

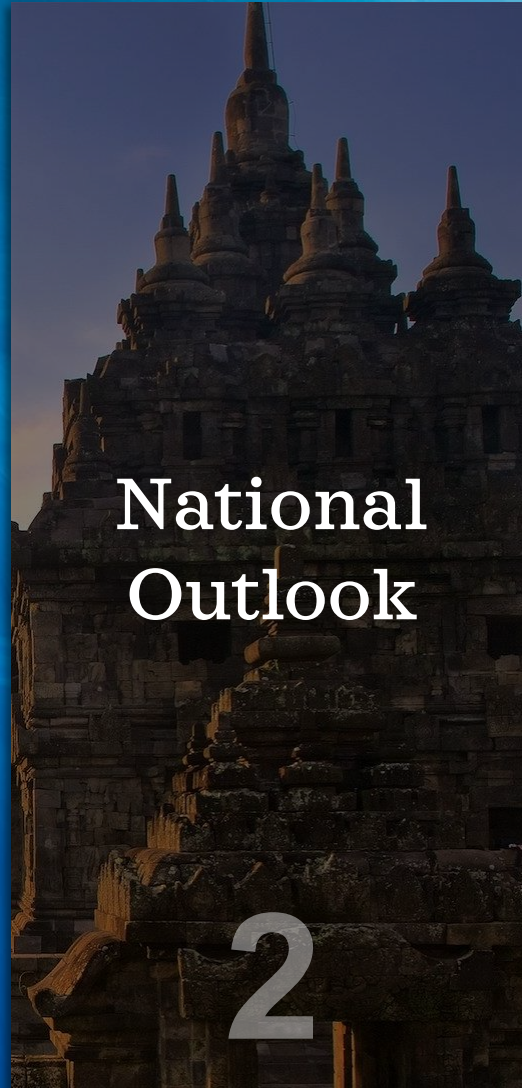


IBC Institute

IBC BUSINESS OUTLOOK

2025

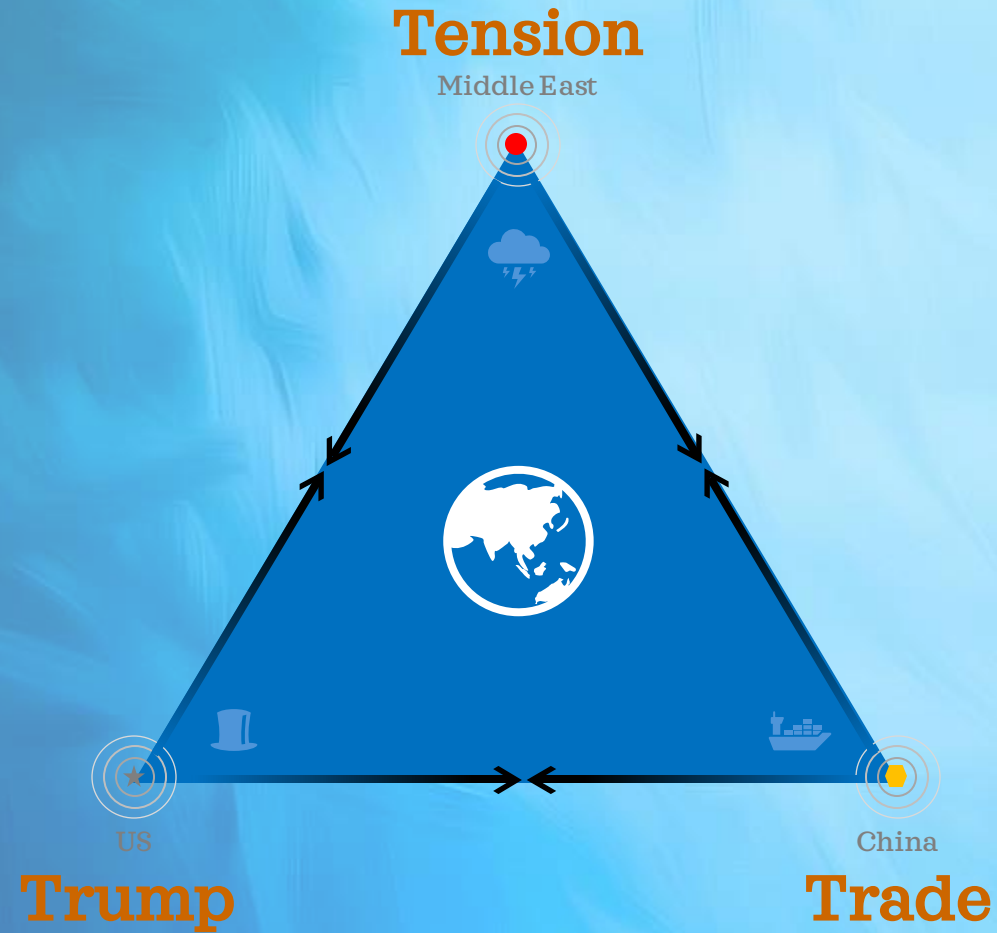
Outlook 2025



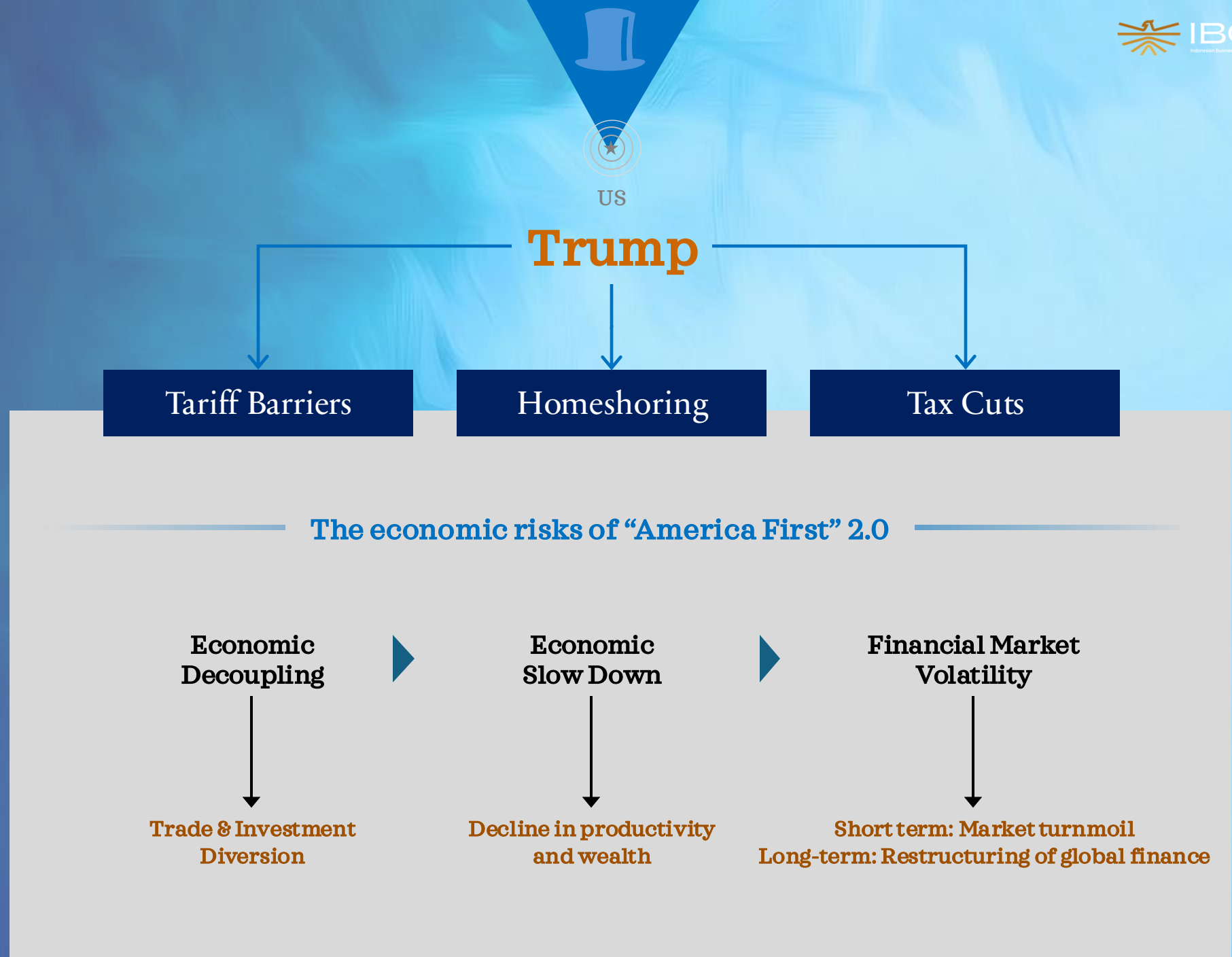
1 WORLD OUTLOOK

**Rough Seas
Ahead!**

Three detrimental variables –
poised to dictate the
world’s economic
trajectory in 2025



The Great Wall of America



Dancing with the Dragon

China

Trade

Diversion to Other Regions



Global South:
Rapidly emerging destination of China's trade and investment

- Influx of Chinese goods and investment to non-US & EU regions both for intermediary and end products.
- China will continue to offer reduced prices and loosen terms-of-trade.



How can Indonesian business and government **contain** the influx of goods?



How can we **catch China's investment** better than regional competition?

Absorbed by China



The New China 2025 Policy:
“Expand Domestic Demand on all fronts”*

- China will boost domestic consumption and investment by households, firms, and governments (central & regional).
- China is committed to further loosen monetary and fiscal policies.



How to prevent capital crowding-out towards investment in mainland China?



How can we **benefit** from China's potentially strong domestic demand?

Brace for Impact



Middle East

Tension

3 out of 10
conflicts to watch in 2025
are in Middle East*

Supply Chain Disruption



Evaluate reliance on imported oil, gas, and raw materials. Consider alternative suppliers or diversifying supply chains?



Assess the feasibility of alternate partnerships and rearrange terms of trade?



Develop strategies to absorb or pass on increased costs to customers effectively?

Market Volatility



Consider currency hedging strategies or diversifying revenue streams to mitigate financial risks?



Prepare for potential capital outflow by exploring alternative financing options or strengthening balance sheets?



Reassess target markets and focus on regions or sectors less affected by regional tensions?

