BANK INDONESIA

REGIONAL ECONOMIC AND FINANCIAL REVIEW
NUSANTARA REPORT

JULY 2026

Volume 21 number 3 | ISSN: 2527-435X

Regional Economic and Financial Review

NUSANTARA
REPORT

JULY 2026

CONTENTS

Foreword

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

Economic growth remained solid across all regions, supported by resilient domestic demand. Household consumption remained robust, while investment strengthened, primarily driven by various government projects across regions. Meanwhile, exports of key commodities in several regions require further strengthening. Consumer Price Index (CPI) inflation is projected to remain within the target range across all regions. Moving forward, Bank Indonesia will continue to strengthen policy synergy with the Central and Regional Governments to maintain price stability while supporting sustainable economic growth.

We sincerely hope the Nusantara Report provides valuable insights and benefits to all stakeholders and regional economists. Optimism regarding the continued resilience of regional economic performance is reflected in the Garuda design of the Bank Indonesia Office Complex in Nusantara Capital City (Koperbi IKN), symbolising the spirit of continued progress. Moving forward, Bank Indonesia will remain committed to supporting economic recovery and development across the Indonesian archipelago, taking into consideration the latest dynamics and regional characteristics. 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 in support of national prosperity.

Jakarta, 31st July 2026
Regional Department

Rudy Brando Hutabarat
Assistant Governor

“Intentionally blank page”

Executive Summary

Regional economic growth is projected to remain solid in the second quarter of 2026 despite heightened global uncertainty stemming from the conflict in the Middle East. Stronger investment remained a key driver of economic growth in most regions in the second quarter of 2026, boosted by the accelerated implementation of National Strategic Projects (PSN), government priority programs and private projects, particularly in industrial estates and special economic zones in several regions. Continued positive export performance also supported economic growth in Sumatra and Kalimantan, consistent with strong demand from major trading partners for coal and crude palm oil (CPO). By sector, regional economic growth was supported by strong construction activity across all regions. Positive sectoral performance was also supported by the manufacturing industry in Sumatra in line with continued growth in CPO processing. Manufacturing performance in Java also remained solid despite pressure from higher imported input costs. Meanwhile, improving mining sector performance in Sumatra and Kalimantan supported economic growth in both regions during the second quarter of 2026.

Regional economies are projected to record stronger growth in 2026 than in the previous year. Stronger economic growth across all regions will primarily be supported by resilient domestic demand, including household consumption and investment. Meanwhile, exports of key commodities in several regions need to be continuously strengthened amid slowing global demand due to the ongoing war in the Middle East. By sector, stronger regional growth in 2026 will be supported by construction activity related to the development of PSN projects, government priority programs and private projects in industrial estates and special economic zones in several regions. In terms of the mining sector, stronger performance in Balinusra and Sulampua will be supported by higher copper ore grades and the resumption of smelter operations following post-disaster recovery. Meanwhile, manufacturing industry performance in Java is projected to maintain solid growth, primarily supported by domestic demand amid weaker external demand.

Composite Consumer Price Index (CPI) inflation in the second quarter of 2026 remained within the target range. Nationally, CPI inflation was recorded at 3.34% (yoy), thus remaining within the 2.5±1% inflation target range. Core inflation increased moderately, driven by persistent pressures from international commodity prices amid solid domestic demand. Meanwhile, volatile food (VF) inflation remained below 5% in Java, Balinusra and Kalimantan, despite increasing from the previous period. This was influenced by lower supply following the end of the peak harvesting season and extreme weather in several major production hubs. VF inflation in Sumatra and Sulampua, however, continued to warrant attention, as it remained above 5% (yoy). In terms of administered prices (AP), inflation moderated as the low-base effect associated with electricity tariff discounts in the corresponding period of the previous year dissipated.

CPI inflation in 2026 is projected to remain within the 2.5±1% target range. The CPI outlook is underpinned by core inflation, which is projected to remain under control in line with inflation expectations remaining anchored within the target range and contained imported inflation. Meanwhile, VF inflation is projected to remain under control, supported by strengthened inflation control synergy between Bank Indonesia and the Central and Regional Governments through the National/Regional Inflation Control Teams (TPIP and TPID), coupled with stronger implementation of the Inflation Control and Food Prosperity Movement (GPIPS), including measures to anticipate the impact of weather disruptions (El Nino) on food prices. AP inflation is also projected to remain under control, supported by the Government's policy of maintaining energy prices.

Moving forward, persistently high global uncertainty triggered by the ongoing geopolitical conflict in the Middle East demands continued vigilance. The impact of the conflict warrants continued monitoring given its potential implications for the domestic economy. Negotiations between the United States and Iran concerning an agreement to resolve the conflict in the Middle East are expected to remain dynamic, requiring continued vigilance as well as stronger fiscal and monetary policy coordination and synergy to reinforce external resilience, maintain stability and bolster domestic economic growth. Bank Indonesia will therefore continue to strengthen its policy mix through monetary, macroprudential and payment system policies in close synergy with government policies to maintain stability, while supporting economic growth.

