

Headline Growth, Uneven Transmission: Reassessing Indonesia's Q1 2026 Expansion in a Volatile Geopolitical Economy

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ABSTRACT

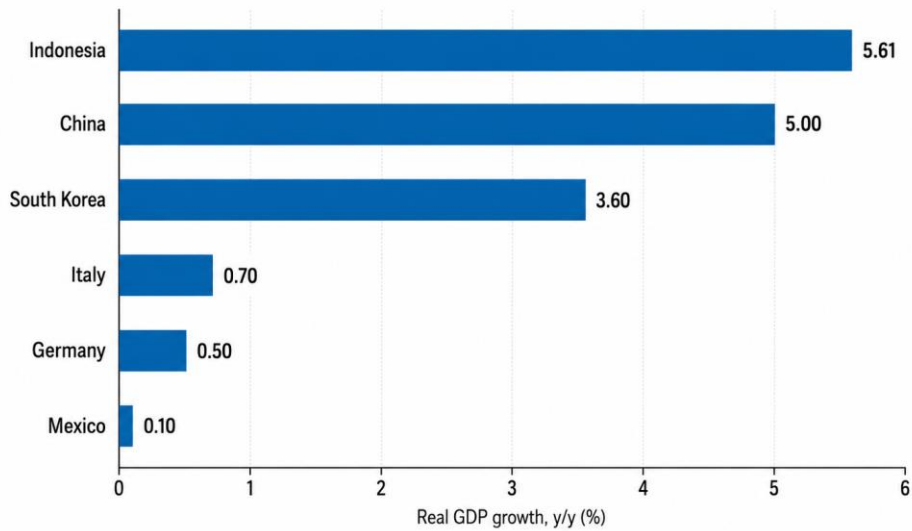
Indonesia's economy grew 5.61 percent year-on-year in the first quarter of 2026, yet the same quarter also showed a 0.77 percent contraction relative to the preceding quarter. This article examines the factors behind that mixed picture and asks whether Indonesia's Q1 2026 growth should be considered healthy, sustainable, and broadly felt by the population. The article uses a qualitative literature review approach rather than a systematic review, combining official primary sources from BPS, Bank Indonesia, the Ministry of Finance, the IMF, and the World Bank with recent scholarly literature. The analysis finds that the quarter's growth was supported by four principal forces: resilient household demand around the Eid-al-Fitr season, strong growth in government consumption and early fiscal execution, still-solid investment—especially in building-related activity—and relative external resilience despite war-driven global commodity shocks. However, the composition of growth also reveals limitations. The year-on-year acceleration was only partly structural; it was also supported by timing effects, base effects, and public-demand impulses that may not persist. Moreover, recent wage, poverty, and informality indicators suggest that the gains were real but unevenly transmitted across households and regions. The article concludes that Indonesia's Q1 2026 growth was genuine and broadly macro-stable, but only conditionally sustainable and only partially inclusive. A stronger transition from demand-led momentum to productivity-led, job-rich, and regionally broader growth remains necessary for the next stage of development.

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INTRODUCTION

Indonesia entered 2026 with a macroeconomic story that was at once encouraging and incomplete. The official BPS release for the first quarter reported **5.61 percent year-on-year GDP growth**, an acceleration from the **4.87 percent** recorded in Q1 2025, but it also reported a **0.77 percent quarter-to-quarter contraction** after Q4 2025. **Indonesia posted the highest Q1 2026 year-on-year real GDP growth among the G20 members for which a comparable official Q1 2026 y/y primary release was identifiable and reviewed by 12 May 2026**. In the set reviewed for this report, Indonesia's 5.61% exceeded China's 5.0%, South Korea's 3.6%, Italy's 0.7%, Germany's 0.5%, and Mexico's 0.1% as illustrated in Figure 1 [1].

Indonesia's Q1 2026 real GDP growth was the highest among the G20 members for which comparable official year-on-year Q1 releases were reviewed by 12 May 2026

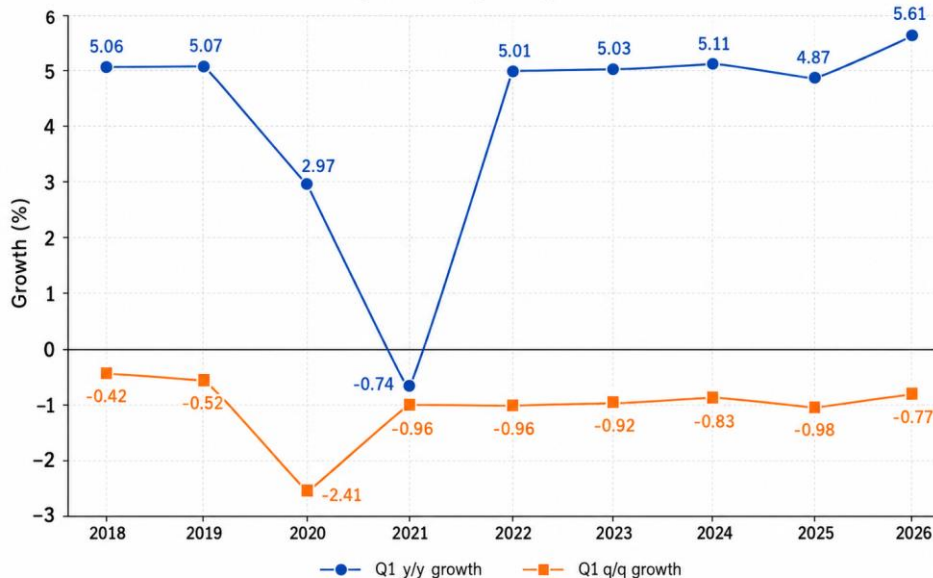


Source: Official national statistics releases cited in the attached article.