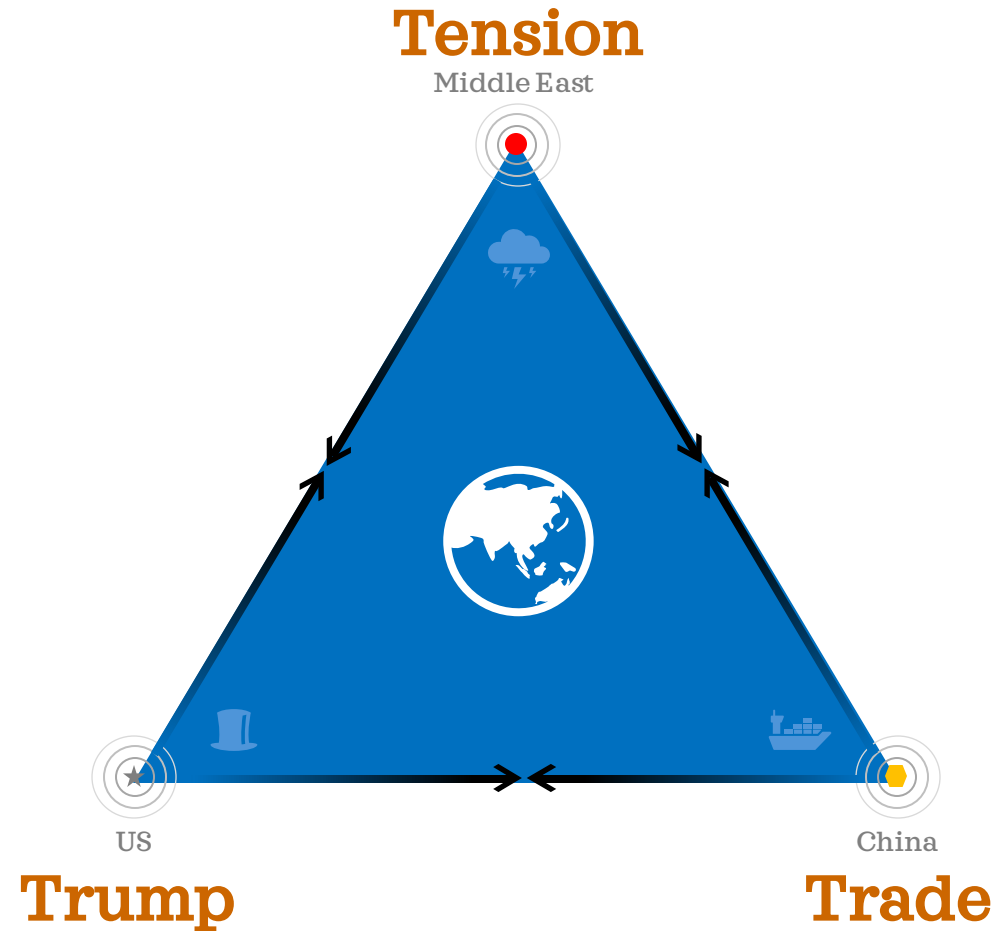
“Geopolitically,
this is the most
tense time since the
Second World War.”

Steve Hanke, 82-year old,
Professor of Applied Economics at
Johns Hopkins University

*In and interview on the David Lin Report
on Outlook for 2025
(December 30, 2024)*



Adaptability to Avoid Adversity





2
**NATIONAL
OUTLOOK**

**Herculean Missions.
Uphill Journey.**

The Government has determined to undertake herculean missions



Clean Energy

- 17%-19% renewable energy use by 2025
- Phase down coal plants in the next 15 years
- Adding 75 GW of renewable energy by 2040

Energy Resiliency

- B50 implementation by 2027
- 1% Bioavtur Implementation by 2027
- 1.2 million kL of annual bioethanol production by 2030

Industrialization

- Downstreaming of 28 commodities
- 5.5%-6.1% manufacturing growth by 2025
- 19.6% manufacturing contribution to GDP by 2025

Public Housing

- 3 million housing units built annually
- 15 million new housing units in total by 2029

Nutrition Fulfillment & Food Resiliency

- Zero stunting by 2030
- A Food Security Index of 80.72 by 2029
- 3 million hectares new paddy fields within the next 4-5 years

