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Policy Brief

Indonesia's 'Middle Class': Who are They and Why Should We Care About Them?

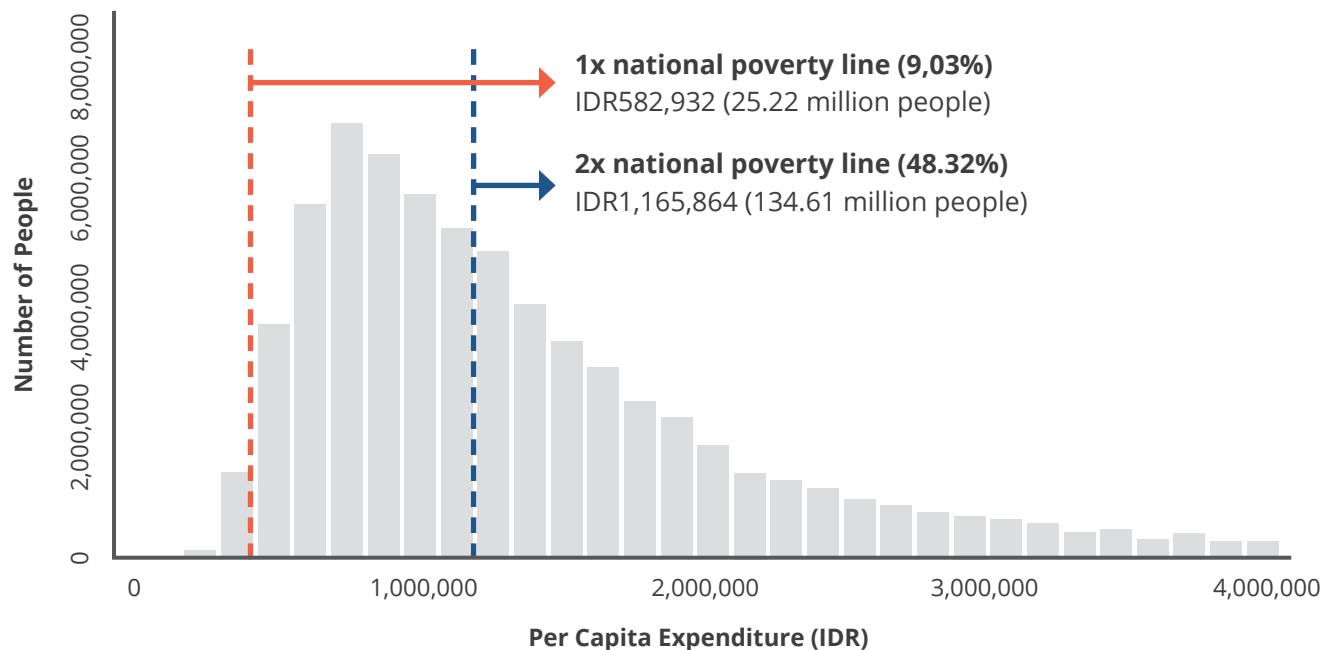
Main messages:

- Poverty alleviation alone is not enough—Indonesia's fragile and shrinking middle class must be central to the national development agenda to ensure long-term growth and social cohesion.
- Nearly 40% of the middle class fell into vulnerable or poor categories in the last year, signalling urgent welfare risks. Almost half of Indonesia's population lives just above the poverty line, making them highly vulnerable to economic shocks and at risk of falling back into poverty.
- Middle-class erosion threatens domestic consumption, job quality, and democratic resilience.
- Targeted public policy is needed to reverse this trend—especially policies that secure stable jobs, expand social protection, and close urban-rural gaps.

Hidden Crisis Behind Development Success

Between 2018 and 2024, the share of Indonesians considered middle class declined from 22.5% to 17.2%, representing a loss of more than five percentage points in six years. Although Indonesia's poverty rate has steadily declined since 1998, nearly half of the population lives below twice the national

poverty line—a threshold commonly used to identify economic vulnerability. This contraction reflects more than a statistical anomaly; it reveals a deeper fragility in the country's growth model—one that prioritizes expansion over equitable and sustainable prosperity. This policy brief examines the characteristics of the Indonesian middle class, including their demographics and role as a driver of economic growth.