Figure 1. Indonesia's Q1 2026 real GDP growth was the highest among the G20 members for which comparable official year-on-year Q1 releases were reviewed by 12 May 2026.

On the production side, **Accommodation and Food Service Activities** recorded the fastest year-on-year growth at **13.14 percent**, while on the expenditure side, **General Government Final Consumption Expenditure** grew by **21.81 percent**, the fastest among expenditure components. BPS also noted that the provinces on Java still accounted for **57.24 percent** of the national economy and grew by **5.79 percent** year-on-year, highlighting the continuing centrality of Java to national output [1], [2].

Indonesia's first quarter is seasonally weak q/q even when year-on-year growth is firm



Source: BPS official Q1 GDP releases, 2018-2026.

Figure 2. Indonesia's first quarter typically weakens sequentially, even when annual growth remains solid

These facts matter for two reasons. First, they suggest that the quarter cannot be understood through a single GDP figure. As illustrated in Figure 2, the year-on-year number is strong, but the quarter-to-quarter reading is weaker, and the two strongest visible supports were consumer-facing services and public consumption. This makes the composition of growth analytically critical. Second, the Q1 2026 episode occurred in a global environment shaped by a war in the Middle East, large disruptions in commodity

markets, slower global growth, and heightened uncertainty about financial flows and inflation. In other words, the quarter must be read as a domestic-growth episode unfolding inside an external stress event, not as a routine quarterly expansion [3], [4], [5], [6]. There is also a specifically Indonesian policy context. Bank Indonesia held the **BI-Rate at 4.75 percent** in April 2026 and explained that its policy mix sought to support growth and stabilize the rupiah amid worsening global conditions. BI also assessed that Q1 growth was supported by stronger household consumption during the Eid-ul-Fitr period, higher government spending associated with THR (Religious Festive Allowance) disbursements, social spending, and other incentives, and solid investment in building tied to priority programs. The Ministry of Finance, for its part, reported that by the end of March 2026, state revenue had risen **10.5 percent**, tax revenue **14.3 percent**, and expenditure **31.4 percent**, while the fiscal deficit remained **0.93 percent of GDP**, suggesting that early fiscal execution materially supported domestic demand [4], [7].

That macro resilience, however, does not automatically settle the question of whether the growth was healthy or widely felt. The IMF's 2026 Article IV on Indonesia argues that the country's growth record remains impressive, but it also emphasizes that **productivity growth is weak**, the **middle class is shrinking**, and stronger formal private-sector job creation remains essential. This warning is complemented by proximate BPS welfare indicators. The latest retrievable labor release showed unemployment at **4.74 percent** in November 2025 and an average wage of **IDR 3.33 million**, while the latest national poverty release showed **8.25 percent** poverty in September 2025, with rural poverty remaining higher than urban poverty. Inflation, meanwhile, was volatile: BPS recorded **4.76 percent** inflation in February 2026, then eased to **2.42 percent** in April 2026. Such evidence suggests that aggregate growth may coexist with uneven welfare transmission [8], [9], [10], [11], [12], [13].

This article, therefore, asks three questions. What drove Indonesia's Q1 2026 growth? Was that growth healthy and sustainable under the prevailing policy and geopolitical conditions? And was it broadly felt by Indonesians as higher welfare rather than only higher output? Answering these questions requires an approach that can combine official statistical releases, macro-policy interpretation, and recent scholarship in a coherent way. A qualitative literature review is appropriate precisely because the issue is not whether one variable "caused" growth in a narrowly econometric sense, but how multiple drivers and constraints interacted in a historically specific quarter [14].

The article's core argument is that Indonesia's Q1 2026 growth was **real, policy-supported, and not merely cosmetic**, but it was also **mixed in quality**. It was supported by resilient domestic demand, a substantial fiscal push, still-positive investment, and continued external buffering. Yet the same quarter also showed signs that part of the acceleration was temporary, including festive timing, base effects, and reliance on government consumption growth. Moreover, the available wage, poverty, and informality indicators suggest that the welfare benefits, while meaningful, were not uniformly distributed or fully consolidated. The quarter should therefore be read as one of **qualified strength**: stronger than a pessimistic reading would allow, but not yet sufficient to conclude that Indonesia had structurally shifted into a more inclusive and self-sustaining growth pattern [4], [13], [15], [16].

LITERATURE REVIEW

A useful literature review for this topic has to begin by clarifying what is meant by **healthy, sustainable, and broadly felt** growth. In ordinary policy discussion, these terms are often used loosely, but they need sharper contours here. Healthy growth refers to growth that is broad enough and stable enough to avoid relying excessively on one-off demand injections or destabilizing macro conditions. Sustainable growth refers to the likelihood that growth can continue once temporary supports recede, typically depending on productivity, investment quality, institutions, and the capacity of the formal private sector. Broadly felt growth refers to the extent to which GDP expansion is transmitted into real incomes, secure employment, lower poverty, and a wider geographic and social diffusion of gains [8], [16].

That distinction is important because fast GDP growth can coexist with weak social transmission. Indonesia's own medium-run policy debates increasingly revolve around this issue. The IMF's 2026 Article IV report explicitly argues that Indonesia's long period of solid macroeconomic performance has not resolved the problem of weak productivity growth and insufficient formal job creation. Likewise, the recent BIES article *Towards a Higher Growth Path for Indonesia* argues that to reach a meaningfully higher and more durable growth path, Indonesia needs to improve investment, productivity, competitiveness, and institutional quality rather than rely predominantly on macro support or cyclical demand [13], [16].

