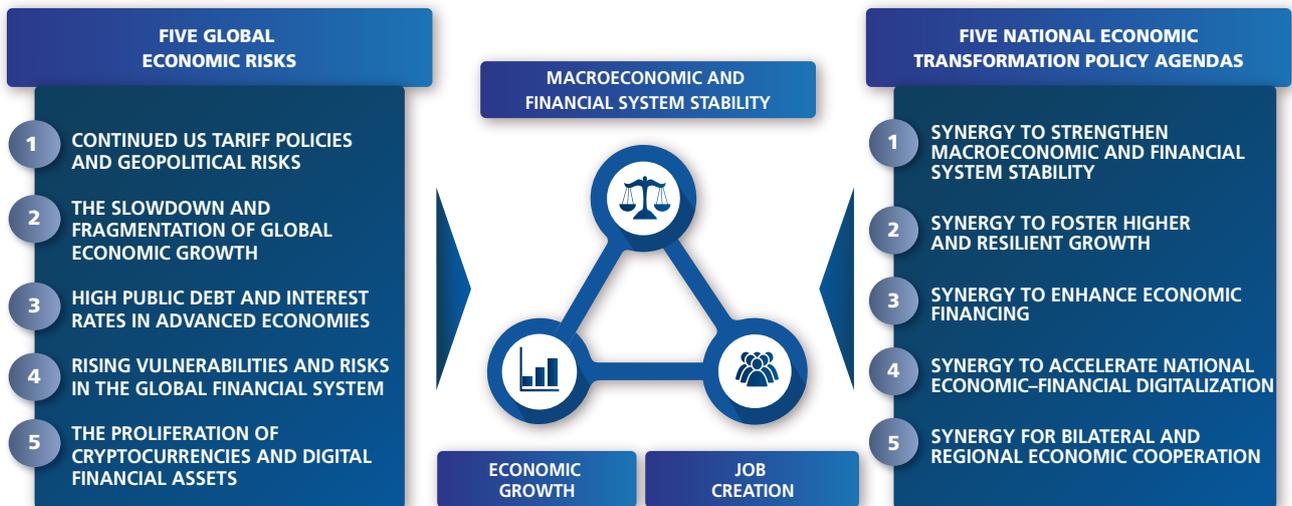
in global financial markets, stemming from leveraged transactions in derivative products linked to sovereign debt, particularly by Non-Bank Financial Institutions (NBFIs) under weak regulatory and supervisory frameworks. Fifth, proliferation of cryptocurrency issuance and trading, as well as digital financial assets (stablecoins and tokenized assets) globally by private entities without adequate regulation or oversight by competent authorities, including risks related to illegal transactions, consumer protection, and cybersecurity.

From a domestic perspective, synergy within the national economic policy mix needs to be strengthened to achieve higher and more resilient economic growth going forward, including to mitigate the impact of global dynamics. This policy mix synergy must respond to at least five key challenges (Figure 4.1.).

First, macroeconomic and financial system stability must remain a priority. Indonesia is internationally recognized for its ability to maintain national economic stability. Going forward, this stability will become even more essential to support growth from the aggregate demand side, owing to the need to strengthen national economic resilience amid rapidly changing and highly uncertain global economic and financial conditions. Rupiah exchange rate stability as well as low and stable inflation must continue to be preserved. The fiscal deficit must be maintained at no more than 3% of GDP. Banking system resilience and stability must continue to be reinforced. Accordingly, coordination between the Government's fiscal policy and Bank Indonesia's monetary policy, as well as coordination within the Financial System Stability Committee (KSSK), must continue to be strengthened.

Second, real sector transformation needs to be accelerated to enhance sources for higher domestic economic growth. This also serves to strengthen food and energy security as critical pillars of national economic resilience and self-reliance. Industrial policies emphasizing downstreaming and industrialization of natural resources must be prioritized for strategic

Figure 4.1. Five Agendas of the National Economic Transformation Mix



Source: Bank Indonesia

national industries, including minerals, plantation commodities, agriculture, and fisheries. Indonesia is richly endowed with natural resources, yet they have not been fully optimized, and some have even been exploited illegally. Downstreaming and industrialization must focus on increasing value-added through derivative products, such as in palm oil processing and lithium battery production. Developing commercially viable business models is crucial to attract investment from both the Government (including through Danantara) and private sources, both domestically and internationally. To this end, structural reforms to improve the investment climate, connectivity infrastructure, and research capacity must continue to be advanced to raise competitiveness and productivity, in the areas of capital, labor, and innovation as well as efficiency.

Third, sources of financing must continue to be developed to support real sector transformation, particularly downstreaming and natural resource industrialization. Achieving high economic growth requires substantial capital and investment, which cannot be financed solely by the State Budget (APBN). A clear national financing strategy is needed. The APBN should be optimized for financing social and people-centered economic programs, while keeping the fiscal deficit below 3% of GDP; examples of such programs would include: Free Nutritious Meals (MBG); People’s Schools; Public Housing;

Red and White Village Cooperatives (KDMP); and Fishermen Villages. Meanwhile, the significant capital and investment needs for downstreaming and natural resource industrialization projects can be financed through Danantara, the banking sector and other financial institutions, as well as private domestic and international investors. Financing instruments may take the form of equity investment, bank credit, and the issuance of bonds and other securities. In this context, financial market deepening is crucial to provide the requisite financing of the national economy, through, for instance, increasing liquidity, ensuring competitive interest rates, and providing hedging instruments for interest rate and exchange rate risks. Bank Indonesia will maintain close coordination within the KSSK to advance such financial market deepening.

Fourth, national economic and financial digitalization must continue to be accelerated to achieve high, resilient economic growth. Indonesia is among the fastest-growing countries in digitalization, particularly in payment system digitalization and retail digital economic-financial transactions. QRIS, Mobile Banking, E-Commerce, and BI-FAST are increasingly favored by the public and MSMEs because they enable fast, practical, and affordable economic and financial transactions, thereby expanding inclusive economic and financial access. Likewise, digitalization of Government



financial transactions continues to advance and has strengthened revenue collection and improved expenditure efficiency at both the central and regional levels. Going forward, national payment system and digital economic-financial digitalization must continue to be accelerated. The expansion of digital service businesses across economic segments must also continue to boost national economic growth. Payment system digitalization, both retail and wholesale, must be further developed, including the issuance and development of Digital Rupiah and Digital Financial Assets by Bank Indonesia in accordance with its statutory mandate. Cross-border cooperation in digital payments that has been pursued to date, must also be expanded, including QRIS connectivity, BI-FAST connectivity, and the use of local currencies (Local Currency Transactions, LCT) for trade, investment, and financial transactions.

Fifth, the effectiveness of trade and investment cooperation with major partner countries must continue to be enhanced. As noted earlier, US protectionist policies and global economic polarization across countries will persist. Therefore, Indonesia's trade and investment cooperation must focus on key bilateral and regional partners that provide the greatest strategic benefits, including ASEAN+3 (China, Japan, South Korea), India, the Middle East, and the European Union, while still advocating multilateral cooperation. Such bilateral and regional cooperation is also important in supporting Indonesia's interests in trade and investment related to natural resource downstreaming programs and their financing needs. This cooperation also includes expanding the use of local currencies (Local Currency Transactions, LCT), advancing financial market deepening, and strengthening cross-border digital payment cooperation to facilitate bilateral and regional trade and investment.

4.1. Synergy to Strengthen Macroeconomic and Financial System Stability

Going forward, the macroeconomic and financial system policy mix needs to be strengthened further to maintain stability and support higher, more resilient economic growth. As noted, risks to national economic stability and resilience stemming from adverse global spillovers are expected to increase. Elevated US Treasury yields and interest rates in advanced economies, along with rising volatility and risk premia in global financial markets, may trigger foreign portfolio outflows and exert pressure on the Rupiah exchange rate. Indonesia's external resilience may also be compromised by the limited surplus in the capital and financial account of the Balance of Payments, as well as declining foreign exchange reserves due to the need for Rupiah stabilization. Rising SBN yields and the limited inflows of foreign portfolio investment into Indonesia may likewise disrupt fiscal deficit financing. On the internal stability side, inflationary pressures may intensify amid higher domestic food and global commodity prices, as domestic demand strengthens. Similarly, adverse global spillovers may increase market risks (on both the exchange rate and interest rates), liquidity risks, and credit risks on Indonesia's banking system and financial markets.

Policy coordination among the Government, Bank Indonesia, and the Financial System Stability Committee (KSSK), which has been closely maintained thus far, needs to be further strengthened to formulate and implement the macroeconomic and financial system policy mix going forward amid persistent global volatility. Coordination between the Government's fiscal policy and Bank Indonesia's monetary and macroprudential policies must continue to be directed toward maintaining a balance between

safeguarding macroeconomic stability and supporting domestic demand-driven growth, both consumption and investment. Coordination between the Government and Bank Indonesia begins with the formulation of macroeconomic assumptions in the annual preparation of the State Budget (APBN), particularly for economic growth, inflation, the exchange rate, and Government Securities (SBN) interest rates. Regular coordination is undertaken to assess and forecast economic developments and to harmonize the Government's fiscal policy responses with Bank Indonesia's monetary policy responses. Coordination is also conducted in the planning of SBN issuances, both annually and periodically, in global and domestic markets to finance the fiscal deficit with competitive interest rates, while maintaining monetary and financial market stability. Meanwhile, coordination to maintain financial system stability and, at the same time, encourage financing from the financial sector to support economic growth is carried out through the KSSK, which convenes quarterly. In addition to assessments, projections, and policy responses of each institution, KSSK meetings also discuss vulnerabilities and risks arising from global or domestic developments, as

well as coordinated policy measures to be taken jointly. The results of the quarterly KSSK meetings are communicated to the public.

