IFG Progress Digest

Indonesia's Q2 2025 GDP Commentary: Not So Much About Data Integrity, but How We Interpret It

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Ibrahim Kholilul Rohman, Senior Research Associate, ibrahim.kholilul@ifg.id

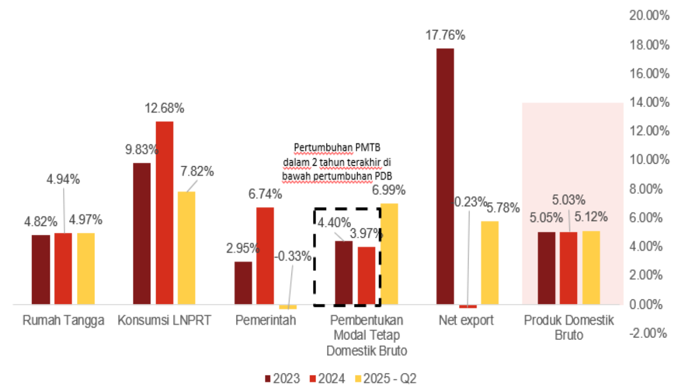
Mohammad Alvin Prabowosunu, Research Associate, alvin.prabowosunu@ifg.id

- *Real GDP grew 5.12% YoY in Q2 2025 and 4.04% QoQ, marking the strongest Q2 sequential rebound of recent years. The pattern is partly seasonal, Q2 typically jumps after a soft Q1, but 2025's QoQ spike exceeded the ~3.7–3.8% norms, so the surprise reflects a cyclical upswing rather than a structural improvement.*
- *Several indicators contradicted the upbeat print: the manufacturing PMI contracted in each month of Q2; reports cited layoffs in labor-intensive industries and consumer sentiment softened. This fueled debate on whether growth was being misread or overstated. Authorities denied manipulation, arguing the data are sound but often misinterpreted relative to real-sector signals.*
- *Growth was investment-led, while household consumption, though supported by holidays and mobility, remained modest at ~4.97% YoY (2.6 p.p.). Gross fixed capital formation rose 6.99% YoY, adding ~1.9 p.p., bolstered by higher public capex and capital goods imports. Government consumption contracted, subtracting slightly, while net exports made a small positive contribution as non-oil exports and tourism improved.*
- *The main engines were capital-intensive: manufacturing (+5.68% YoY, led by basic metals and chemicals), information & communication (+8.5%), and construction (~5%). In contrast, labor-intensive areas, agriculture, low-end manufacturing, small retail, were subdued. This mix lifts GDP but limits broad wage and employment growth, explaining why many households still experience weak purchasing power.*
- *The paper argues the core issue is how GDP is interpreted: stronger, investment-driven growth does not automatically translate into improved welfare. Q2's upside is cyclical and concentrated in capital-heavy sectors; without stronger household income growth, headline GDP will outpace lived experience. Policymaking should emphasize inclusive, labor-absorbing drivers, not just the aggregate.*

Indonesia's economy accelerated in the second quarter of 2025, exceeding forecasts. Official data from BPS (Statistics Indonesia) show real GDP grew 5.12% year-on-year (YoY) in Q2 2025, up from 4.87% in Q1. On a seasonally adjusted basis, GDP also rose 4.04% quarter-on-quarter (QoQ), marking the strongest Q2 sequential rebound in recent years. This quarterly surge is partly seasonal, every year Q2 sees a jump after the Q1 lull, but the 4.04% QoQ expansion in 2025 outpaced the ~3.7–3.8% QoQ typical of Q2 in 2022–2024. Figure 1 below illustrates these trends, with YoY growth hovering around 5% and a pronounced QoQ spike in Q2 2025.

In level terms, Indonesia's real GDP (at constant prices) reached about Rp3,396.3 trillion in Q2 2025. The 5.12% YoY growth marginally outpaced the 5.05% YoY of Q2 2024, and also surpassed most forecasts (e.g. economists consensus gathered from Bloomberg of 4.8%). BPS attributed the stronger growth to robust domestic activity, noting that "the Indonesian economy grew 5.12% (YoY) in Q2-2025 driven by domestic economic activity". This upbeat headline, however, masks important nuances in the composition of growth and has prompted debate among economists, as discussed next (Exhibit 1).