A second body of literature concerns the determinants of growth in emerging economies that are both domestically large and externally exposed. Several mechanisms recur. In the short run, household consumption and government expenditure can powerfully raise output, especially where domestic absorption is large. In the medium run, however, the quality of investment and the pace of structural transformation become decisive. High growth sustained mainly through public spending or services booms may not translate into better formal employment or productivity growth unless accompanied by stronger productive capacity, industrial upgrading, and institutional reform. This is one reason why recent Indonesian scholarship places so much emphasis on aggregate supply, private investment, and structural reform, rather than treating growth as a purely demand-management problem [16], [17]. A third relevant body of literature examines the interaction between geopolitics and economic performance. Caldara and Iacoviello's work on geopolitical risk demonstrates that adverse geopolitical events are economically consequential because they depress investment, increase uncertainty, and worsen downside risk. That general framework matters in the Indonesian case because Q1

2026 occurred under the shadow of war-related energy shocks and trade fragmentation. The IMF's April 2026 WEO and the World Bank's April 2026 CMO both imply that global conditions in 2026 are not neutral background noise; they are part of the explanatory environment for domestic growth because they shape commodity prices, import costs, exchange rates, capital flows, and inflation expectations [5], [6], [18].

For Indonesia specifically, the geopolitical channel is not only negative. It can also create temporary cushions. Higher prices for some commodities can support terms of trade, export earnings, and fiscal space. In the World Bank's April 2026 baseline, for example, **energy prices rise 24 percent**, metals prices rise, and **palm oil and soybean oil prices are projected to rise by about 8 percent** in 2026. For an economy like Indonesia's—with exposure to energy, metals, and palm-oil-related agricultural exports—those price channels can partly offset external weakness, at least for some sectors and regions. Palm oil is one of the agro-industrial channels through which Indonesia can buffer external shocks, support foreign exchange earnings, and sustain rural economic activity, even though its macro impact is conditioned by logistics, demand, and price volatility [6].

Another essential literature stream concerns the welfare transmission problem. Hapsari et al. argue that informality in Indonesia is a multidimensional development challenge and that it varies significantly across regions, sectors, and worker groups. This matters because growth in aggregate output may not translate into secure gains for households if employment remains informal, low-productivity, and poorly protected. That insight is reinforced by the IMF's emphasis on the need for a more dynamic formal private sector and by BPS's evidence that wage levels, while improving in some respects, remain modest. In such a context, asking whether growth is broadly felt means asking whether it is moving workers into more productive and secure forms of employment or leaving underlying vulnerability largely intact [9], [13], [15].

The literature on fiscal policy is also directly relevant. *Indonesia's Fiscal Policy in the Aftermath of the Pandemic* emphasizes that public spending can stabilize the economy and protect welfare, but it also stresses the importance of medium-run prudence and the difficulty of operating fiscal policy under global turbulence and higher financing costs. This is exactly the tension presented by Q1 2026: public spending appears to have supported growth, but the deeper question is whether that support was catalytic—protecting purchasing power and crowding in activity—or whether it risked making growth too dependent on an early-year public push. The answer is unlikely to be binary. Under current conditions, positive fiscal support is not inherently unhealthy; what matters is whether it preserves credibility while complementing rather than substituting for private and productivity-led drivers [7], [13], [17].

Recent work on monetary transmission deepens that point. The *Journal of Risk and Financial Management* article on the bank lending channel across Indonesian provinces finds evidence that monetary policy transmission differs across regions and operates in part through lending conditions. This matters because a lower policy rate or accommodative macroprudential stance need not translate uniformly into investment, especially where financing structures and regional economic bases differ. Bank Indonesia's own April 2026 release reinforces this point: while it kept the policy rate unchanged, it also used macroprudential incentives and stability tools to keep credit flowing, reported **9.49 percent** credit growth in March 2026 with **20.85 percent** growth in investment loans, and emphasized that liquidity and transmission to the real sector remained key priorities [4], [19].

The literature on inequality and regional distribution also matters, even when not all such studies explicitly focus on 2026. Growth can remain geographically and socially segmented, particularly in archipelagic economies where Java dominates production, finance, and logistics. Evidence on economic zones and local inequality in Indonesia suggests that growth-enhancing interventions do not automatically reduce distributional disparities. This provides a useful caution for the present paper: national-scale growth should not be assumed to imply uniform local welfare gains. The strong role of Java in the Q1 2026 GDP release is therefore not a trivial descriptive note; it is analytically central to whether growth is truly “broadly felt” [1], [3].

Taken together, these literatures imply that the central analytical issue is not whether Q1 2026 growth was “good” or “bad” in the abstract. It is whether the observable mix of drivers—household spending, public demand, investment, external conditions, and sectoral performance—was consistent with a more durable transition toward productivity-led, job-rich, and regionally broader growth. That is the benchmark against which the remainder of this paper evaluates the quarter.

METHODS

This article adopts a **qualitative literature review** design rather than a systematic literature review. The reason is substantive and methodological. Substantively, the paper seeks to interpret a current macroeconomic episode shaped by multiple interacting mechanisms—fiscal execution, seasonal demand, geopolitical shocks, labor-market quality, and commodity prices—rather than to estimate a single causal parameter. Methodologically, a narrative or qualitative review is better suited to integrating official releases, policy documents, and recent scholarship into one coherent analytical argument. This design follows the logic described by Juntunen and Lehenkari, who argue that the narrative literature review can be appropriate when the researcher's task is to generate understanding of a phenomenon through interpretive synthesis rather than exhaustive mapping alone [14].

The review corpus was constructed around two source tiers. The first tier consists of **primary official materials**: BPS's Q1 2026 GDP release, BPS labor, poverty, and inflation releases, Bank Indonesia's April 2026 policy release, the Ministry of Finance's March 2026 APBN realization commentary, the IMF's April 2026 WEO and January 2026 Indonesia Article IV materials, and the World Bank's April 2026 Commodity Markets Outlook. The second tier consists of **recent scholarship since 2020**, especially work

on growth quality, fiscal policy, geopolitical risk, informality, and monetary transmission. which were also used to shape questions about expenditure decomposition, sectoral breadth, timing effects, and base effects [1], [4], [5], [6], [7], [13].