"Intentionally blank page"

PART 1

Overview of Recent Regional Economic Developments and Outlook

Regional Economic Growth

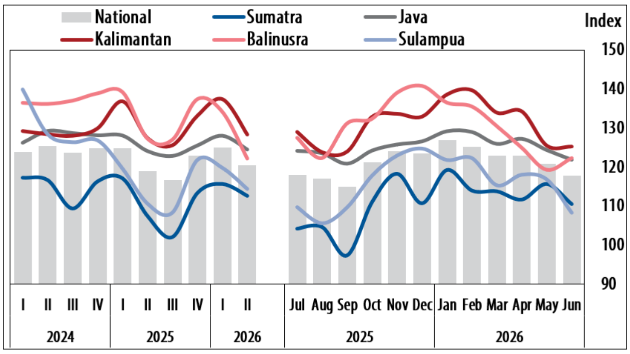
Regional economic growth in the second quarter of 2026 is projected to remain solid in all regions. Stronger investment was one of the main drivers of economic growth in most regions during the second quarter of 2026. Investment growth was supported by the continued implementation of various National Strategic Projects (PSN) and government priority programs, particularly in Java, as well as higher foreign direct investment (FDI) and domestic investment realisation in the manufacturing industry and mining sector in Kalimantan. In Sulampua, higher investment was driven by nickel downstreaming associated with the export-oriented basic metals industry. On the external sector, stronger global demand also supported export performance, particularly refined copper products and motor vehicles in Java, coal in Kalimantan, and CPO in Sumatra, supported by higher production, stronger demand from major destination countries and export market expansion into Africa. On the production side, tradable sector performance supported growth in Eastern Indonesia, particularly the mining sector in Balinusra and Sulampua. Furthermore, various strategic government and private projects, particularly in industrial estates and special economic zones, supported construction activity in most regions during the second quarter of 2026.

Domestic demand is expected to remain the key driver of economic growth in 2026 in most regions. Household consumption is projected to increase in most regions in line with maintained consumer purchasing power, the implementation of economic stimulus packages and the continuation of various government priority programs that support job creation and higher incomes. Investment is also projected to improve in all regions, primarily supported by ongoing government projects, including strategic investment through Danantara. By sector, stronger domestic demand will be reflected in improving trade as well as accommodation and food service activities in most regions, particularly Java and Sumatra. Meanwhile, ongoing government projects are expected to support construction sector performance in most regions. In Kalimantan, the construction sector will still be buoyed by development activity in Nusantara Capital City (IKN), albeit at a more moderate pace. Furthermore, manufacturing industry performance in Java as well as mining sector performance in Balinusra and Sulampua are projected to remain the main drivers of economic growth in their respective regions. Moving forward, several risks to the regional economic growth outlook warrant attention. In particular, the impact of heightened global geopolitical uncertainty, which could increase the cost of imported raw materials and energy as well as disrupt international mobility, must be anticipated.

Private Consumption

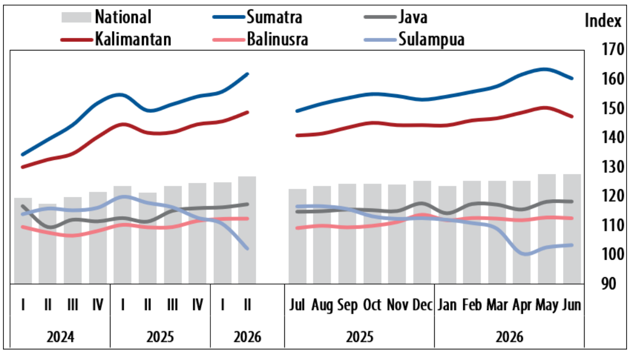
Private consumption is projected to remain solid in the second quarter of 2026. This is supported by resilient household consumption, as reflected by consumer confidence remaining in optimistic territory despite moderating slightly from the previous period. The moderation was consistent with the normalisation of private demand following the Ramadan and Eid-ul-Fitr national religious festive period (HBKN) at the end of the first quarter of 2026. Nationally, the Consumer Confidence Index (CCI) in the second quarter of 2026 was recorded at 117.8, thus remaining in optimistic territory with a reading above 100 (Graph I.1). Regionally, the highest consumer confidence was observed in Kalimantan and Java. On the income side, the aggregate Farmers' Terms of Trade (FTT) increase increased as an aggregate in the second quarter of 2026 in almost all regions, particularly Sumatra, Kalimantan and Java, given the start of the harvesting season, particularly for horticultural crops and smallholder plantation crops. This indicates stronger purchasing power among farming households, thereby supporting household consumption (Graph I.2).

In 2026, private consumption is projected to increase in most regions. The improvement will be supported by sustained consumer optimism, maintained purchasing power, and the implementation of the economic stimulus policy package in the second half of 2026. The stimulus package includes transportation discounts, food assistance, internship programs and tax incentives totalling Rp26.34 trillion. The stimuli are projected to boost regional household consumption activity, with household consumption expected to increase in all regions except Kalimantan. Household consumption growth is projected to be strongest in Sulampua and Java in 2026. Meanwhile, household consumption in Kalimantan is expected to maintain positive growth, albeit at a more moderate pace, in line with adjustments in mining sector activity as one of the region's key economic sectors.



