

Indonesia

1 September 2025

Eyes on politics and policies

- Political headlines are in the spotlight following an escalation of street protests last week and over the weekend.
- There seems to be a sense of uneasy calm that has returned but there are some public pressure points for the rest of 2025. It remains to be seen if the protests will lead to any defining changes in policy direction for the Prabowo administration, but this is not our base case.
- We maintain our 2025 GDP growth forecast of 4.7% and continue to expect another 25bp rate cut from Bank Indonesia (BI) for the rest of this year.

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The political headlines in Indonesia were hard to miss over the weekend, with protests spreading from the capital city of Jakarta to the other bigger cities of Makassar. The protests that started on 25 August to denounce perks for parliamentarians escalated on the streets¹. Officials' homes were raided and there was noticeable damage to public property². While the housing allowance has been in place since October 2024, the public outrage it generated led to an escalation in street protests last week, coinciding with planned protests from labour unions on 28 August demanding a 10% rise in minimum wage amongst other demands.

Protest / Event	When	Where	Key reasons / demands
"Indonesia Gelap" (Dark Indonesia) — Student-led anti-austerity protests	February 2025	Nationwide (Jakarta, Yogyakarta, Makassar, & other cities)	Opposition to budget cuts and austerity seen as hurting education/teacher allowances and social programs.
Protests against revisions to the Military Law	March 2025	Jakarta, Yogyakarta, Surabaya & other cities	Objections that amendments expand military roles in civilian posts and weaken civilian supremacy/democratic checks.
Pati Regency property-tax (PBB-P2) protests	August 2025	Pati, Central Java	Anger at proposed 250% hike in the Rural and Urban Land and Building Tax (PBB-P2).
Labor march / wage & jobs protests	August 2025	Jakarta	Unions demanded a 10.5% minimum-wage rise for 2026, curbs on outsourcing, tax relief, and protections against layoffs.
Protests over MPs' perks and economic hardship	August 2025	Nationwide (Jakarta, Makassar, Bandung & other cities)	Protest over MPs new perks, including IDR50mn/month in housing allowance for MPs amid rising living costs and layoffs.

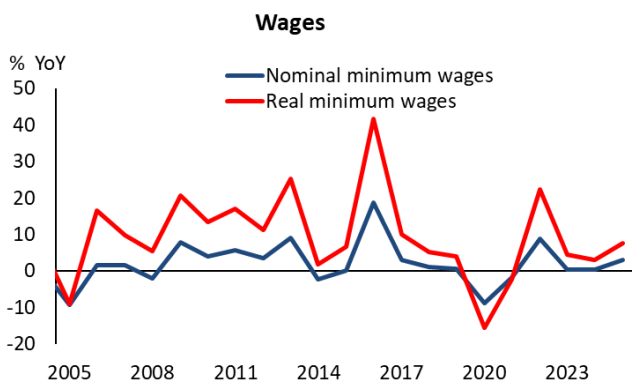
Source: Reuters, Bloomberg, CNBC Indonesia, Jakarta Globe, The Straits Times, BBC, Tempo, SCMP and various other sources.

¹ Angry mobs ransack, loot officials' homes as unrest escalates, The Jakarta Post, 31 August 2025.

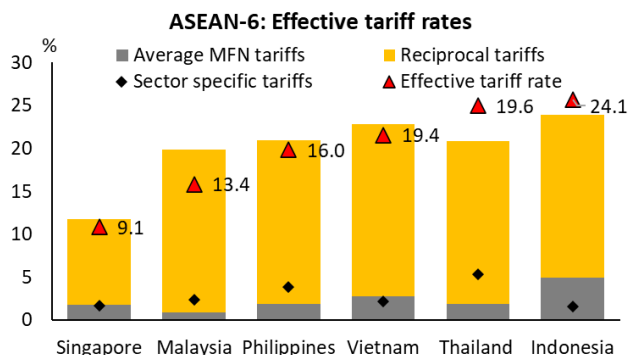
² Protesters set fire to regional council buildings in several provinces, The Jakarta Post, 30 August 2025.

President Prabowo addressed the nation on 31 August, stating that the parliament will revoke the housing allowances of IDR50mn/month that are provided to parliamentarians, with a moratorium on trips abroad. He added that errant lawmakers could lose their seats. He also issued a warning that police and military will take firm action if protestor activities become illegal. In addition, President Prabowo cancelled his planned trip to China for the Shanghai Cooperation Organization Summit, citing the need to directly oversee Indonesia's escalating protests.