The analysis proceeded through thematic coding. First, a set of **deductive codes** was derived from theory and current policy debates: household demand, fiscal impulse, investment quality, external resilience, service-led growth, structural transformation, inflation, informality, and welfare transmission. Second, **inductive codes** were added from the Q1 2026 material itself. These included festive-season timing, THR-related demand, low-base effects, public-expenditure front-loading, and the distinction between year-on-year and quarter-to-quarter performance. Third, these codes were grouped into three larger evaluative clusters: **health, sustainability, and inclusivity**. The article’s interpretation was then built by triangulating evidence within and across these clusters [14], [15].

This design also uses official statistical indicators in a specific way. The paper does **not** attempt a formal econometric decomposition of growth contributions. Instead, it uses BPS, BI, and MoF indicators as contextual anchors inside a qualitative argument. Quarterly GDP, inflation, credit, reserves, wages, and poverty are treated as markers of qualitative patterns rather than as inputs into a regression model. This is appropriate because the paper’s central claims are comparative and interpretive: whether the quarter appears consumption-led, state-supported, vulnerable to geopolitics, or weakly transmitted into household welfare. Such claims are strongest when the statistics are embedded in a broader analytical narrative rather than isolated as standalone numbers [4], [13].

There are limits to this approach. Some welfare variables lag the GDP release. The latest officially retrieved labor and poverty releases refer to late 2025 rather than Q1 2026 itself, although the literature suggests relevant 2026 updates. Moreover, because the analysis is qualitative, it can establish plausible judgments about the composition and transmission of growth without pretending to offer precise coefficient-based causal weights. These are acceptable limits so long as they are stated clearly, and so long as the paper remains disciplined about distinguishing established facts, strong inferences, and provisional hypotheses.

RESULTS

The first major finding is that **household consumption remained a central anchor of Q1 2026 growth**, but the form of that support matters. Bank Indonesia explicitly states that household consumption strengthened because of greater confidence, maintained incomes, and a seasonal rise in demand associated with the Eid al-Fitr holiday. This means that some of the quarter’s strength was rooted in real domestic absorption, not just accounting artifacts. Yet it also means that part of the support was timing-sensitive. A qualitative reading should therefore treat household demand as both real and partly cyclical: genuine enough to sustain output in Q1, but not automatically proof of a lasting consumption upswing through the rest of the year [4], [20], [21], [22], [23].

As illustrated in Figure 3, BPS’s GDP release indirectly supports that interpretation. The fastest-growing production-side category was **Accommodation and Food Service Activities**, a sector strongly exposed to festive travel, mobility, services demand, and household spending. That is consistent with a quarter in which consumption-linked services did substantial work. The sector-side matrix likewise suggests that the quarter’s liveliest momentum was concentrated in services more closely connected to consumption and mobility than to heavy industry or extractive activity. This does not diminish the reality of the growth; rather, it clarifies the type of growth that occurred [1], [24], [25].

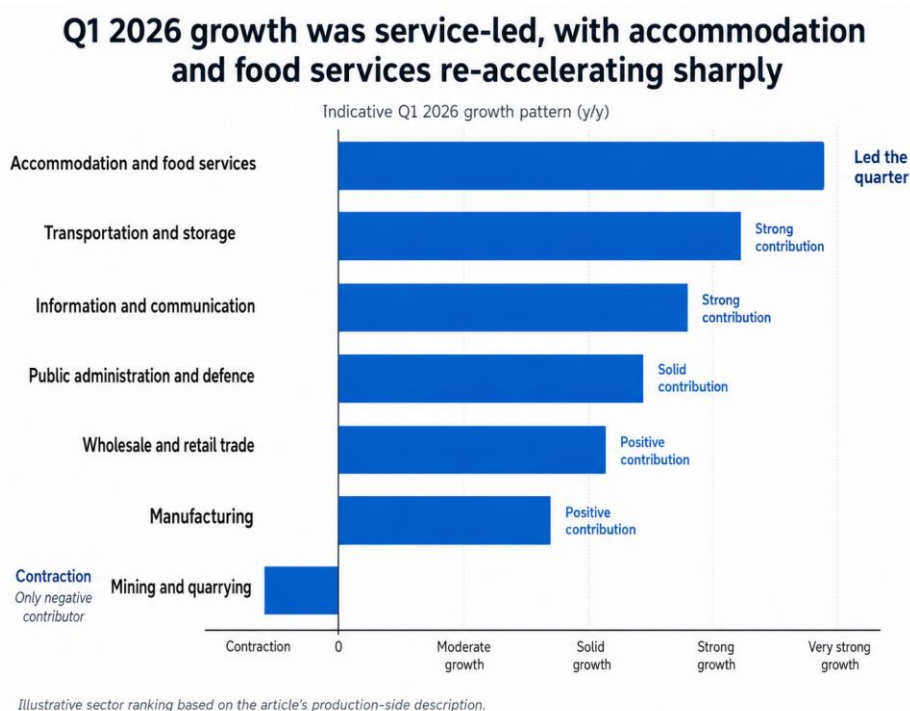


Figure 3. Q1 2026 was led by accommodation, transport, ICT, public administration, and trade

At the same time, as illustrated in Figure 4, the consumption story cannot be detached from inflation and wages. BPS recorded **4.76 percent** inflation in February 2026 and **2.42 percent** in April 2026, while BI reported **3.48 percent** inflation in March 2026 and described the earlier spike partly as a base-effect issue tied to electricity tariff normalization after the previous year’s tariff discounts [26], [27], [28].