The Government's fiscal policy for 2026 is directed towards promoting economic growth while maintaining Indonesia's macroeconomic stability. In line with this objective, fiscal policy is formulated as a countercyclical policy to respond to global economic turbulence and uncertainty risks, as well as to safeguard the domestic economy and public welfare. The macroeconomic assumptions underpinning the 2026 State Budget (APBN) include economic growth of 5.4%, inflation within the 2.5±1% target range, an average 10-year Government Securities (SBN) yield of 6.9%, and an average exchange rate of Rp16,500 per US dollar. The fiscal deficit in the 2026 APBN is to be maintained at the prudent level of 2.68% of GDP to preserve fiscal sustainability and Indonesia's international credibility (Table 4.1.). State revenue would increase by 4.9% from 2025 to Rp3,153.6 trillion, driven mainly by higher tax revenues. Central Government expenditure is set to rise by 16.6% to Rp3,149.7 trillion, while transfers to regions and village funds would decline to

Table 4.1. State Budget (APBN) in 2026

ITEM (TRILLION RUPIAH)	2025	2026
STATE REVENUE	3,005.1	3,153.6
Tax Revenue	2,490.9	2,693.7
Taxes	2,189.3	2,357.7
Customs and Excise	301.6	336.0
Non-Tax State Revenue	513.6	459.2
STATE EXPENDITURE	3,621.3	3,842.7
Central Government Spending	2,701.4	3,149.7
Ministry/Agency Spending	1,160.1	1,510.5
Non-Ministry/Agency Spending	1,541.4	1,639.2
Transfer to Region	919.9	693.0
Primary Balance	-63.3	-89.7
BUDGET DEFICIT	-616.2	-689.1
% Deficit to GDP	-2.53	-2.68
FINANCING REQUIREMENT	616.2	689.1

Source: Ministry of Finance



Rp693.0 trillion, or 75.3% of the 2025 APBN. The significant increase in Central Government spending is primarily allocated to goods and capital expenditures to support economic growth, particularly through production and investment. In addition, fiscal stimulus is directed toward supporting household consumption, including increased allocations for social assistance and other non-energy-compensation spending. Notably, the increase in other non-energy-compensation spending reflects the allocation for financing *Asta Cita* programs to be implemented by the Central Government through regional channels, such as Free Nutritious Meals (MBG), Red and White Village Cooperatives (KDMP), and others; previously these were part of transfer-to-regions allocations. Overall, the expenditure composition in the 2026 APBN represents a fiscal policy stance that balances the need to maintain macroeconomic stability with stimulus to promote economic growth and public welfare. The fiscal deficit, amounting to Rp689.1 trillion, would be financed through the optimization of program loans and the issuance of Government Securities (SBN) in both domestic and global financial markets.

Under the Government's *Asta Cita* vision, President Prabowo Subianto has outlined eight priority programs aimed at improving public welfare, creating jobs, and fostering high economic growth. A portion of the funding for these eight priority programs has been allocated into the 2026 State Budget (APBN) (Figure 4.2.). *First*, the food security program, with a total budget allocation of Rp164.4 trillion, covers food estates and reserves, fertilizer subsidies, and support for Indonesian state food logistics agency (Bulog). *Second*, the energy security program (with a total budget of Rp402.4 trillion) includes energy subsidies, development of New and Renewable Energy (NRE), and rural electrification. *Third*, the Free Nutritious Meals (MBG) program allocates Rp335 trillion for 82.9 million students, pregnant women, and toddlers, supported by the establishment of the Nutrition Provision Service Units (SPPG) involving farmers, fishers, livestock breeders, and MSMEs. *Fourth*, the education program (a total allocation of Rp769.1 trillion) includes the Smart Indonesia Program (PIP) for 21.1 million students; the Smart Indonesia Card (KIP) for 1.2 million university students; improvements to

Figure 4.2. Eight Priority Programs of President Prabowo Subianto



Source: Ministry of Finance

teacher salaries and competencies; and LPDP scholarships for 4,000 students. The Government will also build *Sekolah Rakyat* (People's School), allocating Rp24.9 trillion annually. *Fifth*, the health program, with a total budget of Rp244 trillion, includes insurance premium assistance for 96.8 million beneficiaries. *Sixth*, the village, cooperatives, and MSME development program, including the establishment of 80,000 Red and White Village Cooperatives (KDMP), supported by fund placements in SOE banks for low-interest lending. In 2026, 27,700 KDMP would be established with loans amounting to around Rp83 trillion, increasing to 80,000 KDMP with total loans reaching around Rp240 trillion by 2029. *Seventh*, the universal defense program, including modernization of primary defense systems, strengthening of reserve components, technological mastery, and the development of domestic strategic industries. *Eighth*, the acceleration of investment, trade, and housing. For housing, the Government plans to build 3 million housing units through the Housing Financing Liquidity Facility (FLPP) and Housing Financing Liquidity Facility (BSPP) in villages, urban areas, and coastal regions, totaling Rp54.3 trillion in 2026, increasing to Rp111.9 trillion starting in 2027. The Government will also

provide VAT-Borne-by-the-Government (PPN DTP) incentives for 770,000 commercial housing units. For investment, the Government will accelerate USD38 billion in downstreaming projects, financed partly by the State Budget (APBN) and partly by Danantara, as well as domestic and foreign private investors.

With strong synergy between the Government fiscal policy and Bank Indonesia's monetary policy, Bank Indonesia's monetary policy in 2026 will be directed toward supporting higher economic growth while still achieving the inflation target and maintaining the Rupiah exchange rate stability. This will be carried out primarily through three key instruments: interest rate policy, Rupiah exchange rate stabilization, and secondary market purchases of Government Securities (SBN). *First*, with inflation projected to remain within the 2.5±1% target range in 2025 and 2026, Bank Indonesia will assess the room for further interest rate reductions to help boost economic growth to 5.40% in 2026. As previously explained, since September 2024, Bank Indonesia has reduced the BI-Rate six times by a total of 150 bps to 4.75% as of October 2025. In synergy with the Government's fiscal policy and the Financial System Stability Committee (KSSK),



Bank Indonesia also continues to encourage banks to lower their lending rates and expand credit/financing to support stronger economic growth. *Second*, Rupiah exchange rate stability will continue to be safeguarded as a key factor in maintaining macroeconomic and financial system stability, supporting business activity, and sustaining national economic growth. This will be undertaken through Bank Indonesia's foreign exchange interventions in both offshore markets (offshore NDF) and domestic markets (spot and DND). *Third*, Bank Indonesia will conduct secondary market purchases of SBN as part of monetary operations to stabilize the Rupiah exchange rate and maintain adequate liquidity in the money market and banking system. As previously noted, up to 31 December 2025, Bank Indonesia has purchased SBN amounting to Rp332.14 trillion since January 2025, including secondary market purchases and a debt-switching program with the Government totaling Rp246.68 trillion. Bank Indonesia and the Ministry of Finance have also agreed that part of the fund from these SBN purchases will be allocated to finance public housing programs and the KDMP program under the Government's *Asta Cita* agenda at low interest rates. In addition to these three instruments, there is close coordination between Bank Indonesia and the Government concerning inflation control, particularly for administered prices and volatile foods, through the Inflation Control Teams (TPI) at both the central and regional levels.

Synergy between the Government's fiscal policy and Bank Indonesia's macroprudential policy is also being strengthened to support high-growth sectors and those with significant job-creation potential. In this regard, through the Macroprudential Liquidity Incentive (KLM) policy, Bank Indonesia provides additional liquidity incentives to banks that channel credit/financing to the Government's priority sectors to promote economic growth and job creation. Aligned with the Government's *Asta Cita* programs, these priority economic sectors include: (i) agriculture, manufacturing, and natural resource downstreaming; (ii) services, including the creative economy; (iii) construction, real estate,

and housing, including public housing; and (iv) MSMEs, cooperatives, inclusive and sustainable sectors. As previously explained, by the end of December 2025, total KLM incentives amounted to Rp388.06 trillion, which were allocated to the priority sectors, namely Agriculture, Industry, and Downstreaming sector; Construction, Real Estate, and Housing sector; Inclusive MSMEs, Cooperatives, inclusive and sustainable financing sector; as well as Services sector, including the creative economy. Meanwhile, the Government supports these priority sectors through fiscal incentives and necessary regulatory facilitation. In the case of KUR disbursements, for example, the Government determines eligible sectors, requirements, loan amounts, and fiscal incentives in the form of interest subsidies. For the public housing program, the Government provides fiscal incentives in the form of interest subsidies and administrative cost assistance, with amounts adjusted to the type of housing being financed. This synergy between Bank Indonesia's macroprudential policy and the Government's fiscal policy strengthens bank credit/financing growth while simultaneously supporting higher economic growth and greater job creation.

Synergy in the Financial System Stability Committee (KSSK) is directed toward strengthening financial system stability and becoming more resilient in the face of global spillovers, while also supporting economic financing, including inclusive and green finance. KSSK meetings, comprising the Ministry of Finance, Bank Indonesia, the OJK, and the LPS, are held quarterly to assess financial system stability (SSK) conditions and determine the required coordinated policy measures. Policy coordination focuses on six key aspects: (i) assessing the current condition and status of financial system stability and coordinating the necessary policy responses; (ii) coordinating efforts to promote credit and financial sector financing for the economy; (iii) coordinating financial market development (including financial education and literacy); (iv) coordinating macroprudential and microprudential supervision (including oversight of operational and cyber risks); (v) coordinating the handling and

