Indonesia’s Economy Grows, but Sentiment Slumps: 'Vibecession' Beckons

EBC Financial Group warns of ‘vibecession’ risk as Q2 GDP beats forecasts at 5.12%, even as consumers and businesses remain cautious.

Indonesia’s economic growth contrasts with declining public sentiment, symbolised by intersecting rising and falling trend lines over the national flag.

INDONESIA, August 14, 2025 /EINPresswire.com/ -- Indonesia’s economy grew 5.12% year-on-year in Q2 2025, its fastest pace since mid-2023, driven by robust investment and export activity ahead of new U.S. tariffs. The figure exceeded expectations, with investment rising nearly 7% during the quarter and exports climbing in anticipation of trade measures.

EBC Financial Group (EBC) analysts describe the moment as a textbook “vibecession” – when the data signals growth, but consumer and business sentiment weaken.

Tariff Shock Reshapes Export Flows

The imposition of 19% U.S. tariffs on Indonesian shrimp—previously the country’s top seafood export to the U.S.—is set to significantly alter trade flows. Industry leaders expect shipments to the U.S. to decline sharply, with exporters preparing to redirect supply to China, which currently accounts for just 2% of shrimp exports. EBC analysts estimate the tariff could cut overall export volumes by up to 30%, with as many as one million jobs in the sector at risk.

“Indonesia’s growth engine is still running, but it’s facing a more complex terrain,” said Samuel Hertz, Head of APAC at EBC Financial Group. “External trade frictions, softer household spending, and investment caution are now moving in parallel. That combination will test the resilience of the expansion.”

Domestic Demand Weakens

The Indonesian Employers' Association (Apindo) has warned that many firms are now operating in "survival mode," shelving expansion plans in favour of cost controls.

Indonesia's Consumer Confidence Index fell to 117.5 in May — the lowest since 2022 — signalling deeper anxieties around purchasing power and economic resilience. While forward-looking sentiment among some households remains cautiously optimistic, real incomes and job security are eroding under the surface. At the retail level, businesses are feeling the slowdown. As reported by SCMP, shopping malls may look busy, but foot traffic is deceiving - there are more "browsers than buyers". One Jakarta restaurant owner says daily customers have dropped by over 50%, many now forgoing extras like drinks or desserts, prompting price cuts of around 20% just to keep visitors returning.

Policy Response: Room for Stimulus and Stability

Headline inflation in July 2025 rose to 2.37% year-on-year, while core inflation eased to 2.32%, marking a seven-month low and underscoring subdued domestic demand. Both figures remain well within Bank Indonesia's target range of 1.5–3.5%, giving policymakers space to act if conditions soften further.

The 2025 State Budget projects inflation at 2.5% and caps the fiscal deficit at 2.53% of GDP, a level considered prudent by international standards. This combination of contained inflation and disciplined fiscal management provides room for targeted stimulus should growth momentum falter.

EBC analysts note, however, that stimulus alone will not close the "confidence gap". More durable gains in consumption and investment will likely require deeper structural reforms that potentially strengthen social safety nets, improving labour market flexibility, and delivering greater regulatory clarity to both domestic and foreign investors.

Markets Take Notice

The government is stepping in to stabilise cooking oil prices and safeguard domestic supply; a move that investors are watching closely. Trade authorities have directed palm oil producers to raise their Domestic Market Obligation (DMO) to 175,000 metric tons of cooking oil per month through year-end—up from an average of 157,500 tons in Q2, and already rising to 204,559 tons in July. This intensification of local sales is meant to temper the rising cost of "Minyakita" brand cooking oil, recently traded at 16,699 Rupiah per liter, above the designated cap.

While prioritising domestic stability, the policy could tighten availability for export, potentially reshaping global vegetable oil flows and placing pressure on exporting firms' margins. The recalibration signals that policymakers are deliberate about balancing affordability at home with competitive positioning abroad, creating fresh volatility in commodity-linked equity and currency markets.

EBC analysts conclude that companies most exposed to export revenue, especially those in palm oil refining and shipping, may see earnings impacted. Meanwhile, sectors tied to domestic consumer staples could benefit from improved supply and price controls, if the policy supports affordability as intended.

Looking Ahead: A Test of Economic Resilience

Indonesia's Q2 figures point to continued progress, but questions remain around the sustainability of this momentum. EBC analysts are watching closely to see whether domestic consumption can reaccelerate and whether investor sentiment will stabilise in the absence of deeper structural reforms. Longer-term resilience may also depend on a gradual shift from short-term stimulus measures toward more durable, productivity-driven growth.

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