Figure 1. Per Capita Expenditure Distribution (2024)

Source: Susenas (2024)

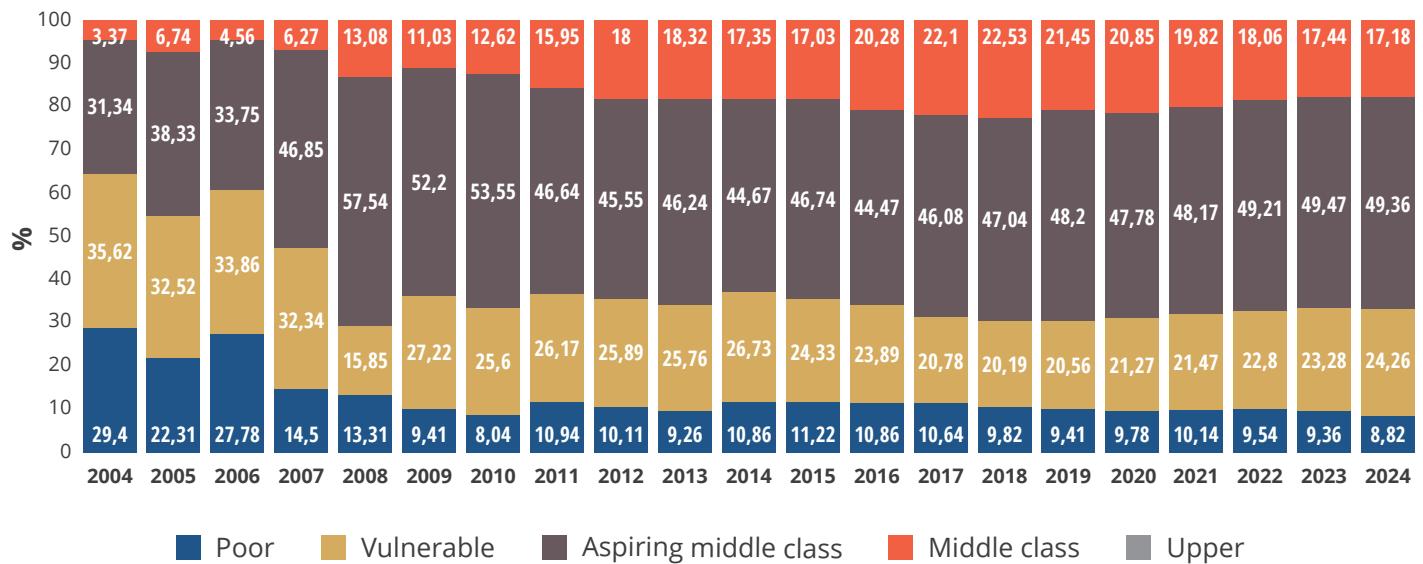
The shrinking middle class signals rising vulnerability despite falling poverty. Between 2018 and 2024, Indonesia's middle-class share declined from 22.5% to 17.2%, while the vulnerable population rose. Though poverty rates have improved, this trend reflects growing economic insecurity among households just above the poverty line. These families face an increased risk of downward mobility due to weak job quality, limited savings, and exposure to shocks—undermining Indonesia's progress toward inclusive development.

The Middle Class's Role: An Overlooked Engine of Economic Growth

Indonesia's middle class punches far above its weight economically, contributing 40% of national household consumption despite representing less than one-fifth of the population, making their

