BANK INDONESIA

REGIONAL ECONOMIC AND FINANCIAL REVIEW

NUSANTARA REPORT

JANUARY 2026

Volume 21 number 1 | ISSN: 2527-435X

Regional Economic and Financial Review

NUSANTARA REPORT

JANUARY 2026

CONTENTS

BANK INDONESIA

Foreword

The Nusantara Report describes the latest national economic conditions and outlook from a regional perspective. The spatial economic assessments presented in this publication are based on five regions, namely Sumatera, Java, Kalimantan, Bali-Nusa Tenggara (Balinusra) and Sulawesi-Maluku-Papua (Sulampua). The Nusantara Report is published on a quarterly basis by Bank Indonesia in January, April, July and October.

This edition of the Nusantara Report focuses on the strategic issue of 'Policy Synergy in Fostering Growth and Maintaining Stability'. This is an important issue to explore in line with the need for efforts to mitigate the spillovers from global uncertainty on the domestic economy, while accelerating resilient economic growth. We sincerely hope the Nusantara Report brings valuable insights and benefits to all stakeholders and regional economists. The spirit of optimism is reflected in the design of the Bank Indonesia Office Complex in Nusantara Capital City (IKN), which features the Garuda, symbolising the nation's determination to rise. We are confident that Bank Indonesia can continue supporting economic recovery and development across the Indonesian archipelago, taking into consideration the latest dynamics. This aspiration is visually represented in the map of the Indonesian archipelago, with a touch of the Tangkawang Ampiek batik motif, which symbolises good fortune and health towards national prosperity.

Jakarta, 23rd January 2026

Economic and Monetary Policy Department

Firman Mochtar
Executive Director

“Intentionally blank page”

Executive Summary

Regional economic growth in 2025 is projected to strengthen, primarily underpinned by western regions, despite global uncertainty. Regional economic growth in Java and Sumatera strengthened against a backdrop of restrained economic growth in eastern regions of the archipelago. Economic gains in Java and Sumatera were driven by external performance given the frontloading of exports bound for the US caused by the trade war, coupled with stronger demand for gold. Exports from downstream mineral industries in Sulampua, Kalimantan and Balinusra regions also remained solid, despite a lack of local improvement due to limited domestic demand. Investment in Java increased on the back of manufacturing industry projects. Regional fiscal support in 2025 was limited due to spending reallocation and efficiency policy to support priority programs, accompanied by normalisation after the general election contested in 2024. Restrained domestic demand undermined the performance of accommodation and food service activities and spurred trade moderation, particularly in the Java region. Nevertheless, positive regional economic performance in 2025 provided a solid base for stronger growth in 2026.

Regional economic performance is forecast to improve in 2026 relative to 2025 in all regions, boosted by stronger domestic demand. Private consumption in 2026 is also projected to improve in line with economic expectations, government programs and the prospect of a more conducive investment. Private investment in the manufacturing industry as well as the oil and gas sector is expected to precipitate gains in Java and Sumatera, while investment in downstream minerals will stimulate improvements in Sulampua and Kalimantan. External performance is expected to continue improving, particularly in eastern regions, given the resolution of production constraints and increasing demand for coal. Notwithstanding, the role of regional fiscal support geared towards driving the local economy will subside in 2026 given more limited fiscal space due to smaller Transfer Fund Allocations to Regions (TKD). Stronger domestic demand will boost accommodation and food service activities, particularly in Java and Sumatera, as well as domestic-oriented industries in Java. Meanwhile, mining sector growth is forecast to accelerate given the resolution of production constraints in the Sulampua and Balinusra regions. On the other hand, agricultural sector growth is expected to normalise after periods of high growth during 2025 in most regions.

CPI inflation remained under control in 2025, despite rising in all regions. Inflation in most regions was recorded within the 2.5%±1% target corridor, underpinned by policy consistency by Bank Indonesia as well as strong policy synergy with the government and regional governments. Rising inflation was primarily attributable to pressures on international commodity prices, which edged up core inflation, as well as supply disruptions affecting food crops, particularly horticultural and fish products, which elevated volatile food (VF) inflation. On the other hand, the impact of administered prices (AP) inflation was limited in 2025. Higher VF inflation was also caused by the impact of flooding towards the end of 2025, which affected several provinces, particularly in the Sumatera region. At the provincial level, the highest annual inflation was observed in Aceh (6.71% yoy), West Sumatera (5.15% yoy) and Riau (4.88% yoy). The main contributors to high inflation in those three provinces were rice and horticultural crops (red chilies and shallots), primarily due to supply disruptions caused by natural disasters.

CPI inflation in 2026 is forecast to remain under control and within the 2.5%±1% target range. Core inflationary pressures are expected to remain mild in line with anchored inflation expectations, supported by monetary policy consistency, economic capacity below potential, the managed impact of imported inflation as well as the positive impact of digitalisation. VF inflation is projected to fall yet will continue to demand vigilance given the forecast of high rainfall through to the beginning of 2026. Moving forward, synergy through the Central and Regional Government Inflation Control Teams (TPIP and TPID) and implementation of the national food security program must be strengthened to maintain VF inflation below 5%. Meanwhile, AP inflationary pressures are expected to remain under control as the Government has not announced plans to raise tariffs, coupled with various ongoing policies to strengthen public purchasing power.

Moving forward, various global risks must be monitored to mitigate potential spillovers on the domestic economy. Global uncertainty will persist, primarily due to the knock-on effect of US reciprocal tariffs, escalating geopolitical tensions that exacerbate financial market fragilities, as well as disruptions in global supply chains. Policy synergy to maintain economic resilience and accelerate growth must be strengthened. Specifically, this issue is explored in Part IV Strategic Issue: Policy Synergy in Fostering Growth and Maintaining Stability.

"Intentionally blank page"

PART 1
Overview of Recent Regional Economic Developments and Outlook

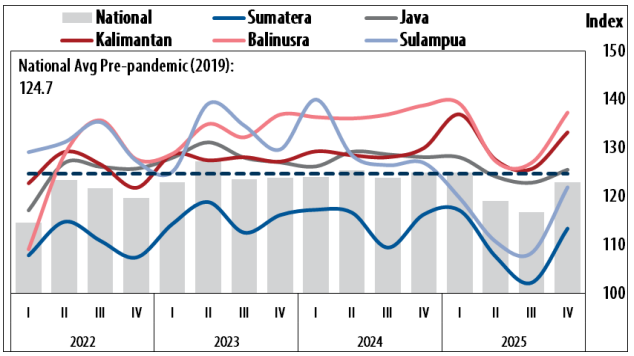
Regional Economic Growth

Regional economic performance in 2025 was mainly supported by Java and Sumatera. Improvements in both regions were driven by stronger export performance amid soft domestic demand in all regions. On the other hand, exports in other regions recorded more limited growth due to declining demand in trading partner countries, production constraints and export quotas. Weak domestic demand was consistent with the normalisation of private consumption in all regions after the general election contested in 2024 and investment gains that were driven only by Java and Sulampua. Limited private consumption impacted sectoral performance in accommodation and food service activities, while lower exports in eastern regions triggered moderation in the mining sector. Manufacturing industry performance in most regions improved on export demand, while stronger agricultural performance is expected across-the-board, driven by government policy.