Protest activity on 31 August night was limited and the situation has stabilised to an uneasy calm. That said, sentiment will likely remain skittish in the near-term as clearer solutions to the underlying causes stoking the protests remain open ended. On the one hand, the government has revoked the housing allowances for parliamentarians but on the other hand, minimum wage negotiations will be ongoing for some months. For example, the minimum wage increases for 2025 were decided in late November 2024³. In addition, budget discussions are still underway in the House of Representatives. Recently, we have observed an increase in protestor activities and with the political calendar fairly heavy for the rest of the year, we cannot close the door open on further protests if the authorities and the negotiating parties do not see eye-to-eye.



Source: Ministry of Manpower, Statistics Indonesia, CEIC, OCBC.



Source: WITS, UNComtrade, OCBC.

Growth and policy implications less clear cut

The implications for economic activity are less clear cut given that the street protests are unlikely to change the broader direction of policy. Fiscal policies undertaken by the Prabowo administration have been in the spotlight because they are markedly different compared to his predecessor, Joko Widodo. In addition, some stress from job losses have also come to the fore since early 2025.

While the fiscal deficit will likely remain below the 3% of GDP legal ceiling, the 2025 fiscal deficit was widened to 2.78% of GDP from the budgeted deficit of 2.48% of

³ Press Statement of President of the Republic of Indonesia with Regard to the Announcement of the Increase in the National Minimum Wage in 2025, at the Presidential Office, Jakarta, November 29, 2024.

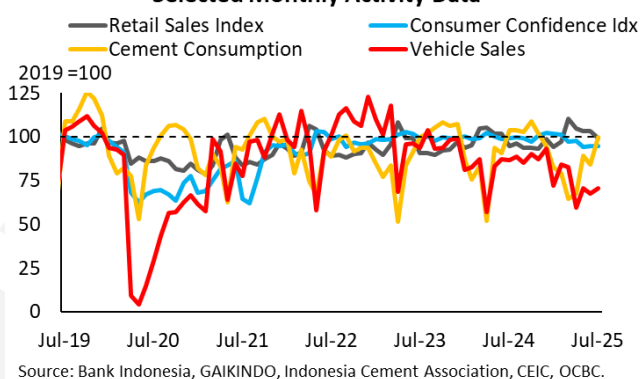
GDP. The cutbacks in transfers to region and other government expenditures, the focus on social spending through the free meal scheme and limited clarity of revenue policies have, however, changed the underlying dynamics of the fiscal deficit. That said, the focus on pushing capital expenditures has remained, with capex rising 17.9% YoY in 1H25 from 17.3% in 2024. The public dissatisfaction evidenced by street protests could initiate a re-assessment of fiscal policies, however, the nature and extent of this reassessment (if any) remains to be seen.

The broader sentiment around household spending also remains under pressure. Although household spending growth was unchanged at 5% in 2Q25, recent readings on consumer confidence, cement sales and credit growth have been subdued. Anecdotal evidence of job losses particularly in the textile sector has also added to pressure and more recently, the pickup in food inflation in the July print suggests that households could face higher costs in the coming months. These could also complicate negotiations with regards to minimum wage discussions.

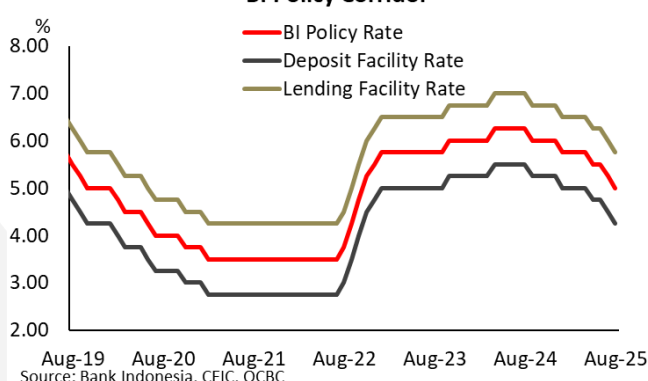
On the external front, our calculations suggest that Indonesia's effective tariff rate at 24.5% is the highest in the region for exports to the US. This implies that the hit from tariffs will likely start to show as early as the August data print. We maintain our 2025 GDP growth forecast of 4.7%, which assumes a sharper slowdown to 4.5% in 2H25 from 5.0% in 1H25, reflecting a collision of external and domestic factors.

Bank Indonesia has lowered its policy rate by a cumulative 100bps so far in 2025. We have another 25bps in rate cuts pencilled into our forecasts, likely in late 4Q25. BI will remain vigilant of skittish sentiment and portfolio outflow risks in the near-term. Indeed, BI noted last week that it remains present, with interventions in the FX spot, bond, domestic and offshore NDF markets⁴.

Selected Monthly Activity Data



BI Policy Corridor



⁴ Bank Indonesia Monitoring Markets Closely as Rupiah Falls (1), Bloomberg, 29 August 2025.

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