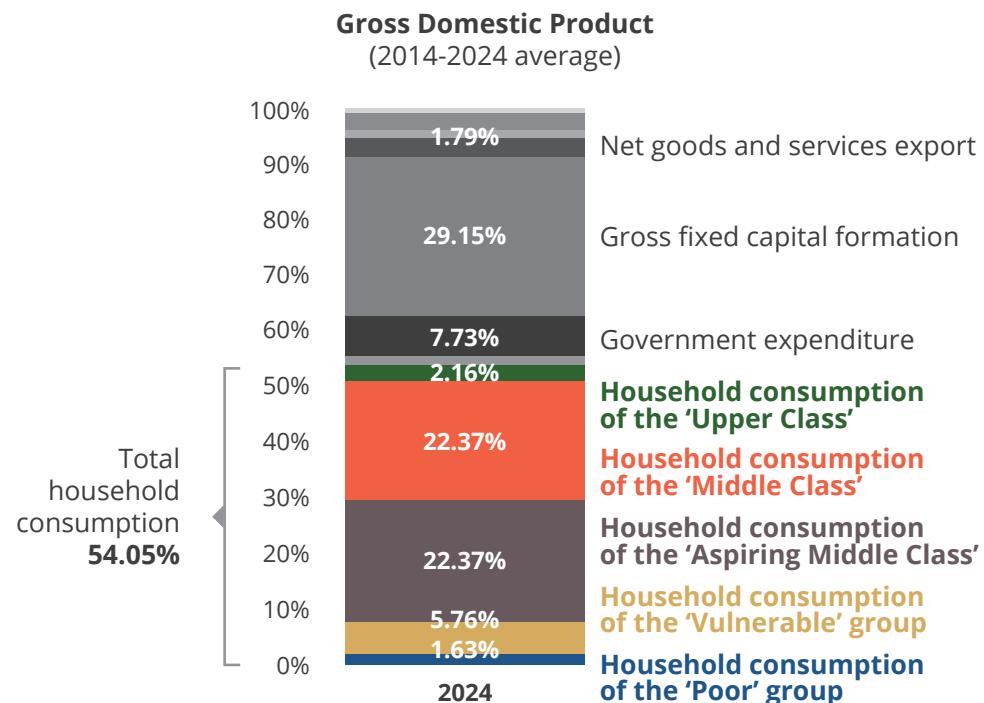
decline a direct threat to domestic economic stability and growth. The middle class in Indonesia plays a vital role as a driving force of economic growth, contributing significantly to consumption, job creation, and macroeconomic stability. Although they comprise less than 20% of the population, they account for 40% of household consumption and sustain 54% of the nation's GDP. Their stable income levels support long-term investments in human capital, such as education and health, while their spending stimulates private sector growth across diverse industries. Moreover, the middle class plays an essential role in tax generation, democratic engagement, and political accountability. As their share in the population shrinks, this not only undermines economic momentum but also weakens social cohesion and institutional trust—underscoring the need for targeted policies to support and expand this critical segment.

Figure 2. Population Composition by Class (2004-2024)



Source: Susenas, 2004 – 2024

Figure 3. Gross Domestic Product Proportion



Source: Statistics Indonesia (2024)

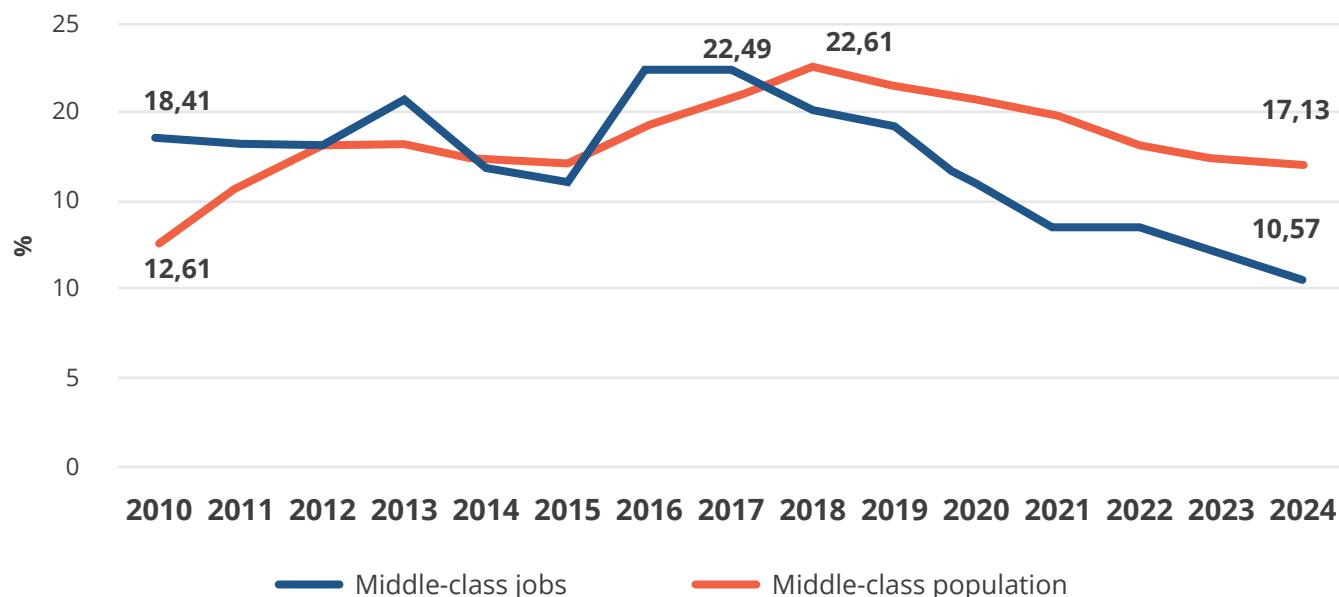
A strong middle class is essential for political stability, fiscal strength, and accountable governance. Middle-class households not only drive consumption but also contribute to tax revenues, civic engagement, and institutional accountability. They tend to invest more in education, healthcare, and entrepreneurship, while also demanding better governance and public services. As such, their decline carries broader consequences beyond economic growth, but also for Indonesia's democratic resilience and social cohesion.