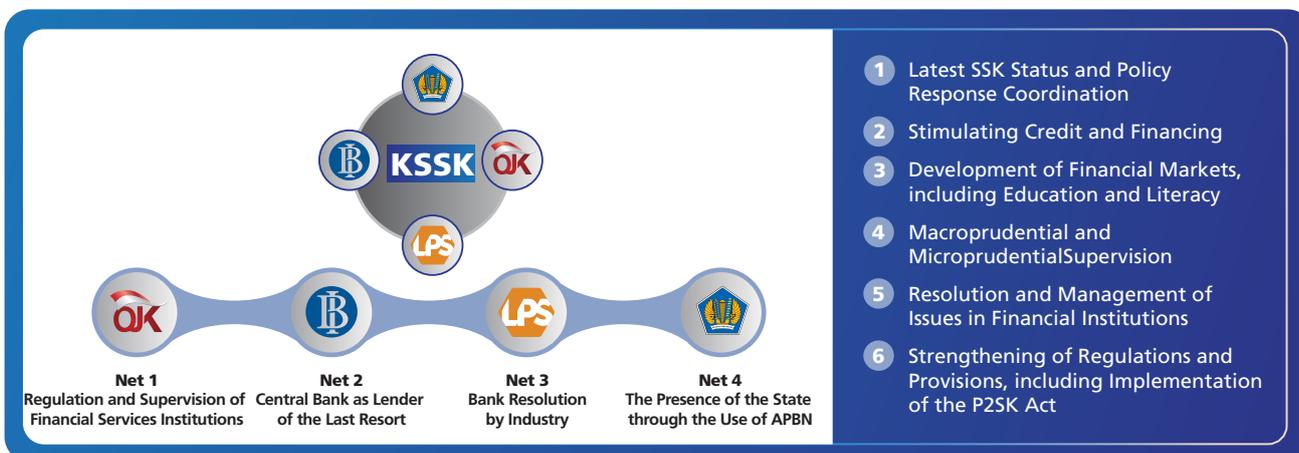
resolution of financial institution problems; and (vi) coordinating the strengthening of regulations and requirements, including the follow-up implementation of the P2SK Act (Figure 4.3.). In this regard, as previously discussed, synergy between Bank Indonesia’s monetary policy and the Government’s fiscal policy to maintain financial system stability is directed towards contained inflation; Rupiah exchange rate stability; interest rate policy; and the issuance of SBN for fiscal financing, all amid global pressures. To safeguard banking system stability, close coordination is carried out between Bank Indonesia’s macroprudential supervision, focusing on macro-financial linkages of large banks, and the OJK’s microprudential supervision to maintain the soundness of individual banks. The OJK also strengthens the supervision of non-bank financial institutions, capital markets, fintech companies, and consumer protection in financial services. The LPS continues to strengthen deposit insurance and bank resolution, implemented in close coordination with the OJK and Bank Indonesia, in accordance with their respective mandates. Readiness simulations for coordinated responses, both among the four KSSK institutions collectively and bilaterally, on handling financial sector issues are continuously enhanced. Beyond this, KSSK coordination continues to be strengthened to finalize all regulations and provisions required for the implementation of

the P2SK Act. Overall, the implementation of the P2SK Act further reinforces the development and strengthening of the financial sector, supporting financial system stability and economic financing for sustainable growth going forward.

Policy coordination between the Government and Bank Indonesia must also be strengthened further to manage foreign exchange flows, safeguard national economic resilience, and support higher economic growth. The Government has issued Government Regulation No. 8 of 2025 on Foreign Exchange Export Proceeds from Natural Resources (PP DHE SDA) as a reinforcement of Government Regulation No. 36 of 2023 to optimize the management and utilization of DHE SDA for public welfare and the national economy, through financing economic development, increasing domestic liquidity circulation, strengthening foreign exchange reserves, and maintaining Rupiah exchange rate stability. The regulation requires 100% of DHE SDA valued greater than or equal to USD250,000 be placed within the Indonesian financial system (in Special Accounts), with strengthened provisions for non-oil and gas natural resources, namely increasing the retention requirement from 30% for 3 months to 100% (after exemptions for Rupiah conversion, imports, loan payments, dividends, and foreign exchange taxes) for 12 months. The monitoring of the

Figure 4.3. Policy Coordination within the KSSK Maintains Financial System Stability

**FINANCIAL SYSTEM STABILITY COMMITTEE (KSSK)
POLICY COORDINATION**



Source: Bank Indonesia



implementation of Government Regulation No. 8 of 2025 shows that DHE SDA placements in Special Accounts amount to around USD11–12 billion per month, equivalent to 87–89% of total natural resources exports, which are around USD13–15 billion per month. Exporter compliance in placing and depositing DHE SDA (that is, DHE is deposited within three months of the export date) has been substantial, reaching 94% for non-oil and gas and 100% for oil and gas. Government Regulation No. 8 of 2025 has also been effective in increasing foreign exchange supply to the domestic market, supported by the flexibility policy for conversion into Rupiah. This has subsequently increased corporate deposits denominated in IDR in the banking system and expanded foreign exchange supply in the domestic FX market. Several measures can be pursued to enhance further the utilization of DHE SDA for the national economy. From Bank Indonesia's side, policy strengthening may include optimizing the placement of DHE SDA at Bank Indonesia, both by expanding DHE placement instruments and by improving returns (pricing). Similar measures may also be undertaken by the Government, including issuing Foreign Currency SBN in the domestic market, particularly in non-USD currencies (such as the Yen and Renminbi), which could simultaneously expand the use of Local Currency Transactions (LCT) in cross-border trade and investment cooperation.

4.2. Synergy to Foster Higher and Resilient Growth

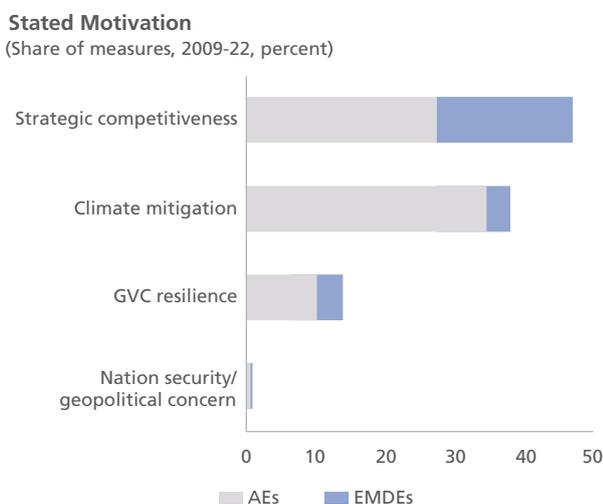
The synergy of real sector transformation policies is crucial to strengthening the capacity of the national economy in achieving higher and more resilient growth. As previously highlighted, synergy between Government fiscal policy, Bank Indonesia's monetary and macroprudential policies, as well as policy coordination in the Financial System Stability Committee (KSSK), must be continuously reinforced to drive growth from the aggregate demand side (household consumption, investment, and net exports) while maintaining macroeconomic and financial system stability. To achieve higher and more resilient economic growth, efforts

to enhance the capacity of the economy from the aggregate supply side through increased value-added production across economic sectors must be consistently pursued. In this regard, the synergy of real sector transformation policies is essential to continuously strengthen capital, labor, and productivity in order to raise value-added production in those sectors. Real sector transformation policies should be implemented through both structural reform policies and industrial policies. Structural policies are directed at improving the investment climate, fostering healthy business competition, enhancing infrastructure connectivity (both physical and digital), as well as advancing trade and investment policies (domestic and international), all of which will positively impact production across economic sectors. Meanwhile, industrial policies are directed at increasing value-added production in specific economic sectors that constitute national priorities to support higher economic growth and large-scale job creation, including downstreaming and industrialization, particularly those based on natural resources. Through the synergy of macroeconomic policies to stimulate aggregate demand and real sector transformation policies to strengthen aggregate supply, higher and more resilient economic growth can be achieved while safeguarding macroeconomic and financial system stability.

Since 2009, an increasing number of countries have adopted industrial policies to strengthen economic resilience, particularly in energy and food, while also promoting higher economic growth. This trend has been most pronounced in advanced economies, including the United States, the European Union, and Canada, as well as in several Emerging Market Economies (EMEs) such as China. A significant acceleration occurred following the COVID-19 pandemic, which underscored the importance of energy and food resilience for national economies. In general, industrial policy is defined as a policy undertaken by a country to transform its domestic economic structure through various instruments, including subsidies and specific regulatory facilities in the fields of investment, market access, and finance, targeting sectors or commodities

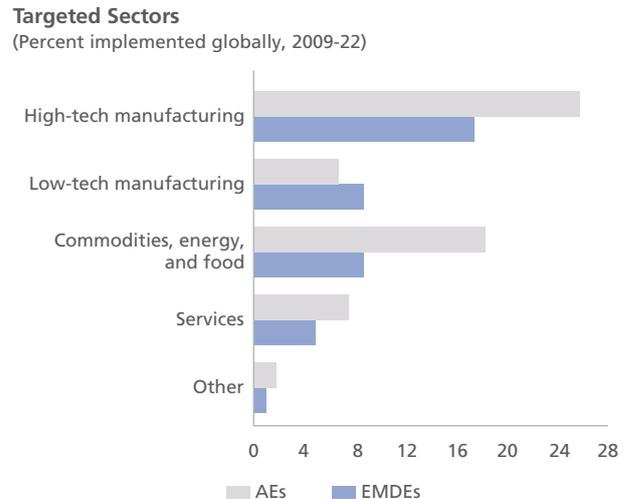
designated as national priorities. Economic considerations may be based on the need to correct market failures, such as protecting infant industries that are not yet able to compete globally. Another common consideration in both advanced economies and EMDEs, is to strengthen strategic competitiveness; climate mitigation considerations are more prevalent among advanced economies (Graph 4.1.). As for targeted sectors, industrial priorities in advanced economies are predominantly high-technology manufacturing, commodities, energy and food, as well as services (Graph 4.2.). In EMDEs, the sectors targeted by industrial policies vary, ranging from manufacturing to commodities, energy, and services, depending on technological readiness and the availability of natural resources. These developments demonstrate that industrial policy can be pursued by a country to strengthen its domestic economic structure in support of higher and more resilient economic growth. Such industrial policies must be carefully formulated in terms of sector selection, business model development, investment and financing policies, while taking into account the fiscal constraints of the Government. Furthermore, industrial policy must be accompanied by structural reform policies to improve the investment climate, enhance infrastructure connectivity governance, and advance financial market development.