Poverty Reduction

- 0% extreme poverty by 2026
- <6% poverty rate by 2029



... but is faced with an uphill journey



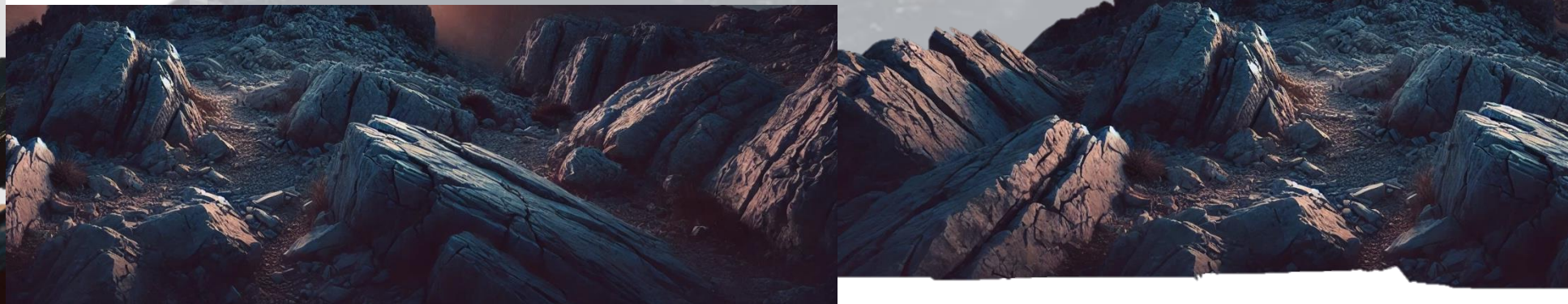
5 Challenging Bureaucracy

4 Stragglng Human Capital

3 Constricting Country's Financials

2 Weakening Consumer Power

Declining

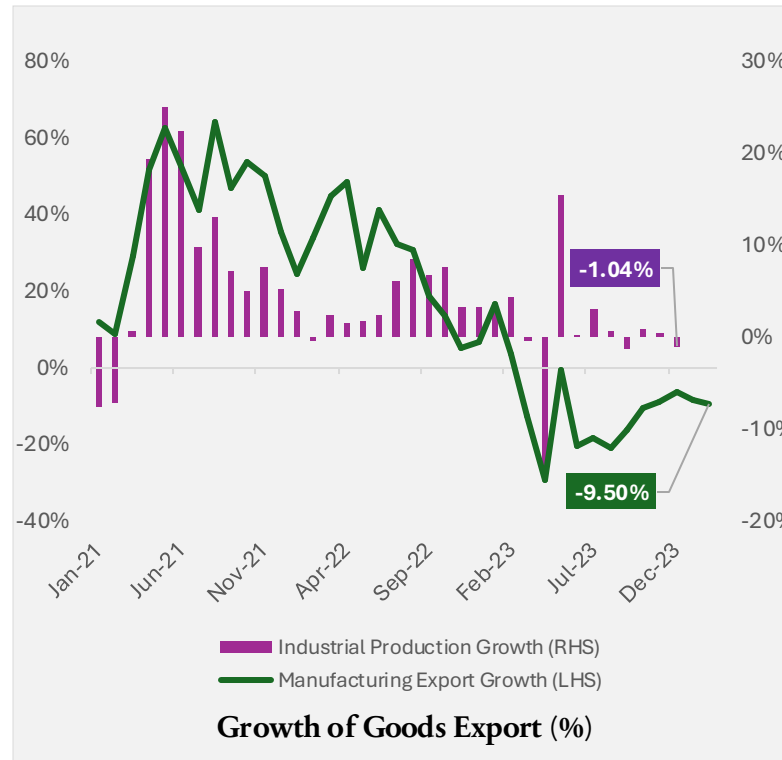
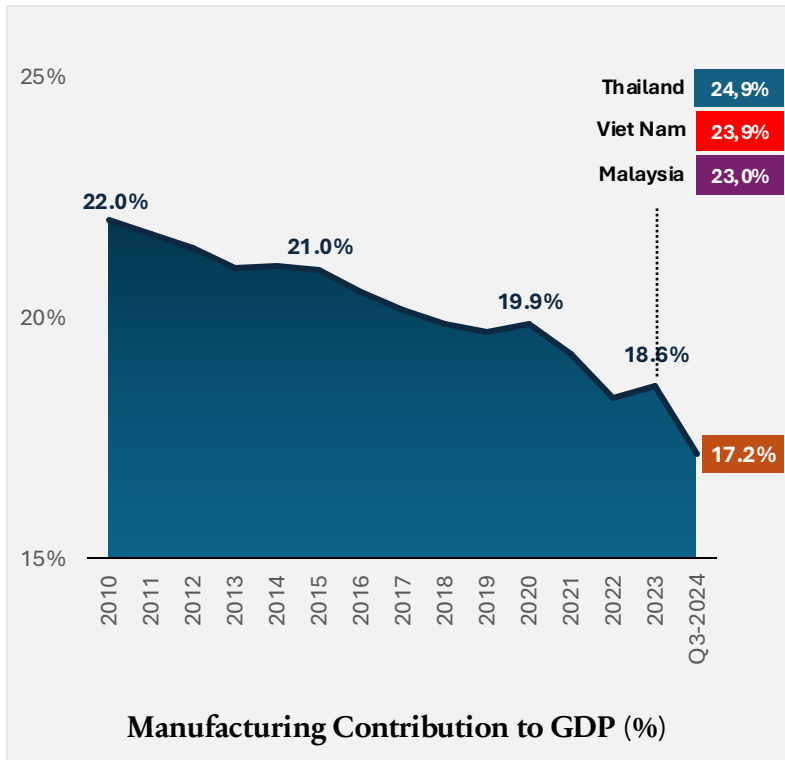


Indonesia's industrial capacity seems to be losing steam

Despite downstreaming success, a heavy focus on infrastructure spending and an attention deficit on overall industrialization strategy has taken its toll...

Downsizing in key industries will require time and capital to rebuild – whilst risking the loss of structural economic competitiveness along the way...

... meanwhile, structural issues that hinder higher productivity persist as major homework.



HIGH INFORMAL SECTOR

59.2 %
in 2024

(Relatively persistent for the last 5 years)

ICOR

6.33
in 2023

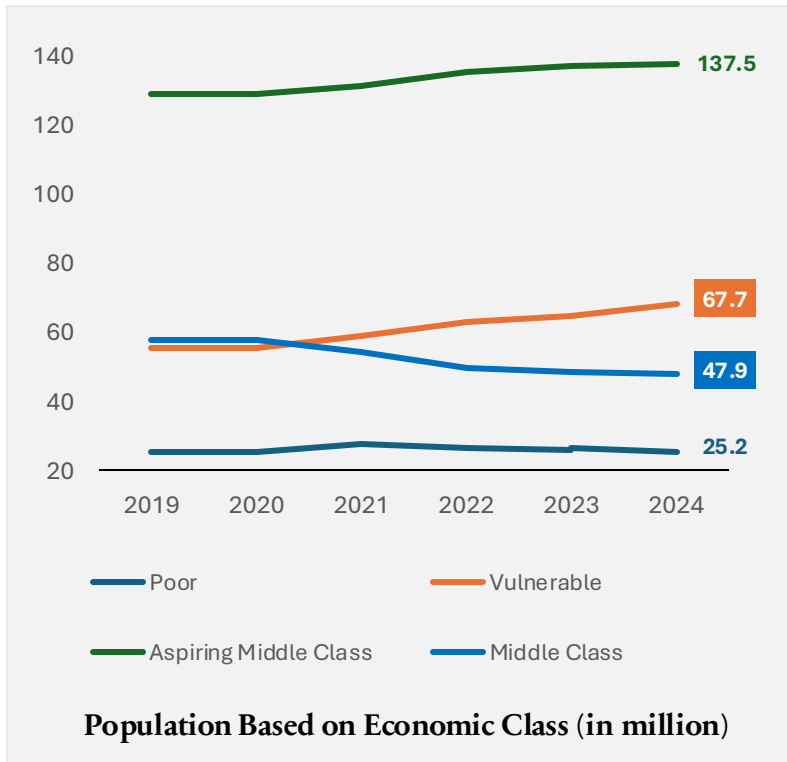
high-cost economy hindering quality investment

(Less efficient than regional peers)