Source: Bank Indonesia, processed

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

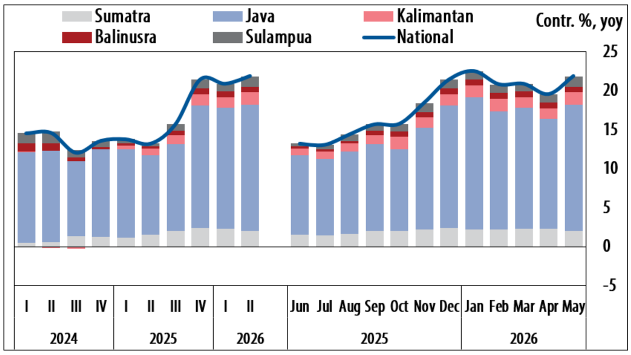


Source: BPS-Statistics Indonesia, processed

Graph I.2. Farmers' Terms of Trade

Investment

Investment in the second quarter of 2026 is projected to accelerate, particularly in Java, Sulampua and Kalimantan. The improvement is reflected in stronger growth in investment loans in the three regions (Graph I.3), alongside the accelerated implementation of downstreaming and government priority project. In Java, higher investment was driven by ongoing nickel downstreaming projects, while in Sulampua investment was driven by the current development of nickel downstreaming projects. Meanwhile, investment in Kalimantan grew in line with higher foreign direct investment (FDI) and domestic investment realisation, particularly in the manufacturing industry, although investment in upstream mining moderated in line with adjustments to production targets under the Work Plan and Budget (RKAB) for 2026. In Sumatra, building investment remained solid, whereas non-building investment recorded more moderate growth as private investors adopted a more cautious approach to new projects. In Balinusra, investment growth is projected to moderate following stronger non-building investment realisation in the first quarter of 2026.



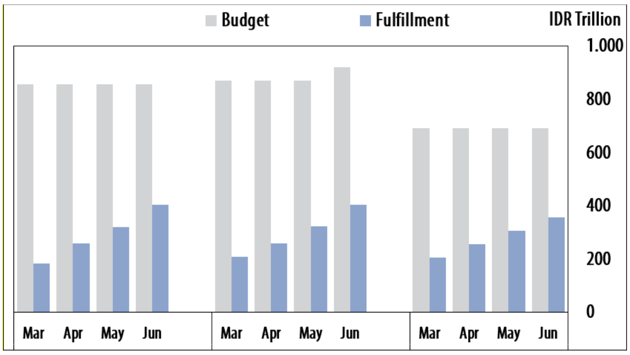
Source: Bank Indonesia, processed

Graph I.3. Investment Loans by Region

Continued investment growth in the second quarter of 2026 is projected to strengthen overall investment performance in 2026. The outlook is supported by the accelerated implementation of government priority projects, faster post-disaster rehabilitation and reconstruction, as well as continued development of downstreaming infrastructure. In Sumatra, investment is supported by faster post-disaster reconstruction, which is expected to boost construction activity, together with palm oil and bauxite downstreaming projects that strengthened natural resource-based investment. In Java, investment growth is supported by the realisation of various government priority projects, development of the electric vehicle battery ecosystem and energy projects that support manufacturing expansion. Meanwhile, in Sulampua, ongoing nickel downstreaming projects, particularly the construction of processing facilities, will remain the dominant investment driver through the construction of processing facilities. In Kalimantan, investment is supported by the development of natural resource-based manufacturing industries and higher biodiesel production capacity. The investment outlook in Balinusra is supported by development of tourism accommodation and implementation of government strategic projects.

Regional Government Consumption

Fiscal support for regional economies remained solid in the second quarter of 2026, primarily supported by accelerated central government spending in the regions. Fiscal performance was supported by the realisation of personnel expenditure and government programs, including the Free Nutritious Meals (MBG) program, Local Schools (SR) program and post-disaster rehabilitation in Sumatra. Nevertheless, growth moderated compared with realisation in the first quarter of 2026 as seasonal factors dissipated .following the disbursement of the mandatory religious holiday allowance (THR) and higher spending during the Eid-ul-Fitr national religious festive period. Meanwhile, support from regional budgets remained relatively limited in line with lower realisation of Transfers to Regions (TKD (Graph I.4) and suboptimal locally generated revenue (PAD) collection.