Graph 4.1. Industrial Policy: Economic Considerations



Source: IMF, World Economic Outlook, October 2025

Graph 4.2. Industrial Policy: Targeted Economic Sectors

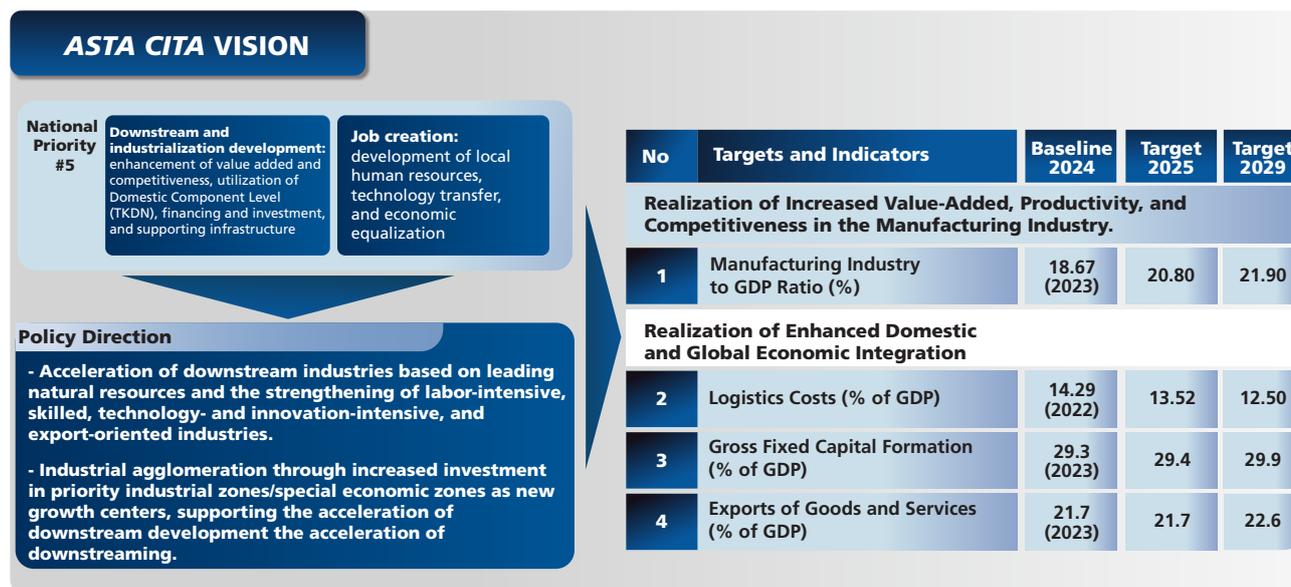


Source: IMF, World Economic Outlook, October 2025

In Indonesia, to achieve higher and more resilient economic growth, the Government has launched real sector transformation policies focusing on downstreaming and industrialization as well as job creation. In line with the fifth National Priority under the *Asta Cita* Vision, downstreaming and industrialization are directed at enhancing value-added and competitiveness; increasing local content requirement (LCR); strengthening financing and investment; and developing supporting infrastructure. For its part, job creation is directed at developing local human resources, facilitating technology transfer, and promoting economic equity (Figure 4.4.). Accordingly, the policy direction encompasses the following aspects: (i) accelerating downstreaming of industries based on primary natural resources, alongside strengthening labor-intensive industries with skilled workers, innovation-driven technology, and export orientation; and (ii) promoting industrial agglomeration through increased investment in priority special economic zones as new growth centers to support downstreaming acceleration. The objectives are: (i) to increase value-added, productivity, and competitiveness of the manufacturing industry, with the target of raising the share of Manufacturing in GDP from 18.67% in 2023 to 21.90% in 2029; and (ii) to strengthen domestic and global economic integration, with the ratio of Gross Fixed Capital Formation (GFCF) rising



Figure 4.4. Real Sector Transformation Policies in the *Asta Cita*: Promoting Higher and More Resilient Growth



Source: RPJMN (Bappenas)

Real-sector transformation policies, particularly those promoting downstreaming, industrialization, and job creation, are designed to achieve higher and more resilient economic growth

from 29.3% to 29.9% of GDP, and exports of goods and services increasing from 21.7% to 22.6% of GDP over the same period.

From the perspective of industrial policy, real sector transformation will be focused on downstreaming of primary natural resource commodities and strengthening priority manufacturing industries. In the National Medium-Term Development Plan (RPJMN), downstreaming and the development of resource-based industries will continue to increase domestic value-added (Figure 4.5.). Downstreaming of natural resources will be concentrated on primary commodities, namely nickel, copper, bauxite, tin, palm oil, coconut, and seaweed. Innovation-driven, technology-intensive industries will be focused on the development of the semiconductor industry and the aerospace

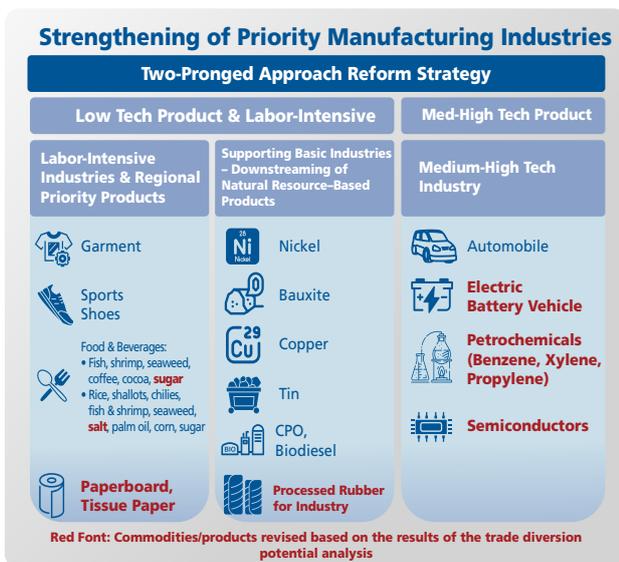
industry, while basic industries will be directed at strengthening basic metals, iron and steel, as well as developing the chemical industry. Meanwhile, strengthening priority manufacturing sector will pursue two main strategies, namely medium-high technology industries and low-technology, labor-intensive industries (Figure 4.6.). The medium-high technology industry strategy will focus on automobiles, electric batteries, petrochemicals, and semiconductors. The supporting low-

Figure 4.5. Priority Natural Resource Downstreaming Commodities in the RPJMN



Source: RPJMN (Bappenas)

Figure 4.6. Strengthening of Priority Manufacturing Industries in the RPJMN



Source: Bank Indonesia

technology industry strategy will focus on resource-based products such as nickel, bauxite, copper, tin, crude palm oil (CPO), and processed rubber for industrial use. The labor-intensive industry strategy and regional flagship products will emphasize garments, sports shoes, as well as selected plantation, agricultural, and fishery products. The choice of strategy is based on several factors, including technological adoption capacity, the establishment of downstreaming and industrialization value chains, and the availability of exploration of the relevant natural resource commodities.

Danantara plays an important role both in the implementation of business models and in investment into downstreaming and industrialization projects of natural resources.

In determining priorities, Danantara considers three main factors: the ability to generate impact on the national economy, the magnitude of sustainable investment returns, and the feasibility of realizing investment opportunities. Based on these three considerations, Danantara has identified eight priority sectors, namely: (i) minerals, focusing on nickel and bauxite commodities; (ii) renewable energy, particularly advanced oil and gas products; (iii) digital infrastructure, focusing on data centers; (iv)

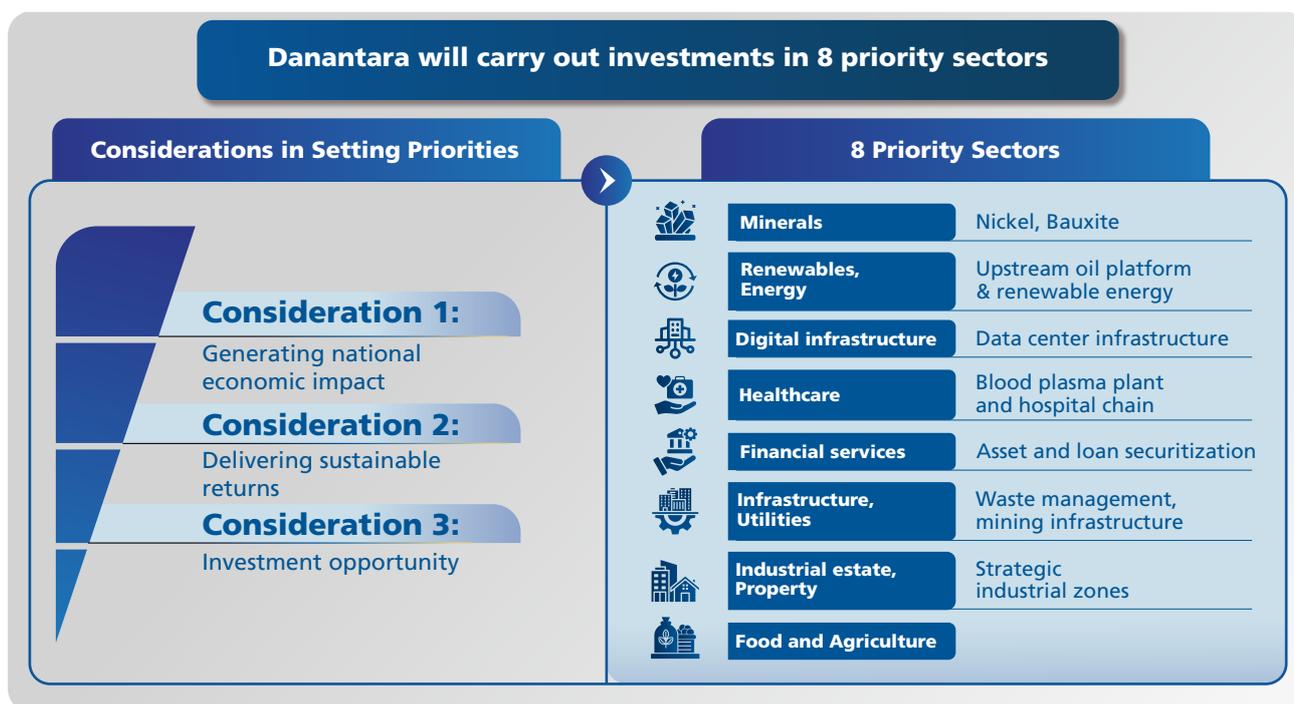
health, through the development of plasma fractionation facilities and hospital supply chains; (v) financial services, through asset securitization and credit; (vi) facilities and infrastructure, particularly waste processing and mining infrastructure; (vii) development of industrial estates; and (viii) food and agriculture (Figure 4.7.). As previously highlighted, the development of commercially viable business models in downstreaming and industrialization across these priority sectors is essential to attract investment, both from the Government through Danantara and from private investors, domestic and foreign alike.

Structural reform policies are critically important to the success of industrial policies involving downstreaming and industrialization of primary natural resources and other national priority sectors.