Exhibit 1. Indonesia GDP by Expenditure, 2023 - Q2 2025



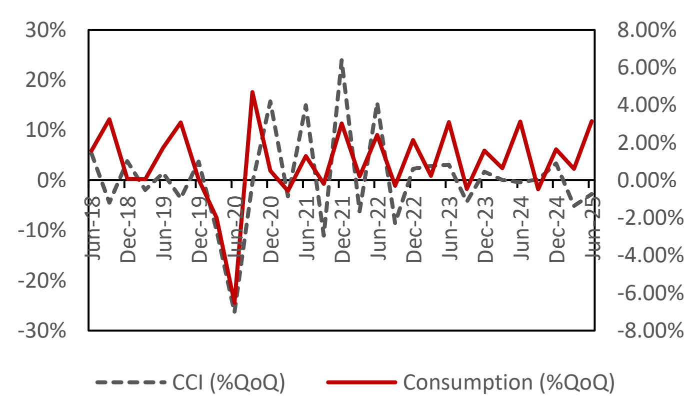
Sources: CEIC, IFGP Research

Scrutiny of the Headline Figure: Economists' Critical Viewpoints

Despite the solid official numbers, many Indonesian economists have questioned whether the 5.12% growth accurately reflects on-the-ground economic conditions. A researcher at the Institute for Demographic and Poverty Studies (IDEAS) remarked that the unexpected 5.12% jump "felt at odds with various other macro indicators showing signs of slowdown". Those include sluggish household spending, declining auto sales, high inflation, and tepid bank credit growth.

Unsurprisingly, some experts openly questioned the data's integrity. Institute INDEF's economists, for instance, released a statement "questioning the validity" of the 5.12% figure given the real-sector slowdown (e.g., weaker consumption, rising layoffs, etc.). An economist from Celios was even quoted saying "I do not believe the data… represent the actual economic conditions". These doubts sparked public debate about data transparency, prompting government officials to deny claims of manipulation. Coordinating Minister for the Economy Airlangga Hartarto refuted allegations of "massaging" the numbers, insisting "there is no data tampering". BPS officials argued the growth is real but being misinterpreted.

Exhibit 2. Indonesia Consumption Growth and CCI (% Quarter on Quarter)



Sources: CEIC, IFGP Research

Expenditure-Side Disconnection: Sentiment vs. GDP Data

In this section, we pointed out a disconnect between the GDP figure and other key indicators, which signal weakening momentum. In "[IFG Progress Digest Issue #1: Covid-19 & Sentimen Indikator]", we have found that sentiment indicators such as Consumers' Confidence Index (CCI) and Purchasing Managers' Index (PMI) are a good leading indicators for consumption and investment in GDP, respectively. In Q2 2025, we flagged weak consumer and business sentiment that quarter. Bank Indonesia's Consumer Confidence Index (CCI) had been softening in mid-2025, reflecting cautious consumer attitudes (even though it ticked up slightly to 117.8 in June 2025). External demand indicators were also lackluster, and foreign direct investment inflows slowed relative to the previous year. All these factors would normally presage slower GDP growth, not an upside surprise (Exhibit 2).

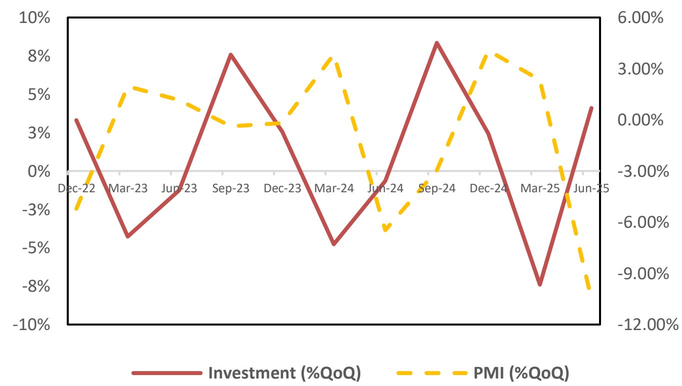
Moreover, the manufacturing Purchasing Managers' Index (PMI), a barometer of factory activity, was below 50 and in contraction each month of Q2 2025 (46.7 in April, 47.4 in May, 46.9 in June 2025). A PMI under 50 indicates manufacturing is not expanding, and indeed there were reports of significant layoffs: over 42,000 workers lost jobs in June 2025, mostly in labor-intensive industries. Such data seem at odds with the GDP report's claim of industrial growth (Exhibit 3).