The regional economic outlook for 2026 is forecast to increase relative to performance in 2025. Regional economic improvements are primarily supported by private consumption in all regions. Positive expectations, the implementation of labour-absorbing government programs and the promising investment outlook has garnered optimism in 2026. Improving investment performance in the Java, Sulampua and Kalimantan regions will be supported by increasing industrial capacity as well as ongoing government infrastructure projects. In Balinusra, investment will remain dominated by tourism-related projects. External performance is expected to strengthen in most regions. Exports of downstream metals will improve in Balinusra, Kalimantan and Java. The prospect of stronger domestic demand will boost accommodation and food service activities in western regions as well as domestic-oriented manufacturing industries in Java. Meanwhile, mining activity in Eastern Indonesia will improve as the production constraints faced in 2025 are resolved. Conversely, agricultural sector growth is expected to normalise after periods of high growth in 2025.

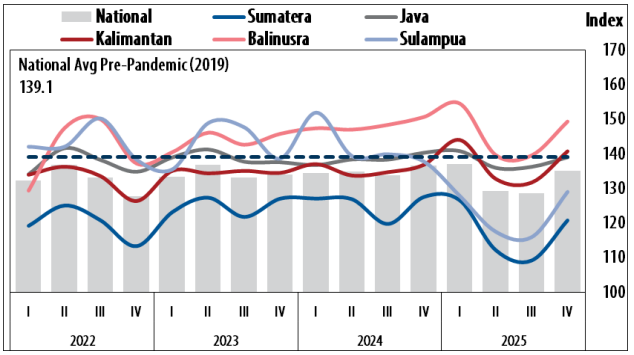
Private Consumption

Private consumption in 2025 was maintained as a catalyst for growth in most regions. Private consumption experienced normalisation after a period of high consumption by non-profit institutions serving households (NPISH) during the general election contest in 2024. Restrained consumption was also attributable to lower consumer confidence, particularly in the middle of the year, before improving at the end of the period due to fiscal incentive programs linked to tax, employment, food assistance and discounted government rates (Graph I.1). The improvements were impacted significantly, however, by natural disasters in the Sumatera region. Higher salaries for civil servants, higher provincial minimum wages and higher farmer wages contributed to increase consumption in 2025, albeit moderately.



Source: Bank Indonesia, processed

Graph I.1. Consumer Confidence Index (CCI) by Region



Source: Bank Indonesia, processed

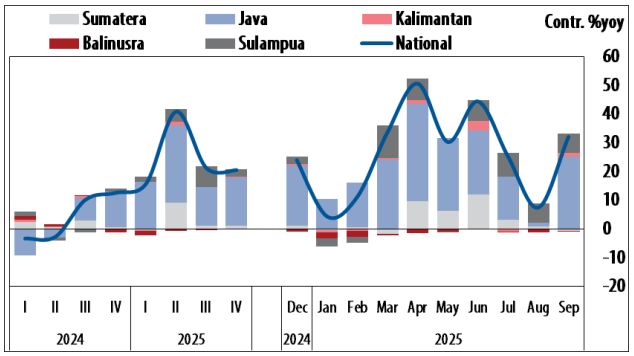
Graph I.2. Consumer Expectation Index (CEI) by Region

The outlook for private consumption in 2026 is promising and must be nurtured in all regions. The Consumer Expectation Index is tracking an upward trend

in all regions thanks to improving investment prospects and government programs to increase labour absorption (Graph I.2). Hikes to the provincial minimum wage (UMP) in the 5-7% range in various regions are also expected to spur private consumption activity. Fiscal expansion and BI-Rate cuts by Bank Indonesia will also support regional consumption growth.

Investment

Regional investment growth in 2025 is projected to increase, primarily supported by the Java and Sulampua regions. Investment in industrial estates and special economic zones is a key driver in the Java region, as reflected by high growth of capital goods imports throughout 2025 (Graph I.3). Building investment linked to national strategic projects (PSN) also contributed to economic gains in the region. Meanwhile, improvements in the Sulampua region were driven by investment in the oil and gas industry as well as downstreaming the basic metals industry. On the other hand, investment in other regions experienced more limited growth in line with lower government spending on infrastructure relative to the previous year.



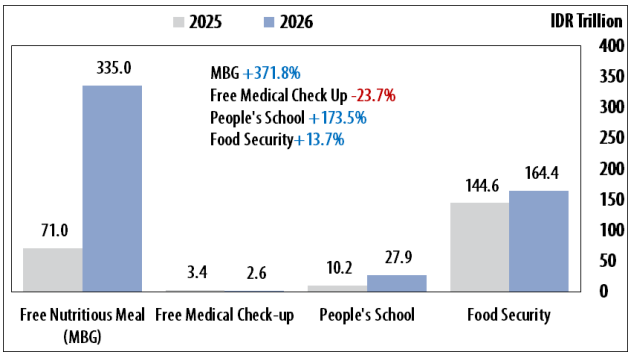
Source: Directorate General of Customs and Excise (DJBC), processed, as of November 2025

Graph I.3. Imports of Capital Goods by Region

The improving investment trend is expected to persist in 2026 in all regions. Investment in the oil and gas industry as well as the downstream basic metals industry is expected to accelerate in Sulampua in 2026. In the Java region, ongoing investment to develop industrial estates and special economic zones, accompanied by efforts to improve the investment climate, will boost investment growth. Government investment in public infrastructure is predicted to bolster investment in Sumatera, alongside private investment in the agricultural sector, oil and gas mining, as well as various manufacturing industries, including electronics. In Kalimantan, investment performance will improve due to various private projects in the mineral and oil and gas mining industries, along with infrastructure development, particularly in relation to the Nusantara Capital City (IKN). Meanwhile, investment is forecast to increase in the Balinusra region driven by connectivity projects and tourism-related sectors.

Regional Government Consumption

Regional fiscal support for the economy is expected to be restrained. Regional fiscal capacity was more limited in 2025 as a corollary of budget reallocation and spending efficiency to support priority programs[1], including the Free Nutritious Meal (MBG) program, free health check-ups, school development, food security and other programs. Budget reserves will be reallocated to regional governments through a Central Government Expenditure (BPP) mechanism. Budget reallocation policy is expected to be centralised in Java, thereby boosting capital spending and procurement only in that region. Regional spending also declined given normalisation after the general election and local elections contested in 2024. Nevertheless, deeper moderation was offset by increasing personnel expenditures after the salaries of civil servants were hiked by 8.0% in August 2025.



