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MBG Boosts 1Q26 Growth, but at the Cost of Rising Fiscal Risks

Indonesia's economy delivered a convincing beat in 1Q26, growing 5.61% YoY (Cons: 5.30% YoY, KBVS: 5.09% YoY , Prev: 5.39% YoY) **while contracting only -0.77% QoQ** (Cons: -0.97% QoQ, KBVS: -1.26% QoQ, Prev: 0.86% QoQ), **marking the strongest first-quarter performance since 1Q24 and a clear acceleration from 4Q25.** In nominal terms, GDP reached IDR6,187.2 tn (ADHB), equivalent to IDR3,447.7 tn in constant prices (ADHK). The upside surprise was broad-based and signals that domestic demand remains firmly in the driver's seat, supported by a combination of seasonal factors and policy support.

This strength is most evident on the expenditure side, where government consumption surged 21.81% YoY (Prev: 3.25% YoY), acting as the primary catalyst behind the upside print. The spike reflects a front-loaded fiscal stance, largely tied to social assistance disbursement and the rollout of the Makan Bergizi Gratis (MBG) program alongside Ramadan-related spending. Assuming the MBG allocation reaches roughly IDR400 tn for 2026 (early indicative scale), this would amount to around 6.5% of nominal GDP, an unusually large fiscal injection by historical standards. Even with a conservative fiscal multiplier of 0.3–0.5x based on IMF and World Bank estimates, the program alone could contribute around 2.0–3.0% to GDP through direct consumption support and spillovers to food supply chains, logistics, and informal sector activity. However, this also raises fiscal sustainability questions, as such a large and recurring program risks widening the fiscal deficit and increasing financing needs, particularly if revenue mobilization remains weak.

Household consumption, while less explosive, remained the backbone of growth at 5.52% YoY (Prev: 5.11% YoY), benefiting from stable employment conditions and reinforced by government transfers. Investment (GFCF) also held steady at 5.96% YoY, indicating that private sector confidence remains intact amid supportive demand conditions. That said, the external sector continued to underperform: exports grew only 0.90% YoY (Prev: 3.57% YoY), while imports accelerated 7.18% YoY (Prev: 3.96% YoY), resulting in a net trade drag and signaling that domestic demand strength is increasingly leaking into imports.

On the production side, the narrative is consistent with the demand story, services sectors led the expansion, amplified by Ramadan and Lebaran effects. Accommodation & Food Services surged 13.14% YoY, followed by Transportation & Warehousing at 8.04% YoY and Other Services at 9.91% YoY, all reflecting strong mobility or "mudik" and tourism-related activity. Trade grew 6.26% YoY, while Manufacturing, still the largest contributor, expanded a steady 5.04% YoY. In contrast, Mining contracted -2.14% YoY amid commodity price softness and production constraints, while Electricity & Gas slipped -0.99% YoY, partly due to base effects from last year's subsidy adjustments.

Regionally, growth remains heavily concentrated in Java (57.24% of GDP), followed by Sumatra (22.08% of GDP), but the fastest expansion came from Bali & Nusa Tenggara at 7.93% YoY, driven by tourism recovery. Sulawesi also posted strong growth at 6.95% YoY, while Kalimantan lagged at 4.08% YoY, reflecting its exposure to the weakening mining sector. This divergence reinforces the view that Indonesia's current growth cycle is being driven more by consumption and services rather than commodity-based expansion.