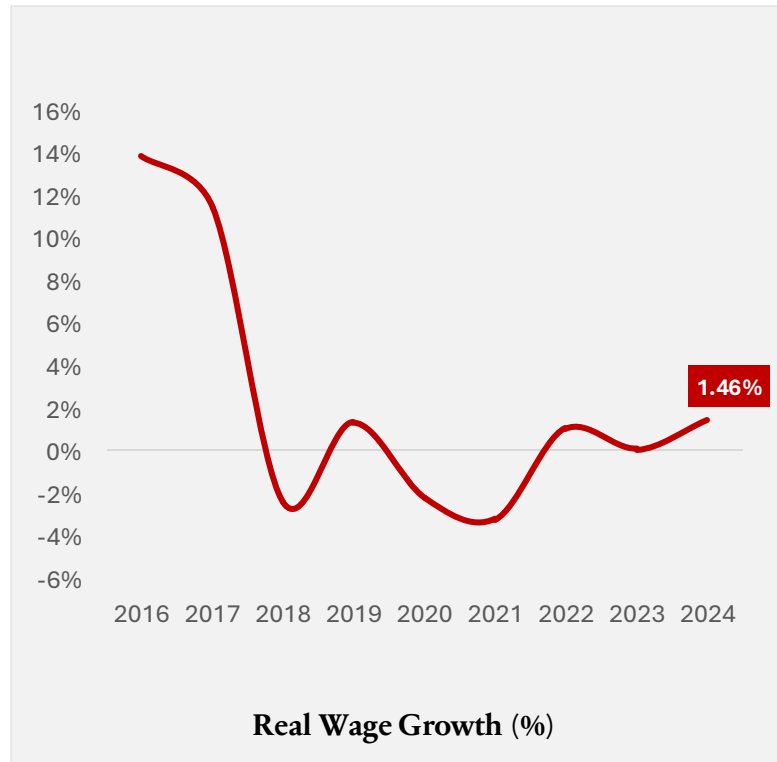
Source: Central Bureau of Statistics, 2024; Ministry of Investment, 2024; Trading Economics, 2024

The largest contributor to GDP is hollowing

The middle-class as the backbone of economy has been shrinking - while the population of vulnerables is growing...



... which seems to lead to declining real wage growth that should be watched out for...



... and 2025 will likely see additional squeezes to purchasing power..

CONSUMER CONFIDENCE

121.1
in October 2024

weakened consumer optimism and reduced spending

(Lowest since January 2023)

2025 Watch List:

- VAT increase to 12%
- Vehicle mandatory insurance
- Vehicle additional tax (opsen)
- Water tariff increase
- BPJS dues increase
- Fuel and LPG price increases
- Excise tax expansion (MBDK)

Source: Katadata, 2024; S&P Global, 2025; Trading Economics, 2024; Indonesian Ministry of Labour, 2024; Tempo, January 2025; CNBC Jan 2025

Declining Industrial Capacity

Weakening Consumer Power

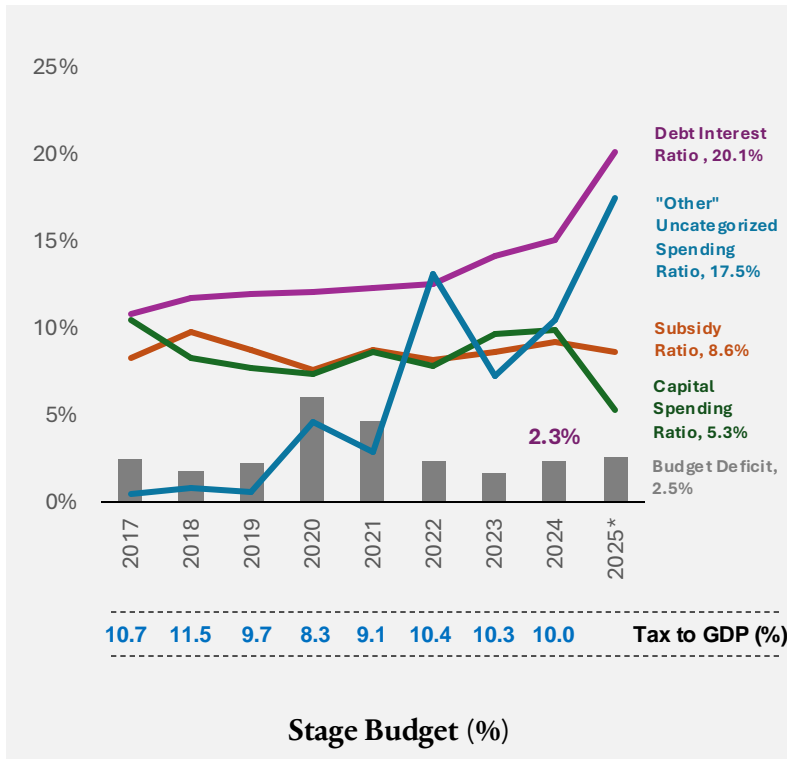
Constricting Country's Financials

Stragglng Human Capital

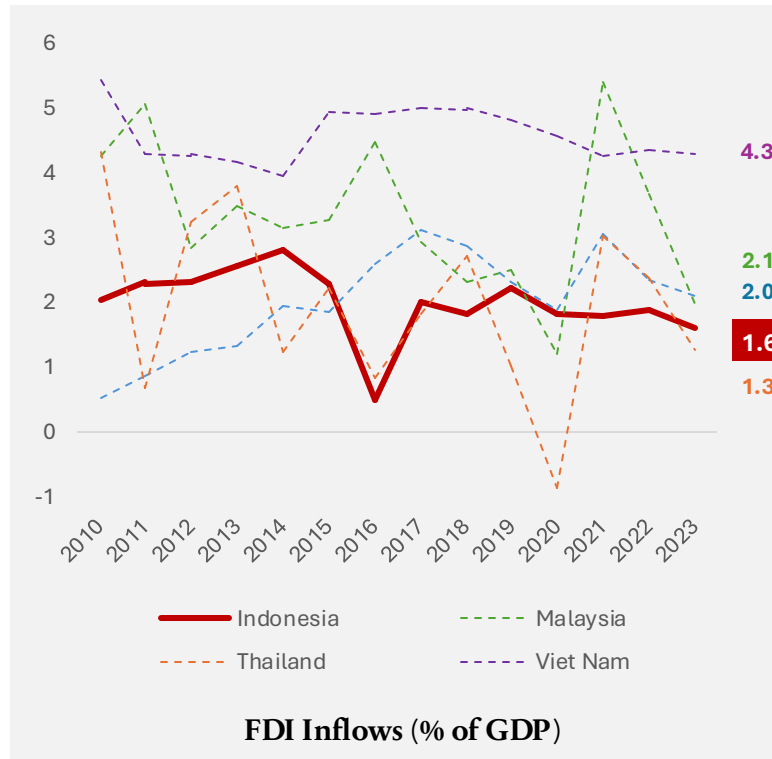
Challenging Bureaucracy

Our financials are grappling with persistent challenges

The state budget remains exposed to commodity price fluctuations, high subsidy costs, and increasing loan payment obligations – whilst its tax-to-gdp ratio is still relatively low...