Well-designed industrial policies targeted at addressing market failures on the production side can improve performance both in prioritized sectors and at the aggregate level. The experience of South Korea illustrates how well-directed subsidies with clear objectives, implemented under sound institutional governance, can drive structural transformation in sectors such as electronics and automotive. Nevertheless, it must be acknowledged that the effectiveness of industrial policy depends heavily on technological adoption capacity, institutional capability and governance, as well as the structure of market competition in the respective country. This is why the success of industrial policy requires, and indeed depends upon, structural policies aimed at improving the investment climate, fostering healthy business competition, enhancing infrastructure connectivity (both physical and digital), and advancing trade and investment policies (domestic and international) pursued by the country concerned. Similar to industrial policy, structural policy is undertaken to overcome barriers to growth and productivity. The difference lies in the scope, where structural policy generates positive impacts across all economic sectors, whereas industrial policy is more narrowly directed at priority sectors. The challenge, however, is that structural policy is more difficult to implement due to reliance on



Figure 4.7. Danantara's Investment in 8 Priority Sectors



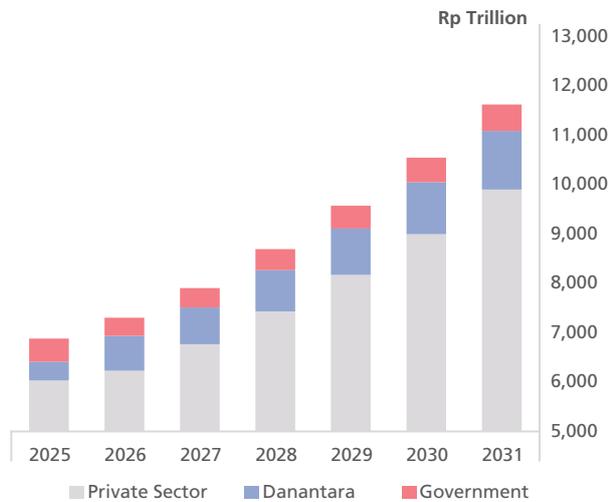
Source: Danantara

government bureaucracy at both central and regional levels. Accordingly, a combination of structural reform policies and industrial policies can be an effective option. This approach can be pursued by implementing industrial policies to boost productivity, value-added, and competitiveness of priority sectors within special economic zones as growth centers, while simultaneously undertaking structural reforms to improve the investment climate, infrastructure connectivity, institutional governance and bureaucracy, as well as innovation and research development to accelerate technology adoption. In this context, the development of several Special Economic Zones (SEZs), such as Batang, Sei Mangke, and Weda Bay, as growth centers for downstreaming and industrialization of natural resources and other priority sectors, represents an appropriate policy step in combining industrial and structural policies.

4.3. Synergy to Enhance Economic Financing

Synergy in enhancing financing is critically important to support higher and more resilient economic growth. As previously highlighted, the capital and investment needed for real sector transformation programs, particularly downstreaming and industrialization of natural resources and other priority sectors, are substantial and cannot be met solely through the State Budget (APBN). Therefore, a clear national financing strategy is required. In this regard, total investment needs during 2025–2031 are estimated to reach Rp62.54 thousand trillion, rising from Rp6.88 thousand trillion in 2025 to Rp11.63 thousand trillion in 2031 (Graph 4.3.). Of this amount, with budget allocations focused on social programs and the fiscal deficit capped at no more than 3% of GDP, investment financing from the APBN during 2025–2031 is

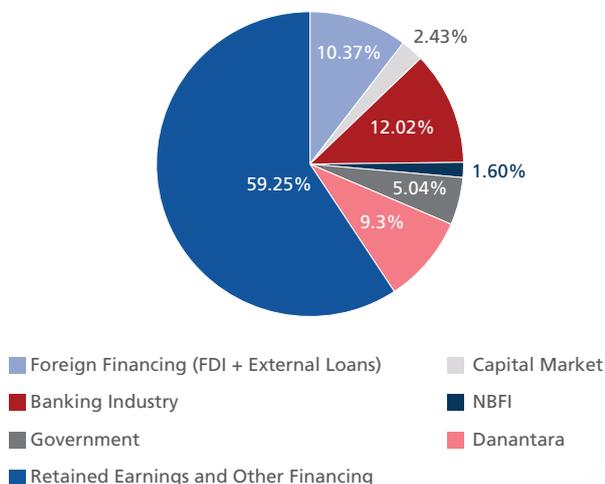
Graph 4.3. Projected Total Investment and Sources of Finance: 2025-2031



Source: Bank Indonesia

estimated at Rp3.15 thousand trillion (around 5.0%). Meanwhile, investment financing from Danantara is estimated to reach Rp5.84 thousand trillion (around 9.3%) over the same period. The largest contribution to meeting the investment financing needs is expected to come from the private sector, amounting to Rp53.56 thousand trillion (around 85.6%) during 2025–2031 (Graph 4.4.). This represents the greatest challenge to the successful implementation of real sector transformation policies aimed at fostering higher and more resilient economic growth. Addressing this challenge requires the formulation of clear business models, strong institutional governance,

Graph 4.4. Projected Composition of Sources of Investment Financing: 2025-2031



Source: Bank Indonesia

and robust technological adoption capacity within downstreaming and industrialization programs, thereby ensuring commercial viability to attract private investment from both domestic and foreign investors.

Policy synergy among the Government, Danantara, the Financial System Stability Committee (KSSK), and Bank Indonesia must be strengthened to explore private financing sources in order to meet the substantial investment needs going forward. In this context, consistent with the established financing patterns for business investment, around 59.25% of total private investment needs (equivalent to approximately Rp37.1 thousand trillion during 2025–2031) generally originate from internal funds, including retained earnings and other financing sources (Graph 4.4.). The next sources of financing are foreign financing, either in the form of foreign direct investment (FDI) or external loans, accounting for around 10.37% (Rp6.5 thousand trillion during 2025–2031), additional bank credit/financing at around 12.02% (Rp7.52 thousand trillion during 2025–2031), with the remainder sourced from capital markets and non-bank financial institutions. For new projects where internal financing contributions are more limited, the share of investment needs met through bank credit/financing and foreign financing will naturally be larger. Accordingly, policy synergy to mobilize financing from these four main sources, internal funds, banking, FDI, and Government budget, must be optimized to achieve high growth in the next five years. The focus of synergy should be directed at four key aspects, namely: optimal project financing structures; appropriate financing sources; liquidity and hedging needs; and financial education and literacy. The feasibility of investment projects will determine the optimal financing structure. The greater a project’s commercial viability, the more its financing structure can rely on private channels, such as bank credit/financing, bond or other securities issuance in the domestic capital market, or loans from foreign investors. Certain projects generate commercial returns, enabling private investment needs to be largely met by private

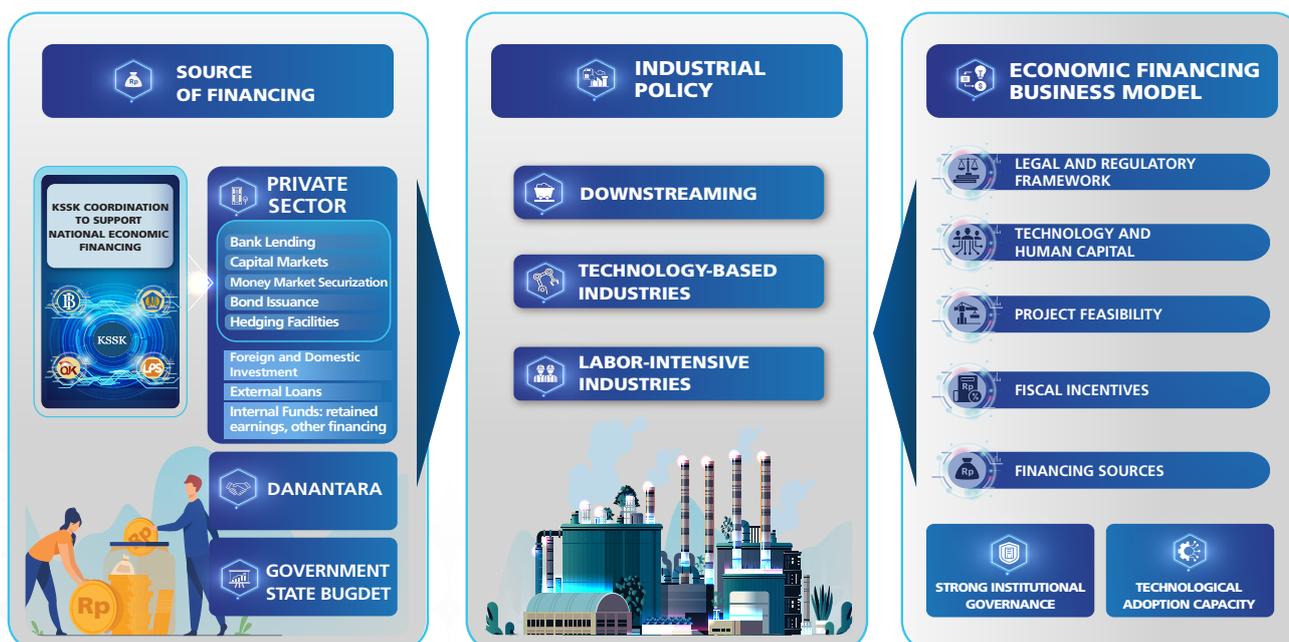


sources, including internal funds, bank credit, and foreign loans and investment. However, other projects still require partial financing and fiscal incentives from the Government to strengthen their commercial viability. Such fiscal incentives and/or other Government policies include tax rates, interest subsidies, and policy certainty, particularly during the grace period from the construction phase to the initial operational stage. Once again, this underscores the critical importance of improving the investment climate, advancing bureaucratic reform, and conducting thorough feasibility studies (Figure 4.8.).

Furthermore, synergy among the Ministry of Finance, the Financial Services Authority (OJK), the Deposit Insurance Corporation (LPS), and Bank Indonesia is essential for coordination in mobilizing financing sources from the financial sector. Financing may take the form of investment, credit, or issuance of bonds and other securities. Deepening the financial market is critically important to support financing of the national economy, including enhancing liquidity, ensuring competitive interest rates, and providing hedging instruments for interest rate and exchange rate risks. In this regard, Bank Indonesia will continue to implement the Money Market Deepening Blueprint (BPPU)

2025–2030, encompassing product development, pricing, market participants, and infrastructure. As explained in the previous chapter, during the implementation of BPPU 2020–2025, average daily transaction values in the money market reached more than Rp54 trillion, while in the foreign exchange market they exceeded USD10 billion per day. In addition, Bank Indonesia continues to strengthen synergy with the three institutions within the Financial System Stability Committee (KSSK) to formulate joint measures in meeting required financing sources. As previously highlighted, Bank Indonesia will continue to optimize liquidity incentives (KLM) to encourage bank credit/financing to priority sectors that support growth and job creation. Beyond macroprudential policy coordination with microprudential supervision to ensure credit optimization and safeguard banking system risks, Bank Indonesia’s synergy with OJK also encompasses harmonization of regulations governing bond issuance and transactions as well as Commercial Paper, and harmonization of licensing for financial markets, including inter-market infrastructure and supporting professions in the financial sector. In addition to fiscal policy coordination with monetary and macroprudential policies as previously described, Bank Indonesia’s synergy with the Ministry of Finance also

Figure 4.8. Economic Financing Business Model



Source: Bank Indonesia

extends to deepening the government bond market and harmonizing taxation of financial transactions in both the capital market and the money and foreign exchange market. Financial market development synergy within the KSSK and with ministries/government agencies, authorities, and market participants continues to be pursued to foster innovation in economic financing instruments and hedging, including debt instruments, interest rate and exchange rate swaps, and optimization of local currency transactions (LCT).