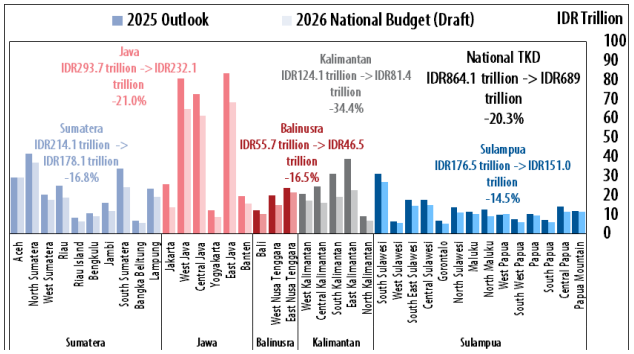
Source: Ministry of Finance, processed

Graph I.4. Budget for Government Priority Programs in 2025 and 2026

Regional fiscal support for the implementation of central government priority programs will persist in 2026. TKD reserves in 2025 will increase in 2026, as reflected in the allocations for priority program spending, most of which increased in 2026 (Graph I.4). The deepest declines of TKD disbursements in 2026 are expected in the Java and Kalimantan regions (Graph I.5). Consequently, regional fiscal capacity will be more limited moving forward. Consequently, realised spending on more productive

[1] Presidential Instruction Number 1 of 2025 on Expenditure Efficiency in the Implementation of the State Budget and Regional Budgets for Fiscal Year 2025

programs must be accelerated to maintain the contribution of regional fiscal support in the local economy.



Source: Ministry of Finance, processed

Graph I.5. Transfer Fund Allocations to Regions (TKD) Outlook for 2025 and TKD Plan for 2026

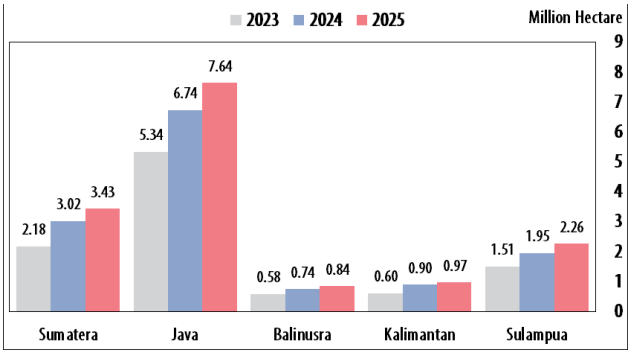
International Exports

Overall, national non-oil and gas export performance in 2025 improved in most regions. Frontloading contributed to export growth in response to the ongoing trade tensions, particularly in the first half of the year. This boosted overall export performance in 2025, especially for CPO in Sumatera and footwear in Java. Exports from the Java region also improved on the back of stronger demand for gold in response to global demand for gold as safe haven asset. Meanwhile, downstream nickel exports in the form of refined iron and steel strengthened export performance in the Sulampua region as copper concentrate exports declined due to export quotas and production constraints. The Balinusra region also experienced pressures on copper concentrate exports. On the other hand, policy in China and India to prioritise the use of domestic production intensified pressures on export performance in Kalimantan.

The outlook for non-oil and gas exports in 2026 is promising, particularly in the Balinusra region. Solid export growth is expected in Balinusra on the back of copper commodities in response to improving ore quality and increasing smelter capacity. Export performance is also expected to improve in Kalimantan given increasing production capacity in the alumina and CPO industries, alongside a shallower coal export contraction relative to 2025. Export performance in Java is also forecast to improve in 2026, supported by the resumption of operations at copper smelters in Gresik. Export prospects in the Sulampua region will remain solid due to additional production capacity in the basic metals industry, despite moderating relative to 2025 due to the discontinuation of copper concentrate exports, which have been reallocated for domestic purposes. In Sumatera, exports will be pressured by the lack of availability of raw materials due to the recent flooding.

Agriculture

Agricultural sector growth accelerated in 2025 compared with the previous year. Agricultural sector gains were driven by increasing food crop production thanks to government support programs. Food crop production in all regions is expected to exceed production in 2024. Various programs to expand arable land boosted agricultural production, including the expansion of planting area (Graph I.6), land optimisation and the creation of new rice fields. In addition to land expansion programs, support was also provided in terms of production inputs, including the use of quality seeds, subsidised fertilisers, expansion of irrigation facilities and the mechanisation of production tools. The production of fresh fruit bunches (FFB) in Sumatera and Kalimantan is expected to increase in 2025 due to the ongoing oil palm rejuvenation program, increasing domestic consumption in line with B40 implementation, and external demand, particularly from India. Higher growth was offset, however, by the devastating impact of flooding at the end of 2025 in the Sumatera region.



Source: BPS-Statistics Indonesia, processed

Graph I.6. Rice Field Area

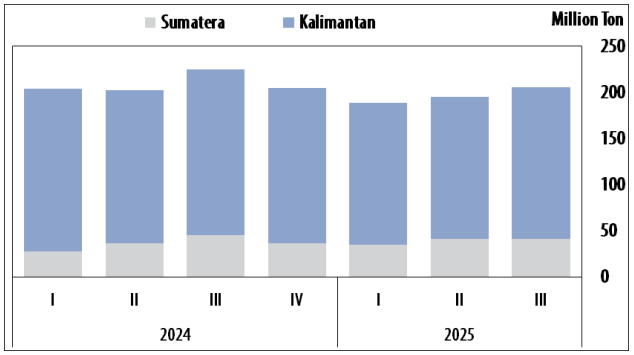
Agricultural sector growth in 2026 is expected to experience normalisation after solid growth in 2025. Rice production at hubs in Java and Sumatera is predicted to moderate, although production will remain solid given the expansion of the government's food security program. The production of fresh fruit bunches (FFB) will continue to improve, supported by various efforts to increase productivity, including the Smallholding Rejuvenation Program (PSR) and application of Good Agricultural Practices (GAP), alongside demand-side drivers, such as the planned gradual implementation of B45-B50 in 2026-2027. Nevertheless, high rainfall in the first semester of 2026 could impact horticultural production, particularly various chili varieties in

Sumatera and shallots in Java, as well as capture fishing in the Sulampua region.

Mining

Weaker demand and production constraints impacted mining sector performance in 2025, particularly in eastern regions of the Indonesian archipelago. Weaker Chinese demand for coal, as a key trading partner, moderated mining sector performance in the Kalimantan region. Meanwhile, mining sector performance in the Sulampua and Balinusra regions was restrained by production constraints, export quotas and low-quality dressed ore. Mining sector moderation in Sulampua also stemmed from lower nickel production in the Government's annual Work Plan and Budget (KKAB) relative to the previous year. On the other hand, mining sector performance in Java and Sumatera was powered by oil and gas production.