Liquidity strains from fiscal limits and depleted public and private savings leave FDI as the main hope to drive growth, but its sluggish performance is a concern...



... While other structural issues still await at the end of a long tunnel.

CURRENT ACCOUNT DEFICIT

10 of last **12** years

Of which the positive years were driven by increases in commodity prices and reduced imports due to Covid effect

LOW M2 TO GDP RATIO

43.8%
in 2022

(Below regional peer countries)

HIGH LENDING FACILITY RATE

8.9%
in 2023

(Above regional peer countries)

Source: Asian Development Bank, 2024; Ministry of Finance, 2025; UNCTAD, 2024; World Bank, 2022.

Declining Industrial Capacity

Weakening Consumer Power

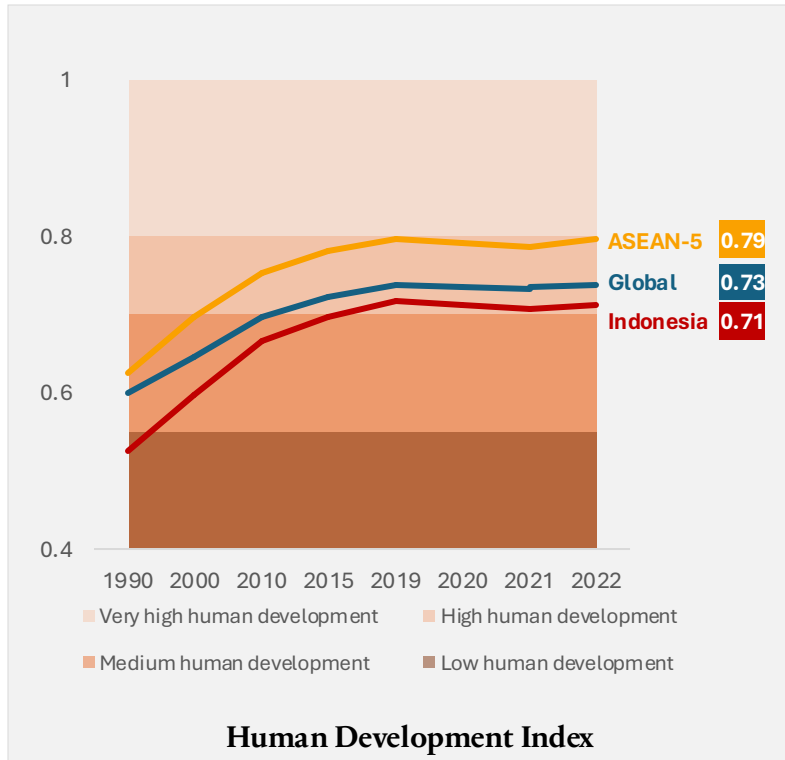
Constricting Country's Financials

Struggling Human Capital

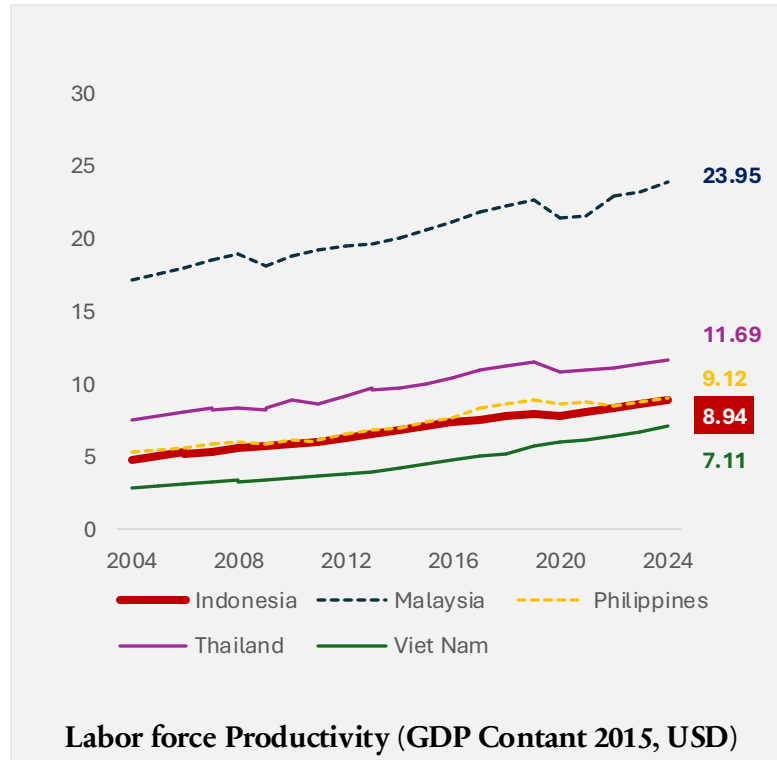
Challenging Bureaucracy

Human capital indicators highlight the urgency for improvement

Indonesia's Human Development Index persistently lags behind ASEAN-5 and global averages...



While labor force productivity is still above that of Vietnam, it remains uncompetitive compared to regional peers...



... while low education rates do little to drive innovation and dispel slow productivity.

