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Stuck in the Middle with You? An Assessment of Income Dynamics in Indonesia

Florischa Ayu Tresnatri, Akbar Nikmatullah Dachlan, Galuh Chandra Wibowo, and Rifat Pasha

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Authorized for distribution by Maria Gonzalez
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ABSTRACT: The middle class can play a pivotal role as a growth driver in achieving Indonesia's Golden Vision of becoming a high-income country by 2045. However, it remains narrow, at under 20 percent of the total population. It is also highly vulnerable, given a waning purchasing power, and unfavorable labor market dynamics. In contrast with the steady progress of the bottom half of the income distribution, the middle-class share has declined since 2019, driven, inter alia, by labor market shifts toward informality, falling real incomes, pandemic scarring. Reversing this trajectory requires broad-based structural reforms focused on revitalizing private-sector led growth, including investment to create formal sector jobs, aligning education with labor market needs and develop skills to raise economic sophistication, and enhancing productivity and resilience. Reforms that enhance the ease of doing business, such as reducing regulatory barriers and uncertainty and improving governance, can help facilitate convergence to high-income status and benefit the middle class.

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Author's E-Mail Address:	ftresnatri@imf.org; adachlan@imf.org; gwibowo@imf.org; rpasha@imf.org

WORKING PAPERS

Stuck in the Middle with You? An Assessment of Income Dynamics in Indonesia

Prepared by Florischa Ayu Tresnatri, Akbar Nikmatullah Dachlan, Galuh Chandra Wibowo, and Rifat Pasha[1]

[1] Tresnatri and Dachlan (IMF Resident Representative Office (RRO) in Indonesia); Wibowo (Indonesia's Ministry of Finance's Secondee to the IMF RRO Indonesia); and Pasha (Bank Indonesia's Secondee to the IMF RRO Indonesia).

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A. Motivation

Indonesia has demonstrated strong economic resilience over the past decade. Growth has consistently hovered around 5 percent, underpinned largely by a robust domestic demand, underpinned by household consumption, which accounts for more than half of GDP. Inflation has remained well within the target band (1.5–3.5 percent), reflecting sound monetary policy and supportive government policies. On the fiscal side, the government has adhered to its fiscal rule, keeping the deficit below 3 percent of GDP, while public debt has been contained at under 40 percent of GDP—relatively low compared with peer countries. External stability has also been preserved, with the current account close to balance despite global trade uncertainties. Meanwhile, the financial sector remains robust, supported by strong capitalization of banks and low non-performing loans (NPLs). These achievements underscore Indonesia's strong macroeconomic fundamentals and provide a solid foundation for growth.

Nonetheless, Indonesia faces persistent structural challenges as it aspires to become an advanced economy by 2045 as aspired in Indonesia's Golden Vision 2045. According to the Statistics Indonesia's indicators, productivity remains low, constrained by investment inefficiencies, as signaled by a high incremental capital output ratio (ICOR) at 6.3—well above the 3.5–5 range typical in peer countries. A large informal sector also persists, comprising 59.2 percent of the labor force in 2024. Education outcomes lag international standards, as seen in the 2024 PISA assessment where Indonesia ranked 66th out of 81 countries. Labor market indicators suggest that youth unemployment is at 15.3 percent among those aged 20–24, reflecting weak absorption of young workers. On the business front, financial access remains limited, with 67 percent of micro, small, and medium enterprises (MSMEs) unbanked in 2023. Inequality and poverty also remain pressing, with the Gini coefficient at 0.38 and the poverty rate at 8.6 percent in 2024. Addressing these issues will require comprehensive reforms in human capital development, social safety net policies, labor market policies, and the overall investment climate to foster higher and more inclusive growth.

The middle class plays a vital role in meeting Indonesia's aspirations but has been on a declining trend in recent years. The middle class is central to sustaining long-term growth and stability. Middle-class households not only drive consumption but also invest relatively more in human capital (education and health) and durable goods, while contributing significantly to the tax base. Its stronger savings capacity provides resilience during economic shocks through consumption smoothing. Reflecting this, the Indonesian authorities envision a robust middle class, thus targeting to have 80 percent of the population categorized as middle class to support the achievement of the Golden Vision. The middle class currently contributes around 40 percent of total consumption, but its share of the population stood at about 17 percent in 2024, reflecting pressures on household resilience and upward mobility.

This paper analyzes the state of Indonesia's middle class, both nationally and regionally, identifying barriers to its expansion. Using the National Socioeconomic Survey (Susenas) and the National Labor Force Survey (Sakernas) as primary data sources, the study provides a comprehensive view of middle-class dynamics. Susenas, conducted annually by Statistics Indonesia, offers detailed household-level data on consumption, education, health, and other socioeconomic indicators, serving as the backbone for poverty, inequality, and middle-class analysis. The Sakernas database complements this with rich information on employment, labor participation, wages, and occupational structures. Together, these surveys enable a holistic assessment of middle-class evolution (Section B), characteristics, living conditions, and labor market outcomes (Section C). Through descriptive and empirical analysis, the paper will also examine both the drivers and obstacles of middle-

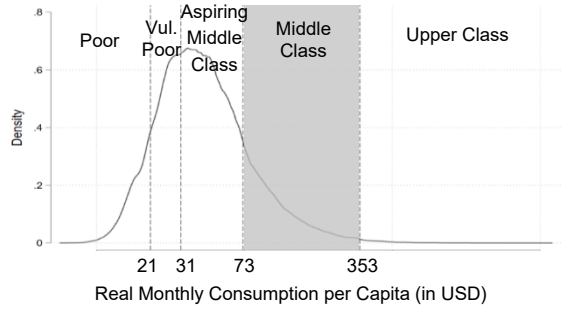
class growth (Sections D and E) while outlining reform priorities to accelerate progress (Section F). It argues that Indonesia's aspiration to achieve high-income status by 2045 will be unattainable without broad-based and deep structural reforms that achieve a stronger, more resilient, and inclusive middle class.

B. The Evolution of the Middle-Class

The definition of the middle class varies depending on the approach used. The World Bank and Statistics Indonesia (BPS) define the middle class as those who enjoy economic security—free from the risk of monetary poverty and able to direct disposable income toward discretionary rather than subsistence spending.[1] Using household survey data, the middle-class threshold is identified at the point where there is less than a 10 percent chance of falling into poverty or vulnerability in the following year, based on current consumption. In practice, this means people consuming between US$ 73 and US$ 353 per person per month (i.e., between 3.5 and 17 times the poverty line)[2] (Figure 1). In contrast, the OECD defines the middle class by the position in the income distribution.[3] For Indonesia, this would imply that the middle class are those people who consume between US$ 30 to US$ 80 per person per month (i.e., between 0.75 and 2 times the consumption per capita median)[4] (Figure 2). This method underscores relative positioning within society, making it particularly useful for cross-country comparisons and assessments of inequality. This study follows the World Bank and BPS economic classification, including to ensure consistency with the official numbers used in Indonesia.[5]

Figure 1. World Bank and BPS Classification

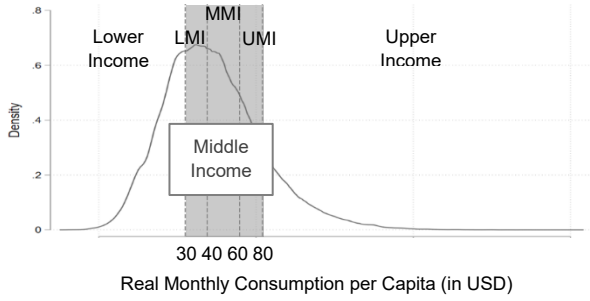
Real monthly consumption per capita distribution, 2024



Sources: Statistics Indonesia; and IMF staff estimates

Figure 2. OECD Classification

Real monthly consumption per capita distribution, 2024



Sources: Statistics Indonesia; and IMF staff estimates

[1] Yet this does not guarantee freedom from non-monetary deprivation, as many remain in substandard living conditions (World Bank, 2019).

[2] World Bank and Statistics Indonesia Economic Classes Classification: Poor (≤ Poverty Line), Vulnerable Poor (Poverty Line < x ≤ 1.5× Poverty Line), Aspiring Middle Class (1.5× < x ≤ 3.5× Poverty Line), Middle Class (3.5× < x ≤ 17× Poverty Line), Upper Class (> 17× Poverty Line).

[3] OECD Economic Classes Classification: Lower-Income (income per capita ≤ 75% of median); Lower-Middle-Income / LMI (75–100% of median); Middle-Middle-Income / MMI (100–150% of median); Upper-Middle-Income / UMI (150–200% of median); Upper-Income (income per capita > 200% of median)

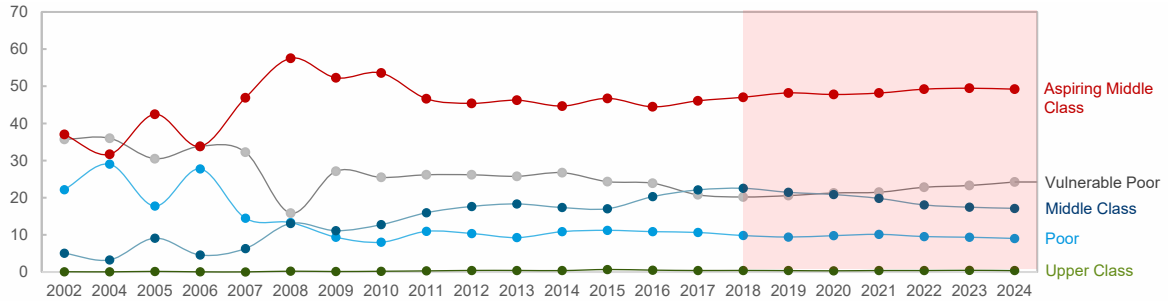
[4] We employ the OECD standard by transforming the use of income into consumption (as Indonesia does not have data on income while household expenditure is commonly used to reflect income in Indonesia).

[5] There is ongoing, not yet published, work to improve the calculation method of economic classes to better address the underrepresentation of richer population segments in the survey data (as is typical in any survey). However, preliminary testing indicates that the results in this paper remain robust, as the patterns are consistent with those derived from the improved method.

