

THE CAUSES AND ECONOMIC IMPACTS OF THE 2025 GLOBAL FINANCIAL CRISIS ON INDONESIA

Ni Nyoman Malinie Mahardika

Faculty of Economics, Ganesha University of Education, Indonesia
(malinie@student.undiksha.ac.id)

I Made Pradnyana Paradila

Faculty of Economics, Ganesha University of Education, Indonesia
(made.pradnyana@undiksha.ac.id)

Made Aristia Prayudi

Faculty of Economics, Ganesha University of Education, Indonesia
(prayudi.acc@undiksha.ac.id)

ABSTRACT

This paper meticulously analyzes the projected causes and economic impacts of the 2025 global financial crisis on Indonesia, aiming to provide deeper insight into global economic dynamics and guide Indonesia's preparedness to strengthen its economic resilience. The core problem addressed is the anticipated onset of a significant global financial crisis in 2025, driven by persistent market instability, escalating global debt, and heightened geopolitical tensions, and how these global triggers will specifically manifest and disproportionately affect Indonesia's diverse economic sectors and vulnerable social groups. The novelty of this research lies in its unique forward-looking, country-specific qualitative analysis tailored to a projected future event, integrating established theories of financial instability—such as Kindleberger's cyclical patterns and Minsky's Financial Instability Hypothesis—with an in-depth assessment of Indonesia's particular vulnerabilities and resilience mechanisms, a dimension not adequately explored for this specific future scenario in existing literature. The study employs a qualitative methodological approach, relying primarily on secondary data meticulously gathered from authoritative sources including international financial institutions, national central banks, government ministries, and peer-reviewed academic literature. The collected qualitative data are rigorously analyzed using content and thematic analysis, complemented by comparative and policy analysis to formulate strategic recommendations. The findings indicate that the 2025 crisis will likely stem from asset price bubbles, global debt accumulation, and geopolitical uncertainties, rendering Indonesia susceptible despite demonstrating some macroeconomic resilience, particularly through capital flow reversals and reduced demand for its key exports. The crisis is projected to disproportionately affect the industrial sector, Micro, Small, and Medium Enterprises (MSMEs), and informal workers, potentially leading to widespread business closures, job losses, and exacerbated social inequality, while straining the financial sector with liquidity crunches and testing fiscal resilience. In conclusion, the impending 2025 global financial crisis will have significant and multifaceted impacts on Indonesia, underscoring the imperative for proactive and innovative policy formulation, encompassing strengthened social safety nets, economic diversification, and robust international cooperation, to enhance Indonesia's long-term economic resilience and mitigate severe social and macroeconomic consequences.

Keywords: global financial crisis, Indonesia, economic impact, financial stability, economic resilience.

INTRODUCTION

This study focuses on analysing the causes and impacts of the global financial crisis in Indonesia, which is expected to begin in 2025. The global economic crisis affects many aspects such as economic, social, and political aspects in developing countries. Therefore, it is important for us to understand the factors that will trigger the crisis and how its impact will be felt in Indonesia. The main motivation of this research is to provide deeper insight into the dynamics of the global economy and how Indonesia can prepare for the challenges that will arise. Understanding the causes of the crisis will prepare policymakers to tackle future crises. The research method used is a qualitative method by collecting data from various sources, including economic reports and scientific articles. The findings of this study are expected to contribute to the existing literature on the global financial crisis and its impact on developing countries, including Indonesia. Thus, this article not only serves as a source of information, but is also expected to guide decision-making in strengthening Indonesia's economic resilience in the future.

This article is aimed to analyse the causes and impacts of the global financial crisis in 2025 on the Indonesian economy. It focuses on factors such as market instability, global debt, as well as geopolitical tensions. This research uses qualitative methods to evaluate the potential impact on financial and social stability, as well as to provide policy recommendations to strengthen economic resilience in Indonesia. Understanding the dynamics of this crisis will help stakeholders to strategize for the future.

Problem's Formulation for this article is what are the key predicted determinants of the 2025 global financial crisis, and how will Indonesia's economic positioning in the global financial architecture reduce/increase its susceptibility? How will the transition mechanism of the 2025 global crisis have a differential impact on the industrial sector and the SMEs, the financial sector, and Indonesia's fiscal resilience?, How will susceptible groups (informal workers) be disproportionately affected, and what are the implications for social inequality and macroeconomic stability?, What innovative approaches can governments and stakeholders adopt to mitigate the negative impacts of the 2025 global financial crisis, and how can these strategies contribute to long-term economic recovery?

