

## Macro Review – Indonesia 1Q26 GDP

# GDP STRONG AT 5.61% BUT RUPIAH UNDER PRESSURE, GROWTH DRIVEN BY FISCAL PUSH YET NOT BROAD-BASED IN THE REAL ECONOMY

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JCI closed higher by 85 pts / +1.22%, reclaiming the 7,000 level (at 7,057), although foreign investors still recorded a net sell of IDR 318 billion, following Indonesia's 1Q26 GDP growth of 5.61% YoY which exceeded market expectations. However, the composition of growth indicates a strong reliance on fiscal stimulus and government-led programs. Household consumption remains the main driver, but the sharp rise in government spending by 21.81% YoY became the key differentiator versus last year, supported by accelerated state spending, THR distribution, and large-scale rollout of priority programs.

**One of the most aggressive drivers comes from the MBG program, which statistically generated a significant surge in economic activity.** Within one year, the scale expanded drastically from 900 kitchens in 1Q25 to 26,066 kitchens in 1Q26, with production volume rising from 2.5 million to 60 million portions per day. The workforce increased from 45,000 to 1.3 million people, while daily cash circulation jumped from IDR 37.5 billion to around IDR 900 billion, reflecting an expansion of more than +2,400% YoY. However, the economic impact remains highly concentrated within specific supply chains, and therefore has yet to fully translate into broad-based purchasing power improvement across the population.

**On the investment side, Gross Fixed Capital Formation (GFCF) grew by 5.96% YoY, supported by early-stage downstreaming projects and large investments such as DANANTARA.** In 1Q26, a total of 13 downstreaming projects entered the groundbreaking phase since 06 February 2026, with an investment value of around USD 7 billion (approximately IDR 120 trillion), although direct job absorption remains limited at around 6,000 workers. This suggests that while contributions to GDP have been recorded in accounting terms, the multiplier effect on the real economy is still in its early phase and not yet fully felt.

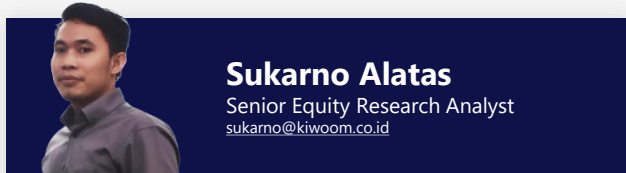
**In addition, various other government priority programs have also entered the physical development phase.** Around 30,000 Merah Putih Village Cooperative outlets, 35 fishing villages, 4 Garuda Schools, and 93 permanent People's Schools have moved into construction during 1Q26, boosting activity in the construction sector but still reflecting early-stage development rather than fully productive output.

Meanwhile, the mining sector contracted by -2.14% YoY, indicating production-side pressures stemming from RKAB restrictions, downstream policy transition, as well as export levies that have prompted companies to limit production volumes. This highlights that export-based sectors have not optimally contributed to growth this time, even as commodity prices begin to show a bullish trend.

The pressure on Rupiah, weakening into the 17,400 / USD range, further confirms that markets are looking beyond headline GDP figures. Import growth reached +7.18% YoY, significantly outpacing exports at only +0.90% YoY, indicating that current economic expansion is also increasing demand for foreign currency and intensifying external pressures.

**KIWOOM RESEARCH** views this condition as “growth without depth”, where growth appears strong in numbers but lacks quality and sustainability. Real validation of the “economic growth and welfare” narrative must be reflected in tangible indicators such as rising real wages, declining poverty and unemployment, as well as strengthening non-subsidized consumption and lower-income household savings. From a market perspective, the most critical proof is the return of *FOREIGN INFLOW INTO GOVERNMENT BONDS (SBN) AND EQUITIES (FYI, cumulative foreign net sell YTD stands at IDR 46.5 trillion)* alongside improvements in the external balance. **Without improvement in these indicators, the 5.61% figure is more appropriately interpreted as stimulus-driven and early-stage project-based growth, rather than broad and sustainable welfare improvement.**

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