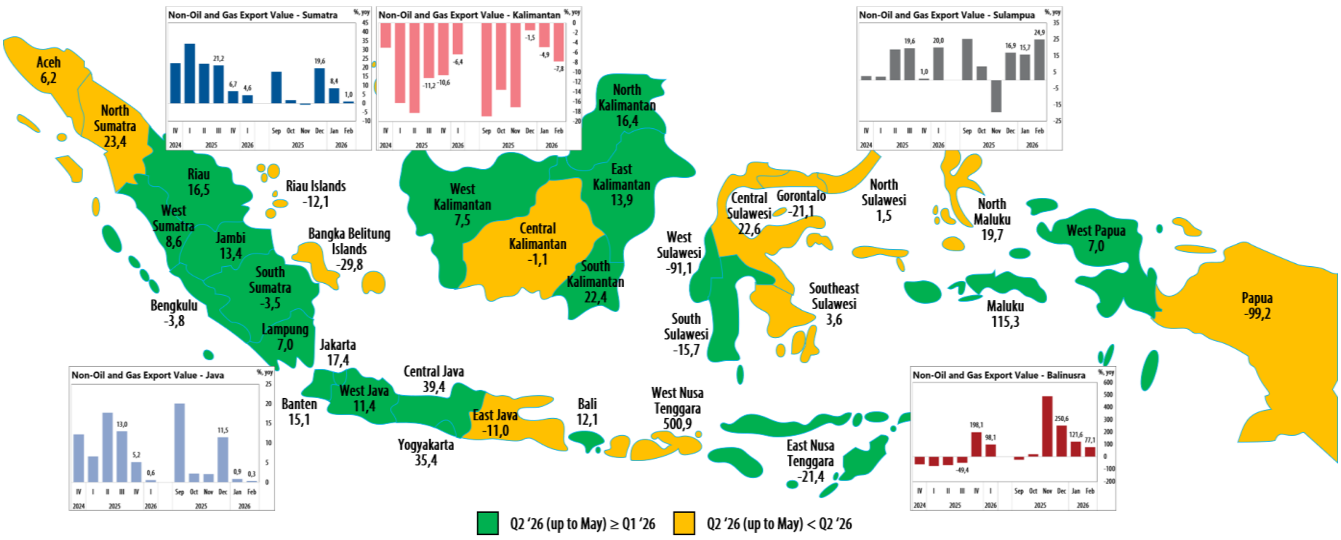
Source: Ministry of Finance, processed

Graph I.4. Regional Transfer Fund Allocations in Q2 2026

The outlook for fiscal support to regional economies remains positive in 2026. Fiscal support for regional economic activity will primarily stem from the expanded implementation of Asta Cita priority programs, including the MBG program, Local Schools (SR) program, and Red and White Village/Subdistrict Cooperatives (KDKMP), alongside central government spending that benefits the regions. This includes adjustments to the Special Autonomy Fund in Papua. Given narrower regional fiscal space due to lower TKD allocations in 2026, regional government spending is expected to accelerate at a more moderate pace, particularly in regions with a higher dependence on Transfer Fund Allocations to Regions (TKD).

International Exports

Non-oil and gas exports increased in the second quarter of 2026 through May, primarily supported by Sumatra, Java and Kalimantan. In Sumatra, the increase in exports primarily stemmed from higher CPO export value in line with elevated international commodity prices. In Java, exports were supported by persistently strong demand from major trading partners for various manufacturing products, particularly machinery and footwear, reflecting the sustained competitiveness of the manufacturing sector. In Kalimantan, higher exports were primarily supported by stronger demand for coal to meet higher energy needs during the summer season in major trading partner countries. Meanwhile, export growth in Sulampua was comparatively limited given lower demand for downstream nickel products. Exports from Balinusra were restrained following the end of the copper concentrate export relaxation policy, which reduced shipment volumes to international markets.



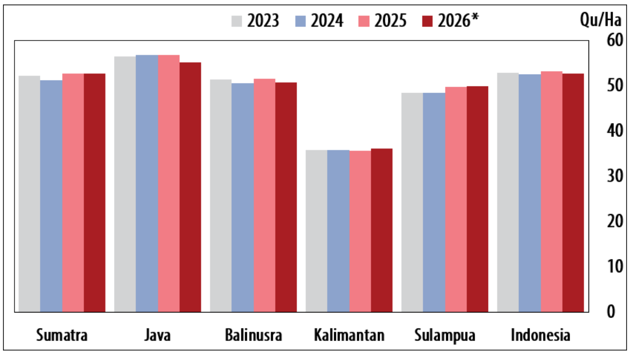
Source: Directorate General of Customs and Excise (DJBC), processed. Second-quarter data as of May 2026.

Figure I.1. Map of Non-oil and Gas Export Growth by Region in Q2/2026 (% yoy)

Regional non-oil and gas exports are projected to continue growing throughout 2026. Export performance will be supported by sustained demand for mineral commodities and maintained manufacturing competitiveness. In Sumatra, positive export performance will be supported by elevated prices for major commodities, despite normalising after strong export realisation to the United States in the previous year. In Java, exports are projected to remain resilient in line with maintained manufacturing industry competitiveness despite persistent international trade uncertainty and higher logistics costs. Meanwhile, export growth in Kalimantan and Sulampua is projected to moderate in line with adjustments to coal and nickel production targets under the Work Plan and Budget for 2026. In Balinusra, exports are projected to adjust as the transition towards processing copper concentrate through domestic smelter facilities continues, restraining exports in the short term while supporting higher domestic value added and export competitiveness over the medium term.

Agriculture

Agricultural sector performance in the second quarter of 2026 is projected to remain solid, despite moderating following stronger harvesting activity in the previous period. Second-quarter rice production is projected to moderate in line with a shift in the peak harvesting season all regions and the forecast of drier weather, particularly in Java. In addition, horticultural production is expected to decline as rising production costs weigh on cultivation intensity. Nevertheless, agricultural sector performance is projected to maintain positive growth in the second quarter of 2026, supported, among other factors, by higher production of fresh fruit bunches (FFB) in Sumatra and Kalimantan, among others.



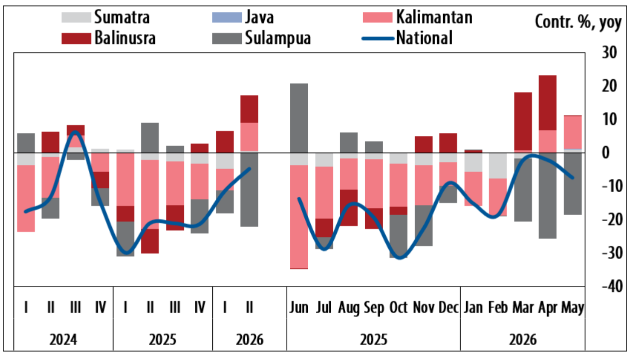
Source: BPS-Statistics Indonesia, processed
**as of May 2026*

Graph I.5. Rice Land Productivity

Agricultural sector performance in 2026 is projected to maintain strong growth, despite albeit moderating compared with 2025. The Godzilla El-Nino phenomenon, which is expected to bring drier condition than previously forecast, is projected to weigh on rice productivity,particularly in Java, Sumatra and Balinusra (Graph I.5), as well as capture fisheries production, especially in Sulampua. Nevertheless, sectoral moderation will be offset by an improving outlook for FFB production, as replanted areas enter production, thereby expanding production capacity, coupled with continued productivity improvements through implementation of the Palm Oil Rejuvenation Program (PSR) and Good Agricultural Practices (GAP). On the demand side, the gradual implementation of B50 beginning on 1st July 2026 is projected to strengthen domestic demand for CPO further, thereby providing an additional boost to agricultural sector performance in 2026.