4.4. Synergy to Accelerate National Economic and Financial Digitalization

Indonesia's digital economy has enormous potential to serve as a key driver of high economic growth, both through investment and productivity gains. In line with the National Digital Economy Strategy 2030, Indonesia is focusing on developing digital infrastructure, transforming the trade sector (including MSMEs), adopting technologies such as artificial intelligence (AI), and providing efficient digital government services. The overarching objective is to significantly increase the value of Indonesia's digital economy by 2030 and strengthen national competitiveness through digital

innovation and collaboration. *First*, the digital infrastructure strategy is being pursued through the development of physical infrastructure such as fiber optic networks, Base Transceiver Station (BTS) towers, and satellites, including Satria and low-earth-orbit satellites, to ensure coverage across all regions of Indonesia, including the frontmost, outermost, and remote areas. *Second*, digital transformation across sectors, particularly trade, is being promoted by supporting MSMEs to upgrade and integrate into a broader digital ecosystem. *Third*, the adoption of innovative technologies such as AI, cloud computing, and fintech is being accelerated to enhance efficiency and productivity. *Fourth*, the digital government strategy focuses on modernizing public services to make them more accessible and efficient, while leveraging data for improved decision-making. *Fifth*, the cybersecurity and regulatory strategy aims to build a regulatory framework that supports digital innovation while safeguarding consumers and national interests, and to strengthen cybersecurity to create a secure digital ecosystem. With the implementation of the national digital economy strategy, Indonesia's digital economy is projected to surge from USD90 billion in 2024 to as high as USD360 billion by 2030. Digital economy growth is expected to contribute significantly to Indonesia's GDP



The 2025 FEKDI, organized by Bank Indonesia in collaboration with the OJK's IFSE, carried the theme "Synergy and Innovation to Accelerate Indonesia's Digital Economic and Financial Transformation."



in 2030. The advanced implementation of AI is projected to further boost overall digital economy growth.

Bank Indonesia will continue to accelerate the digitalization of the payment system to support the national Digital Economy and Finance and promote high and inclusive economic growth. This will be achieved through the SPBI 2030 programs, including the development of payment infrastructure (retail, wholesale, and data), industry restructuring, innovation development, international cooperation, and the development of Digital Rupiah. Bank Indonesia continues to promote the payment system and financial sector digitalization as a leverage point to enhance the productivity of payment and financial services for the economy. The growing adoption of QRIS and BI-FAST in serving the payment needs of people across all segments demonstrates their significant contribution to inclusive economic growth. Likewise, digital banking services, through online and mobile banking, continue to expand rapidly. Bank Indonesia will also establish the Indonesia Digital Innovation Center (PIDI) to strengthen public digital literacy and acceptance. The digitalization of the social programs distribution and Government financial transactions will continue to expand. Bank Indonesia is also enhancing synergy in Anti-Money Laundering; Countering the Financing of Terrorism; and Countering the Financing of Proliferation of Weapons of Mass Destruction (APU PPT PPPSPM) with the PPATK, the OJK, relevant ministries/government agencies, the payment system and banking industries, as well as international forums. Taken together these will ensure the integrity and resilience of the national payment ecosystem. Furthermore, bilateral and international cooperation in cross-border payment systems will continue to be expanded, not only with ASEAN-5 countries but also with Japan, China, South Korea, Saudi Arabia, and India.

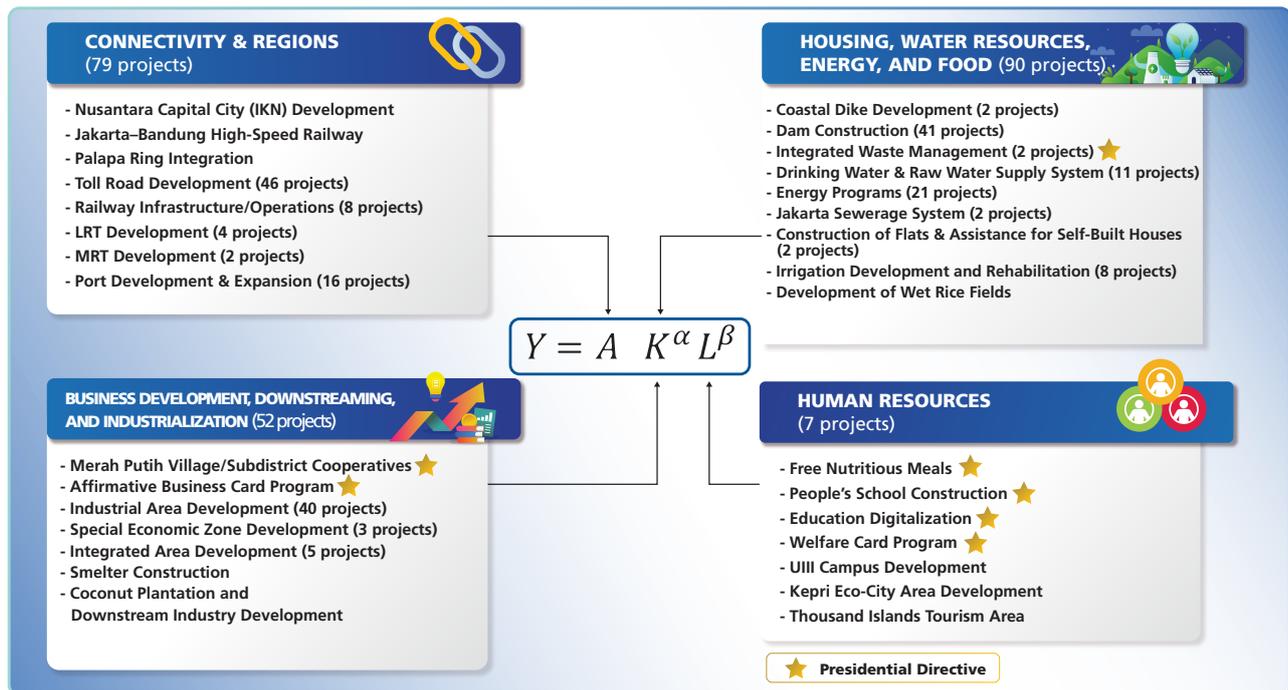
4.5. Synergy in International Trade and Investment Cooperation

Strengthening the effectiveness of trade and investment cooperation with major partner countries is essential to support the success of real-sector transformation policies.¹³ Indonesia has established economic cooperation at the bilateral, regional, and multilateral levels to enhance trade, investment, and economic growth. At the regional level, Indonesia actively participates in the ASEAN Free Trade Area (AFTA) to strengthen economic cooperation within the region. Bilaterally, Indonesia maintains free trade agreements with key trading partners. With China, Indonesia has signed a strategic memorandum of understanding for investment in manufacturing, renewable energy, and logistics. This cooperation aims to attract investment, create jobs, and integrate MSMEs into global supply chains. Cooperation with Japan includes investments in industrial sectors such as port development and vehicle manufacturing, as well as student exchanges in technology-related fields. With South Korea, Indonesia has established a special strategic partnership focused on defense and trade, as well as the Indonesia–Korea Comprehensive Economic Partnership Agreement (IK-CEPA). Indonesia also maintains cooperation with Australia in free trade agreements and business partnerships across various sectors such as infrastructure, agriculture, and natural resources. Cooperation with Switzerland covers trade, investment, tourism, and development, with Switzerland being one of Indonesia’s significant investors. Indonesia’s regional and multilateral cooperation also extends to the European Union,¹⁴ the International Monetary Fund (IMF), the G20, and the World Trade Organization (WTO). As discussed earlier, US protectionist policies and global economic polarization across countries are expected to persist. Therefore, Indonesia’s trade and investment cooperation should focus on

¹³ Further explanation on investment and trade-promotion synergy is provided in Box 4.1. Synergy in Investment and Trade Promotion to Strengthen the Economy.

¹⁴ Additional details on Indonesia–EU cooperation can be found in Box 4.2. Cooperation under the IEU-CEPA: A Strategy to Strengthen International Trade Policy

Figure 4.9. Impact of National Strategic Projects on the Enhancement of National Economic Capacity



Source: Bank Indonesia, Government Work Plan, processed

major bilateral and regional partners that offer the most significant strategic benefits, while continuing to advocate multilateral cooperation. Moreover, such bilateral and regional cooperation is essential to support Indonesia’s interests in trade and investment related to natural resource downstreaming programs and their financing needs. This includes cooperation to expand the use of local currencies (Local Currency Transactions, LCT), advance financial market deepening, and strengthen cross-border digital payment cooperation to facilitate bilateral and regional trade and investment.