The mining sector outlook in eastern regions for 2026 is promising. Mining in the Balinusra region will strengthen as the quality of copper ore improves and newer smelters become operational. Copper production in the Sulampua region will improve after the production constraints faced at the end of 2025 are overcome. Meanwhile, coal production in Kalimantan is expected to improve to meet domestic demand and stronger export prospects, alongside increasing alumina smelter capacity that will boost bauxite mining activity.

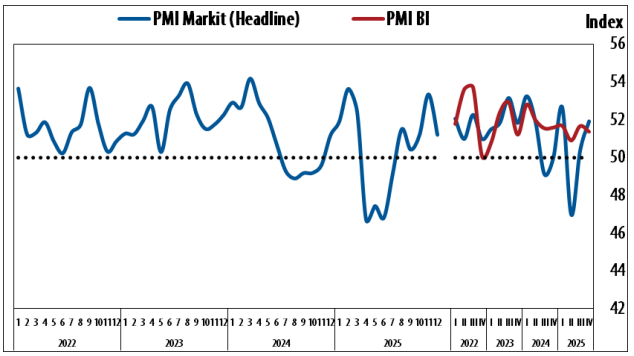


Source: Ministry of Energy and Mineral Resources (ESDM)

Graph I.7. Coal Production in Sumatera and Kalimantan

Manufacturing Industry

Manufacturing industry performance is projected to increase in 2025. This was driven by increasing production capacity and the frontloading of demand from trading partners due to the trade war. Stronger manufacturing industry performance was reflected in the Purchasing Managers Index (PMI), which remained in an expansionary phase, particularly towards the end of 2025 (Graph I.8). Spatially, improvements were observed in most regions, led by Balinusra and Kalimantan as a result of additional production capacity in the basic metals industry given the operation of copper and alumina smelters. The basic metals industry also maintained high manufacturing industry growth in Sulampua in 2025. In Java, manufacturing industry performance was underpinned by additional production capacity in industrial estates and special economic zones, coupled with export demand for gold and footwear, among others. Export demand for CPO also increased, which contributed to manufacturing industry improvements in Sumatera, in addition to domestic demand for B40 implementation.



Source: IHS Markit

Graph I.8. Purchasing Managers Index (PMI)

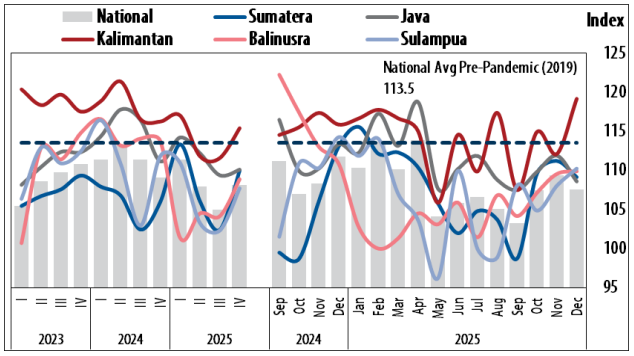
The manufacturing industry outlook for 2026 is projected to improve, supported by Java and Kalimantan. Manufacturing industry performance in the Java region is predicted to increase on improving domestic demand and the operation of new industries in industrial estates and special economic zones. In Kalimantan, the main driver of manufacturing industry performance will remain increasing production capacity at alumina smelters. Meanwhile, nickel smelters as well as the iron and steel industry in Sulampua are predicted to maintain solid growth. On the other hand, more limited manufacturing industry growth is anticipated in the Sumatera and Balinusra regions.

Trade

Trade sector performance in 2025 improved in the Sumatera, Kalimantan and Balinusra regions. International and inter-regional trade boosted sectoral performance in those three regions against a backdrop of persistently sluggish domestic demand. Trade sector improvements in Sumatera were driven by improving export performance as well as inter-regional trade of CPO for B40 implementation. Inter-regional trade also contributed to improvements in Kalimantan as a hub of CPO production, alongside Sumatera. In Balinusra, trade sector improvements were underpinned by persistently high growth of tourism activity in 2025. On the other

hand, limited private consumption restrained trade sector improvements in Java despite exports from the region increasing. Limited private consumption was confirmed by a lower Real Sales Index (RSI) relative to 2024 (Graph I.9).

In 2026, trade sector performance is forecast to improve in all regions relative to 2025. This will primarily be supported by increasing private consumption and investment in most regions. A higher minimum provincial wage (UMP) in various regions is also expected to boost private consumption. In addition, international trade prospects also support trade sector improvements in various regions, such as Balinusra due to strong growth of copper commodities, Kalimantan in terms of alumina and CPO, as well as Java due to refined copper.

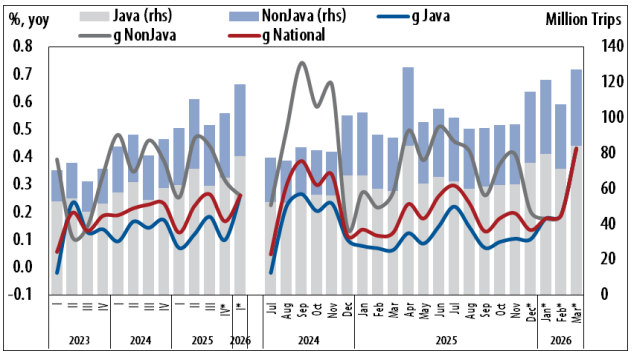


Graph I.9. Purchase of Durable Goods Index

Accommodation and Food Service Activities

The performance of accommodation and food service activities is expected to strengthen in 2025, primarily supported by gains observed in the Java region. Accommodation and food service activities in Java were primarily driven by increasing community mobility. In addition to Java, accommodation and food service activities in the Balinusra region also maintained high growth. Several factors contributed to the performance of accommodation and food service activities in 2025, namely the hosting of various events and festivals, government stimuli targeting discounted transport fares, and the relaxation of government budgets for official travel and MICE activities towards the end of the year. Community mobility, which boosted sectoral performance, was reflected in the number of trips taken by domestic travellers in 2025, accelerating relative to the previous year (Graph I.10).

The outlook for accommodation and food service activities in 2026 is solid. Domestic demand, which includes increasing official travel activity by government officials, will boost accommodation and food service activities in 2026. Additional support will come from MICE activities and trips made by domestic travellers in line with the expansion of domestic and international flight routes and airlines. Growth of accommodation and food service activities in 2026 will be led primarily by Sumatera and Java.