Mining

Mining sector performance is expected to improve in the second quarter of 2026, driven primarily by stronger performance in Kalimantan and Sumatra. In Kalimantan, the improvement is driven by strong coal demand from China amid elevated prices, coupled with domestic market obligations (DMO) requirements to meet domestic electricity demand. This was reflected by higher exports during the reporting period (Graph I.6). Meanwhile, in Sumatra, performance is projected to improvein line with stronger domestic coal demand and the approval and issuance of the work plan and budget (RKAB), providing businesses with greater certainty to increase production. In Balinusra, mining sector growth is projected to remain high, supported by sustained copper concentrate production and more optimal utilisation of downstream processing facilities (smelters), despite moderating as the low-base effect dissipates. Meanwhile, the mining sector performance in Sulampua is projected to continue contractingdue to lower nickel ore production following work plan and budget (RKAB) adjustments, although the contraction is expected to narrow on the back of higher copper and gold production.



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

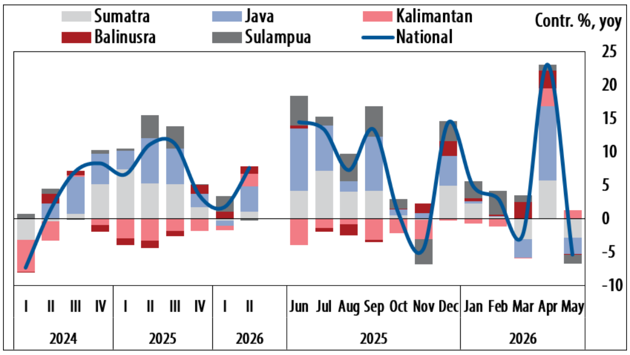
Graph I.6. Value of Mining Exports by Region

The mining sector outlook for 2026 is projected to improve, primarily underpinned by stronger performance in Sulampua and Balinusra. In Sulampua, the improvement is expected to stem from the recovery in copper and gold production in Papua, as well as higher gold production in Gorontalo, which is expected to offset moderating nickel ore production following adjustments to the work plan and budget (RKAB). In Balinusra, mining sector performance is predicted to strengthen further in line with more optimal utilisation of copper concentrate export quotas and higher smelter utilisation, thereby supporting higher production volumes and downstream processing activity throughout the year. Meanwhile, mining sector performance in Kalimantan and Sumatra is projected to record limited growth, primarily due to lower coal production quotas, as contained in the work plan and budget.

Manufacturing

Manufacturing sector performance is projected to improve in the second quarter of 2026, supported by stronger external demand, particularly in Java and Sumatra, as reflected in continued growth in the value of non-oil and gas export value (Graph I.7). In Java, stronger performance is primarily driven by higher export demand for textiles and textile products (TPT), footwear, and food and beverages, particularly from ASEAN, the United States and Japan. In Sumatra, manufacturing performance is projected to accelerate, supported by higher crude palm oil (CPO) production following the post-harvest period, inventory accumulation ahead of the mandatory implementation of B50, and increased pulp production to meet export demand. Meanwhile, manufacturing performance in Kalimantan is expected to weakened due to lower fuel production, as the Balikpapan Refinery Development Master Plan (RDMP) refinery is still undergoing the commissioning process, coupled with disruptions to imported fertiliser raw material supplies from the Middle East. In Sulampua, manufacturing performance is expected to moderate due to lower production of processed nickel, particularly Mixed Hydroxide Precipitate (MHP), following adjustments to nickel ore RKAB quotas and higher sulphur prices, given that sulphur is a key processing input. In Balinusra, manufacturing performance is also projected to moderate as the low-base effect fades, following the commencement of operations at the copper smelter during the corresponding period of the previous year.

Manufacturing industry performance is projected to remain solid throughout 2026, led by Java. In Java, industrial performance is projected to strengthen on the back of persistently strong domestic demand, supporting the food and beverage, as well as automotive industries. Improving industrial performance in Java will also be supported by the Gresik copper smelter in East Java reaching full operational capacity, thereby increasing national metal production capacity. In Balinusra, industrial performance is projected to to remain positive, supported by optimised production and absorption of processed copper products from smelters in West Nusa Tenggara. Conversely, industrial performance in Kalimantan and Sumatra is projected to weaken in line with lower CPO production, reflecting drought-related constraints on FFB production, particularly in the second half of 2026.. In Sulampua, manufacturing growth will be restrained by lower nickel ore production quotas, which will constrain feedstock availability for the downstream nickel industry.



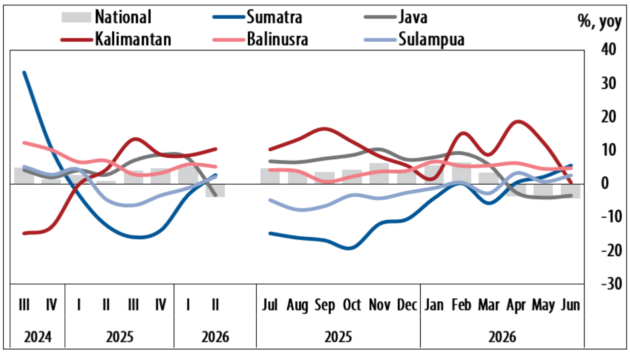
Source: Directorate General of Customs and Excise (DJBC), processed

Graph I.7. Value of International Non-oil and Gas Exports by Region

Trade

Trade sector performance in the second quarter of 2026 is projected to remain solid acrss all regions, despite normalising demand following the Eid al-Fitr festive period, as reflected in slower retail sales in most regions (Graph I.8). In Java, the moderation is expected to driven primarily by weaker sales of consumer goods, including fashion items, automotive products and building materials. In Kalimantan and Sulampua, moderating trade sector performance primarily reflects normalising private consumption after the Eid-ul-Fitr festive period. Meanwhile, in Sumatra, the slowdown was attributable not only to normalising demand but also to electricity supply disruptions (blackouts), which impacted trading activity. In Balinusra, lower domestic and international tourist arrivals also affected trade activity through weaker demand for various consumer goods.