Analyzing GDP from the expenditure side reveals that investment was a major driver of Q2 growth, while household consumption increased only modestly. According to BPS, household consumption and gross fixed capital formation (GFCF) were the largest contributors to the YoY growth in Q2. Household spending, which comprises over half of GDP expenditure approach accounting, grew around 4.97% YoY in Q2. This contributed an estimated 2.6 p.p. to the 5.12% growth. In contrast, GFCF (Gross Fixed Capital Formation, or simply investment) surged by 6.99% YoY, contributing roughly 1.9 points to GDP growth. In other words, investment (though a smaller share of GDP at ~28%) provided a disproportionate boost by growing much faster than consumption (Exhibit 4).

Notably, household consumption grew slower than overall GDP. At 4.97% YoY, consumer spending is expanding, aided by holiday festivities (Ramadan/Eid in April) and higher mobility, but it remained modest. In fact, this pace is slightly below the 5.12% aggregate growth, implying consumption's momentum has not fully kept up with the economy. Meanwhile, investment (PMTDB) provided a crucial lift. Gross fixed capital formation jumped 6.99% YoY, a notable acceleration from ~4.4% in the same quarter a year prior. This uptick suggests a surge in capital spending on structures, machinery, and equipment. BPS attributed it partly to higher government capital expenditure (which rose 30.4% YoY), especially on machinery and equipment for infrastructure. Imports of capital goods (machinery under HS 84, electrical equipment under HS 85) climbed ~6–9% YoY in Q2 2025, confirming an investment in productive capacity.

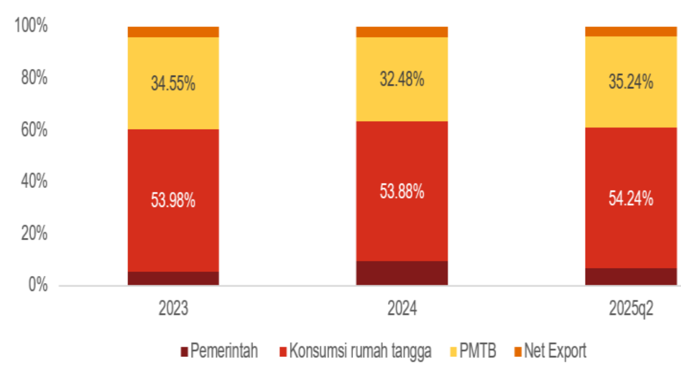
It is possible that the composition (more domestic capital goods, efficiency gains, etc.) resulted in high real GFCF growth even as financial investment inflows slowed. Nonetheless, the reliance on investment for growth is clear. Exports also grew healthily in Q2, around 9.2% YoY in real terms (a rebound in non-oil exports and tourism services), but rising imports offset much of their GDP contribution. Net exports thus added only a small increment to growth. Government consumption was the sole drag, contracting in Q2 as fiscal spending on goods/services was restrained, subtracting roughly 0.1 point.

Exhibit 3. Indonesia GFCF Growth (Investment) and PMI (% Quarter on Quarter)



Sources: CEIC, IFGP Research

Exhibit 4. Share of Indonesia's GDP by Expenditure, 2023-Q2 2025



Sources: CEIC, IFGP Research

In sum, 2025 Q2's 5.12% growth was driven primarily by investment gains, with consumption playing a secondary role. This mix is unusual for Indonesia, where household consumption is typically the dominant growth engine (contributing ~2.5–3.0 points in recent 5% growth years). In Q2 2025, consumption's contribution (2.6 points) was roughly half of GDP growth, with investment contributing another large chunk (nearly 2 points). Heavy investment-led growth, if not accompanied by broad consumption growth, can indicate growth that is less "felt" by the public, since investment benefits may be concentrated in certain industries or future output.