Indonesia's middle class has been shrinking for the last five years. Between 2002 and 2018, Indonesia's middle class expanded significantly, rising from 5 percent of the population to nearly 23 percent (Figure 3). This growth coincided with a sharp reduction in poverty and vulnerability, and with the emergence of a large "aspiring" middle class that now accounts for roughly half of the population. However, this upward trajectory has reversed in recent years. Since 2019, the middle-class share of the population has shown a persistent downward trend, likely deepened by the economic scarring of the COVID-19 pandemic. This contraction has been mirrored by a corresponding increase in the aspiring middle class and vulnerable poor. By 2024, the share of the middle class had fallen by 5.4 percentage points from its 2018 peak, declining in absolute numbers from 59.5 million to 47.9 million people (Figures 3 and 4). A similar pattern of decline also emerges when using the OECD approach (Figure 5).

Figure 3. Economic Classes in Indonesia

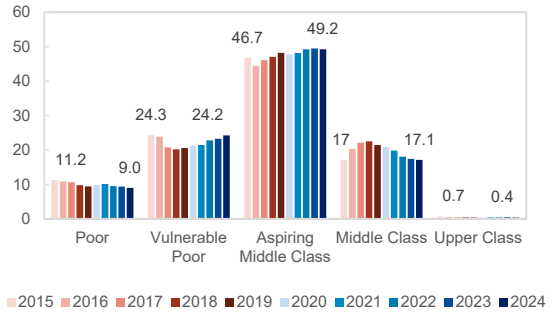
(In percent to total population, 2002 – 2024)



Source: Statistics Indonesia; and IMF Staff Calculations

Figure 4. World Bank and BPS Classification

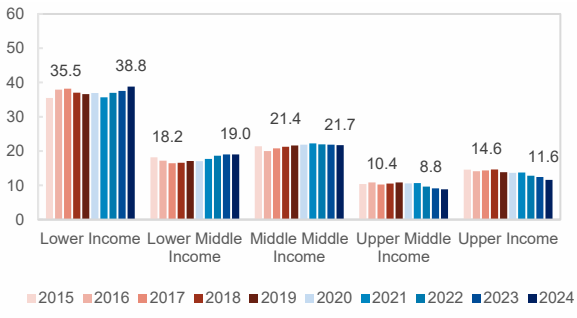
(In percent to total population, 2015-2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 5. OECD Classification Calculation

(In percent to total population, 2015 – 2024, Indonesia)



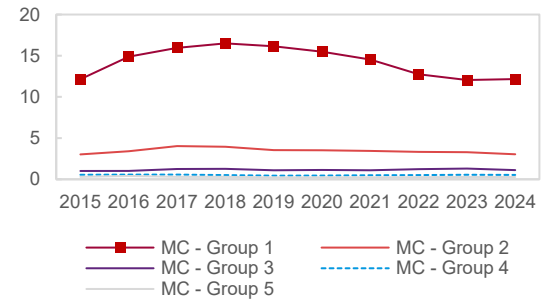
Sources: Statistics Indonesia; and IMF Staff Calculations

A clear pattern of structural downgrading has emerged, with vulnerable segments of the middle class slipping into lower economic class. Dividing both the middle class and the aspiring middle class into five equal expenditure groups—where Group 1 represents the lowest spending and Group 5 the highest—shows that since 2018 the decline in the middle class has been driven largely by households in Groups 1 and 2 or the most vulnerable middle-class groups (Figure 6). These vulnerable middle-class households appear unable to sustain their economic position and have fallen into the aspiring middle class, as indicated by the rising shares of Groups

1 and 2 within the aspiring-middle-class segment (Figure 7). Meanwhile, the upper tiers of the middle class have remained relatively stable, reinforcing that the downward movement is concentrated near the lower boundary of the middle-class distribution (Figure 6).

Figure 6. Partition of Middle-Class Group

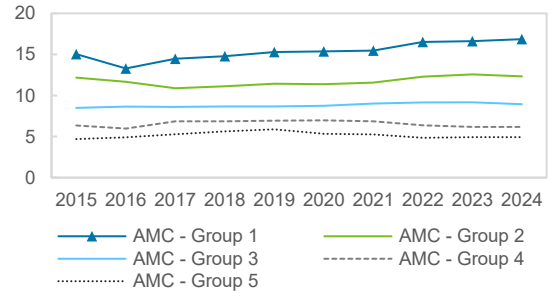
(In percent to total population, 2015-2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 7. Partition of Aspiring-Middle-Class Group

(In percent to total population, 2015 – 2024, Indonesia)

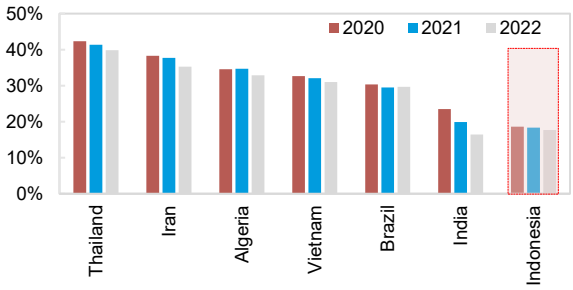


Sources: Statistics Indonesia; and IMF Staff Calculations

The shrinking middle class is not unique to Indonesia but part of a global phenomenon. The United States, for example, saw its middle class shrink from 62 percent of the population in the 1970s to just 43 percent in 2022, reflecting decades of rising inequality and labor market shifts (Figure 9). Similar declines have been documented in countries such as India, Thailand, Vietnam, and Brazil, where job losses from automation and rising living costs, especially for housing have reshaped the income distribution (OECD, 2019; Dean et al., 2022; Kochhar, 2024) (Figure 8). Indonesia's middle-class share, however, lags behind its peers, suggesting the possible presence of country-specific factors that hinder its expansion.

Figure 8. Middle Class in Peer Countries

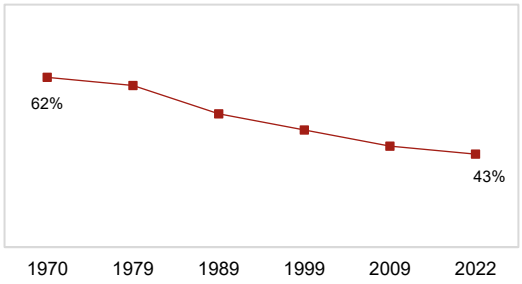
(In percent to total population, 2020-2022)



Sources: Dean et al. (2022); and IMF Staff Calculations

Figure 9. Middle Class in the U.S.

(In percent to total population, 1970-2022)



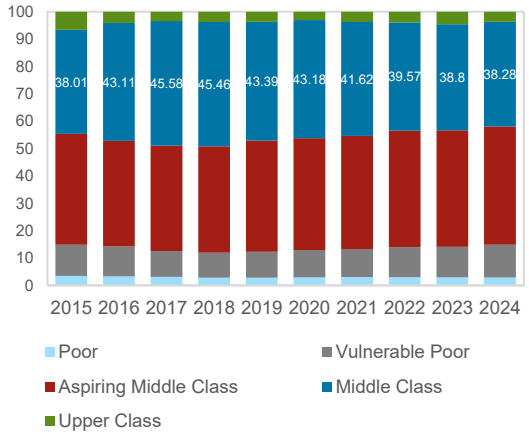
Sources: Kochhar (2024); and IMF Staff Calculations

C. Indonesia's Middle-Class Characteristics at National and Provincial Level

Since 2019, the decline of Indonesia's middle class has coincided with slower consumption growth.[6] The contribution to national consumption, once peaking at 45.6 percent in 2017, fell to 38.3 percent by 2024, reflecting both a shrinking share of the population and weaker purchasing power (Figure 10). Growth Incidence Curve (GIC) analysis[7] shows that during the pandemic and up to 2024, the middle class consistently recorded the slowest consumption growth compared to both poorer and richer groups, reinforcing concerns over a "squeezed middle" in Indonesia (Figure 11). This may be partly attributed to the fact that the poorest 40 percent of the population are supported by social protection schemes, whereas the middle class faced pressure from weak employment and wage growth (Box 1, Sections D and E). A Lorenz curve analysis suggests persistent inequities in the middle class (Figure 12).

Figure 10. Contribution to Total Consumption

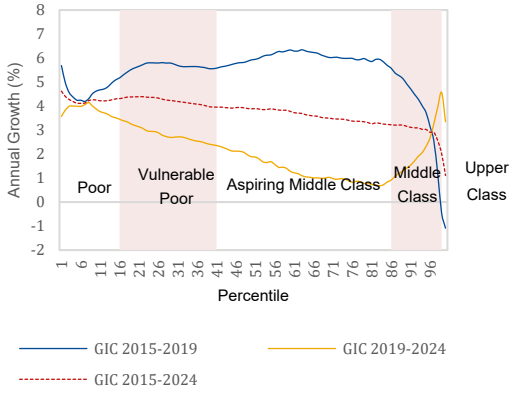
(In percent to national consumption 2015-2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 11. Growth Incidence Curve

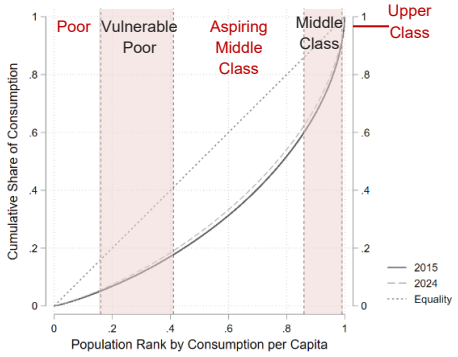
(In percent of annual growth, 2015 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 12. Lorenz Curve

(In percent of cumulative consumption, Indonesia 2015-2024)



Sources: Statistics Indonesia; and IMF Staff Calculations

[6] For all the analysis onwards, we follow the World Bank and BPS economic classes classification to ensure consistency with the official numbers used in Indonesia.

[7] GIC attempts to graphically capture the annualized growth rate of per capita consumption for every percentile of the consumption distribution between two points in time.