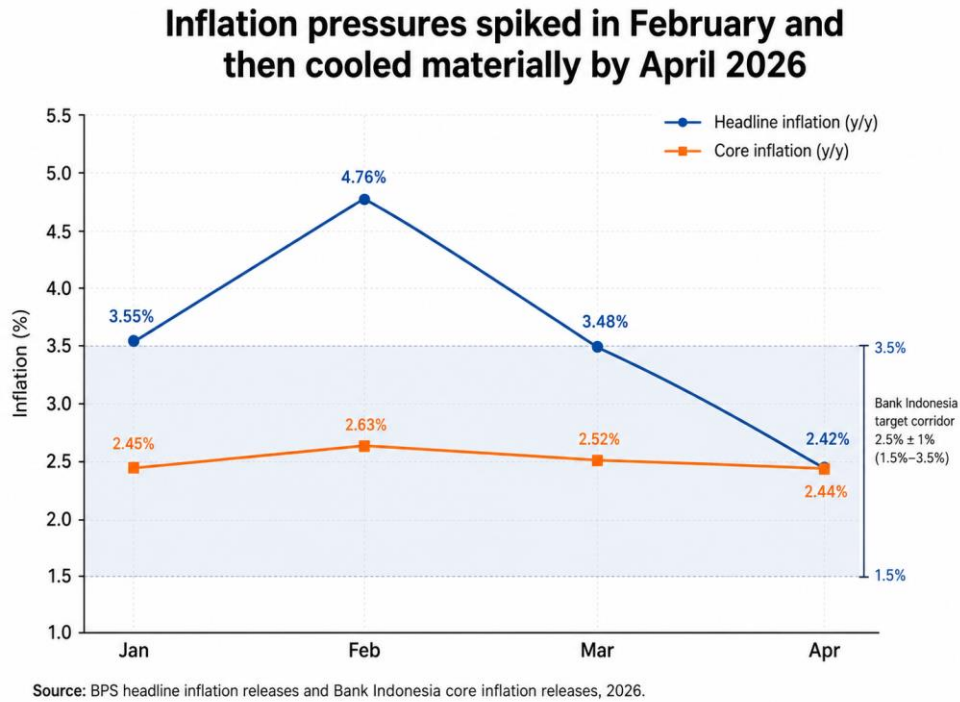


Figure 4. Inflation pressures spiked in February and then cooled materially by April 2026

This means that the quarter saw some pressure on real purchasing power early on, but that pressure eased materially by the time the GDP release was published. The result is a nuanced reading: household demand in Q1 2026 was supported by both nominal spending and an improving inflation trajectory, but it would be premature to conclude that purchasing power had strengthened uniformly across all social groups [4], [11], [12].

Demand composition shifted decisively toward fiscal and investment support in Q1 2026

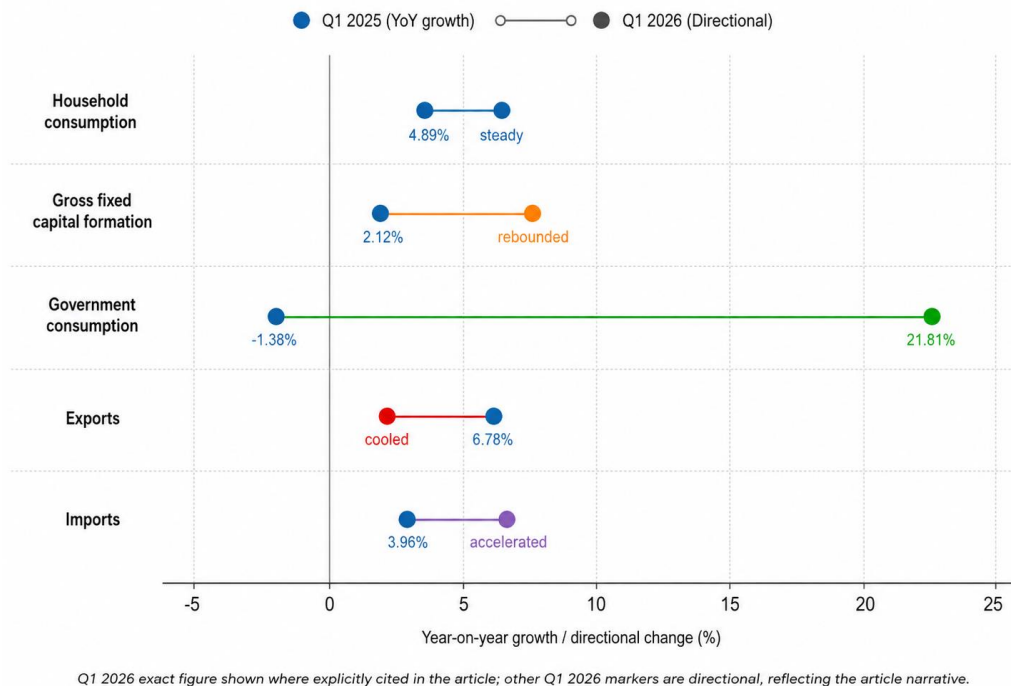


Figure 5. Q1 2026 growth leaned unusually heavily on government consumption and stronger investment

The second major finding is that **government expenditure played an unusually visible role** in the quarter, as illustrated in Figure 5. BPS shows that the fastest-growing expenditure component was **General Government Final Consumption Expenditure**, at **21.81 percent year-on-year**. The Ministry of Finance further reports that state expenditure had grown **31.4 percent** by the end of March 2026, far outpacing the comparable period a year earlier. This acceleration was not abstract. The Ministry highlights support measures, including transport discounts, **THR payments totaling IDR 51.6 trillion, food assistance, and food-security-related spending**, while **BI notes that government spending rose, with THR, social outlays, incentives, and regional transfer disbursements**. Read together, the evidence indicates that the state was an active engine of domestic demand in Q1 2026 [1], [4], [7].