The Job Quality Crisis at the Heart of the Problem

The issue lies not only in the number of jobs created, but in their quality—most new employment lacks the security, wages, and benefits needed to sustain

a middle-class lifestyle. The decline of Indonesia's middle class predates the COVID-19 pandemic, with data indicating that middle-class employment has been in decline since 2018. While overall unemployment remained stable, the nature of available jobs has shifted toward insecure, low-benefit, and low-wage work, undermining the socioeconomic stability required for middle-class status. This trend reveals a deeper structural weakness in the labor market: the economy is increasingly unable to produce formal, well-compensated jobs that enable upward mobility. Without these conditions, households become vulnerable to shocks and risk sliding back into near-poverty. Addressing this crisis requires a shift in policy focus—not just toward more job creation, but toward better job quality that sustains a resilient and growing middle class.

Figure 4. The Share of Middle Class Jobs and Middle Class Population



Source: SUSENAS and SAKERNAS, 2014 – 2024

The Geography of Disappearing Opportunity

Urban Areas Concentrate Middle-Class Growth, Leaving Rural Regions Behind. More than 70% of Indonesia's middle-class households live in urban areas, where infrastructure, job opportunities, and public services are more readily available. These conditions enable upward mobility and economic stability, reinforcing cities as the primary engines of growth. In contrast, rural areas suffer from persistent structural disadvantages from poor connectivity, limited industrial presence, to under-resourced education and health systems. As a result, they fail to support a sustainable or expanding middle class.

Rural-to-Urban Migration Drains Talent and Investment from Lagging Regions. The stark contrast between urban and rural opportunities fuels migration, particularly among young, educated, and economically active individuals. This migration trend leaves rural regions with aging populations, reduced economic dynamism, and declining local consumption. The cycle becomes self-reinforcing: as rural communities lose skilled labor, they become even less attractive for investment or development, accelerating regional disparities and social fragmentation.

The cumulative impact of such rural-to-urban migration is the emergence of an economically bifurcated Indonesia that is often referred to as a 'two-speed' economy. The growing geographic

divide has created a "two-speed" economy where urban centers surge ahead while rural areas stagnate. This imbalance not only hampers inclusive growth but also threatens national cohesion. Without deliberate policy efforts to bridge this development gap through infrastructure investment, quality services, and localized job creation Indonesia risks solidifying economic inequality along geographic lines, ultimately weakening long-term progress and social stability.

The Social Foundation of Middle-Class Life

Indonesia's middle class has distinct social and demographic traits, which are smaller households, higher education levels, and greater investment in children that make its decline especially damaging to national human capital. With fewer dependents, more working-age members, and a strong focus on education and health, middle-class families contribute to long-term stability and productivity. They are more likely to own titled homes, spend on education and healthcare, and enroll children in early education at higher rates than lower-income groups. These factors support upward mobility and societal resilience. But a shrinking middle class risks eroding democratic participation, weakening accountability, and undermining social cohesion. Strengthening this group is essential not just for growth, but for securing Indonesia's development trajectory.