Box 1. Government Supports to the Middle Class

Indonesia's social protection architecture remains largely pro-poor. Policy instruments are designed primarily to safeguard low-income (poor) households and those classified as vulnerable poor, while the middle class remains effectively excluded from formal protection mechanisms. Programs such as the Family Hope Program (PKH), Non-Cash Food Assistance (BPNT), and Smart Indonesia Program (PIP) are formally targeted to poor and vulnerable poor households. Although fuel subsidies have historically benefited a broad segment of society, including the middle class, the government has gradually shifted toward more targeted schemes.

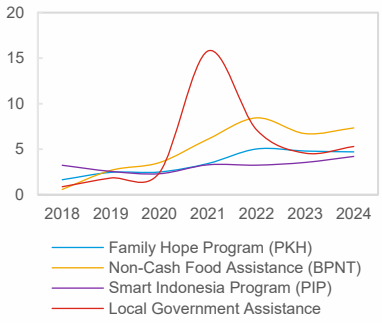
Nevertheless, our analysis suggests that part of the middle class might in fact receive social protection,[8] with about 10 percent of Indonesia's middle-class households receiving social welfare benefits intended for lower income groups. In 2024, the largest shares come from Non-Cash Food Assistance (BPNT, 7.3 percent) and the Family Hope Program (PKH, 4.7 percent), while smaller coverage is recorded from the Smart Indonesia Program (PIP) and local government assistance (Figure 13). Local government assistance including middle class recipients surged during the pandemic, peaking at 16 percent in 2021 before falling back.

The middle class also benefits heavily from non-targeted subsidies, especially in energy. Nearly 80 percent of middle-class households use subsidized 3 kg Liquefied Petroleum Gas (LPG), about 60 percent access electricity subsidies, and one in four benefit from Pertalite petrol subsidies (Figure 14). These figures reveal mistargeting, as subsidies designed for the poor are widely captured by middle-class households.

Tax incentives and subsidized credit also largely support the middle class. In 2025, the middle-class is budgeted to absorb about 50 percent of total Value Added Tax (VAT) incentives (including food, micro and small medium enterprises, education, health, transportation, water, electricity, insurance, financial services, property, and automotive) and 56 percent of People's Business Credit (KUR), a subsidized loan program designed to encourage micro, small, and medium enterprises (Figure 15).

Figure 13.Targeted Government Social Assistance Received by Middle Class

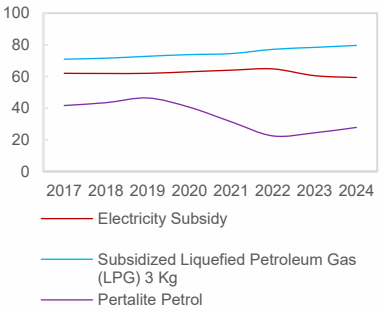
(In percent of middle-class households, 2018 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 14. Non-Targeted Government Assistance (Subsidy and Compensation) Received by Middle Class

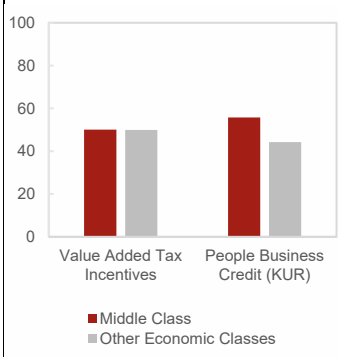
(In percent of middle-class households, 2017 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 15. Other Government Assistance

(In percent of total IDR of assistance, 2025, Indonesia)



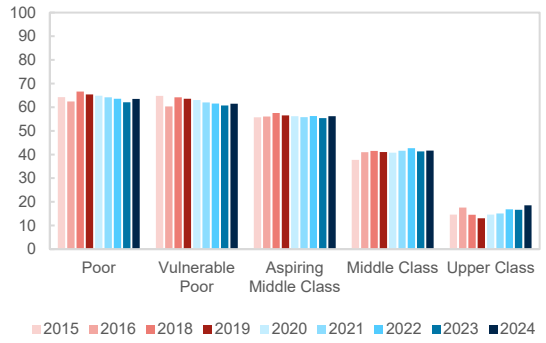
Sources: Ministry of Finance, Statistics Indonesia; and IMF Staff Calculations

[8] This would be defined as leakage, referring to the proportion of program resources that is inadvertently allocated to individuals or households outside the intended target group of beneficiaries, a phenomenon often described in the social protection literature as an inclusion error or mistargeting. We estimated this by utilizing the Susenas data.

Food expenditure has gradually risen for the middle class which may indicate decreasing purchasing power. Food remains the largest expenditure item (followed by housing) and its share has gradually risen in recent years, reaching 35–40 percent of total spending (Figure 16 and Figure 17). This trend signals weakening purchasing power, since a higher share of food in total expenditure usually indicates lower living standards and a lack of space for non-subsistence discretionary spending, which limits resilience and economic mobility. By comparison, poorer households—including the poor, vulnerable poor, and aspiring middle class—allocate over 55–65 percent of their income to food, underscoring the heavy burden of basic needs. Meanwhile the upper class devotes only 10–15 percent, reflecting its greater ability to spend on discretionary items (Figure 17).

Figure 16. Food Expenditure

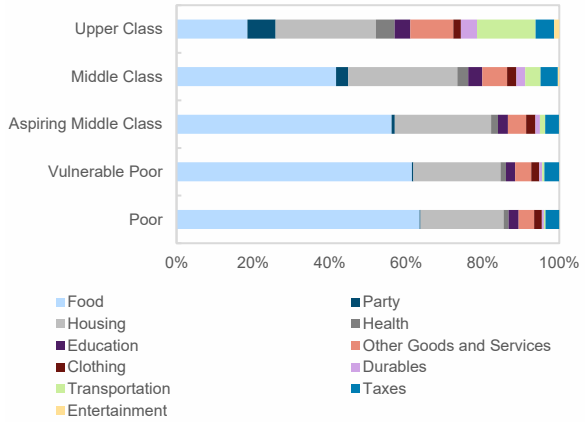
(In percent to total expenditure of each economic class, 2015-2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 17. Type of Monthly Expenditure, 2024

(In percent to total expenditure of each economic class, 2024, Indonesia)



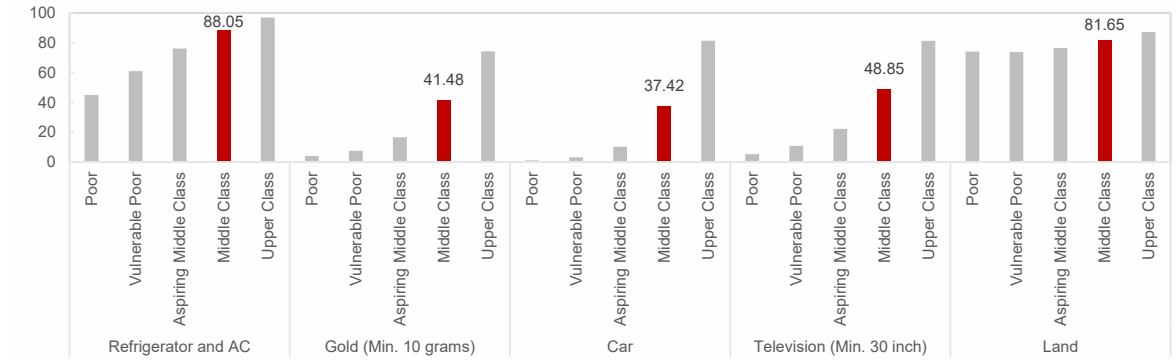
Sources: Statistics Indonesia; and IMF Staff Calculations

Asset ownership among Indonesia's middle class mirrors its consumption patterns, with priorities focused on essentials such as durable goods for food and housing. In 2024, around 80 percent of middle-class households owned land and major appliances, aligned with expenditure patterns concentrated on food and housing (Figure 18). Asset ownership in categories linked to mobility and leisure remained relatively low, with only 37 percent of households owning a car and 49 percent owning a television of at least 30 inches. Investment assets were also limited, with about 42 percent of middle-class households reported holding gold,[9] underscoring their lower capacity to accumulate wealth-generating assets compared to higher-income groups. These figures contrast sharply with the upper class, where ownership levels across all categories are considerably higher, while poorer and vulnerable households remain far behind, often lacking even basic durable goods.

[9] Detailed data on other investment options such as stocks, government bonds, etc., owned by the middle class are not available.

Figure 18. Asset Ownership, 2024

(In percent to total household in each economic class)

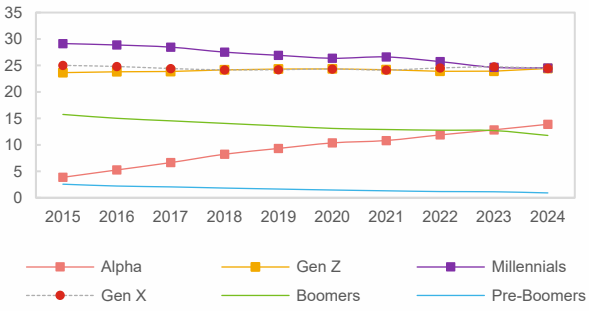


Sources: Statistics Indonesia; and IMF Staff Calculations

Most of Indonesia's middle class is young, with Millennials, Gen Z, and Gen Alpha[10] comprising about 60 percent (Figure 19); contributing a demographic dividend will depend on its educational attainment. This youth profile could support sustained productivity growth and innovation, provided that the workforce is equipped with adequate skills; yet, education remains a critical constraint. Only about 40 percent of middle-class individuals of productive age hold tertiary degrees[11] (Figure 20), while more than 60 percent have attained no more than senior high school (Figure 21). This educational profile raises concerns about whether Indonesia's middle class can fully harness the demographic dividend opportunities and remain competitive in a rapidly evolving labor market. Many young middle-class workers risk being locked into lower-skilled, lower-wage jobs, limiting upward mobility and constraining aggregate productivity gains.