4.6. Indonesia’s Medium-Term Economic Outlook

Overall, the five national economic policy mix strategies described above can foster higher and more resilient economic growth. The positive impact on economic growth may derive both from demand-side stimulus (aggregate demand) as well as from strengthening national supply capacity (aggregate supply). In particular, significant growth gains in terms of capital, labor, and productivity may result from the implementation of national strategic projects, including 79 projects on connectivity and

regional development, 90 projects on housing, water resources, energy and food, 52 projects on business enhancement, downstreaming and industrialization, and 7 projects on human resource development¹⁵ (Figure 4.9.). The extent to which growth can be improved will depend upon the speed, accuracy, and effectiveness of implementation. In this regard, three scenarios can be simulated. First, the “Baseline” scenario, involving implementation of carry-over projects, ongoing projects, and those already groundbreaking. Second, the “Optimistic” scenario, which refers to the Baseline scenario plus the implementation of new projects that have not yet commenced or reached groundbreaking, characterized by relatively low costs and potential for faster financing, including funding from the State Budget (APBN). Third, the “Super Optimistic” scenario, which builds on the Optimistic scenario by adding projects that have not yet commenced or reached groundbreaking, but characterized by relatively higher costs and longer financing timelines, largely funded through private investment from

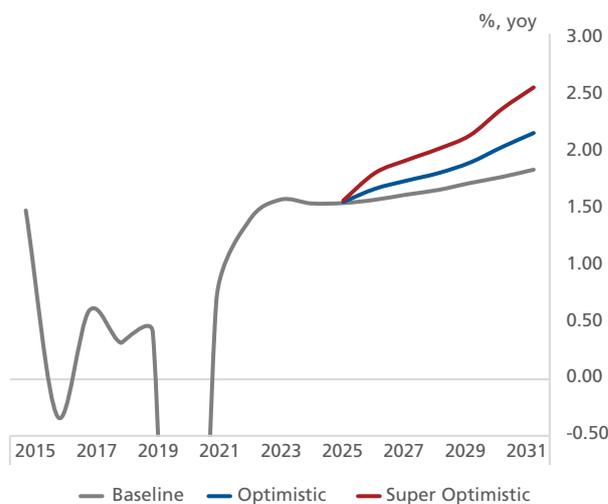
15 Further elaboration on the significant contributions of capital, labor, and productivity growth is presented in Box 4.3. Optimizing National Strategic Programs to Accelerate Economic Growth.



both domestic and foreign sources. The scenario levels also reflect the intensity of structural reform policy implementation, which is stronger in each successive scenario. Structural policies are reflected in: (i) enhancing “Productivity” through accelerated infrastructure development, strengthened research and development capacity, technology adoption, and improved market efficiency; (ii) strengthening “Capital” through improvements in the investment climate, increased foreign direct investment (FDI) and domestic investment, and support for capital-intensive sectors; and (iii) improving “Labor” quality through better access to and quality of education, higher labor force participation, and creation of formal employment opportunities.

The three scenarios described above can foster higher economic growth going forward, albeit with different levels of achievement. As mentioned, the key lies in the speed and effectiveness of implementing various Government and private sector’s programs and projects that can promote growth from the demand side through consumption and investment, as well as from the improvement in national economic capacity. The five agendas of national economic transformation policies are interrelated and mutually reinforcing in terms of increasing investment and capital, absorbing labor and raising household income, as well as improving productivity and economic efficiency. This will be reflected in rising productivity growth (Total Factor Productivity/TFP), with the largest increase occurring under the Super Optimistic scenario compared with the other two scenarios (Graph 4.5.). In other words, with the same level of capital investment and labor absorption, economic growth outcomes will be higher. To achieve high economic growth, a balance must be maintained between capital-intensive sectors, which enhance economic capacity (aggregate supply side), and labor-intensive sectors, which increase income and consumption (aggregate demand side). Likewise, the Incremental Capital-Output Ratio (ICOR) will decline, with the largest reduction under the Super Optimistic scenario

Graph 4.5. Projected Productivity Growth: 2025-2031

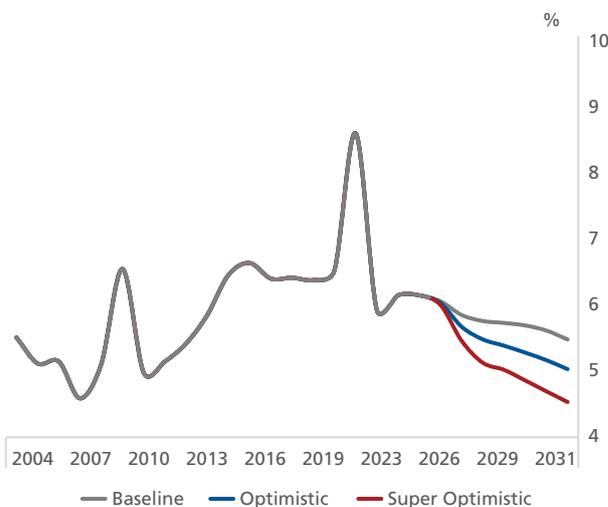


Source: Bank Indonesia

compared with the other two scenarios (Graph 4.6.). A lower ICOR indicates greater efficiency in the national economy, as achieving high growth requires a smaller amount of investment.

The increase in Total Factor Productivity (TFP) and the decline in the Incremental Capital-Output Ratio (ICOR) resulting from the implementation of the national economic transformation policy mix will jointly enhance the achievement of high and resilient growth while maintaining macroeconomic stability. The economic growth,

Graph 4.6. Projected ICOR Decline: 2025-2031



Source: Bank Indonesia

which is projected at around 4.7–5.5%, in 2025, is expected to increase to 4.9–5.7% in 2026 and 5.1–5.9% in 2027 (Table 4.2.). With the implementation of the national economic transformation policy mix, economic growth in 2031 under the “Baseline” scenario, estimated at 5.6–6.4%, is projected to rise to 6.1–6.9% under the “Optimistic” scenario and even higher to 6.9–7.7% under the “Super Optimistic” scenario. Price stability will be maintained, with inflation remaining under control within the range of $2.5 \pm 1\%$, while the current account balance will remain low, at around a deficit of 0.4% to a surplus of 0.4% of GDP in 2031. Indonesia’s internal and external economic stability can be maintained through the strengthening of aggregate supply capacity, which will meet the rising demand under the national economic transformation policy mix. Bank credit/financing is expected to grow optimally at around 12–16% per year. Fiscal deficits will also remain contained at below 3% of GDP, consistent with Indonesia’s established credibility.

As a note, the simulation of economic performance outcomes resulting from the implementation of the national economic transformation policy mix must be continuously evaluated in line with evolving dynamics and the necessary policy mix responses. Several assumptions underpin this simulation. First,

global economic growth is assumed to slow from 3.1% in 2025 to 3.0% in 2030, with the US monetary policy rate declining from 4.0% to 3.5%. This assumption may change with the continuation of tariff policies by the US Government under President Trump. The rapidly changing geopolitical and global economic dynamics could affect Indonesia’s economic stability and growth outcomes. Second, in addition to the Government’s strategic programs under *Asta Cita*, the role of the private sector, including large corporations, MSMEs, the creative economy, services, digital financial economy, and tourism, is critically important as drivers of economic growth and job creation. In this regard, improving the investment climate, developing infrastructure, and ensuring business certainty are key to fostering economic growth and employment. Equally important is the preservation of macroeconomic and financial system stability, which has established credibility for Indonesia’s economic performance recognized internationally. In this context, close coordination among Government policies, Bank Indonesia policies, and Financial System Stability Committee (KSSK) policies in responding to rapidly changing geopolitical and global economic dynamics is a prerequisite and foundation for the success of the national economic transformation policy mix in achieving high and sustainable economic growth toward Golden Indonesia 2045.

Table 4.2. Indonesia’s Economic Projections 2025–2031

Indicator	Unit	2025	2026	2027	2031		
					Baseline	Optimistic	Super Optimistic
Economic Growth	%, yoy	4.7–5.5	4.9–5.7	5.1–5.9	5.6–6.4	6.1–6.9	6.9–7.7
CPI Inflation	%, yoy	2.92*	2.5 ± 1	2.5 ± 1	2.5 ± 1	2.5 ± 1	2.5 ± 1
Current Account	% GDP	0.3 to -0.5	-0.1 to -0.9	-0.4 to -1.2	0.2 to -0.6	0.3 to -0.5	0.4 to -0.4
Credit Growth	%, yoy	9.69*	8–12	9–13	10–14	11–15	12–16

Note: *represent actual values

Source: BPS, Bank Indonesia, Bank Indonesia’s Projection



Box
4.1.

Synergy in Investment and Trade Promotion to Strengthen the Economy

Bank Indonesia works in close synergy with ministries and government agencies in shaping economic actors' perceptions of Indonesia's economic outlook through the linkage of the Investor Relations Unit (IRU), Regional IRU (RIRU), and Global IRU (GIRU). This synergy is complemented by the facilitation of investment and trade promotion through IRU at the central level, RIRU at the regional level, and GIRU at the international level. This is made possible as Bank Indonesia operates 14 Domestic Representative Offices (serving as RIRU) and five Overseas Representative Offices (serving as GIRU). RIRU plays a role in building relationships with project and product owners in the regions, providing education, and preparing potential projects and products. Meanwhile, GIRU plays a role in establishing relationships with investors, trading partners, international financial institutions, as well as government representatives and business associations abroad.

Promotion through the IRU–RIRU–GIRU linkage is guided by three core principles. First, “Synergized”, meaning synergy across institutions to enhance promotion effectiveness. This synergy is achieved through strengthened collaboration between Bank Indonesia, local governments, ministries and agencies (including the Ministry of Foreign Affairs, Ministry of Investment/ Indonesian Investment Coordinating Board, and Ministry of Trade), as well as Indonesian representatives overseas (Indonesian Embassies, Consulates General, Indonesia Investment Promotion Centers, and Indonesia Trade Promotion Centers). Second, “Targeted”, meaning facilitation programs focus on priority subsectors and key partner countries with large investment value or those

that have trade and financial agreements with Indonesia. Third, “Outcome-Oriented”, meaning that strategies are directed toward prospective investors and buyers with strong transaction potential and high interest in Indonesian investment projects and MSME products.

Throughout 2025, Bank Indonesia actively organized and participated in various investment and trade promotion facilitation activities, which will continue in 2026. Bank Indonesia participated in several events in Asia, Australia, Europe, and the United States. BI also showcased MSME products and held business forums at the Indonesia Pavilion during the World Expo Osaka, Japan. BI likewise participated in the ASEAN Conference 2025 in Singapore and Shoppe Object 2025 in New York, USA. Investment promotion efforts delivered concrete outcomes, including investment agreements for the Floating Solar Power Plant project in Lampung; a Waste Management System in South Kalimantan; the Bolaang Mongondow Refuse Derived Fuel project in North Sulawesi; Solar Power Plant and Wind Power Plant projects in West Java; and a Mini Hydro project in Bengkulu. Meanwhile, trade promotion achievements included coffee bean exports and spice purchase contracts from Japanese buyers, as well as export contracts secured during the Food Hotel Asia exhibition in Singapore. These various activities will continue in 2026 to attract more investors and promote products from BI-assisted MSMEs. Going forward, the IRU–RIRU–GIRU linkage will also focus on promoting green industries and sustainable products, in line with the global shift in investor and buyer preferences toward the green economy.