It shows that household consumption remained steady but not spectacular, gross fixed capital formation rebounded sharply, government consumption jumped from a contraction in Q1 2025 to 21.81% y/y in Q1 2026, exports slowed, and imports accelerated alongside domestic demand. Q1 2026 was not just “consumption-led,” but visibly supported by an unusually strong fiscal impulse and stronger investment [29].

This fiscal role should not be interpreted reductively. A large public contribution does not automatically mean the quarter’s growth was unhealthy. In the face of war-related external shocks and slower global growth, a timely fiscal impulse can stabilize household demand, prevent an abrupt slowdown, and crowd in private activity by preserving confidence. The more relevant question is whether the fiscal impulse was **supportive and catalytic** or whether it made the quarter excessively dependent on public outlays that cannot be sustained. The Ministry of Finance argues that early spending was part of a strategy to distribute APBN benefits more evenly across the year, while still keeping the deficit under the 3 percent rule; the IMF, however, cautions generally that durable and high-quality growth requires buffers, guardrails, and structural reform. The quarter thus presents an example of what might be called **disciplined expansionary support**: not obviously imprudent, but not, by itself, sufficient as a long-run growth strategy [7], [13], [17].

The third major finding is that **investment remained supportive**, though again, the composition matters. BI reported that Q1 investment, “particularly building investment,” remained solid, driven in part by the acceleration of priority programs. It also reported that overall credit growth reached **9.49 percent year-on-year in March 2026**, while **investment loans grew 20.85 percent**—substantially faster than working-capital and consumer loans. These are meaningful signs of continued fixed-capital formation rather than pure consumption-led expansion. The expenditure decomposition also indicates that gross fixed capital formation remained a major structural block of demand in the quarter, even if government consumption was the fastest-growing marginal component. This combination suggests that Q1 2026 growth was not purely a services-and-transfers story; investment support was present as well, albeit with a visible bias toward building [4].

Still, the distinction between **building investment** and broader productivity-enhancing investment remains important. Construction-heavy investment can sustain short-run output and employment, but it does not always generate the same future productivity gains as machinery, technology, logistics, and organizational upgrading. That is precisely why recent scholarship on Indonesia’s medium-run prospects emphasizes improving investment quality, competitiveness, and institutional support for private-sector productivity. The article *Towards a Higher Growth Path for Indonesia* is especially useful here: it implies that the real test of sustainability is not whether investment occurred in Q1 2026, but whether Indonesia continues to shift investment toward forms that raise long-run capacity and job quality [4], [16].

The fourth major finding is that **the external sector was both a support and a source of vulnerability**. The Ministry of Finance argues that Indonesia’s external resilience remained intact, noting a January–March 2026 trade picture of **US\$66.84 billion** in exports and **US\$61.30 billion** in imports, together with some return of foreign capital into SBN and SRBI instruments. Bank Indonesia likewise reports that the trade balance in January–February 2026 remained in surplus, international reserves stood at **US\$148.2 billion** at the end of March, and the current account deficit for 2026 was projected to be within a manageable **0.5–1.3 percent of GDP** range. Those figures support the claim that Indonesia entered the geopolitical shock with meaningful external buffers [4], [7], [16].

Yet the same official sources emphasize that external conditions had deteriorated materially. BI stated that the war in the Middle East had sharply increased oil and commodity prices, delayed or reduced the expected scope of global monetary easing, and pushed investors toward safe-haven assets. It also reported net portfolio outflows of **US\$1.7 billion** during January–March 2026, followed by some recovery in early Q2. The IMF’s WEO and the World Bank’s CMO reinforce that risk picture. The World Bank’s baseline projects a **24 percent increase** in the energy price index in 2026, a broader rise in commodity prices, and materially higher Brent oil prices. The implication is straightforward: Indonesia’s external sector helped prevent a more fragile quarter, but it did not eliminate vulnerability. The country still faced import costs and exchange rate pressures, as well as uncertainty in global demand and capital flows [4], [5], [6].

The World Bank’s April 2026 commodity outlook states that conflict-related price pressures on food are expected to be most pronounced for oils and meals, and explicitly notes that **palm oil and soybean oil prices are both projected to rise by 8 percent in 2026**. For Indonesia, that matters not only as an export issue but also as a rural-income and agro-industrial issue. Palm oil can provide an important earnings and livelihood buffer when global energy and logistics pressures are otherwise weakening external

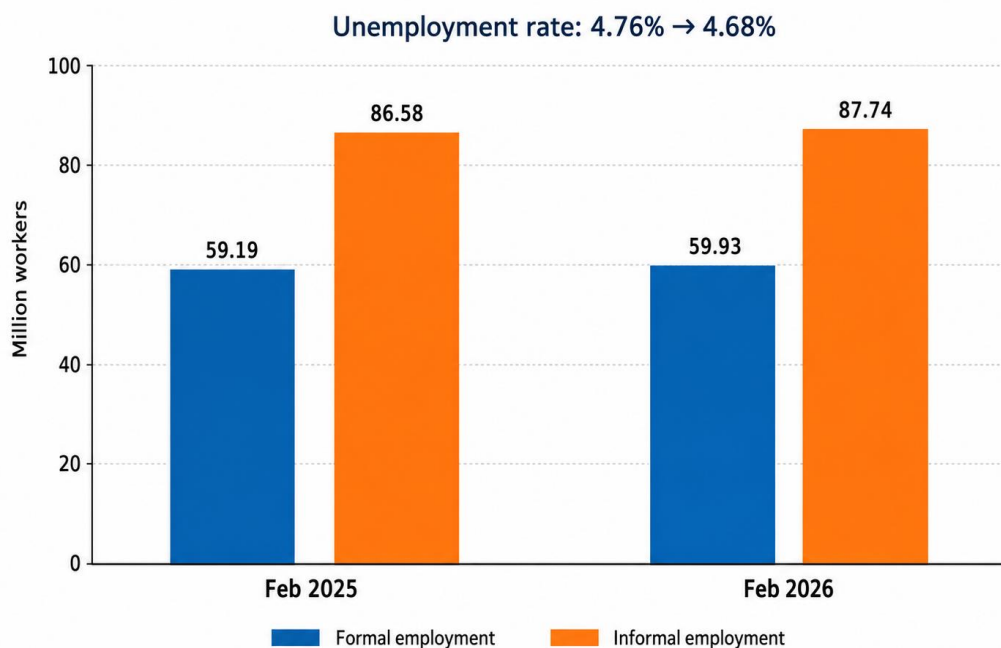
conditions. This does not mean palm oil alone can offset all external risks, but it does mean that it should be understood as one of Indonesia’s resilience channels in 2026 rather than as a drag on the quarter’s performance [6].