Figure 19. Middle Class by Age or Generation

(In percent to total middle class, 2015 – 2024, Indonesia)



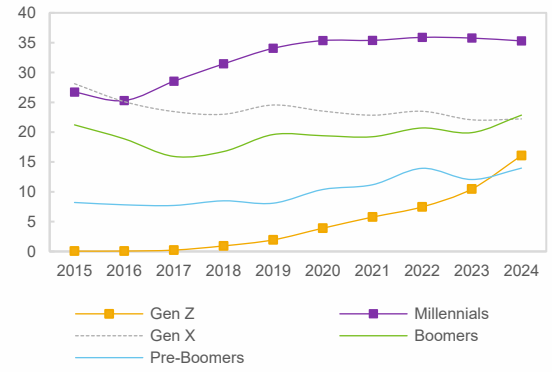
Sources: Statistics Indonesia; and IMF Staff Calculations

[10] Born Year: Alpha (2013 – 2024), Gen Z (1997-2012), Millennial (1981-1996), Gen X (1965-1980), Boomers (1946-1964), Pre-Boomers (below 1946).

[11] Gen Alpha is not exhibited as in year 2015 until 2024, the Alpha generation has not entered higher education level.

Figure 20. Middle Class with Above Senior High School Degree

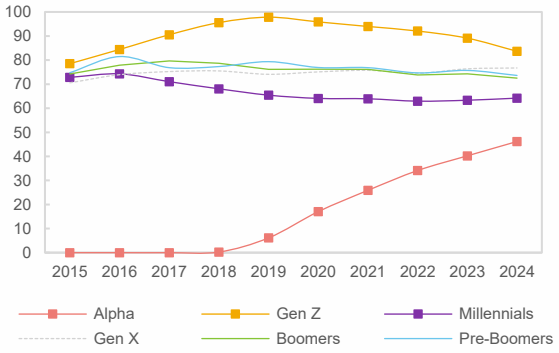
(In percent to total middle class in respective generation, 2015-2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 21. Middle Class with up to Senior High School Degree

(In percent to total middle class in respective generation, 2015-2024, Indonesia)

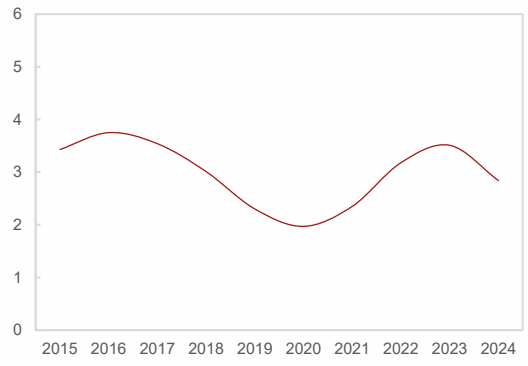


Sources: Statistics Indonesia; and IMF Staff Calculations

Labor market dynamics highlight mounting challenges for Indonesia's middle class. The middle-class unemployment rate is relatively low at around 3 percent, but it rose again after the COVID-19 pandemic, reversing earlier gains made from 2016 to 2019 (Figure 22). Despite the low unemployment rate, 25 percent of the middle-class workers are underemployed (i.e., work for less than 35 hours a week) – largely in the informal sector; this share remains above pre-pandemic levels since 2020 (Figure 23). Within the same period, access to certified training has remained limited: fewer than one in four middle-class workers have received certified training, compared with nearly half of the upper class (Figure 24). This training gap constrains opportunities for skill upgrading, reinforces labor market vulnerability, and reduces prospects for upward mobility.

Figure 22. Middle Class Unemployment Rate

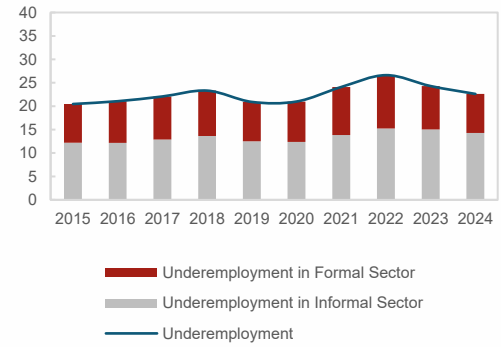
(In percent to middle class labor force, 2015 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 23. Middle Class Underemployment Rate

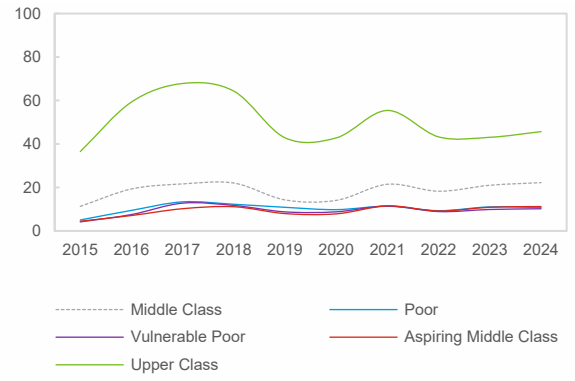
(In percent to middle class workers, 2015–2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 24. Middle Class Certified Training

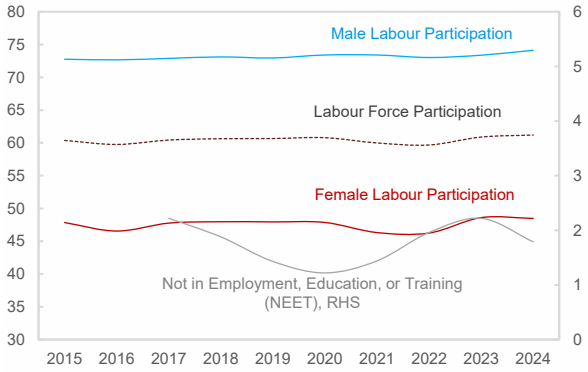
(In percent to middle class workers, 2015 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 25. Middle Class Labor Participation

(In percent to middle class age > 10 y.o., 2015 – 2024, Indonesia)

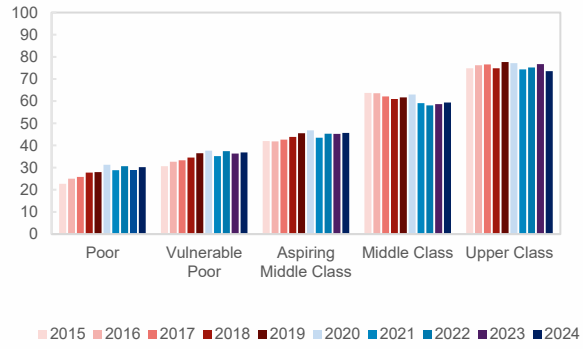


Sources: Statistics Indonesia; and IMF Staff Calculations

Labor force participation patterns reveal gender inequality and rising informality. Male participation in the middle-class labor force consistently exceeds 75 percent, while female participation remains below 50 percent, keeping overall participation at 60 percent and highlighting persistent gender gaps; this signals untapped income potential for the economy (Figure 25). The share of middle-class individuals not in employment, education, or training (NEET) has also increased, particularly after the pandemic, pointing to rising unproductive segments within the labor force. Notably, the middle class is the only group experiencing a steady decline in formal employment, while other economic classes have either maintained or expanded their level of formality (Figure 26). By 2024, just 59 percent of middle-class workers held formal jobs, compared with nearly 80 percent among the upper class. This erosion of employment quality, combined with gender gaps and rising informality, underscores the fragility of middle-class employment conditions despite stable participation levels.

Figure 26. Formal Work by Economic Class

(In percent to total workers of each economic class, 2015 – 2024, Indonesia)

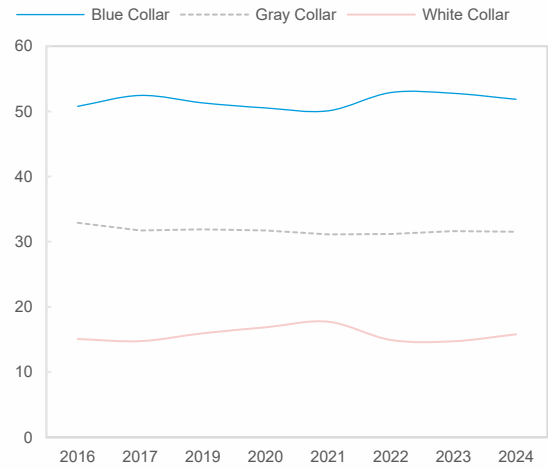


Sources: Statistics Indonesia; and IMF Staff Calculations

Middle-class workers are dominated by low- and medium-skilled jobs, leaving most workers vulnerable to low wages and technological disruption. More than half of middle-class employment between 2016 and 2024 was linked to blue-collar occupations such as elementary work, trades, skilled agriculture, and machine operation, while gray-collar roles in services, sales, and clerical support remained steady at about 30 percent (Figure 27). White-collar positions—including professionals, technicians, and managers—account for less than 20 percent, which suggests limited access to higher-wage, career-advancing, and general upward mobility opportunities. This heavy reliance on blue- and gray-collared work translates into structural vulnerability when viewed against exposure to new technologies such as artificial intelligence (AI). Around 20–25 percent of middle-class workers, mainly in services and sales, are in occupations threatened by AI. Jobs with low exposure to AI (such as agriculture and elementary work) remain widespread but have also experienced challenges to deliver productivity gains (Figure 28). AI-complementary roles such as professional and technical positions make up less

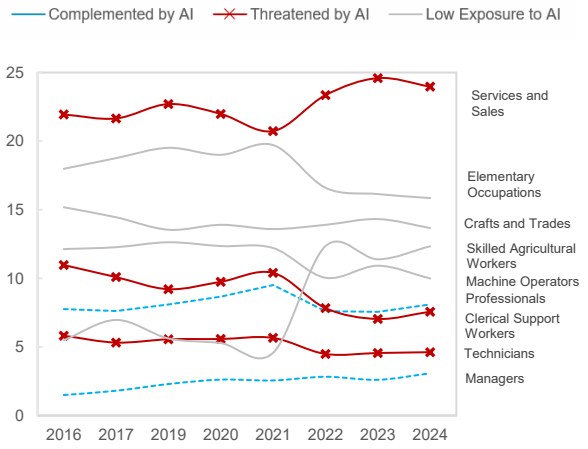
than 10 percent of middle-class employment, signaling untapped potential for technology to boost earnings and productivity[12].