PISA READING SCORE

371 in 2000  **359** in 2022

declining education quality and weakening basic skills

(Among the bottom 10 globally)

2023 PATENT APPLICATIONS PER MILLION INHABITANTS

Scored **0.5** | Ranked **77th**

Reflecting low innovation capabilities

Source: Central Bureau of Statistics, 2024; ILOSTAT, 2024; Tempo, 2023; United Nations Development Programme, 2023

Declining Industrial Capacity

Weakening Consumer Power

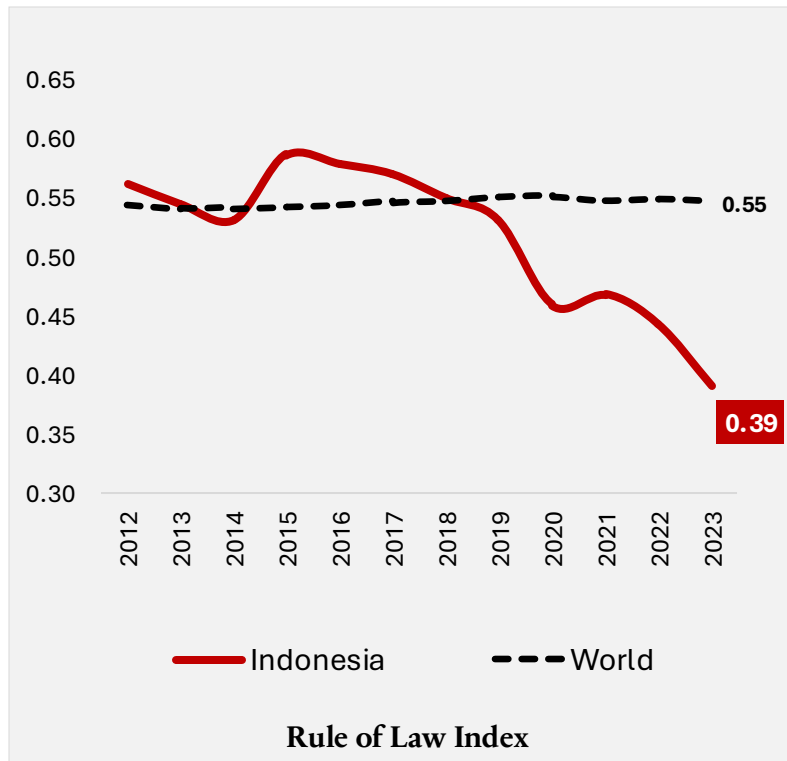
Constricting Country's Financials

Struggling Human Capital

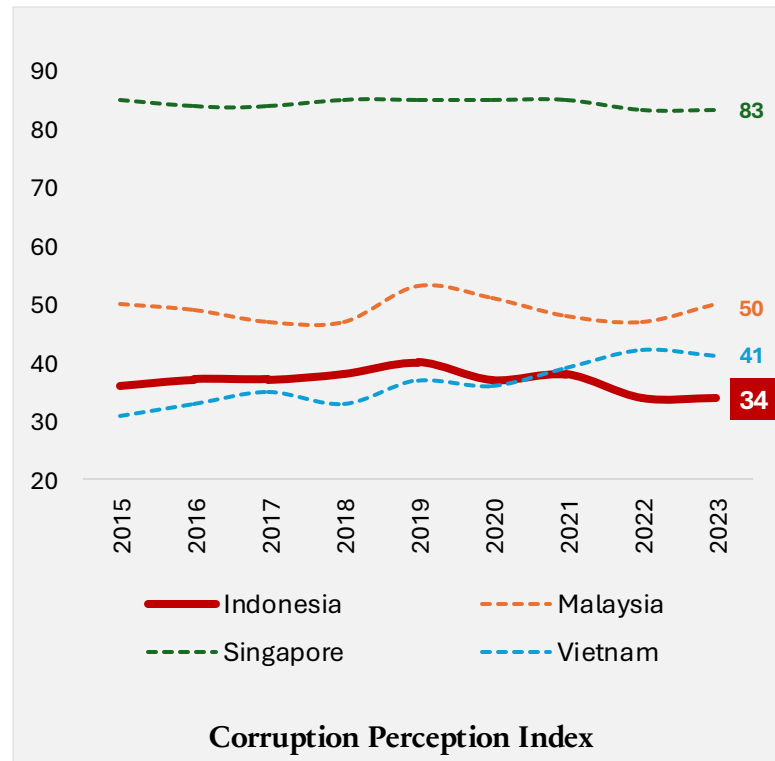
Challenging Bureaucracy

Bureaucracy is still considered a drag in the economy

Indonesia's Rule of Law has worsened and fallen sharply below the global average score...



Meanwhile, Indonesia's Corruption Perception Index has continued to decline, and it now ranks the lowest amongst its peers...



...A lack of meritocratic and governance efficiency is also a serious challenge.

MERIT SYSTEM INDEX

46.5%
of 587 government agencies show **poor and inadequate** meritocracy.

TIME AND COST

Registering a domestic firm takes **43 days** and cost **~34%** of GNI per capita.

Source: V-Dem Institute; Transparency International, 2024; Indonesia Civil Service Commission, 2024; World Bank, 2024

Declining
Industrial Capacity

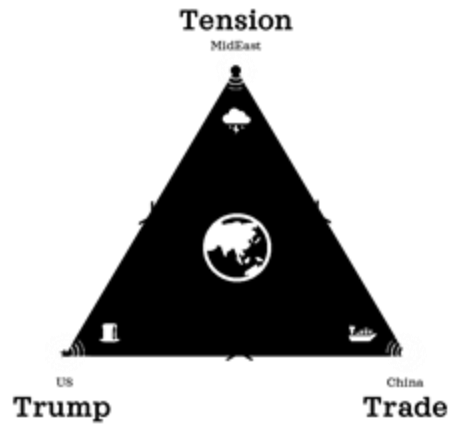
Weakening
Consumer Power

Constricting
Country's Financials

Struggling
Human Capital

Challenging
Bureaucracy

Rough Global Seas...



a Herculean mission...



an Uphill journey...



“Need **liquidity**. Now..!”

“Need healthy **industrial structure** and **jobs creation**..!”

“Need to safeguard **exchange rate**”

“Need to develop **people**..!”

“Need to reform **bureaucracy**!”

... demands for a colossal effort



3 THE COURSE AHEAD

All Hands
on Deck!