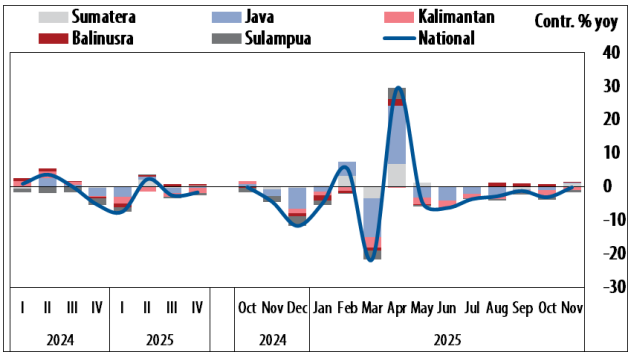


Source: BPS-Statistics Indonesia, processed
Notes: Quarterly data represents the quarterly average

Graph I.10. Movement of Passengers based on Mobile Positioning Data

Construction

Subdued construction sector performance is expected in most regions in 2025. More limited infrastructure spending by the Government will moderate regional construction sector growth in 2025 relative to the previous year. Nevertheless, several ongoing private projects in different regions will support positive construction sector growth, including the development of special tourism zones in Balinusra, basic metals industry construction in Sulampua, infrastructure development for the Nusantara Capital City (IKN) in Kalimantan, the ongoing construction of Trans-Sumatera toll road sections, as well as connectivity infrastructure projects in Java. Subdued construction sector performance was confirmed by cement sales data throughout 2025 (Graph I.11).



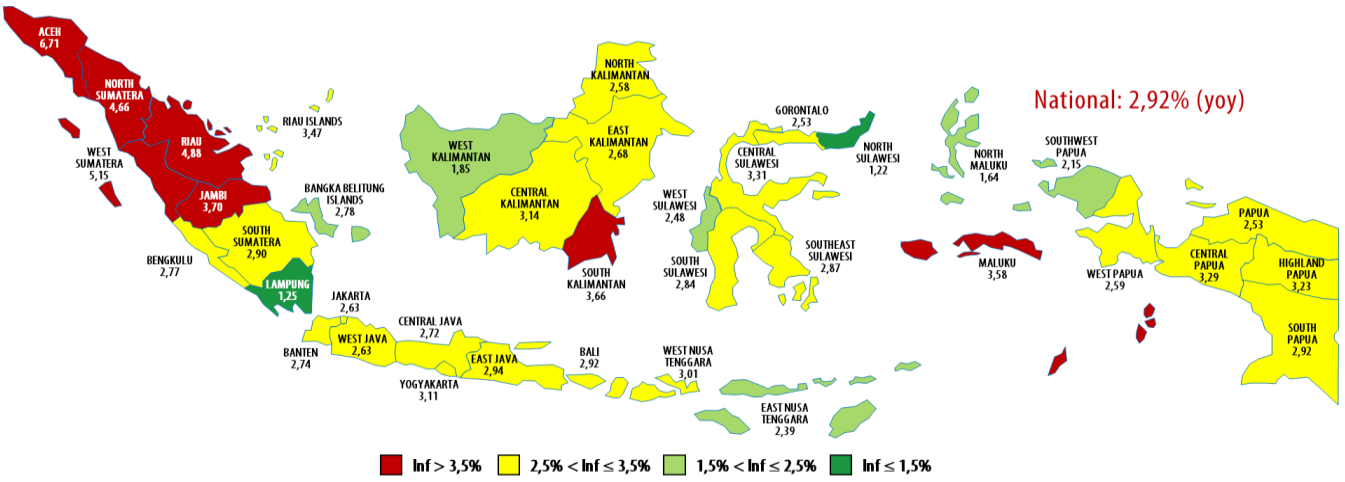
Source: Indonesia Cement Association (ASI), processed

Graph I.11. Cement Sales

In 2026, construction sector performance is forecast to increase in all regions, led by Sumatera and Java. Government infrastructure development and private

construction projects will boost regional construction sector performance. Ongoing toll road construction and disaster rehabilitation projects will drive construction in the Sumatera region. Several toll road projects will support construction sector performance in Java, alongside other connectivity projects, such as the MRT in Jakarta and the development of midstream industries in the oil and gas sector. Ongoing construction of the Nusantara Capital City (IKN) and private construction projects in the alumina industry will continue to shore up construction sector performance in Kalimantan. In Balinusra, tourism-related sectors will underpin construction sector performance.

PART 2
Recent Regional Information Developments and Outlook



Source: BPS-Statistics Indonesia, processed

Figure II.1. Map of CPI Inflation by Province in 2025 (% yoy)

Composite Consumer Price Index (CPI) inflation remained under control in 2025. Nationally, CPI inflation in 2025 was recorded at 2.92% (yoy), comfortably within the target range of 2.5%±1%, despite increasing relative to 2024. Inflation increased across all components, namely core inflation, volatile food (VF) inflation, and administered prices (AP) inflation. Core inflation tracked an upward trend yet remained under control, supported by BI monetary policy consistency to anchor inflation expectations to the target corridor and the managed impact of imported inflation, as well as economic growth that has remained below potential capacity. The build-up of VF inflationary pressures primarily stemmed from disruptions to horticultural production as well as high rainfall that impacted fish production. AP inflation increased slightly due to higher cigarette prices. By province, the highest CPI inflation was recorded in Aceh and the lowest in North Sulawesi (Figure II.1).

Low core inflation was maintained in 2025 in all regions. Global factors were the main contributors to higher core inflation in 2025, specifically rising gold prices that impacted all regions evenly. Since the Covid-19 pandemic, the influence of global factors has become more dominant than domestic drivers, in line with subdued domestic demand that still requires further stimulus. Core inflation has also been controlled by the rapid post-pandemic expansion of digitalisation, thereby enhancing regional economic efficiency.

VF inflation increased in all regions, with the highest rate observed in Sumatera. VF inflation increased in 2025 due to limited horticultural supply, particularly red chilies, caused by high rainfall throughout 2025 alongside pest attacks at production hubs located in North Sumatera and Bengkulu. High rainfall also triggered flooding in Aceh, North Sumatera and West Sumatera, ultimately leading to failed harvests, which edged up VF inflation significantly at the end of 2025. In Sulampua, VF inflationary pressures stemmed from inclement weather that disrupted capture fishing production.

AP inflation increased slightly in most regions. AP pressures in 2025 primarily originated from rising cigarette prices. The Retail Selling Price (HJE) of all cigarette types increased in 2025, namely machine-rolled clove cigarettes, hand-rolled clove cigarettes and machine rolled white cigarettes, in all regions. Nevertheless, a further increase in AP inflation was offset by mild inflationary pressures affecting the transportation component in line with various government discounts on transport fares during national religious holidays (HBKN), namely Ramadan and Eid-ul-Fitr as well as the Christmas and New Year festive period.