Figure 27. Middle Class Job Position Type
(In percent to middle class workers, 2016 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

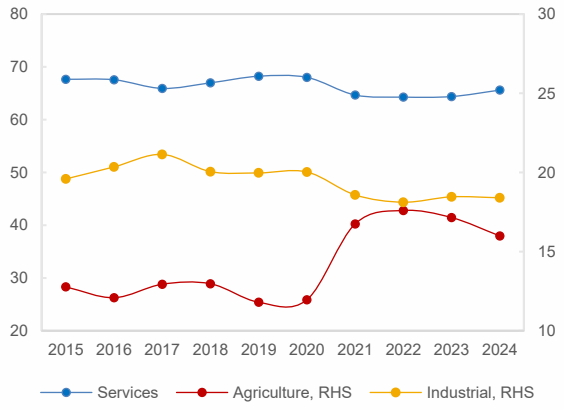
Figure 28. Middle Class Job Positions based on Vulnerability to Artificial Intelligence (AI)
(In percent to middle class workers, 2016 - 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Indonesia's middle-class labor market has experienced a structural shift marked by declining employment in services and industry and a growing share in agriculture and informal work, signaling structural downgrading and vulnerability. In 2015, services and industry employed jointly nearly 90 percent of middle-class workers, respectively, but by 2024 their shares fell by some 8 ppts, while agriculture rose sharply (12 percent in 2020 to 16 percent in 2024), indicating structural downgrading and scarring effects from the pandemic (Figure 29). Moreover, the shift seems to have taken place towards informal agricultural jobs, which expanded between 2020 and 2024, while formal agricultural work stagnated at around 4 percent (Figure 30). Formal work in services and industry also declined, showing a broader erosion of secure employment. Spatial patterns reinforce this trend, with the rural share of the middle class increasing and the urban share declining (each by about 2 ppts), reflecting the expansion of agricultural employment and highlighting growing vulnerability in both occupational and geographic profiles of Indonesia's middle class (Figure 31).

Figure 29. Middle Class by Employment Sector
(In percent to middle class workers, 2016 – 2024, Indonesia)

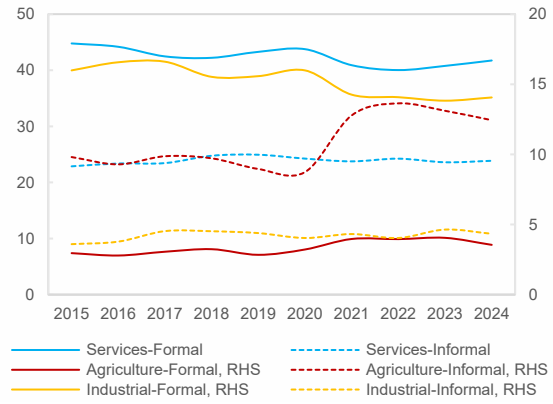


Sources: Statistics Indonesia; and IMF Staff Calculations

[12] AI exposure is based on Felten et al. (2021) and AI complementarity is based on Pizzinelli et al. (2023).

Figure 30. Middle Class Employment Sector and Status

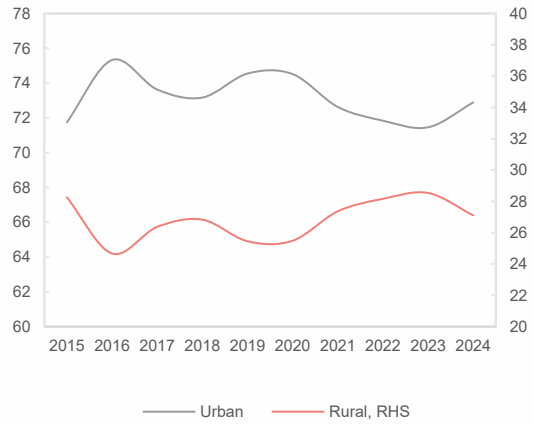
(In percent to middle class workers, 2015 – 2024)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 31. Middle Class Living Location

(In percent to total middle class, 2015 - 2024, Indonesia)

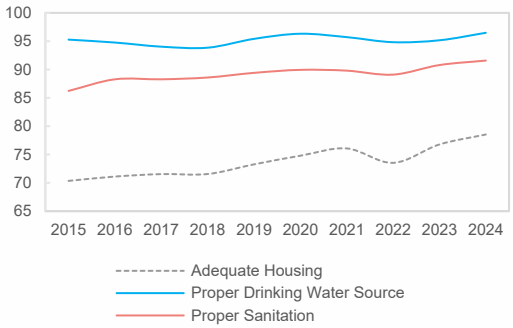


Sources: Statistics Indonesia; and IMF Staff Calculations

Indonesia's middle class has its basic needs largely met, but faces major gaps in housing, financial inclusion, and social security. By 2024, the middle classes' access to sanitation and clean drinking water exceeded 90 percent, yet only 79 percent of middle-income households had adequate housing standards, leaving about one in five below sufficiency (Figure 32). Financial access also showed mixed progress: savings account ownership rose from 50 percent in 2017 to nearly 65 percent in 2024, but formal credit use is still low and declined from around 35 percent to around 25 percent, limiting households' ability to finance businesses (Figure 33). Social security follows a similar pattern. Participation in BPJS health insurance[13] expanded significantly, reaching 77 percent in 2023, but broader social security schemes—covering pensions, old age, accident, and layoff insurance—remain low at just 32 percent of the middle class (Figure 34). These indicators highlight a dual reality: while universal needs such as water and sanitation are widely available, the absence of adequate housing, limited credit access, and weak social security leave many middle-class households vulnerable, constraining their resilience and undermining their potential to drive inclusive and sustainable economic growth.

Figure 32. Middle Class Housing Infrastructure

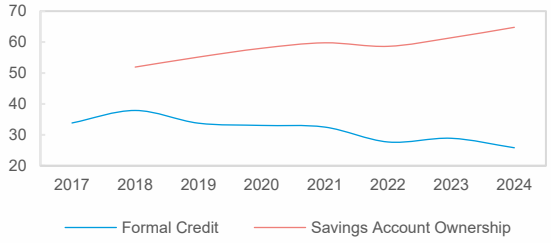
(In percent to middle class, 2015 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 33. Middle Class Financial Inclusion

(In percent of the middle-class people (or business owners for formal credit), 2017 – 2024, Indonesia)

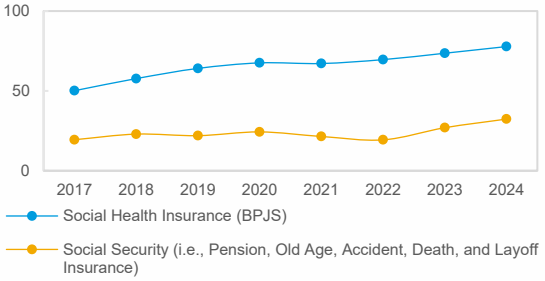


Sources: Statistics Indonesia; and IMF Staff Calculations

[13] BPJS Kesehatan is Indonesia's mandatory single-payer national health insurance system, funded by payroll contributions and government subsidies, that pools risks to deliver universal health coverage.

Figure 34. Middle Class Insurance or Social Security

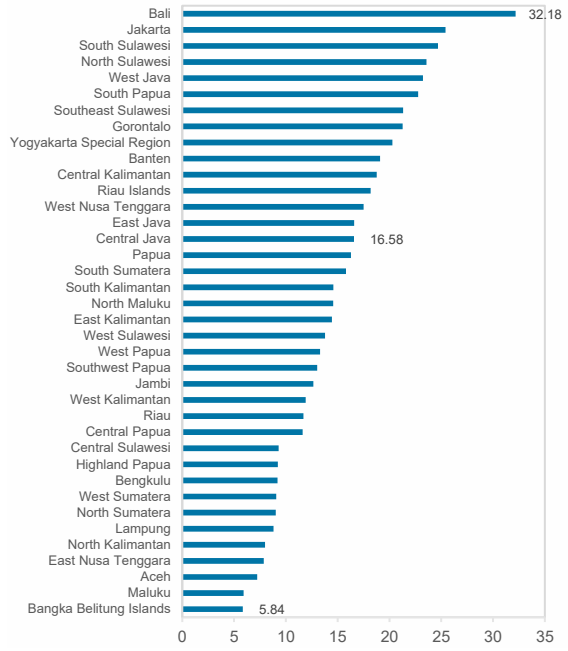
(In percent to middle class households, 2017 - 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 35. Provincial Middle-Class Share, 2024

(In percent to total population of each province, 2024)

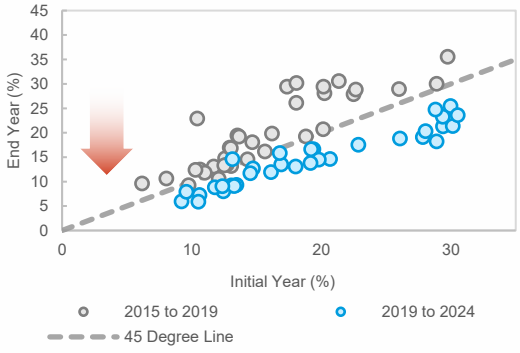


Sources: Statistics Indonesia; and IMF Staff Calculations

The distribution of the middle class across Indonesian provinces in 2024 reveals regional disparities; shares have declined since 2019. The provincial middle-class shares vary and are positively correlated with the GDP per capita of the provinces (Figure 35). The provincial middle-class share shows an across-the-board decline since 2019 (Figure 36): similar to national indicators, in 2015-2019, most provinces experienced an expanding middle-class, as shown by their position above the 45-degree line. However, in 2019-2024, nearly all provinces fell below the diagonal line, given a widespread contraction in the middle-class share.