Table 1. Household Member for each Economic Class

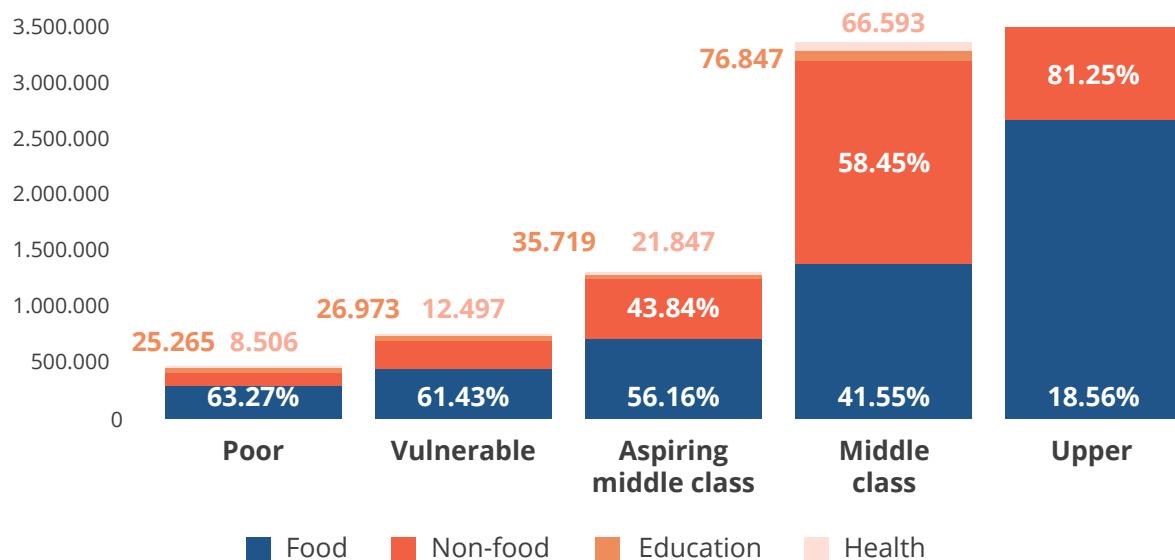
Economic Class	One Generation (%)	Two Generations (%)	Three Generations (%)	Avg. Household Members	Avg. Number of Toddlers	Avg. Productive Age Members (16-64)	Avg. Families per Household	Dependency Ratio
Poor	7.90%	60.15%	31.95%	5.39	0.61	2.83	1.44	0.69
Vulnerable	8.88%	66.89%	24.24%	4.86	0.49	2.77	1.35	0.57
Aspiring Middle Class	13.41%	72.01%	14.57%	4.25	0.34	2.65	1.24	0.42
Middle Class	24.94%	66.96%	8.10%	3.75	0.24	2.41	1.17	0.33
Upper Class	39.08%	57.28%	3.64%	3.4	0.16	2.12	1.14	0.34

Source: Susenas, 2024

Middle Class households invest more in housing, education, and health that build both financial security and future capabilities. Roughly 85% of middle-class households own their homes, with nearly two-thirds holding legal land titles, underscoring their relative economic security. Their consumption patterns show a shift away from subsistence spending—

allocating more income toward education and health. Over 52% of children under 10 in middle-class households attend preschool, and their household heads have above-average years of schooling, pointing to a forward-looking mindset that prioritizes long-term welfare and economic mobility.

Figure 5. Consumption Pattern by Class (IDR /capita /month)



Source: Susenas, 2024

Figure 6. Household Head's Average Years of Schooling by Class



Source: Susenas, 2024

Beyond economics, the middle class plays a crucial role in democratic participation and social cohesion. Research shows that middle class citizens are typically more engaged in civic life, advocating for public accountability and democratic norms. As their numbers decline, the risks include a weakened social contract, reduced political participation, and greater polarization. Research highlights that middle-class erosion not only undermines growth but also threatens Indonesia's democratic resilience and social fabric. Rebuilding this demographic is therefore essential for inclusive and stable national development.

The Choice That Defines Indonesia's Future

Indonesia must rebuild and strengthen its middle class or risk becoming a nation divided between a wealthy elite and a vulnerable majority. Recent global and domestic shocks have hit the aspirational middle segment hardest, threatening decades of progress. A shrinking middle class undermines growth, erodes trust in institutions, and destabilizes democratic norms. International evidence shows that resilient, inclusive societies depend on a strong and secure middle class. However, this group does not emerge organically. It is built through deliberate policies in education, employment, housing, and social protection. Without bold, equity-focused reforms,

Indonesia risks deepening inequality and social fragmentation. Securing the future of the middle class is a necessity for sustained prosperity and national cohesion.