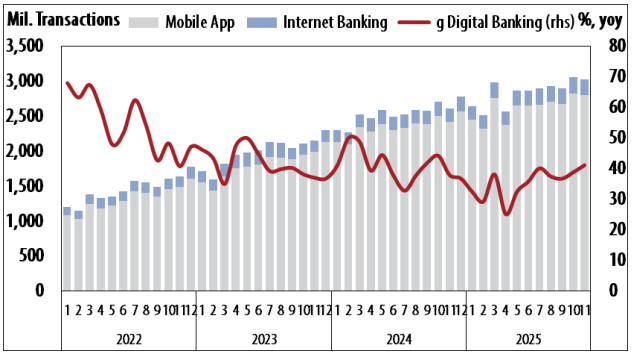
Inflation in 2026 in all regions is projected to remain low and within the 2.5%±1% target corridor. Low core inflation is forecast in line with anchored inflation expectations, economic capacity below potential, the managed impact of imported inflation as well as the positive impact of digitalisation. Furthermore, Bank Indonesia also expects VF inflation to remain manageable, supported by inflation control synergy through the Central and Regional Government Inflation Control Teams (TPIP/TPID), while strengthening implementation of the National Food Security Program.

"Intentionally blank page"

PART 3
Recent Payment System and Rupiah Currency Management Developments

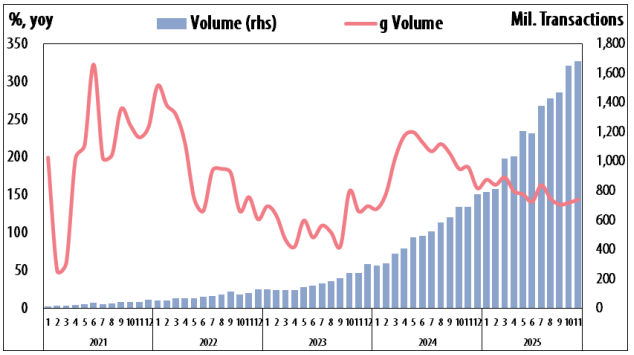
Digital economic and financial activity in Indonesia continued to indicate positive growth. As of November 2025, the volume of digital payment transactions, including payments through mobile applications and internet banking, posted 41.12% (yoy) growth (Graph III.1). Similarly, the volume of electronic money transactions also increased by 45.71% (yoy) and credit card transactions increased by 13.81% (yoy). The use of QRIS continued to record impressive growth, supported by the expansion of the digital economy and finance. The number of registered merchants using QRIS increased to 41.9 million, with QRIS users reaching 58.9 million. The volume of QRIS transactions maintained significant growth at 143.64% (yoy) (Graph III.2), reflecting broader QRIS acceptance, particularly among MSME merchants, thereby boosting economic efficiency through cashless transactions.

Bank Indonesia payment system transactions and currency in circulation maintained positive growth. The volume and value of transactions via BI-FAST grew by 29.77% (yoy) and 28.17% (yoy), respectively, relatively stable compared with the previous period. A similar trend was observed in terms of currency in circulation, growing 13.09% (yoy) in November 2025, down slightly from 13.37% (yoy) the month earlier. Such conditions reflect maintained economic activity despite limited public purchasing power.



Source: Bank Indonesia, processed

Graph III.1. Volume of Digital Payments



Source: Bank Indonesia, processed

Graph III.2. QRIS Transaction Growth and Volume

"Intentionally blank page"

PART 4

Strategic Issue: Policy Synergy in Fostering Growth and Maintaining Stability

National economic policy synergy must be strengthened to maintain domestic economic resilience against the impact of global uncertainty spillovers and to accelerate economic growth. The promising economic outlook for Indonesia in 2026 will confront various risks. Global economic dynamics in 2026 will remain highly uncertain. Global economic growth is forecast to moderate due to the knock-on effect of US reciprocal tariffs and supply chain vulnerabilities. Deepening geopolitical tensions are expected to persist and impact global economic performance in 2026. In the medium-term, Indonesia's economic growth prospects will be influenced by the implementation of strategic agendas under the auspices of the Government's Asta Cita program, the role of the private sector, including large corporations as well as micro, small and medium enterprises (MSMEs), the creative economy and tourism, and the digital economy and finance to drive economic growth and create job opportunities. In facing global economic risks and strengthening domestic economic resilience in the near and medium term, the national economic policy mix must be oriented towards: (i) maintaining macroeconomic stability, (ii) optimising first-quarter economic growth momentum in 2026, and (iii) strengthening fundamental development capital to strengthen the medium-term economic growth outlook.

Government Program Support to Drive Growth and Maintain Stability

The achievement of 4.7-5.5% (yoy) national economic growth projected in 2025 is inextricably linked to government program support. Government efforts to strengthen domestic economic resilience were instituted, among others, through various economic stimulus packages implemented throughout 2025. In the first quarter of 2025, government stimuli were focused on maintaining public purchasing power and business resilience. In the second and third quarters of 2025, the Government introduced various stimuli to accelerate domestic consumption and economic growth, including tax incentives, discounted employment contributions and discounted government rates. At the end of 2025, a fourth Stimulus Package was introduced, including internship programs, temporary direct cash assistance, as well as discounted transportation fares during the Christmas and New Year festive period. The various fiscal stimuli, particularly discounted transportation fares, could be extended to increase economic activity, particularly during Ramadan and Eid-ul-Fitr in the first quarter of 2026.

In addition to the fiscal stimuli intended to drive economic growth in the near term, the Government also implemented various programs to achieve the vision of the Medium-Term National Development Plan (RPJMN) 2025-2029. Such programs were implemented in 2025 and will be strengthened moving forward. The programs implemented to strengthen domestic growth and macroeconomic stability include food security, the community economy and strengthening the economic structure through industrialisation.

Food Security

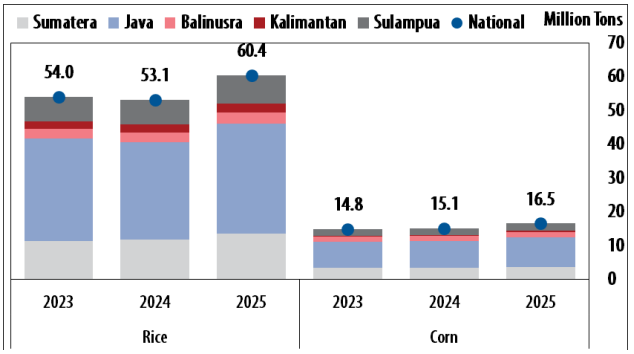
Seeking to mitigate climate change and inward-looking global trade policies, the Government is strengthening domestic food security. Various programs were implemented in 2025 as concrete commitments toward achieving National Priority #2 in the Medium-Term National Development Plan (RPJMN) 2025-2029, namely 'Increasing national independence through sustainable self-sufficiency in quality food, energy, and water'. Government programs to strengthen food security implemented in 2025 include increasing productivity, strengthening regulations and enhance farmer access to markets.