Figure 36. Transition of Provincial Middle-Class Share

(In percent of total population of each province, 2015 – 2019 and 2019 – 2024)



Sources: Statistics Indonesia; and IMF Staff Calculations

The regional variation in the middle-class share also reflects broader development discrepancies. We compare the developmental outcomes that are achieved by the middle class in each of the 38 provinces in Indonesia, constructing an aggregated index (Table 1). The data show that Yogyakarta Special Region achieves the best outcome for its middle class, followed by Maluku, East Kalimantan, and the Riau Islands. By contrast, Highland Papua records the weakest performance, with the lowest average index, reflecting acute challenges in education, employment, housing, and financial inclusion: only 4 percent of the productive-age middle-class has higher education, and formal credit access is nearly nonexistent. Other provinces in eastern Indonesia, such as Central Papua and West Papua, also fall at the lower end of the spectrum, underscoring persistent structural barriers in human capital, infrastructure, and institutional capacity. These findings highlight stark regional inequalities, where middle-class households in more developed provinces benefit from better access to services and opportunities, while those in lagging regions remain constrained by limited resources and systemic vulnerabilities.

Table 1. Provincial Social Development for the Middle Class

(In percent of middle class in each province, 2024)

Province	High Education for Productive Age	Formal and Not Underemployed	White Collar Job	Adequate Housing	Formal Credit	Savings Account	Social Health Insurance (BPJS)	Average Index
Yogyakarta Special Region	34.12	54.77	25.68	93.25	28.53	77.26	83.21	56.69
Maluku	45.88	55.37	30.85	84.86	24.71	76.86	76.64	56.45
East Kalimantan	28.18	59.05	19.65	89.89	23.66	75.88	85.96	54.61
Riau Islands	27.52	69.49	29.16	78.58	17.34	79.10	79.53	54.39
Aceh	37.57	50.67	26.37	84.22	15.47	68.87	95.78	54.14
Bali	27.78	56.88	16.58	92.37	28.05	66.87	87.45	53.71
Bengkulu	34.89	45.95	26.87	74.81	40.80	65.97	85.29	53.51
Jakarta	36.12	68.17	22.38	67.73	10.23	80.78	85.78	53.03
Gorontalo	28.77	47.62	20.76	82.35	39.40	57.77	89.68	52.34
West Sumatera	31.74	47.27	22.61	85.58	26.05	71.06	79.93	52.03
North Kalimantan	27.57	48.54	19.46	84.36	20.21	68.42	93.83	51.77
Central Sulawesi	31.99	49.51	20.08	80.80	27.91	65.57	83.30	51.31
North Sulawesi	24.70	47.14	17.49	85.20	33.84	60.41	87.31	50.87
Southeast Sulawesi	29.45	46.81	14.83	87.67	25.14	64.30	84.46	50.38
North Sumatera	33.09	51.21	15.31	86.79	21.17	67.39	76.72	50.24
Banten	23.88	64.59	16.50	79.50	14.79	67.80	81.15	49.74
Southwest Papua	27.66	36.27	29.16	72.93	23.72	70.65	84.76	49.31
South Sulawesi	24.57	43.02	17.25	82.83	27.92	62.10	86.50	49.17
East Nusa Tenggara	24.86	37.80	30.95	68.29	34.57	64.42	81.57	48.92
Papua	31.81	41.32	25.28	76.10	18.33	67.82	78.73	48.48
West Sulawesi	28.53	34.52	18.41	76.80	31.60	59.65	88.79	48.33
Riau	26.79	47.12	16.35	86.19	25.75	62.30	73.40	48.27
Central Java	21.48	47.70	11.25	82.79	35.61	64.02	74.57	48.20
East Java	23.44	48.11	13.08	85.09	27.70	62.33	75.05	47.83
South Kalimantan	25.87	51.29	17.69	75.53	18.14	64.06	78.83	47.34
West Kalimantan	25.21	49.69	14.68	78.15	25.23	64.95	73.29	47.31
North Maluku	25.16	47.82	23.17	85.78	17.74	56.77	74.19	47.23
Bangka Belitung Islands	28.88	56.62	18.59	54.35	21.76	65.42	83.38	47.00
West Java	20.92	54.27	14.95	69.92	23.55	63.39	75.50	46.07
Central Kalimantan	20.34	50.63	15.16	76.01	20.13	63.53	73.99	45.68
West Nusa Tenggara	20.60	35.55	12.01	81.43	37.45	57.56	73.24	45.41
South Papua	22.05	33.61	23.93	62.77	26.14	60.27	83.34	44.59
Lampung	23.78	39.97	10.41	79.11	23.61	57.77	74.66	44.19
South Sumatera	21.96	44.15	11.87	78.74	24.05	55.69	71.81	44.04
Jambi	26.65	38.81	14.72	75.83	25.21	58.07	68.01	43.90
West Papua	20.45	35.45	27.95	68.36	13.75	61.92	71.92	42.83
Central Papua	8.48	13.47	15.30	34.10	1.85	26.80	23.36	17.62
Highland Papua	4.35	5.02	13.06	3.31	0.13	42.74	36.18	14.97

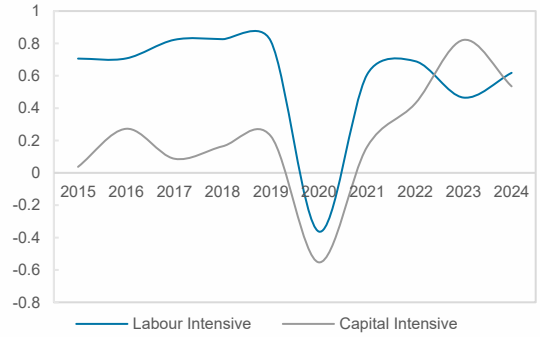
Sources: Statistics Indonesia; and IMF staff estimates

D. The Drivers of Middle Class Dynamics

Structural shifts in the labor market and the scarring effects of the pandemic contributed to the decline of Indonesia's middle class. Since 2020, capital-intensive industries[14] have grown faster than labor-intensive sectors, even overtaking them in 2023 (Figure 37).[15] This transition reduced demand for middle-class workers, pushing many into agriculture, a sector associated with lower productivity, security, and wages (Figure 38). Moreover, formal jobs in both industry and services shrank, with workers increasingly absorbed into low productivity informal agriculture and services, providing limited security and income stability (Figure 39). Hence, structural changes in Indonesia's economy, compounded by the pandemic shock, displaced middle-class workers from more stable industrial and service jobs into less productive and informal employment, reinforcing vulnerabilities and constraining the resilience of the middle class.

Figure 37. Contribution to GDP Growth by Industry Type

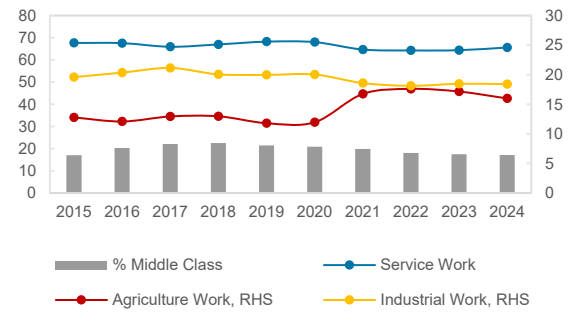
(In percent year on year, 2015 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 38. Middle Class Employment Sector

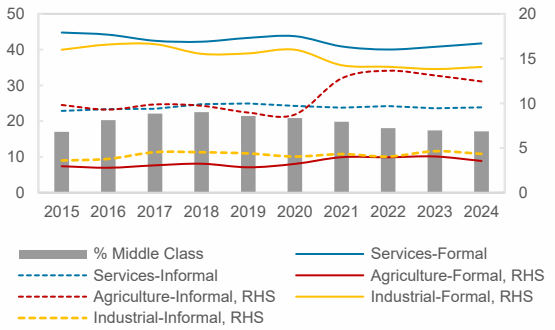
(In percent to middle class workers, 2015 -2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 39. Middle Class Employment Sector and Status

(In percent to middle class workers, 2015 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

The middle class in Indonesia is weakening due to declining real incomes and concentration in low-paying sectors. Real net income per worker has fallen from about IDR 1.8 million per month (2019) to around IDR 1.5 million (2024), eroding purchasing power and reducing the share of the population classified as middle class (Figure 40). In addition to the pandemic scarring, most middle-class workers are employed in low average

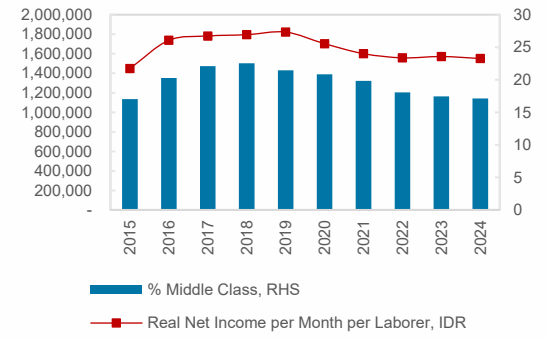
[14] Including oil, gas, geothermal mining, coal, metal, and electronic industry.

[15] Labor intensive industry refers to industry for food and beverage, tobacco, textile apparel, leather and footwear, paper, rubber, machine, transportation, wood, chemical and pharmacy, and furniture. Capital intensive industry refers to oil, gas, geothermal mining, coal, metal, and electronic industry.

income sectors (e.g., wholesale and retail trade with low value-added or agriculture), with low monthly real incomes and opportunities for wage growth or upward mobility are limited (Figure 41). In contrast, higher-paid sectors in high value-added service sectors (e.g., financial services and information communication) absorb very few middle-class workers. This concentration in low value-added sectors is tied to recent patterns of job creation (Figure 42): between 2018 and 2024, the period during which the middle class contracted, only wholesale and agriculture posted stronger job creation than in 2012–2018. Meanwhile, higher value-added sectors generated fewer jobs than in the earlier period, restricting middle-class access to more lucrative opportunities. As a result, wage stagnation and limited entry into better-paid sectors have undermined living standards, making declining incomes a key driver of middle-class vulnerability in recent years.