Box
4.2.

Cooperation under the IEU-CEPA: A Strategy to Strengthen International Trade Policy

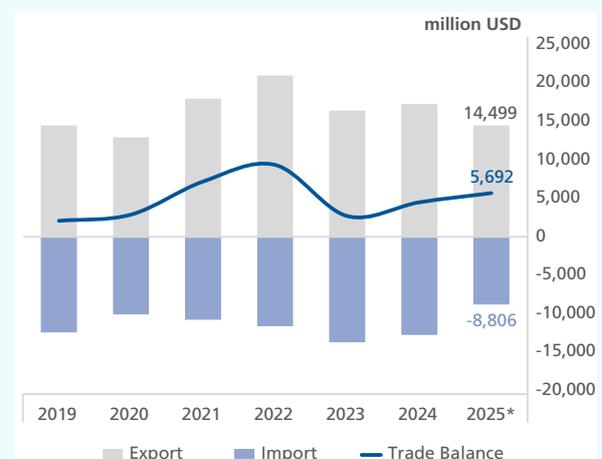
Global trade challenges arising from the imposition of US tariffs have encouraged the Government to take a more active role in advancing bilateral trade cooperation with key partner countries, including the Indonesia–European Union Comprehensive Economic Partnership Agreement (IEU-CEPA). In this regard, the Government of the Republic of Indonesia and the European Union signed the IEU-CEPA on 23 September 2025, with implementation targeted for 2027 after securing approval from the EU’s 27 member states and completing Indonesia’s ratification process. Authorities in Indonesia and the European Union expect trade and investment flows to increase as the IEU-CEPA comes into force. The agreement has a broad scope, covering trade in goods, trade in services, and investment.

The commitments on trade in goods under IEU-CEPA include both tariff and non-tariff provisions aimed at strengthening national export performance. On tariffs, Indonesia and the EU have agreed to eliminate tariffs on 98% of Indonesia’s export products, reducing duties to 0%. Approximately 80% of products will enjoy immediate tariff elimination once the agreement becomes effective, while the remaining tariff reductions will be phased in over time. Tariff removal also applies to Indonesia’s major export products, including palm oil, textiles and textile products, fisheries, footwear, apparel, and accessories. On non-tariff measures, both parties agreed to simplify export–import procedures and strengthen cooperation between customs authorities. The IEU-CEPA is expected to enhance Indonesia’s export competitiveness through expanded market access. In 2024, Indonesia–EU trade reached USD30.1 billion,

generating a USD4.5 billion surplus for Indonesia. Indonesia’s trade surplus further increased to USD5.7 billion as of September 2025 (Graph B4.2.1).

In line with these commitments, Indonesia and the EU also agreed to expand market access in several strategic services sectors, including financial services and professional services. In financial services, Indonesia secured market-access commitments covering insurance and insurance-related services as well as banking and other financial services. These commitments span all four modes of service supply: mode 1 (cross-border supply), mode 2 (consumption abroad), mode 3 (commercial presence), and mode 4 (movement of natural persons). This expanded market access opens new opportunities for Indonesian financial-services players to operate in Europe. The European Union also offers a sizeable market for professional services, such as architecture, engineering, and information and computer technology.

Graph B4.2.1. Development of the Indonesia–European Union Trade Balance



*as of September
Source: Bank Indonesia



Through a Mutual Recognition Arrangement (MRA), the professional qualifications of Indonesian workers may be recognized in EU member states.

The IEU-CEPA provides investment certainty for businesses in Indonesia and the European Union. The agreement opens market access and ensures equal treatment for businesses from both parties. It also governs investment protection, regulatory transparency related to requirements and licensing, as well as dispute-settlement mechanisms. These provisions are expected to provide legal certainty and strengthen investor confidence. On one hand, the investment arrangements under IEU-CEPA may increase foreign capital inflows, facilitate technology transfer, and create employment opportunities. On the other hand, Indonesia needs strategies to protect domestic businesses and strengthen the capacity of local industries to penetrate the EU market.

The signing of the IEU-CEPA is a strategic step to promote Indonesia's foreign investment and trade cooperation amid elevated global uncertainty driven by ongoing geopolitical tensions. A key aspect to underline is that the full potential of the IEU-CEPA will only materialize if Indonesia can utilize it optimally. In the short term, crucial steps include completing the ratification process and intensively disseminating information to businesses. In the medium term, structural reforms to create a more conducive business climate are essential to enhance productivity and competitiveness, enabling Indonesia to fully capture the benefits of the IEU-CEPA. This, in turn, will strengthen Indonesia's participation in the Global Value Chain. Optimal utilization of the IEU-CEPA is expected to support high-quality and sustainable national economic growth, while creating employment and serving as a new source of economic expansion.

Box
4.3.Optimizing National Strategic Programs to
Accelerate Economic Growth

The implementation of National Strategic Projects (PSN) as part of real-sector transformation plays a critical role in strengthening Indonesia's long-term economic potential. Conceptually, the rise in potential economic growth can be explained through the Solow Growth Model. Under this framework, the main sources of growth are capital, productivity, and labor—each assumed to operate under full employment within the production process. The Solow model is commonly represented using a Cobb-Douglas production function:

$$Y_t = A_t K_t^\alpha L_t^{1-\alpha}$$

where Y_t : Total output in period t
 K_t : Capital in period t
 L_t : Labor in period t
 A_t : Productivity in period t
 α : Capital share of income

Based on the Solow Growth Model, the composition of Indonesia's growth sources needs to be strengthened in a more balanced manner. Over the past 50 years, Indonesia's economic growth has been driven predominantly by capital and labor—which jointly account for more than 98% of total growth—while the contribution of productivity, reflecting economic efficiency, remains below 2% (Bappenas, 2025). Furthermore, Indonesia's 2024 economic growth of 5.03% (yoy) continued to rely on relatively modest contributions from capital, productivity, and labor (Economic Report on Indonesia, 2024). This condition is expected to persist in 2025. Consequently, contributions from capital accumulation, productivity enhancement, and labor quality to overall economic growth need to be strengthened.

To boost Indonesia's long-term growth potential, the key drivers of growth must be reinforced through economic-transformation policies. Studies such as Juhro and Trisnanto (2018) highlight that Indonesia's growth strategy should concentrate on strengthening production-factor inputs. First, strengthening capital through the creation of new sources of economic growth. Second, strengthening labor through improving human-capital quality. Third, increasing productivity through technological advancement and innovation. In this context, the Government is advancing national economic transformation through various National Strategic Projects (PSN). Of the 228 PSN implemented by the Government, 142 projects are designed to enhance capital formation, 79 projects aim to strengthen productivity, and 7 projects focus on expanding labor growth.

In theory, the implementation of National Strategic Projects (PSN) will boost economic growth while maintaining macroeconomic stability. These strategic projects expand economic capacity by strengthening capital, productivity, and labor. Consequently, potential output increases in the medium to long term, consistent with the Solow Growth Model. The Aggregate Demand–Aggregate Supply (AD–AS) framework can also be used to illustrate how PSN affects economic growth through adjustments in aggregate demand and supply, and its implications for inflation (Figure B4.3.1). In the early stage of project implementation, increased investment required for project development shifts the demand curve to the right, raising output and generating upward pressure on prices. Subsequently, as strategic projects begin operating and expand the capital stock, enhance labor absorption, and boost



productivity, the aggregate supply curve also shifts to the right. This supply-side shift creates a new equilibrium with higher output and lower price pressures, thereby keeping inflation under control.

Strengthening the supply side through productivity gains, capital accumulation, and labor improvements leads to a more efficient economy in the medium term.

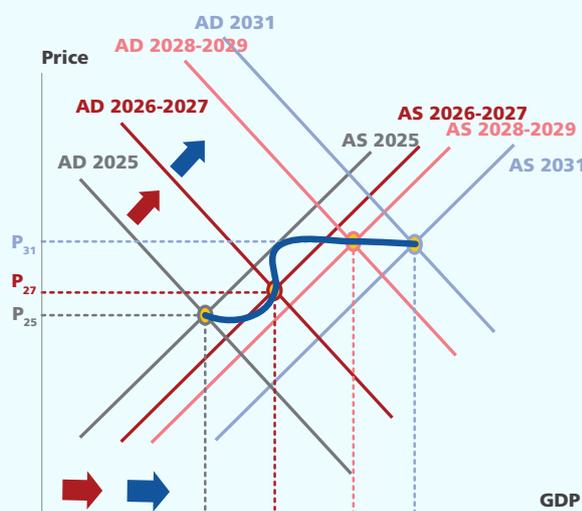
Studies by the IMF (2015) and the World Bank (2020, 2022) show that more than half of medium-term growth variation is explained by improvements in productivity—particularly in countries undertaking substantial investments in infrastructure, logistics connectivity, and human-capital quality. In the context of PSN, capital strengthening is reflected in expanded manufacturing activity, downstreaming and

industrialization, and the development of housing, water resources, energy, and food infrastructure. Improvements in productivity come from enhanced connectivity and spatial development, including digital infrastructure. Labor enhancement is achieved through progress in human-capital development.

National Strategic Projects that strengthen productivity, capital, and labor not only raise economic growth but also reinforce macroeconomic stability and external resilience.

An increase in potential output—driven by productivity, capital formation, and labor—supports a pattern of growth that is relatively non-inflationary, as highlighted by IMF (2015) and Borio (2014). From the external side, productivity gains and larger production capacity enhance export competitiveness and reduce import dependence. This contributes to an improvement in the current account (CA) balance over the medium term. A stronger CA boosts external resilience by increasing foreign-exchange reserves and lowering risk premiums, which support exchange-rate stability. A strengthening CA position also signals an improving savings–investment gap, thereby reducing reliance on volatile external financing. World Bank (2022) further shows that economies with productivity-driven growth tend to rely less on volatile external capital flows and are better able to finance investment through domestic sources and long-term capital inflows.

Figure B4.3.1. Aggregate Demand–Aggregate Supply (AD–AS) Curve – Illustration of PSN Implementation and Its Impact on Potential Output and Inflation



Source: Bank Indonesia