The fifth major finding concerns the **sectoral composition** of the expansion. BPS indicates that the quarter’s strongest visible growth was concentrated in accommodation and food services, while the deepest q-to-q contraction occurred in mining and quarrying. This already suggests a quarter in which mobility- and spending-linked services outperformed commodity extraction sequentially. The sector matrix further suggests that, while services were conspicuously strong, the quarter was not entirely detached from production-side support elsewhere; manufacturing and trade remained relevant stabilizers, though not the headline stars. Qualitatively, then, Q1 2026 looks like a **service-energized but not purely service-exclusive** growth episode [1], [11].

Spatially, the growth remained concentrated. Java’s **57.24 percent** contribution to GDP means that national growth still depended heavily on the island’s economic performance, where industrial capacity, logistics, and market depth are most concentrated. That is not new, but it matters for the paper’s inclusivity question. A quarter can produce strong national output while still leaving many provinces and many rural communities with more muted gains. The latest poverty data reinforce the relevance of that concern: rural poverty remained above urban poverty in September 2025. Accordingly, the spatial interpretation of Q1 2026 should be one of **national resilience with uneven territorial diffusion** [1], [10].

The sixth major finding concerns **labor-market quality and household welfare**. Here, the evidence is less synchronized with the GDP quarter, but still highly informative. The latest official BPS labor release showed unemployment at **4.74 percent** in November 2025, and an average wage of IDR 3.33 million. Accommodation and food services recorded the largest increase in employment among industries. That is suggestive of Q1 2026, as the same sector is the fastest-growing production-side component in the GDP release. It implies that the quarter’s output mix may indeed have translated into some employment support in labor-intensive consumer services. However, the key question is not only whether employment was created, but what kind of employment it was—formal or informal, productive or precarious, wage-improving or merely absorptive [1], [9].

Employment increased between February 2025 and February 2026, but informal work still dominated the labor market



Source: BPS labour force release, May 2026.

Figure 6. Employment rose, but informal work still dominated the labor market in February 2026

This is where the informality literature becomes essential. It has been shown that informality in Indonesia is not a residual phenomenon but a structurally important feature of the economy, with distinct regional and sectoral patterns as illustrated in Figure 6 [15]. That suggests caution in translating a good GDP quarter directly into a broad-based welfare story. Even if output and employment expand, a large share of workers may remain in low-productivity activities with limited social protection and modest earnings. The literature points in a similar direction, noting that recent labor and wage developments may not warrant a triumphalist interpretation of “felt growth.” Taken together with official poverty and inflation indicators, the implication is that Q1 2026 growth quite plausibly improved conditions for many households, but not in a way that erased structural vulnerability or guaranteed a generalized sense of prosperity [9], [10], [15].

A notable final result is that **Q1 contractions are not abnormal in Indonesia**, which helps avoid overstating the negative meaning of the quarter-to-quarter number. BPS's Q1 2025 release shows that the economy also contracted in Q1 2025, and by an even larger **0.98 percent q-to-q**, with GGFCCE experiencing a very deep contraction after year-end spending. This seasonal pattern means the Q1 2026 q-to-q contraction should not be interpreted as proof of acute weakness. Instead, it should be read alongside the stronger y-on-y result and the details of fiscal and festive support. The real analytical question is not whether a Q1 contraction occurred, but whether the quarter's year-on-year acceleration reflects stronger underlying conditions or mostly temporary supports. That is the issue to which the discussion now turns [1], [2].

DISCUSSION

Was Q1 2026 growth **healthy**? On balance, the answer is **yes, but conditionally**. The positive case is strong. Inflation had eased by April, reserves and trade buffers remained meaningful, BI held the policy rate at a supportive but stability-conscious level, and the Ministry of Finance still operated with a deficit safely below its formal ceiling. Domestic demand held up, credit expansion remained solid, and the external sector did not collapse despite war-related shocks. Those are genuine signs of macroeconomic health rather than mere statistical artifacts [4], [7], [11].

Yet the caution is equally important. The quarter's strongest visible supports were public consumption and festive consumption-linked services. The same quarter contained a q-to-q contraction and unfolded under severe external uncertainty. The purpose of a qualitative literature review is precisely to resist simplistic readings here. A quarter can be "healthy" in the sense of macroeconomic resilience without being fully "healthy" in the deeper sense of balanced, productivity-rich, low-fragility expansion. In this regard, Q1 2026 looks healthier than a pessimistic reading would allow, but less structurally healthy than the headline alone might imply [1], [13], [16].

Was the growth **sustainable**? Here, the answer is more qualified. Some of the quarter's drivers are plausibly durable. Household demand in a large domestic economy does not disappear overnight. Building investment supported by priority programs can continue for some time. Credit growth remained solid, BI maintained an accommodative macroprudential stance, and the fiscal authorities emphasized continued support through the year. These features suggest that the quarter was not a pure flash in the pan [4], [7].