Figure 40. Average Laborers Income and Middle-Class Share

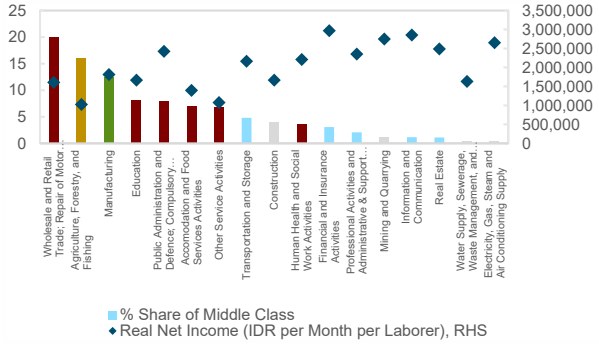
(In 2015 – 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 41. Average Income based on Sectoral Middle-Class Labor Absorption

(In 2024, Indonesia)

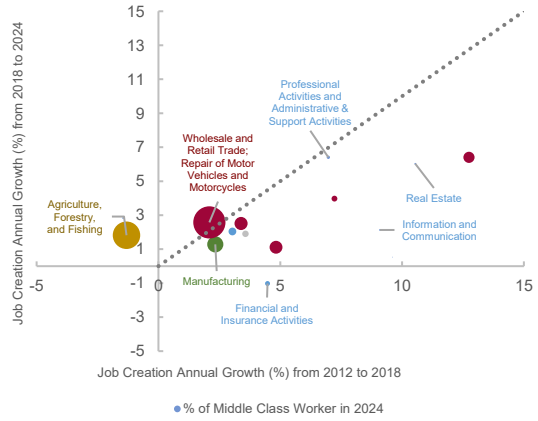


Note: *Red Bar = Low Value-Added Service; Blue Bar = High Value-Added Service; Gray Bar = Other Industry*

Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 42. Job Creation Dynamics and Middle Class Worker

(Indonesia)



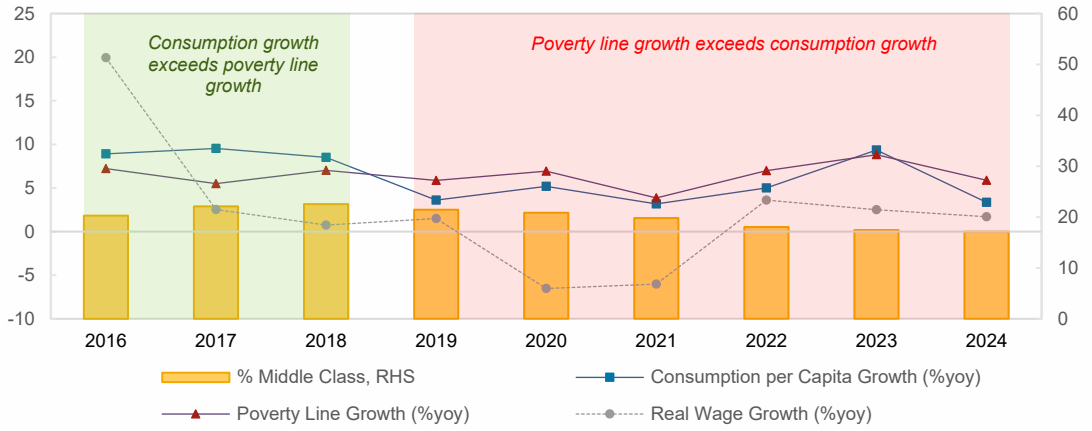
Note: *Red Bubble = Low Value-Added Service; Blue Bubble = High Value-Added Service; Gray Bubble = Other Industry*

Sources: Statistics Indonesia; and IMF Staff Calculations

The rising cost of living has also outpaced the middle classes' consumption growth since 2019. Data show that growth of consumption per capita has been lower than the growth of the poverty line (i.e., cost of living). This coincides with the declining trend of the middle class (Figure 43). The gap widened during the pandemic, when real wage growth dropped sharply and failed to recover strongly in the following years. As a result, the share of the middle class declined, reflecting the inability of many middle-class households to maintain their living standards under rising costs.

Figure 43. Comparison of Growth of Consumption per Capita, income, Poverty Line, and Middle-Class Share

(In Indonesia, 2016 – 2024)

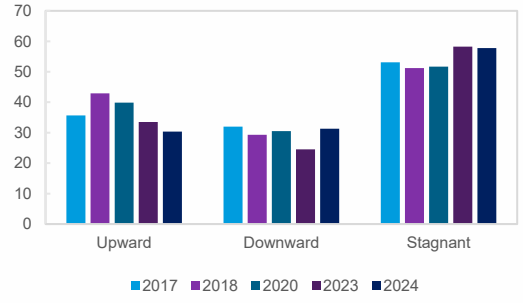


Sources: Statistics Indonesia; and IMF Staff Calculations

Upward job mobility for Indonesia's middle class has slowed significantly since 2018, with more workers moving to low-paying jobs or remaining stagnant rather than advancing to higher-income jobs. In 2024, the share of middle-class workers experiencing upward mobility fell below that of downward mobility (transition to lower income job sectors), highlighting a reversal (Figure 44). The largest share of job changes occurs among workers in low-salary groups, most of whom continue moving into similarly low-paying jobs, reflecting limited opportunities to break out of low-wage employment (Figure 45). By contrast, those already in high-paying jobs tend to stay put, showing inertia and stability at the top but reinforcing inequality in job transitions. The dominance of stagnant mobility—workers moving to jobs with similar income levels—further underscores weak dynamism in the labor market and limited pathways for upward progression.

Figure 44. Middle-Class Workers' Type of Job Mobility

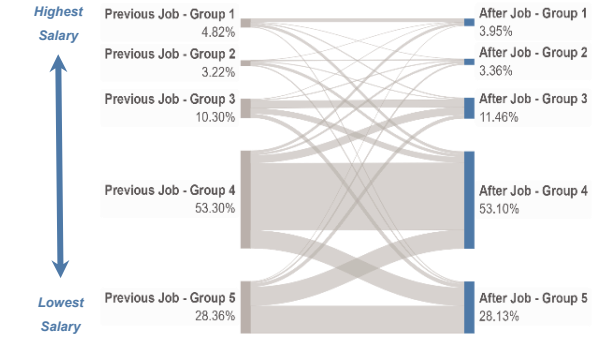
(In percent to middle-class who changed jobs within one year, 2017-2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 45. Middle-Class Worker's Job Mobility (Zoomed in)

(In percent to middle class who changed jobs from 2020 to 2024, Indonesia)

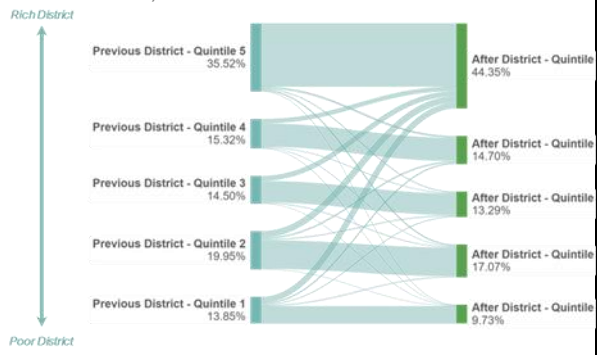


Sources: Statistics Indonesia; and IMF Staff Calculations

Middle-class mobility from poor to rich districts remains weak, suggesting persistent barriers to internal migration and unequal opportunities for upward geographic mobility. Migration to richer regions plays a critical role in enhancing income and productivity by allowing people to access better-paying jobs and more dynamic labor markets. It also facilitates the transfer of skills and knowledge, broadening opportunities for upward mobility and reducing structural inequalities across regions. However, there seems to be limited migration of the middle class from poor birthplace districts to rich districts[16] (Figure 46). Migration from birthplace mostly occurred to middle-class individuals who already lived in rich districts; most of them moved to rich districts. In 2024, over 30 percent of the middle-class living in the richest districts came from similarly rich areas, compared to less than 5 percent who managed to move upward from the poorest districts. A similar trend emerges when looking at five-year migration flows between 2019 and 2024 (Figure 47), where middle-class workers from rich districts dominate mobility patterns, while those from poorer areas remain largely confined within the same income quintile of districts.

Figure 46. Middle Class Long-Term Mobility Across Districts

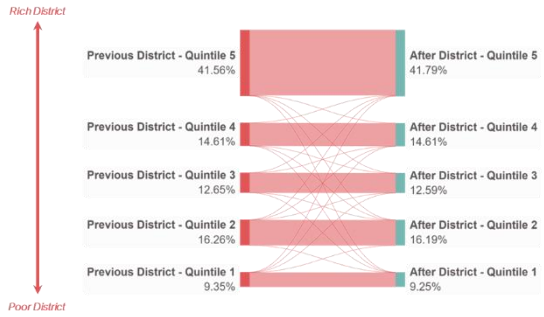
(In percent to middle class who migrated from birthplace, 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

Figure 47. Middle Class 5-Year Mobility Across Districts

(In percent to middle class who migrated from previous district in 2019 to the new one in 2024, Indonesia)



Sources: Statistics Indonesia; and IMF Staff Calculations

E. Empirical Analysis for the Determinants of Middle-Class

This section empirically investigates the key factors associated with changes in the size of the middle class in Indonesia. Using a fixed-effects panel regression at the provincial level over the period of 2016 until 2024, we identify structural drivers that help explain the middle-class dynamics. Fixed effects analysis is utilized as it effectively controls time-invariant unobserved heterogeneity across observational units that may bias results (Cunningham, 2018).

[16] Poor and rich status of the district is based on median consumption per capita of each district.