Research Objectives for Identify and analyse the main factors that predict the 2025 global financial crisis and evaluate Indonesia's economic position in global finance. Analyse the impact of the 2025 global crisis on the industrial sector, MSMEs, finance, and Indonesia's fiscal resilience. Formulate innovative approaches for government and stakeholders to mitigate the negative impact of the crisis and contribute to long-term economic recovery.

This research is expected to be able to enrich the literature on the global financial crisis by providing new insights into the determinants and impact of the crisis, especially in Indonesia. The results can be used to develop a more comprehensive analytical model in predicting future financial crises, as well as contribute to the development of Indonesia's economic resilience theory. This research can provide concrete policy recommendations for the government and stakeholders in formulating strategies against the impact of the financial crisis, thus helping in making better decisions to maintain economic stability. This research can also help industry players and MSMEs in formulating more effective adaptation strategies, and increase resilience to economic shocks.

LITERATURE REVIEW

Theoretical Underpinnings of Global Financial Crisis

The phenomenon of global financial crises has been extensively analyzed across various economic schools of thought. Understanding the theoretical mechanisms behind these crises is paramount to predicting and mitigating their future occurrence.

Kindleberger's "Manias, Panics, and Crashes" (1978)

Charles P. Kindleberger's seminal work posits that financial crises are not random events but rather follow a cyclical pattern driven by human psychology and market dynamics. Kindleberger emphasizes the critical role of a lack of an international lender of last resort in exacerbating global crises, as the absence of a global authority to provide liquidity can deepen and prolong financial instability across borders. This theory provides a valuable lens through which to analyze how potential excessive speculation and mounting global debt could precipitate a panic systemic collapse in the projected 2025 crisis.

Minsky's Financial Instability Hypothesis (1986)

Hyman Minsky argues that financial instability is an inherent feature of capitalist economies, particularly during periods of prolonged stability. As an economy transitions from hedge to speculative and then to Ponzi financing, the financial system becomes increasingly fragile. A minor shock can then trigger a wave of defaults and a systemic crisis. Minsky's framework is crucial for understanding how the accumulation of global debt and the increasing reliance on risky financing structures could contribute to the fragility of the international financial system leading up to 2025.

Theories of Currency Crises (Krugman, Obstfeld)

First-Generation Models (Krugman, 1979): Focus on inconsistent macroeconomic policies (e.g., persistent fiscal deficits financed by money creation) that deplete foreign reserves and inevitably lead to a speculative attack and currency devaluation.

Second-Generation Models (Obstfeld, 1994): Emphasize the role of self-fulfilling prophecies and multiple equilibria, where a currency crisis can occur even with sound fundamentals if market participants collectively believe it will happen, leading to a speculative attack. While primarily focused on currency, these theories are relevant as currency crises often precede or accompany broader financial crises, impacting trade, capital flows, and overall economic stability.

Impact of Global Financial Crises on Developing Countries: The Case of Indonesia

Developing countries, like Indonesia often experience global financial crises differently due to their unique economic structures and vulnerabilities.

Transmission Channels of Crisis

Characterized by capital outflows (sudden stops), reduced foreign direct investment, tightening of international credit markets, and increased borrowing costs. Manifests as a decline in global demand for exports, a fall in commodity prices and disruptions to global supply chains. A general loss of investor and consumer confidence can lead to reduced spending and investment, exacerbating economic contraction.

Indonesia's Specific Vulnerabilities and Resilience

How Indonesia's integration into the global financial architecture influences its susceptibility to external shocks. This involves assessing factors like foreign exchange reserves, external debt levels, and the stability of its banking sector. The differential effects of the industrial sector, Micro, Small, and Medium Enterprises (MSMEs), the financial sector, and fiscal resilience. The disproportionate impact on susceptible groups, such as informal workers, and the resulting implications for social inequality and macroeconomic stability. This underscores the importance of social safety nets.

Mitigation Strategies and Economic Resilience

The literature also provides insights into effective strategies for mitigating the negative impacts of financial crises and building long-term economic resilience.

Macroprudential Policies

Strengthening banking regulation, implementing capital controls, managing systemic risk, and counter-cyclical capital buffers are crucial for enhancing financial sector stability and preventing excessive risk taking.

Economic Diversification

Reducing over reliance on a single sector or commodity export can cushion the economy against external shocks and provide alternative growth drivers.

Robust Social Safety Nets

Establishing and strengthening social protection programs is vital to protect vulnerable populations and mitigate the social costs of a crisis.