Efforts to increase agricultural productivity were implemented by strengthening various production factors. The main programs included expanding rice fields, optimising land and expanding irrigation networks. Under the rice field expansion program, the Government conducted surveys, investigations and designs (SID) of new land totalling 225,000 ha, or 100% of the target. Under the land optimisation program, the SID achievements of 2025 totalled 486,969 ha, or 97.39% of the 500,000-ha target. Meanwhile, through its agricultural irrigation program, the Government developed irrigation networks on 221,386 ha of arable land.

The Government strengthened food regulations to expand access to production inputs for farmers. The Government also streamlined the subsidised fertiliser distribution mechanism. A total of 8.1 million tons of subsidised fertiliser was distributed to 14 million farmers in 37 provinces through more efficient distribution channels. Fertiliser distribution, which previously relied on conventional distributors, is now distributed directly to delivery points, including official retailers, farmer groups and cooperatives. Through an efficient fertiliser supply chain, the Government has also effectively lowered the price of subsidised fertilisers in accordance with a Minister of Agriculture Decree[2]. The prices of all fertilisers used by farmers have been reduced, namely urea from Rp2,250 per kilogram to Rp1,800 per kilogram, NPK from Rp2,300 per kilogram to Rp1,840 per kilogram, cacao NPK from Rp3,300 per kilogram to Rp2,640 per kilogram, ZA sugarcane from Rp1,700 per kilogram to Rp1,360 per kilogram, and organic fertiliser from Rp800 per kilogram to Rp640 per kilogram.

Strengthening market access for farmers provides sales assurance, thereby creating an incentive to produce. The Government is increasing the absorption of food commodities through the Indonesian Bureau of Logistics (Bulog), particularly rice and maize, in accordance with Presidential Instruction Number 6 of 2025. According to the Presidential Instruction, Bulog is required to absorb 3 million tons of domestic rice at a Government Purchase Price of Rp6,500 per kilogram. This policy led to the highest level of rice absorption and Government Rice Reserve Stock (CBP) in history at 3.44 million and 3.19 million tons of rice, respectively. In terms of maize, in accordance with Presidential Instruction Number 10 of 2025, Bulog has absorbed 101,000 tons of dry corn kernels with 14% moisture content. Such policies represent the tangible manifestation of efforts to strengthen national food security, while safeguarding farmer prosperity and welfare.

Various programs to increase productivity, strengthen regulations and expand market access for farmers has increased the production of strategic food commodities. According to a publication released by BPS-Statistics Indonesia on 5th January 2026 (Graph IV.1), rice production in 2025 is projected to reach 60.4 million tons, increasing by 7.3 million tons or 13.74% relative to 2024. Similarly, corn production in 2025 totalled 16.5 million tons, up 9.27% from 2024.



Source: BPS-Statistics Indonesia, processed

Graph IV.1. National Rice and Corn Production

Moving forward, the food security program shall remain a key government priority. According to the Government Work Program (RKP) and Draft State Revenue and Expenditure Budget (RAPBN) 2026, food security remains 1 (one) of 8 (eight) government focus points for 2026. In terms of increasing productivity, the paddy field program will be expanded in 2026 to reach 400,000 ha, with the land optimisation program targeting 500,000 ha. In terms of regulation, the distribution of subsidised fertiliser in 2026 is targeted to increase to 9.5 million tons. In terms of securing market access, Bulog targets to absorb 4 million tons of rice (all grades) and 1 million tons of corn in 2026.

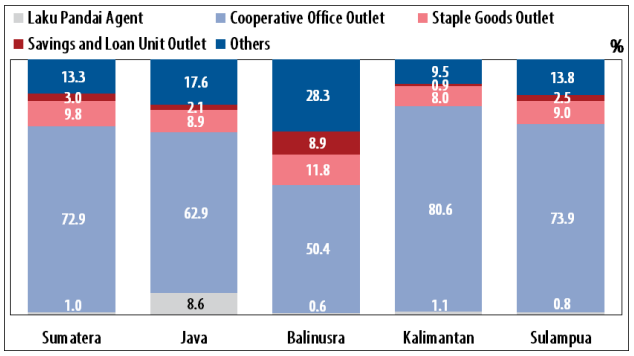
Community Economy

The Government also implemented various programs to expand job opportunities in 2025. Seeking to increase labour absorption in the near term, an internship program was launched at the end of 2025, complemented by fiscal incentives for labour-intensive sectors. The programs included subsidised interest rates for labour-intensive industries and income tax breaks for workers in labour-intensive sectors, including tourism-related sectors. Furthermore, priority government programs, particularly the MBG and KDKMP programs, also aim to increase labour absorption. The MBG program has reached 56.13 million recipients[3] in 38 Indonesian provinces, with program realisation remaining high at Rp51.5 trillion out of a total budget of Rp71 trillion. KDKMP program realisation was also solid

[2] Decree of the Minister of Agriculture Number 1117/KPTS/SR.310/M/10/2025 dated 22 October 2025 concerning the Amendment to Decree of the Minister of Agriculture Number 800/KPTS./SR.310/M/09/2025 concerning the Types, Highest Retail Prices, and Allocation of Subsidized Fertilizers for the Agricultural Sector for Fiscal Year 2025

[3] Data as of 7 January 2026. Source: APBN Kita, Ministry of Finance.

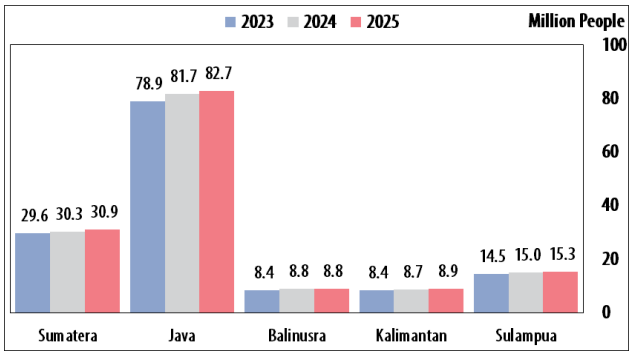
in 2025 in various regions, with 40,000 active cooperative outlets out of a target of 80,000 throughout the program's timeline. In addition to cooperative outlets, most KDKMP outlets that have been developed are outlets dispensing basic food staples that contribute to control inflation efforts in various regions (Graph IV.2).



Source: Simkopdes, processed data, as of 29th December 2025

Graph IV.2. Active KDKMP Outlets by Region, 2025

Both MBG and KDKMP programs helped to increase labour absorption in various regions in 2025. Since implementation in January 2025, the MBG program has involved the participation of 19,343 service units (SPPG). The SPPG service units employ 789,319 workers as an indirect implication of MBG program implementation on labour absorption. Furthermore, the KDKMP program has also increased labour absorption significantly, employing 694,227 workers. Both programs contributed to increase the number of workers in various regions in 2025 (Graph IV.3), growing by 1.3% (yoy) nationally as an aggregate relative to the previous year.