PILOTING THE COLOSSAL EFFORT

2025 will likely see the new government seek for alliances and extensively draw investment



Reform Institutions

- To build trust,
- Ensure delivery effectiveness,
- Regain losses

Seek Alliances

- To pull resources & expertise
- Ensure strategic alignment

Draw Investment

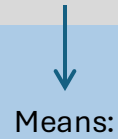
- To Bring in capital
- Create Jobs
- To increase value added

Pursue Innovation

- To unleash opportunities
- To secure regional competitiveness

IBC BELIEVES FOR THE MISION TO BE SUCCESSFUL:
institutions must be reformed and **innovations** must be pursued

Reform Institution



Means:

BUREAUCRACY REFORM

Improve Ease of Doing Business
Red tape reduction, digitalization

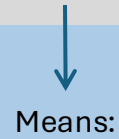
Minimize leakages
Revenue reform, corruption eradication



Private sector:

Use the momentum to advocate and support the government in carrying out reforms.

Seek Alliances



Means:

DEVELOPMENT COLLABORATION

Socioeconomic improvement
Nutrition Fulfillment, Education, Health, and Housing Provisions

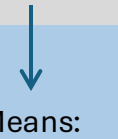
Public Infrastructure
Energy, water, road/port provisions



Private sector:

Participate in various modalities of PPP either as CSR or business growth opportunities.

Draw Investment



Means:

STRATEGIC INDUSTRIALIZATION

Downstreaming & Upstreaming
Export restriction, local content enforcement

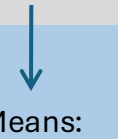
Industrial Agglomeration
SEZ, Industrial clustering, incentive and PSN status



Private sector:

Invest and attract partners, consolidate ecosystems, solidify vertical integration, and create incentives.

Pursue Innovation



Means:

GREEN ECONOMY

Energy Transition
Solar, wind, tidal, nuclear, biofuel, natural gas

Carbon Trading
Carbon Capture & Storage, Nature-based Solution



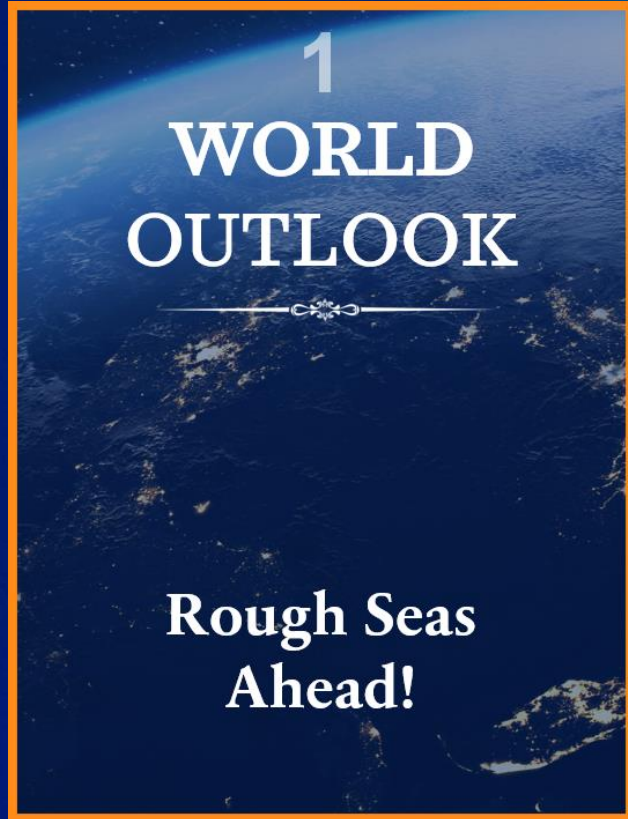
Private sector:

Comprehend carbon economy, leverage business opportunity and fulfill ESG commitments.



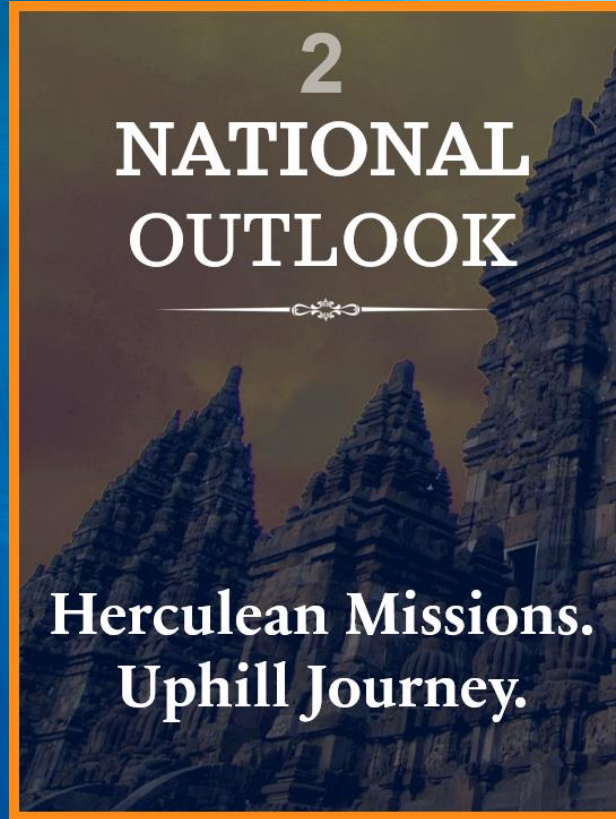
“All hands on deck!”

Outlook 2025

A graphic showing a view of Earth from space, with the blue curve of the planet and dark space above, and a dark, textured surface below.

1
**WORLD
OUTLOOK**

**Rough Seas
Ahead!**

A graphic showing ancient stone structures, possibly a temple or monument, with multiple tiered spires against a dark sky.

2
**NATIONAL
OUTLOOK**

**Herculean Missions.
Uphill Journey.**

A graphic showing a long, straight road stretching into the distance under a cloudy sky, with green fields on either side.

3
**THE COURSE
AHEAD**

**All Hands
on Deck!**



IBC Institute

IBC BUSINESS OUTLOOK

2025