Retail Sales and Tax Revenue Analysis: Another Disconnection with GDP?

Household consumption rose ~4.97% YoY in Q2 2025, but the retail sales indicators point to uneven and partly price-driven dynamics rather than broad-based volume strength. City indices diverge sharply, Surabaya/Medan surging above 400–500 (overheating pockets) while Jakarta/Banjarmasin stagnate around 100–150, suggesting the aggregate consumption figure masks large spatial heterogeneity in retail conditions (Exhibit 5). Sectorally, Food, Beverages & Tobacco >300 versus clothing and vehicle fuel ≈100, indicating resilience in essentials and weakness in discretionary categories (Exhibit 6).

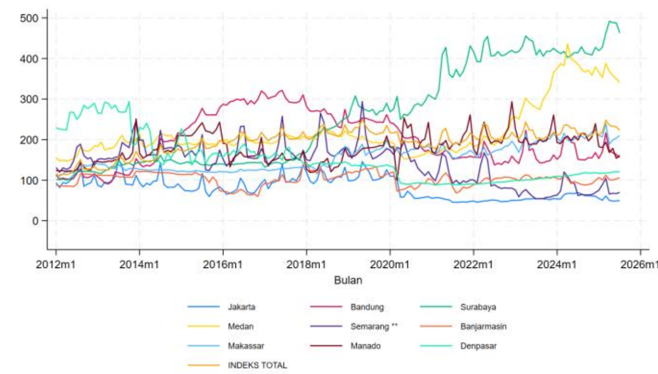
Price pressures help explain why consumption holds up on paper while retail "feels" soft: food CPI jumped 6.6 points Jan–Mar 2025, and housing/water/electricity costs spiked in March–April 2025. Such inflation pushes nominal retail indices higher in selected cities/categories, even as real purchasing power erodes, hence a divergence between the stable national consumption growth rate and mixed retail momentum across places and product groups. In short, the retail graphs corroborate a composition effect (essentials up, discretionary down) and geographic dispersion, rather than a uniform household demand upswing.

Moreover, in Q2 2025, the tax–GDP linkage looks atypically weak. While BPS reported real GDP up 5.12% YoY (and 4.04% QoQ) in Q2 2025, tax revenue over H1 2025 contracted ~6.21% YoY to Rp831.3 trillion, reflecting heavy restitutions and policy/timing effects; even the broader state revenue (tax + customs/excise) basket rose only ~2.33% YoY, far below GDP momentum. This decoupling is consistent with a composition shift (investment- and capital-intensive growth that doesn't immediately lift wage/profit tax bases), fading commodity windfalls, and administrative factors early in 2025 that depressed collections. In short, Q2's strong output alongside weak tax receipts is closer to an anomaly versus the usual pro-cyclical pattern, underscoring that headline growth did not translate into proportionate, broad-based taxable income (Exhibit 7).

Production-Side Analysis: Capital-Intensive Sectors Lead

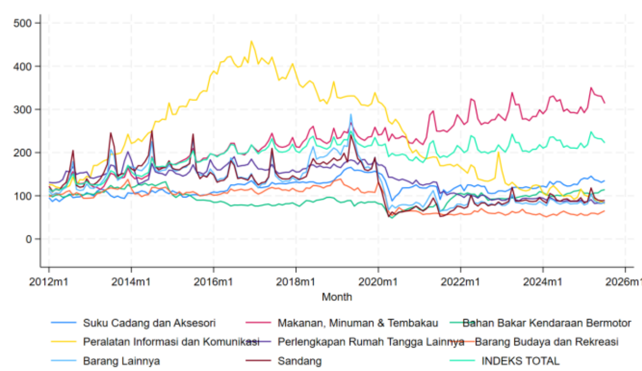
The sectoral breakdown of GDP reveals that growth in Q2 2025 was propelled by capital-intensive industries, whereas many labor-intensive sectors saw more modest gains. By industry, four sectors accounted for the bulk of growth:

Exhibit 5. Indonesia Retail Price Index by Region



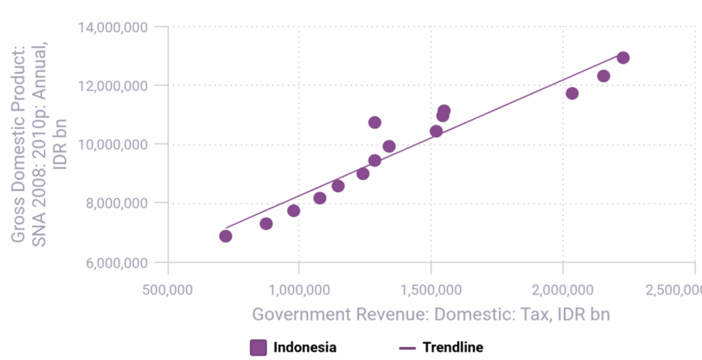
Sources: CEIC, IFGP Research

Exhibit 6. Indonesia Retail Price Index by Category of Goods



Sources: CEIC, IFGP Research

Exhibit 7. Scatterplot between Tax Revenue and GDP Growth



Sources: CEIC, IFGP Research

manufacturing, trade, information & communication, and construction. These are among the largest sectors of the economy and all grew faster than 5% (YoY) (Exhibit 8):

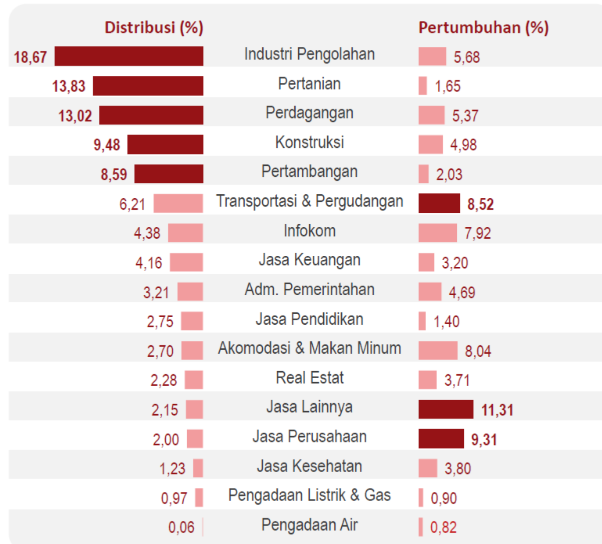
Manufacturing (Industri Pengolahan) grew 5.68% YoY and was the single largest contributor to GDP growth (contributing ~1.13 percentage points). This growth was driven by capital-intensive subsectors. BPS noted strong output in food & beverages (+6.15%), basic metals (+14.91%), and chemicals/pharmaceuticals (+9.39%), spurred by both domestic and export demand. These subsectors tend to be highly capital-intensive, involving large factories or smelters with relatively fewer workers. In contrast, several labor-intensive manufacturing subsectors (textiles, apparel, footwear, etc.) struggled, with reports of output contraction and layoffs. Indonesia's manufacturing PMI being in contraction throughout Q2 implies that many factories (particularly smaller, labor-heavy ones) saw declining orders. The overall manufacturing growth of 5.68% was buoyed by the big capital-heavy industries, masking weakness in labor-heavy manufacturing industries.

Wholesale and retail trade (Perdagangan) expanded 5.37% YoY, also above the economy-wide rate. This sector is somewhat more labor-intensive (it includes millions of retail workers, shopkeepers, etc.), so at face value its solid growth should be good for employment. BPS attributed trade growth to increased domestic trading activity and imports to meet consumer demand. However, industry insiders paint a different picture. Retail associations reported weak consumer demand in Q2, and inventories piling up, which conflicts with the idea of booming trade sales. In effect, the 5.37% trade growth may reflect transactions concentrated among higher-income consumers or stock replenishment, rather than a broad-based retail resurgence. Labor-intensive small retailers likely did not see proportional income gains, aligning with the reported middle-class spending fatigue.