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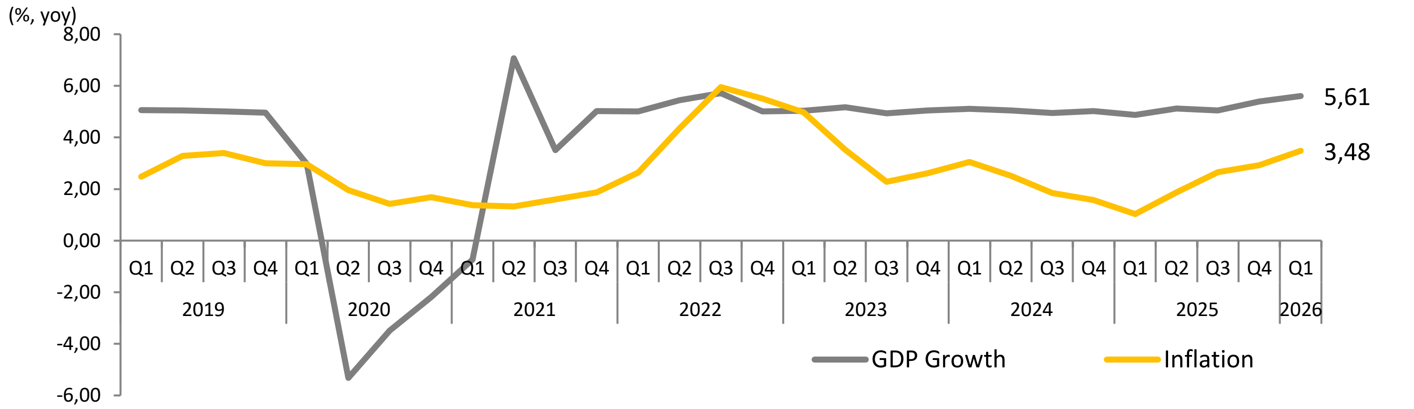
Outlook

Looking ahead, the near-term outlook remains constructive but increasingly complex. On one hand, fiscal support, particularly through MBG and continued social transfers, should sustain household consumption into 2Q26–3Q26, while services momentum is likely to remain strong alongside normalized mobility and tourism flows. On the other hand, rising inflation pressures, partly from base effects and stronger demand, could begin to erode real purchasing power, limiting the durability of consumption-led growth.

At the same time, external vulnerabilities are becoming more visible. The widening gap between weak export growth and strong imports points to a narrowing trade surplus, which could translate into current account pressure and trigger capital outflows, evidenced by foreign net sell of IDR30.39 tn in SBN as of 1Q26. This dynamic, compounded by still-elevated global yields and a stronger USD environment, increases the likelihood of sustained portfolio outflows and has already begun to exert depreciation pressure on the rupiah. As external balances weaken and global financial conditions remain tight, the currency is likely to stay under pressure in the near term.

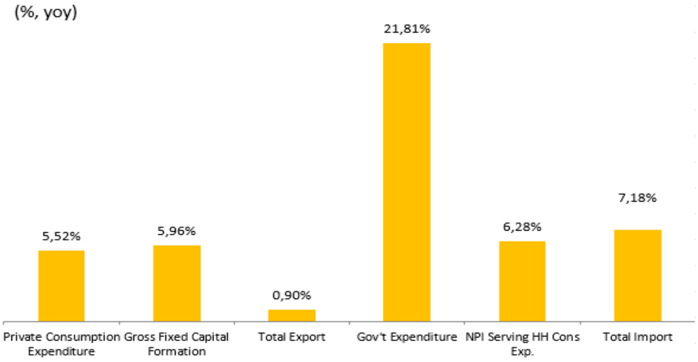
Coupled with the risk of a wider fiscal deficit from large-scale programs like MBG, this raises the prospect of higher sovereign risk premiums, especially in light of the recent negative outlook revision. In this context, while the 1Q26 GDP print is undeniably strong, the balance of risks suggests a potential moderation in growth momentum going forward, with macro stability, particularly inflation, fiscal discipline, and external balance, becoming increasingly critical.

Fig 1. Indonesia's Economic Growth & Inflation



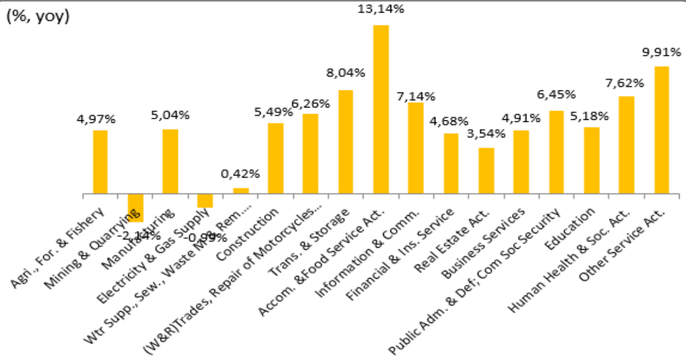
Sources: BPS, KBVS Research – treated (2026)