In 2026, trade sector performance is projected to maintain growth, led by Java, Sumatra and Sulampua. In Java, improving performance will be supported by ongoing government stimuli, particularly transportation incentives that increase public mobility and trade activity. Strong performance in the second half of 2026 will also be supported by a greater number of international events and stronger consumption after the school holiday period. In Sumatra, the trade sector outlook is supported by higher spending on goods associated with ongoing government projects, particularly post-disaster rehabilitation. Meanwhile, higher prices of major export commodities are projected to increase household income, thereby strengthening household purchasing power and trading activity. In Sulampua, the trade sector outlook remains solid in line with continued expansion by retailers through additional distribution fleets and warehouse development. In contrast, trade sector performance in Kalimantan is projected to be restrained by moderating household consumption due to lower income from coal mining activity and expectations regarding economic conditions. Trade activity in Balinusra is also expected to be restrained by fewer domestic and international tourist arrival.



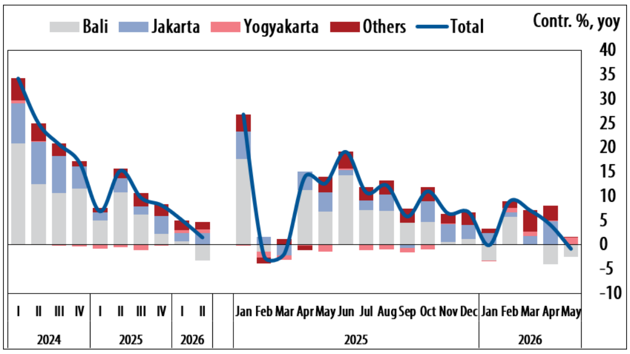
Source: Bank Indonesia

Graph I.8. Retail Sales Index by Region

Accommodation and Food Service Activities

Accommodation and food service activities in the second quarter of 2026 are projected to record limited growth. This is reflected primarily in subdued growth in international tourist arrivals across various regions (Graph I.9). In Java, moderating sectoral performance was primarily influenced by fewer domestic trips, greater public reluctance towards spending on non-essential needs and the growing trend of day trips, which has reduced demand for accommodation services. Meanwhile, performance in Balinusra was also restrained by the escalating geopolitical conflict in the Middle East, which has affected international tourist flows. The impact is reflected in the cancellation of several cruise ship visits and temporary closure of several direct international flight routes. Nevertheless, high tourist arrivals from Australia and China helped to maintain tourism sector performance in the Balinusra region.

In 2026, accommodation and food service activities are projected to strengthen, primarily supported by improvements in Java. Stronger performance will be driven by higher public mobility during the holiday period compared with the previous year, a higher number of international events, scheduled meetings, incentives, conventions and exhibitions (MICE), as well as transportation fare discounts during the school holidays to encourage travel and consumption. In addition, broader implementation of the Free Nutritious Meals (MBG) program, both through higher service volumes and broader beneficiary coverage, is projected to increase demand for food and beverage services, particularly in Java. Meanwhile, accommodation and food service activities in Balinusra are projected to continue moderating amid a limited recovery in domestic travel. Several factors are also projected to restrain sectoral performance, including relatively high airfares and a shift in domestic tourist preferences towards shorter and more affordable trips.



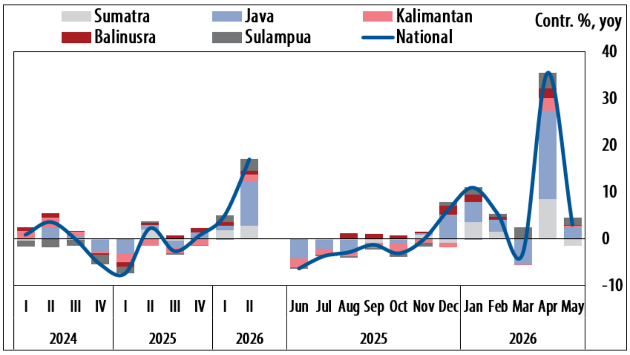
Source: BPS-Statistics Indonesia, processed

Graph I.9. Inbound International Tourist Arrivals via Main Gateways

Construction

Construction sector performance in the second quarter of 2026 is projected to increase in all regions, particularly Java and Sumatra. The improvement is driven by higher realisation of government infrastructure spending, accompanied by ongoing private construction activity. Stronger performance is also reflected in higher cement sales across all regions, led by the Java region (Graph I.10), indicating persistently high construction activity. In Java and Sumatra, construction sector performance is supported by: (i) acceleration of National Strategic Projects (PSN), including the Merah Putih Village/Subdistrict Cooperatives (KDKMP) and People's Schools program; (ii) continued development of Danantara strategic projects; and (iii) private construction activity in Industrial Estates (Kawasan Industri/KI) and Special Economic Zones (Kawasan Ekonomi Khusus/KEK). Construction sector performance in Sulampua is also expected to strengthen, supported by the ongoing development of High-Pressure Acid Leach (HPAL) smelter facilities in the Indonesia Pomalaa Industrial Park (IPIP). In Kalimantan, construction sector growth is supported by government projects related to connectivity and the local economy, coupled with the continued acceleration of IKN projects. In Balinusra, stronger construction sector performance is supported by the commencement of several new projects, particularly supporting infrastructure and accommodation in the tourism sector, in line with the current recovery of investment in the tourism sector.