Rebuilding a resilient middle class requires more than job creation but also a strategy focused on better jobs and broader access to opportunity. Reversing the decline of Indonesia's middle class calls for inclusive policies that prioritize job quality, security, and mobility. Key interventions include would include promoting formal employment in productive sectors; expanding universal, portable social protection; strengthening education and vocational pathways; bridging urban-rural opportunity gaps; and securing household assets through homeownership and financial safeguards. These are not aspirational ideals but essential tools for restoring the middle class as a driver of growth, innovation, and democratic stability. Without bold, sustained action, middle-class decline will deepen inequality and derail Indonesia's development goals. The choice is clear: invest now or risk a polarized future.

Recommendations: Expanding the Middle Class

1. Create and Protect Middle-Class Jobs

- Target formal employment creation in sectors with high employment elasticities—such as agro-processing, green industries, healthcare, and logistics. Build on the National Long-Term Development Plan (RPJPN 2025–2045) by making middle-class job creation an explicit development outcome indicator.
- Accelerate implementation of Perpres 68/2022 on Revitalizing Vocational Education by linking vocational training programs with middle-income sectors like logistics, hospitality, and health services.
- Incentivize firms (especially in second-tier cities and rural regions) to formalize employment by offering tax credits, wage subsidies, or simplified compliance for social security enrollment. Use the Job Creation Law (UU Cipta Kerja) as a platform to incentivize firms that provide decent work through targeted tax holidays, reduced labor taxes, or priority in public procurement.
- Establish a national job quality dashboard to monitor wage levels, contract types, and benefits across sectors.

2. Expand Universal and Portable Social Protection

- Move toward universal social insurance, including health, pensions, and job loss protection, regardless of employment status. Scale up the coverage of BPJS Ketenagakerjaan for informal and semi-formal workers, including through partnerships with platform companies, cooperatives, and rural banks.
- Operationalize the National Social Security Council (DJSN)'s roadmap for universal protection by enforcing mandatory registration and simplifying premium contribution options for non-salaried workers. Ensure that informal and self-employed middle-class workers (e.g., household enterprises, freelancers) are covered and can access benefits through simplified contribution schemes.
- Ensure portability of benefits across employment status, locations, and sectors using the Indonesia Single Identity Number (NIK) as an anchor. Also, enforce mandatory registration and enforcement mechanisms through integration between the national ID and tax systems.

3. Invest in Middle-Class Human Capital

- Expand *Kartu Indonesia Pintar* (KIP) Kuliah and reform it to also target students from vulnerable middle-class families who are at risk of falling out of school due to financial stress.
- Provide targeted subsidies for early childhood education (PAUD), secondary and tertiary education, and digital skills training.

- Prioritize public investment in vocational and job-matching services, particularly for middle-class youth facing structural unemployment.
- Leverage Pre-Employment Card (*Kartu Prakerja*) to support mid-career transitions among the middle class, especially in urban service sectors affected by automation.
- Link training programs with private sector apprenticeships, especially in high-growth digital and service sectors.
- Incentivize subnational governments to co-invest in public technical and vocational schools (SMK) through *Dana Alokasi Khusus (DAK Pendidikan)* with a matching grant system.

4. Close the Urban-Rural Opportunity Gap

- Prioritize funding under Presidential Regulation No. 131/2022 on Village Development Acceleration to deliver infrastructure and digital inclusion in second-tier and rural towns.
- Upgrade infrastructure in rural and peri-urban areas—including broadband, electricity, transport—to enable labor mobility and digital employment. Also, expand access to urban-quality health and education services in rural regions.
- Link middle-class employment zones with Industrial Estates (*Kawasan Industri*) and Special Economic Zones (KEK) through spatial planning reform (RTRW) and improved intermodal logistics. Also, establish rural middle-class support zones to anchor investment in jobs and public services where middle-class erosion is most pronounced.
- Expand Desa Digital programs to provide digital livelihoods and e-commerce infrastructure for emerging middle-class entrepreneurs in rural regions.

5. Build and Preserve Middle-Class Assets

- Expand Pendaftaran Tanah Sistematis Lengkap (PTSL) to accelerate land title certification for middle-class households with informal ownership. Protect homeownership through land title formalization, legal support, and anti-eviction policies.
- Design a Middle-Class Housing Support Scheme under BP Tapera (Public Housing Savings Fund) that subsidizes mortgages for first-time urban buyers earning above the poverty line but below the credit threshold. Offer matched savings or tax-deductible accounts for education, health, and pension funds to encourage long-term financial resilience.
- Strengthen OJK's financial consumer protection framework to regulate predatory credit providers targeting aspirational middle-income borrowers. Regulate financial services to reduce predatory lending and protect household savings.

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