Fig 2. GDP Based On Expenditure on 1Q26



Sources: Bloomberg, KBVS Research – treated (2026)

Fig 3. GDP Based On Industrial Origin on 1Q26



Sources: Bloomberg, KBVS Research – treated (2026)

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Table 1. Indonesia's GDP at Current Price and at Constant Price (2010) – in IDR TN

Types	Current Price			Constant Price (2010)		
	1Q25	2025	1Q26	1Q25	2025	1Q26
Based On Expenditure						
Private Consumption Expenditure	3.220,00	12.834,80	3.363,07	1.786,70	7.145,80	1.838,23
Gross Fixed Capital Formation	1.762,80	6.852,60	1.750,54	1.084,80	4.205,40	1.037,67
Total Export	1.432,40	5.442,30	1.312,75	870,80	3.325,00	782,90
Total Import	1.222,30	4.894,00	1.255,24	677,80	2.708,80	665,93
Government Consumption Expenditure	434,80	1.794,30	415,61	237,90	982,00	229,22
NPI Serving Household Consumption Expenditure	78,10	321,50	86,80	44,00	182,00	48,13
Changes in Inventories	102,50	441,10	216,27	49,60	214,20	103,96
Based On Industrial Origin						
Manufacturing	1.160,60	4.541,50	1.179,62	704,60	2.757,60	701,28
Agri., For. & Fishery	869,40	3.120,50	783,62	424,00	1.542,40	379,49
(W&R)Trades, Repair of Motorcycles & MC	799,10	3.136,60	821,40	451,20	1.775,00	454,86
Mining & Quarrying	515,60	2.048,60	537,79	237,20	948,90	226,39
Construction	595,00	2.340,90	607,13	333,60	1.311,00	331,08
Transportation & Storage	369,90	1.466,30	378,25	166,70	656,00	167,17
Information & Comm.	266,60	1.048,70	273,56	238,80	940,90	243,57
Financial & Ins. Service	237,90	979,70	260,02	130,80	540,30	140,68
Education	166,10	666,90	170,40	97,60	390,90	97,65
Public Adm. & Def; Com Soc Security	156,20	715,10	208,30	92,10	419,00	118,25
Accom. &Food Service Act.	162,60	639,00	172,68	113,10	445,80	119,37
Real Estate Act.	138,40	534,80	139,99	92,10	365,10	92,88
Other Service Act.	125,60	508,90	136,35	72,10	293,20	77,01
Business Services	138,40	471,70	122,04	92,10	274,40	69,64
Human Health & Soc. Act.	75,90	299,70	76,74	48,90	192,90	48,72
Electricity & Gas Supply	60,80	238,70	58,92	35,20	138,80	33,96
Wtr Supp., Sew., Waste M & Rem. Activities	3,80	14,90	3,80	2,80	11,00	2,73
Indonesia's GDP	**6.060,00**	**23.821,10**	**6.187,16**	**3.444,80**	**13.580,50**	**3.447,68**

Sources: BPS, KBVS Research - treated (2026)

Table 2. Population Mobility

	Eid al-Fitr 2025	Eid al-Fitr 2026	Growth (%)
Population mobility (person)	146.67 mn	147.55 mn	2,53%
Public transportation user	21.23 mn	23.54 mn	10,87%
Land-based transport user	3.49 mn	3.89 mn	11,64%
Train passenger	6.64 mn	7.31 mn	10,13%
Maritime transport user	1.84 mn	2.02 mn	9,86%
Air transport user	4.47 mn	4.77 mn	6,97%
Ferry services user	4.79 mn	5.52 mn	15,36%
Private vehicles entering and exiting Jakarta	6.18 mn	6.23 mn	0,81%
Road traffic accident	3.75k	3.52k	-6,31%
Average vehicle speed on toll road	71.8 km/hr	81.60 km/hr	13,65%

*Population mobility: individual movement based on mobile positioning data

Sources: BPS, KBVS Research - treated (2026)

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