Construction sector performance is projected to strengthen in almost all regions in 2026. Various government and private projects already underway since the first half of 2026 are expected to continue supporting performance through year-end, particularly in Java. In Sumatra, continued development of the Trans-Sumatra Toll Road (JTTS), commencement of several mining as well as oil and gas projects, alongside post-disaster rehabilitation projects are projected to boost construction sector performance. In Sulampua, stronger performance will be driven by the start of several government priority projects, such as the Trans-Papua Road and the KSPEAN Wanam-Muting Road in South Papua, complementing the continuation of multiyear private projects, such as IPIP in Southeast Sulawesi, Excelsior in Central Sulawesi, UCC Tangguh and PTFI's Kucing Liar Mine. Meanwhile, in Balinusra, construction sector performance will remain supported by the ongoing development of strategic infrastructure and accommodation facilities to support tourism sector growth. Construction sector performance in Kalimantan, however, is projected to remain limited due to lower construction activity in line with a smaller IKN development budget allocation this year.



Source: Indonesia Cement Association (ASI), processed.

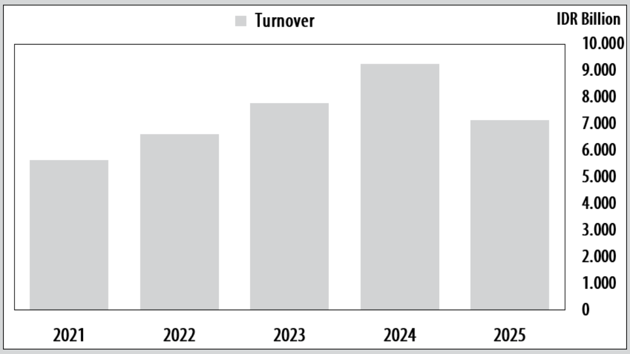
Graph I.10. Cement Sales

“Intentionally blank page”

BOX 1

Bank Indonesia Strategy to Promote MSMEs to Support Inclusive Economic Growth and Job Creation

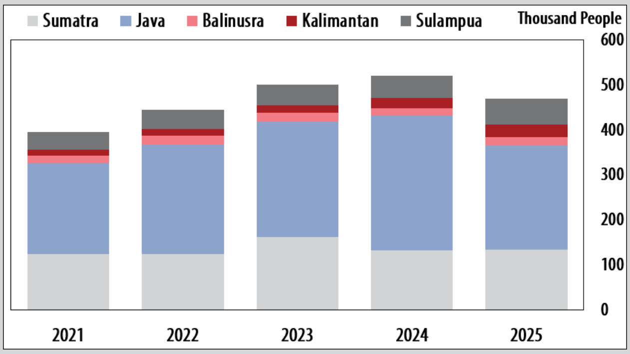
Trade fragmentation, supply chain disruptions, and heightened global economic uncertainty stemming from geopolitical tensions have further underscored the importance of strengthening micro, small and medium enterprises (MSMEs) to enhance domestic economic resilience. Generating approximately 60.5% of Gross Domestic Product (GDP) and dominating 90% of national employment, MSMEs play a strategic role in maintaining sustainable and inclusive economic growth. Nevertheless, external pressures throughout 2025, which increased production costs and weakened demand, triggered slowdowns among several MSMEs under the mentorship of Bank Indonesia. This was reflected by a 23% (yoy) contraction in turnover, accompanied by lower employment absorption in several regions, particularly at manufacturing-based MSMEs located in Java (Graph I.11). Such developments indicate that weaker MSME performance is not only affecting business activity but has also begun to impact the capacity of the real sector to create jobs and support economic growth (Graph I.12).



Source: Bank Indonesia, processed

Graph I.11. Turnover of MSMEs Mentored by Bank Indonesia

Addressing these challenges and supporting the Government's Asta Cita program, Bank Indonesia launched the Integrated MSME Entrepreneurship Transformation Program for Job Creation and the Local Economy. The program is designed not only to strengthen business capacity but also to build an entrepreneurial ecosystem capable of creating value added, unlocking compelling employment opportunities and boosting productivity. Through an integrated approach, MSME development is implemented comprehensively, encompassing stronger entrepreneurial capacity, product innovation, business coaching, access to finance and market expansion. Implementation is supported by all 46 Bank Indonesia Representative Offices through synergy with government ministries/agencies, regional governments, academia, the financial industry, associations and various strategic partners, thereby enabling more effective and sustainable MSME development.