But sustainability cannot be inferred from demand support alone. The IMF's Article IV is unambiguous on the medium-run problem: productivity remains weak, the middle class is under pressure, and stronger formal private-sector job creation is essential. Likewise, the BIES "higher growth path" argument stresses that Indonesia's real medium-run challenge is supply-side—investment quality, competitiveness, institutions, and productivity. By that benchmark, the quarter's sustainability remains **conditional**. It is sustainable only if domestic demand support is followed by stronger private-capacity expansion, productivity-enhancing investment, and wider diffusion of gains into formal sectors and regions [4], [13], [16].

The public-finance dimension reinforces this conclusion. The March 2026 APBN realization is consistent with prudence—deficit remains below 1 percent of GDP by end-March and below the annual ceiling—yet it also shows how much early demand support came from the public sector. That does not condemn the quarter; under current global conditions, such support may be entirely appropriate. It does, however, imply that sustainability depends on whether that support mobilizes and stabilizes broader engines of growth rather than simply substituting for them. A state-led boost can buy time and prevent deterioration; it cannot, by itself, solve structural productivity and labor-quality constraints [7], [13], [17].

Was the growth **broadly felt**? This is the hardest question and the one that requires the most careful answer. The optimistic case is not trivial. Poverty had declined in the latest official reading, unemployment was low by recent standards, inflation had eased by April, and domestic demand was clearly resilient. It is reasonable to infer that many households experienced Q1 2026 as better than a weaker-growth counterfactual would have allowed. Government support measures—THR, food support, transport support, and broader expenditure acceleration—were specifically intended to protect purchasing power and sustain activity. In that sense, the quarter likely did matter to ordinary households [7], [9], [10], [11].

Still, a stronger claim—that the growth was broadly and evenly felt across Indonesian society—would overstate the evidence. Average wages remained modest, rural poverty remained significantly higher than urban poverty, and the literature on informality indicates that a large share of the labor force remains in precarious, low-productivity conditions. Moreover, Java's continued dominance of output means that regional diffusion remains incomplete. The gains of Q1 2026 were therefore **real but uneven**. They likely improved the macro environment for households and prevented deterioration, but they did not automatically erase structural segmentation in labor markets, space, or income security [9], [10], [13], [15].

The most balanced judgment, then, is that Q1 2026 growth was a case of **qualified resilience**. It was stronger than a purely skeptical account would admit because domestic demand, public support, investment, and commodity-linked buffers all stood up under difficult circumstances. But it was also more fragile and less socially complete than a triumphalist headline narrative would suggest. That is why the quarter should be understood as a **bridge quarter**: one that bought time, protected momentum, and demonstrated resilience, but that still requires a shift toward productivity-rich, private-sector, and more socially diffused growth if it is to become the basis of a genuinely stronger development phase.

CONCLUSION AND POLICY IMPLICATIONS

The evidence reviewed here supports four substantive conclusions about the drivers of Indonesia's Q1 2026 growth. First, growth was anchored by **domestic demand**, especially household consumption tied to confidence, incomes, and festive demand. Second, **government spending** played a major role through the rapid execution of the APBN, THR, and supportive transfers and programs. Third, **investment** remained supportive, especially in building-related activity, and credit growth was still strong. Fourth, **external resilience** remained meaningful despite a sharply deteriorating global environment, helped by trade buffers, reserves, and commodity-linked supports, including those connected to palm oil, oils and meals, and other exports.

The same evidence also points to three deeper constraints. Growth was partly shaped by **timing effects** and **public-demand acceleration**, which means not all of the y-on-y acceleration should be read as structural strengthening. Productivity remains a medium-run weakness. Informality continues to limit the transmission from output to secure welfare. And the spatial and social diffusion of gains remains incomplete. Those constraints do not negate the quarter's achievements, but they qualify them in ways that matter for an honest economic assessment.

Accordingly, the article's direct answers are as follows. **Was the growth healthy?** Yes, in the sense that macro stability was preserved, inflation eased, buffers remained adequate, and output held up under severe global stress. **Was it sustainable?** Only conditionally. Sustainability will depend on whether public and festive demand support translates into stronger supply-side capacity, productivity, and private formal-sector investment. **Was it broadly felt?** Partly. The quarter almost certainly benefited many households, but available wage, poverty, informality, and regional evidence suggest that the benefits were uneven and that household-level transmission was incomplete.

The policy implications follow directly from that verdict. In the **short run**, the priority is to preserve domestic demand without losing macro credibility. That means maintaining targeted support to purchasing power, especially where inflation shocks or food-price pressures could hit lower-income households, while continuing to stabilize the rupiah and contain imported inflation. It also means ensuring that fiscal support remains well-targeted and that the strongest public multipliers are directed toward protecting vulnerable households and productive sectors rather than merely sustaining headline activity.

In the **medium run**, the goal should be to convert this quarter's resilience into a more durable growth model. That requires improving investment quality, strengthening manufacturing and tradable capabilities, supporting agro-industrial and commodity chains—including palm-oil-linked value chains—in ways that deepen domestic value capture, and expanding the formal private sector's capacity to create better jobs. It also requires reducing the gap between aggregate growth and lived welfare by improving wage growth, labor upgrading, and protection for vulnerable workers. In short, Indonesia should aim not merely to preserve 5 percent growth, but to make that growth more **productive, more job-rich, and more widely enjoyed**.

The quarter should therefore be remembered neither as empty headline growth nor as fully completed success. It was an important demonstration of resilience under adverse conditions. But whether it becomes the beginning of a healthier and more inclusive trajectory depends on what happens next: whether Indonesia can turn cyclical support into structural improvement, state-led momentum into private capability, and aggregate resilience into household-level progress.

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