Source: Sakernas August 2025 (BPS), processed

Graph IV.3. Working Population by Region

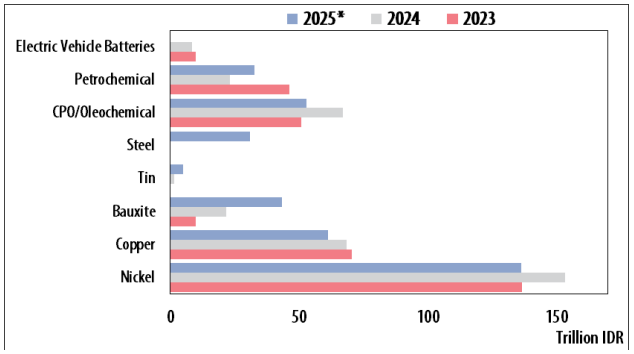
In 2026, the implementation of community-based economic programs will be strengthened. The MBG and KDKMP programs are 2 (two) of 8 (eight) Presidential Directive National Strategic Projects in 2026. Both programs are funded directly from the State Budget (APBN) and implemented nationally. The MBG program will be continued and expanded, with a budget of Rp335 trillion, representing a sixfold increase on budget realisation in 2025. Meanwhile, the number of active KDKMP outlets in 2026 is expected to achieve the 80,000 target. To that end, state budget support to finance KDKMP development reached Rp40 trillion, which will be distributed through Village Funds. The continuation of both programs is expected to increase job opportunities for communities in various regions, thereby boosting household consumption and economic growth moving forward.

Strengthening the Economic Structure through Industrialisation

Industrialisation through the downstreaming of natural resources and strengthening the supporting ecosystem has been pursued to bolster the medium-term growth outlook. Government policy to accelerate the downstreaming of natural resources began in 2009 with the promulgation of Act Number 4 of 2029 concerning Coal and Mineral Mining. In the following years, the Government issued various policies to strengthen the downstreaming of natural resources, including fiscal incentives and restrictions on exports of mineral concentrates, while the Indonesia Investment Coordinating Board (BKPM) published a roadmap for investing in downstreaming. In 2025, downstreaming policy was strengthened further. Downstream industries were designated as a priority sector in the Medium-Term National Development Plan (RPJMN) 2025-2029, with Rp3,500 trillion targeted for investment. In 2025, Act Number 2 was issued as the fourth amendment to Act Number 4 of 2009 to strengthen governance and domestic priorities in terms of downstreaming. Various downstreaming projects, including the development of smelters and industrial estates as supporting infrastructure, remained an integral part of the national strategic projects (PSN) in 2025.

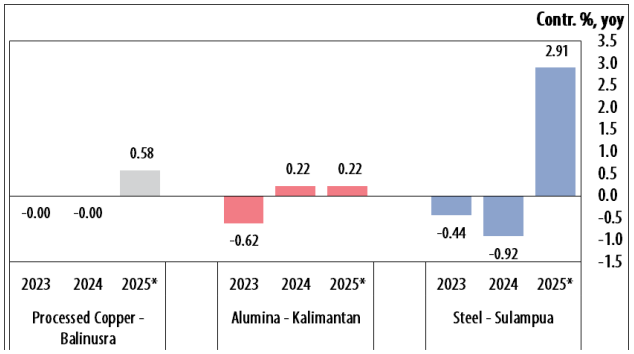
Downstreaming policy for natural resources, including the strengthening of industrial estates and special economic zones as infrastructure, has had a positive impact on economic growth in various regions. Export-oriented nickel downstreaming in Southeast Sulawesi, Central Sulawesi and North Maluku spurred strong economic growth in the Sulampua region, even during the Covid-19 pandemic. This was achieved through strong investment since 2014. In 2025, the downstreaming of various natural resources continued through foreign direct investment (FDI) and domestic investment. In addition to nickel, strong investment was also realised for the downstreaming of bauxite, CPO and petrochemicals in 2025 (Graph IV.4). Various downstream commodities have contributed to the growth of national non-oil and gas exports, particularly

downstream copper in Balinusra, downstream bauxite/alumina in Kalimantan and downstream nickel/iron and steel in Sulampua (Graph IV.5).



Source: Indonesia Investment Coordinating Board (BKPM), processed
**Cumulative data up to Q3 2025*

Graph IV.4. Realised Investment for Downstreaming



Source: Directorate General of Customs and Excise (DJBC), processed. 2025 data as of the third quarter of 2025

Graph IV.5. Contribution of Downstream Natural Resource Exports to National Non-Oil and Gas Exports

Bank Indonesia and Government Synergy in Priority Program Implementation

In 2026, Bank Indonesia will continue directing its policy mix towards fostering economic growth, while maintaining stability. With low inflation projected for 2026 and 2027, monetary policy in 2026 will be oriented towards supporting economic growth (pro-growth), while maintaining rupiah exchange rate stability (pro-stability), particularly against the impact of global uncertainty. Meanwhile, macroprudential policy and payment system policy in 2026 will remain oriented towards accelerating economic growth (pro-growth). Bank Indonesia will maintain an accommodative macroprudential policy stance to revive bank lending and financing, particularly to priority sectors that drive economic growth and create job availability in line with government priority programs, including MSMEs, economic inclusion and green finance. Bank Indonesia will continue accelerating payment system digitalisation in accordance with the Indonesia Payment System Blueprint (BSPI) 2030, focusing on strengthening infrastructure (retail, wholesale and data), industry consolidation, innovation and acceptance, international cooperation and digital rupiah development.

Bank Indonesia will continuously work in synergy with the central and regional government to support the successful implementation of various government priority programs. MSMEs are inextricably linked to the food security program and community economy. Various MSME development programs, therefore, including conventional and sharia, implemented by Bank Indonesia head office and representative offices, can support implementation of the food security program and community economy. Increasing competitiveness, Bank Indonesia will continue strengthening business models, guidelines and various forms of facilitation, including the implementation of pilot projects that encompass capacity building and expanding market access, including supply chains. Access to finance through business matching will also be strengthened in synergy with various parties. Literacy and synergy will be expanded through the application of KLIK (Core Competencies of Financial Literacy and Inclusion), standardised education modules, as well as continuous education and coaching programs in various regions.

EDITORIAL TEAM

BANK INDONESIA

For further information please contacting:

BANK INDONESIA
Economic and Monetary Policy
Department Sectoral and Regional Group
Ph. +62 21 - 2981 8119, 2981 8868
Fax. +62 21 - 3452 489, 231 0553

JL. MH. Thamrin No. 2 Jakarta 10350
www.bi.go.id