Construction grew around 4.98% YoY, benefiting from numerous infrastructure projects and private real estate activity. BPS reported increased construction activity financed by both private sector and households, as evidenced by higher cement consumption and a rising building cost index. Construction is a mixed case: it is capital-intensive in terms of financing and equipment, but also labor-intensive in execution, employing many manual workers. The 4.9% growth here likely provided some job opportunities (e.g., for builders, contractors), yet many large projects are mechanized and dominated by big firms. Moreover, construction's gains often accrue to urban areas and do not immediately raise incomes nationwide. Still, this sector's rebound suggests an investment-led cycle upswing, consistent with the GFCF data.

Other sectors had mixed performance. Agriculture, which is highly labor-intensive (employing over a quarter of Indonesian workers), grew only an estimated ~1.6% YoY (Q2 is a relatively lean harvest period for some crops). Its contribution to overall growth was minimal. Millions of farmers thus saw very modest income growth (in real terms), a stark contrast to the robust gains in capital-heavy industries. The implication of this uneven sectoral growth is that GDP can rise substantially

Exhibit 8. Indonesia's Sectoral Growth and Distribution, Q2 2025



Sources: BPS, IFGP Research

while employment and wage gains remain weak. Many of the sectors that grew the fastest in Q2 2025 either do not employ a large workforce (e.g., telecom, capital-intensive manufacturing), or their growth did not translate into commensurate hiring/wage increases due to productivity and import components. Sectors that do employ millions (agriculture, traditional retail, low-end manufacturing) showed relatively anaemic growth. This dynamic is a key reason why the impressive 5.12% GDP growth did not “feel” like a booming economy for the average Indonesian worker.

Conclusion: Cyclical Upswing, but Limited Trickle-Down Benefits

Indonesia’s Q2 2025 GDP growth was an upside surprise and marked a cyclical upswing from the prior quarter. The jump was largely seasonal and investment-fueled: every year Q2 sees a post-holiday bump, and in 2025 this was amplified by strong capital spending (private and public) and a rebound in certain exports. Capital-intensive sectors (manufacturing, construction, and information/communications) led the charge, producing higher output that lifted the GDP top-line. Meanwhile, household consumption grew at a moderate pace and labor-intensive sectors lagged, so the surge in output did not translate into a comparable surge in household purchasing power.

Looking ahead, the higher-than-expected Q2 growth appears to be more of a cyclical blip than a structural breakout. It owes partly to base effects and seasonal spending (Ramadan and Eid holidays), and partly to investment projects that may not sustain the same growth rates in subsequent quarters. If consumer spending does not strengthen in the coming quarters, growth could moderate again despite ongoing investments. The fundamental challenge is to broaden the benefits of growth. Without stronger wage growth and job creation in labor-intensive activities, GDP gains will continue to be concentrated and may feel “illusory” to the average citizen. The Q2 2025 data has prompted healthy skepticism and debate in Indonesia, a reminder that policymakers must go beyond celebrating headline GDP and focus on the quality and inclusiveness of growth. Robust growth should ideally be reflected in better living standards for the many, not just impressive statistics, otherwise public trust in official data can erode.

In summary, Indonesia’s economy in Q2 2025 was a story of two diverging trends: strong aggregate growth led by capital and investment, versus weak consumer sentiment and stagnant incomes for a large portion of the population. The task ahead is to bridge this gap. Until then, a high GDP growth rate will remain a somewhat “toothless” indicator, it has bite on paper but leaves many households struggling.

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Indonesia Financial Group (Persero)
Gedung Graha CIMB Niaga, 7th Floor
Jl. Jendral Sudirman Kav. 58
RT.5/RW.3, Senayan, Kebayoran Baru
Kota Jakarta Selatan, DKI Jakarta 12190
(+62) 021 2505080
Indonesia Financial Group
PT. Bahana Pembinaan Usaha Indonesia – Persero
@indonesiafinancialgroup
@ifg_id

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