International cooperation and Policy Coordination

The interconnectedness of the global economy, international collaboration in policy formulation, financial assistance, and reform of the global financial architecture is essential for effective crisis management and prevention.

METHOD, DATA, AND ANALYSIS

Research Methodology and Data Nature

The research adopts a qualitative methodological approach, which is particularly well suited for exploring the intricate socio-economic dynamics and generating rich, nuanced understandings of the projected global financial crisis and its specific effects on Indonesia. This approach facilitates a comprehensive examination of underlying factors, interdependencies, and potential policy responses, moving beyond mere statistical correlations to uncover causal mechanisms and contextual specificities. The nature of the data utilized in this study is primarily secondary, derived from a diverse array of authoritative and credible sources.

Data will be meticulously gathered from official economic reports issued by international financial institutions (e.g., IMF, World Bank), national central banks (e.g., Bank Indonesia), and government ministries (e.g., Ministry of Finance, Indonesia). Furthermore, peer-reviewed scientific articles, academic journals, policy briefs, and white papers from reputable think tanks will constitute significant data sources.

The selection process prioritizes relevance, credibility, and timeliness, with a focus on recent publications and data to capture contemporary economic dynamics and projection.

While not involving quantitative measurements in the traditional sense, the study will identify and analyze qualitative indicators and narrative related to market sentiment, financial fragility, debt sustainability, and geopolitical risks. These qualitative measures will inform the assessment of the crisis's potential severity and its specific manifestations in Indonesia.

Research Methodology Elaboration and Data Analysis

The research employs an interpretive qualitative methodology, allowing for a deep understanding of the anticipated crisis's drivers and consequence. This approach is particularly effective for synthesizing diverse expert opinions and theoretical perspectives into a coherent narrative. A qualitative approach is chosen because the study deals with a projected future event (2025 crisis) and its complex, multi-dimensional impacts, which cannot be adequately captured by purely quantitative models alone. It allows for the exploration of nuanced relationship, contextual factor, and policy implication that are critical for strategic decision-making.

The research design is structured to systematically address the problem formulation and research objectives. It involves a phased approach: (1) comprehensive data collection from diverse sources, (2) rigorous qualitative data analysis, and (3) synthesis of findings to formulate policy recommendation. The collected qualitative data will be analyzed using content analysis and thematic analysis. Content analysis will systematically identify key themes, concepts, and arguments within the textual data related to crisis causes and impacts. Thematic analysis will then be applied to identify, analyze, and report patterns across the data, particularly focusing on the differential impacts on various sectors and vulnerable groups. Furthermore, comparative analysis will be utilized to contextualize Indonesia's situations against global trends and historical crisis, while policy analysis will synthesize and evaluate potential mitigation strategies. These methods are widely recognized in qualitative research for their ability to extract meaningful insights from complex textual data.

RESULT AND DISCUSSION

The analysis reveals several key predicted determinants of the 2025 global financial crisis, primarily stemming from persistent market instability, escalating global debt, and heightened geopolitical tension. Specifically, findings indicate a growing fragility in global financial markets characterized by asset price bubbles in certain sectors and increased leverage, echoing the "mania" phase described by Kindleberger (1978). Concurrently the accumulation of sovereign and corporate debt globally, particularly in emerging markets, aligns with Minsky's (1986) Financial Instability Hypothesis, suggesting a shift towards more speculative and potentially Ponzi financing structures that render the system highly vulnerable to external shocks. Geopolitical tension, as highlighted by various policy analyses, are found to exacerbate economic uncertainty, disrupt supply chains, and deter cross-border investments, thereby acting as significant catalysts for a potential crisis. Indonesia's economic positioning, while demonstrating some resilience through prudent macroeconomic management, remains susceptible to these global forces, particularly through capital flow reversals and reduced demand for its key exports.

The discussion further elaborates on the differential impact's mechanisms of the projected crisis on Indonesia. The industrial sector and MSMEs are anticipated to face significant challenges due to disrupted global supply chains, reduced consumer demand, and tightened credit condition, potentially leading to widespread business closures and job losses (Saadi et al, 2025). The financial sector, while generally more regulated post-2008, could still experience liquidity crunches and increased non-performing loans, necessitating robust macroprudential interventions. Fiscal resilience may be strained by declining tax revenues and increased social spending demands, potentially limiting the government's capacity for counter cyclical measures. Crucially, susceptible groups, particularly informal workers, are projected to be disproportionately affected by job displacement and income loss, exacerbating social inequality and posing significant risks to macroeconomics recovery, moving beyond conventional crisis management to build inherent resilience.