Table 2. Determinants of Middle-Class

Dependent Variables:	Middle-Class Share (%)			Yearly Change of Middle-Class Share			Middle-Class Share Increases in the Next Year		
Independent Variables:	All Periods	Before Pandemic	After Pandemic	All Periods	Before Pandemic	After Pandemic	All Periods	Before Pandemic	After Pandemic
Lag of Middle-Class Rate	0.32***	-0.01	0.25***						
	(0.08)	(0.08)	(0.07)						
Years of Schooling	-1.17	6.11**	-9.71***	-2.30	6.36	-8.22***	-1.56	13.70	-6.84
	(1.75)	(2.99)	(2.07)	(2.92)	(3.97)	(2.51)	(5.42)	(973.81)	(10.68)
Productive Age (% of Population)	0.43**	1.52***	0.51***	0.25	1.42	0.45*	-0.24	4.41	-0.37
	(0.19)	(0.55)	(0.17)	(0.20)	(0.92)	(0.22)	(0.33)	(264.44)	(0.60)
Unemployment Rate	-0.35*	-0.02	-0.65**	-0.20	0.68	-1.03***	0.01	1.31	-1.07
	(0.17)	(0.31)	(0.25)	(0.21)	(0.47)	(0.30)	(0.32)	(84.90)	(0.75)
Formal Work (% of Workers)	0.20**	0.25*	0.31**	0.27***	0.22	0.55***	0.33**	0.26	0.70**
	(0.09)	(0.15)	(0.15)	(0.08)	(0.17)	(0.16)	(0.15)	(33.43)	(0.32)
Log of Real Hourly Income	2.15	3.91	2.93*	-0.93	-3.07	2.28	1.50	7.87	1.43
	(1.40)	(2.60)	(1.60)	(1.56)	(3.57)	(1.97)	(2.75)	(634.25)	(4.98)
Formal Credit (% of Business Owners)	0.04	0.10	-0.04	-0.10	-0.18	-0.18	-0.14	-0.28	-0.13
	(0.07)	(0.09)	(0.09)	(0.07)	(0.13)	(0.13)	(0.11)	(21.12)	(0.21)
Poverty Line Growth	-0.11**	-0.19***	-0.03	-0.26***	-0.44***	-0.07	-0.37***	-1.51	-0.37
	(0.05)	(0.06)	(0.04)	(0.07)	(0.12)	(0.09)	(0.13)	(63.58)	(0.27)
Live in Urban Area (% of Population)	-0.11	0.15	0.19	-0.16**	-0.18	0.24*	-0.13	0.84	0.18
	(0.08)	(0.15)	(0.16)	(0.07)	(0.23)	(0.13)	(0.14)	(55.68)	(0.33)
Economic Growth†	0.04	-0.04	0.09	0.07	0.08	0.06	0.00	0.42	-0.08
	(0.04)	(0.06)	(0.06)	(0.05)	(0.07)	(0.07)	(0.07)	(57.57)	(0.13)
Log of Real Foreign Direct Investment†	0.15	0.28	0.14	-0.12	-0.42	0.20	-0.03	-1.21	-0.21
	(0.18)	(0.27)	(0.25)	(0.24)	(0.42)	(0.31)	(0.43)	(87.89)	(0.69)
Share of Mining (% of Total Gross Regional Domestic Product) †	-0.04	-0.21	-0.04	-0.07	-0.37*	-0.09	0.04	-1.09	0.09
	(0.07)	(0.21)	(0.06)	(0.06)	(0.20)	(0.07)	(0.10)	(86.95)	(0.17)
Log of Real Local Government Education Spending per Capita†	-1.17	-1.25	-2.75*	0.15	-0.63	1.03	0.71	-28.75	2.01
	(0.84)	(1.29)	(1.36)	(0.96)	(1.67)	(2.51)	(2.35)	(898.77)	(4.10)
Log of Real Local Government Health Spending per Capita†	-1.48	-1.84*	-1.13	-2.59	-2.90	-4.57*	0.85	16.69	-3.59
	(1.33)	(1.05)	(2.16)	(1.61)	(1.81)	(2.51)	(2.11)	(625.32)	(5.88)
Log of Real Local Government Social Protection Spending per Capita†	0.27	-0.27	0.75	1.28**	1.98*	1.39	0.90	8.74	0.46
	(0.59)	(0.69)	(0.77)	(0.60)	(1.13)	(1.05)	(1.32)	(291.19)	(2.18)
Log of Real Local Government Economic Spending per Capita†	1.03**	2.98***	0.81*	1.16*	5.78***	0.52	-0.27	15.56	-0.91
	(0.49)	(1.01)	(0.43)	(0.65)	(1.44)	(0.51)	(0.97)	(519.32)	(1.64)
Log of Real Local Government Other Type of Spending per Capita†	1.76	0.66	-0.21	-0.10	-4.00*	-1.11	0.21	-0.65	3.19
	(1.14)	(1.67)	(0.98)	(1.22)	(2.06)	(1.51)	(1.72)	(423.12)	(3.69)
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Province Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of Provinces	34	34	34	34	34	34	34	34	34
Observations	306	136	170	306	136	170	306	128	145

* $p<0.1$; ** $p<0.05$; *** $p<0.01$

† The variables are lagged by one year as these macro variables are in the form of end of year values. Meanwhile, the dependent variable and other independent variables are sourced from either Susenas and Sakernas which is collected in March in each year. Hence, to better capture the causal link, the macro variables are lagged by one year.

We estimate three models to examine the middle-class dynamics: (1) a baseline model with the middle-class share as the dependent variable; (2) a change model using the year-on-year variation of the middle-class share; and (3) a logit model where the dependent variable equals to one if the middle-class share improves and zero otherwise.

Each model specification is estimated for three samples — the full period (2016–2024), before pandemic (2016–2019), and after pandemic (2020–2024) — to capture structural shift associated with the COVID-19 pandemic. Based on the fixed effect analysis results in Table 2, several key determinants of the middle-class share can be inferred.[17]:

- **A persistence effect is evident for the middle class**. Provinces with a higher middle-class share in the previous year are likely to expand it (Model 1). Over the full period, a one percentage point increase in the prior year's share raises the current share by 0.32 percentage point. The association was insignificant before COVID but became significant afterward, at 0.25 percentage points.

- **The impact of education has reversed**. Before COVID, years of schooling were positively associated with the increase in middle-class share (Model 1 +6.11), but after the pandemic the association turned negative (Model 1 −9.71, Model 2 −8.22), suggesting diminished returns and a sluggish job market unable to absorb higher-educated workers post-pandemic.

- **Demographics are positively associated with the middle class**. A larger share of the productive-age population (17–65 years old) generally expands the middle class. In Model 1, before the pandemic, a one percentage point increase in this age group was associated with a 1.52 percentage point rise in the middle-class share. However, the effect weakened post-pandemic to only 0.51 percentage point, likely reflecting diminished returns to education and a sluggish labor market that limited job absorption for the working-age population. Taken together, across the full period, the impact averages to a more modest 0.43 percentage point increase.

- **Labor market conditions play a critical role in shaping middle-class dynamics**. Higher unemployment is linked to a contraction of the middle class, with the effect becoming more pronounced in the post-pandemic period (Models 1 and 2). In contrast, access to formal employment is positively associated with middle-class expansion, with the effect strengthening after the pandemic and proving consistent across all models. Moreover, higher real hourly incomes further support middle-class in the post-pandemic period (Model 1). Together, these findings highlight the importance of job security and stable income in sustaining middle-class status.

- **Cost of living dynamic is critical for the middle class**. Rising living costs, proxied by the growth of the poverty line, have negative association with the middle class. This suggests that inflationary pressures, if not matched by income growth, erode household economic security.

- **Finally, government interventions at the local level matter**. Higher real per capita local government economic spending—covering areas such as job creation initiatives, infrastructure investments, and economic stimulation— and social protection spending support middle-class expansion. This emphasizes the critical role of proactive local development policies in fostering middle-class resilience.

In summary, the empirical evidence shows that labor market quality, wage growth, demographic factors, and public investment are critical to supporting the middle class, while unemployment and rising living

[17] Interpretation for causality should be approached with caution due to the limitations in eliminating time-variant unobserved heterogeneity.

costs contribute to its decline. These findings confirm that the contraction of the middle class is rooted in structural economic and labor market challenges rather than short-term cyclical factors, hence policies must be directed to address those root causes.

F. Conclusions

The middle class can play a pivotal role in achieving Indonesia's Golden Vision 2045, but the current state shows that it is struggling (across Indonesia) and remains small (below 20 percent). The middle class that remains seems to be more vulnerable, with more chances to fall off into aspiring middle class. This trajectory questions the feasibility of achieving the 80 percent middle-class target in 2045. On the bright side, the middle class is relatively young and well-covered by adequate housing.

A wide range of middle classes' characteristics signal their vulnerable state of living. The middle-class experiences weakening purchasing power as there seems to be limited space for discretionary spending. Middle-class labor force participation is dominated by males and blue-collar jobs, with rising informality and rising unemployment and underemployment, and vulnerability to new technologies such as AI. The young generation of the middle class mostly attain low levels of education (i.e., only up to senior high school degree) while certified training acquisition is limited. Financial inclusion and the social safety net are insufficiently developed. Upward job mobility has slowed and mobility to richer districts is weak. Regional variation in the middle-class share reflects broad-based development discrepancies across provinces.

At the macro level, the declining trend of the middle-class since 2019 is primarily driven by structural shifts in the labor market—particularly the shift toward informal work and declining real incomes—exacerbated by the pandemic's scarring effects and significant increases in the cost of living. The diagnostics highlight the urgent need for strategies aimed at expanding the middle class. This involves both uplifting lower-income groups into the middle class and strengthening the resilience of those already in the middle class.

Reforms are needed to boost the middle class, specifically in areas that serve as the root causes for the declining share of the middle class. The study confirms how stagnant real income growth reinforces the vulnerability of the middle class. Without stronger wage growth and targeted measures to ease the cost of living, the erosion of purchasing power risks further shrinking the middle class, undermining its role as a driver of consumption and economic stability. Sustainable middle-class growth must therefore be anchored in structural transformation, driven by a dynamic and productive private sector capable of creating quality jobs with sufficient income to withstand rising living costs. Achieving this requires reforms that attract investment by enhancing the ease of doing business—through reducing regulatory barriers, minimizing uncertainty, and strengthening governance (IMF, 2024)—while simultaneously investing in human capital by aligning education with labor market demands and advancing skills development, and improving productivity (Bappenas, 2025). Equally important is strong coordination between fiscal and monetary policy to ensure price stability and safeguard the purchasing power of the middle class.

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