CONCLUSION

This study has meticulously analyzed the projected causes and economic impacts of the 2025 global financial crisis on Indonesia, drawing upon a comprehensive review of existing literature and qualitative data analysis. The primary conclusion drawn from this research is that the impending crisis is likely to be driven by a confluence of market instability, escalating global debt, and heightened geopolitical tensions, which collectively create a fragile global economic environment susceptible to significant shocks. These findings align with established theories of financial crises, particularly highlighting the cyclical nature of speculative bubbles and the inherent instability arising from excessive leverage.

The research further concludes that the impacts on Indonesia will be multifaceted and disproportionate across various sectors and social groups. While Indonesia has built some macroeconomic buffers, its industrial sector and MSMEs are particularly vulnerable to global supply chain disruptions and reduced demand. The financial sector faces risks from potential liquidity crunches, and the nation's fiscal resilience may be tested by increased social welfare demands and reduced revenue. Critically, the study concludes that informal workers and other susceptible groups will bear a disproportionately heavy burden, leading to exacerbated social inequality and posing significant threats to overall macroeconomic stability. This underscores the urgent need for targeted social protection mechanisms and adaptive economic policies.

The main take-home message from this research is the imperative for proactive and innovative policy formulation to enhance Indonesia's economic resilience. Beyond traditional macroeconomic stabilization, strategies must encompass strengthening social safety nets, diversifying economic structures, and fostering robust international cooperation. The empirical and theoretical benefits of this research lie in enriching the literature on global financial crises with a forward-looking, country-specific analysis, offering a more comprehensive analytical model for predicting future financial crises. The economic benefits are tangible, providing concrete policy recommendations for the government and stakeholders to formulate effective strategies, thereby aiding in better decision-making to maintain economic stability and foster long-term recovery.

In this section, the author presents brief conclusions from the results of the research with suggestions for advanced researchers or general readers. A conclusion may cover the main points of the paper, but do not replicate the abstract in the conclusion. Authors should explain the empirical and theoretical benefits, the economic benefits, and the existence of any new findings.

IMPLICATION/LIMITATION AND SUGGESTIONS

The findings of this research carry significant implications for policymakers, industry players, and academic researchers. For policymakers, the study provides concrete insights into the predicted determinants and differential impacts of the 2025 global financial crisis on Indonesia. This necessitates the formulation of proactive and adaptive strategies, including strengthening macroprudential regulations, enhancing social safety nets for vulnerable groups, and fostering economic diversification to mitigate external shocks. For industry players and MSMEs, the implications highlight the need for increased resilience through effective adaptation strategies, such as supply chain diversification, digital transformation, and improved access to alternative financing. Academically, this research enriches the existing literature on global financial crises by offering a forward-looking perspective specifically tailored to the Indonesian context, contributing to the development of more comprehensive analytical models for predicting and managing future economic downturns. The empirical and theoretical benefits extend to providing a nuanced understanding of how global economic forces interact with domestic vulnerabilities.

Despite its contributions, this study is subject to certain limitations. Firstly, as the research focuses on a projected crisis (2025), the findings are inherently based on forecasts and qualitative interpretations of current trends, rather than ex-post empirical data. This introduces a degree of uncertainty, as unforeseen events or policy shifts could alter the trajectory of the global economy. Secondly, while the qualitative methodology allowed for in-depth exploration, it inherently limits the generalizability of findings in a statistical sense. The reliance on secondary data, while extensive, means the analysis is constrained by the availability and scope of existing reports and academic literature. Lastly, the study's focus on Indonesia, while providing valuable country-specific insights, means that direct applicability to other developing nations may require further contextualization. These limitations are not indicative of error but rather stem from the inherent challenges of forecasting complex economic phenomena and the chosen methodological approach.

Based on these limitations and the insights gained, several suggestions for advanced researchers emerge. Future research could benefit from incorporating quantitative modeling techniques, such as dynamic stochastic general equilibrium (DSGE) models or stress testing scenarios, to complement the qualitative findings and provide more precise estimations of potential impacts. Longitudinal studies tracking the evolution of global economic indicators and Indonesia's policy responses as 2025 approaches would also be invaluable. Furthermore, comparative studies analyzing the preparedness and resilience strategies of other emerging economies in Southeast Asia could offer broader policy lessons. Finally, research focusing on the effectiveness of specific policy interventions (e.g., targeted fiscal stimuli, digital literacy programs for MSMEs) in mitigating crisis impacts would provide actionable insights for future crisis management.

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