Source: Bank Indonesia, processed

Graph I.12. Employment at MSMEs Mentored by Bank Indonesia

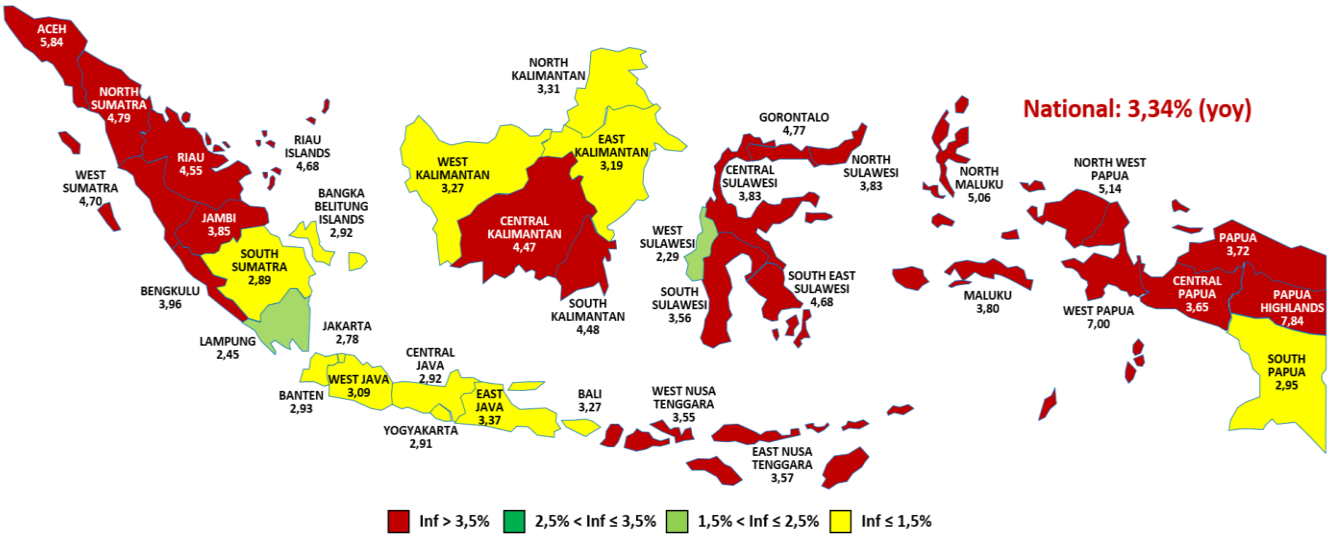
As part of the entrepreneurship transformation, Bank Indonesia has developed four flagship programs to help create value added and employment opportunities: Cangkir Barista, Citra Nusa, Air Berkah Indonesia and Tani Berkah. The Cangkir Barista program is designed to strengthen the competitiveness of the coffee industry by increasing the number of internationally certified baristas, thereby supporting the penetration of Indonesian coffee into global markets. The Citra Nusa program aims to increase the competitiveness of traditional textile MSMEs through product innovation and entrepreneurship development, enabling them to become part of the national creative industry supply chain and export markets. The Air Berkah Indonesia program focuses on promoting the economic independence of Islamic boarding schools (pesantren) through the development of 200 local resource-based bottled drinking water business units as part of efforts to strengthen the halal value chain. Meanwhile, the Tani Berkah program aims to develop technology-based greenhouse agricultural business units at Islamic boarding schools to increase productivity, strengthen food security and create new sources of regional economic growth. Implementation of the four programs is directed towards increasing MSME productivity, expanding employment opportunities and increasing economic value added through entrepreneurship development in priority sectors.

Moving forward, the transformation of MSME entrepreneurship is expected to become a key driver of more inclusive economic growth through higher productivity, job creation and a stronger local economies. Supported by synergy among stakeholders, the program is expected not only to strengthen MSME competitiveness but also to reinforce economic resilience and support the 2045 vision of a Golden Indonesia.

Figure I.2. Integrated MSME Entrepreneurship Transformation Program

PART 2

Recent Regional Inflation Developments and Outlook



Source: BPS-Statistics Indonesia, processed

Figure II.1. Map of CPI Inflation by Province in Q2/2026 (% yoy)

Composite Consumer Price Index (CPI) inflation accross all regions remained well controlled in the second quarter of 2026, staying within the 2.5±1% target range. Nationally, CPI inflation in the second quarter of 2026 remained within the 2.5±1% target range and was lower than in the previous period. By component, core inflation increased but remained under control, supported by Bank Indonesia's consistent policies to anchor inflation expectations. Administered prices (AP) inflation moderated, reflecting the low base effect from electricity tariff adjustment in the previous period. A further decline, however, was restrained by volatile food (VF) and core inflation. The increase in core inflation was primarily driven by higher cooking oil prices amid heightened global geopolitical uncertainty. Meanwhile, VF inflationary pressures increased in almost all regions, driven by supply disruptions in major food production centers and distribution constraints, particularly to Eastern Indonesia. At the provincial level, the highest CPI inflation was recorded in Highland Papua, while the lowest was recorded in West Sulawesi (Figure II.1).

Core inflation edged up in the second quarter of 2026 but remained well contained across all regions. The increase was primarily driven by the pass-through of higher international commodity prices to domestic prices, particularly cooking oil. Nevertheless, further inflationary pressures were partly offset by moderating gold prices as geopolitical tensions eased. Contained core inflation was supported by consistent Bank Indonesia monetary policy to anchor inflation expectations within the target range, coupled with exchange rate stabilisation policies to minimise the pass-through effect of higher imported commodity prices on domestic prices.

VF inflation increased but remained under control in most regions. VF inflation in the second quarter of 2026 was primarily influenced by lower supply after the harvesting season, together with weather conditions and pest infestations in food production hubs, particularly in Sumatra, Sulampua and Kalimantan. Weather conditions also affected food supply distribution, particularly to Sulampua and Kalimantan. By commodity, higher VF inflation was mainly driven by elevated horticultural prices, including shallots and garlic, in all regions. A further increase in VF inflation was negated, however, by lower purebred chicken meat and egg prices given higher supply and normalising demand.

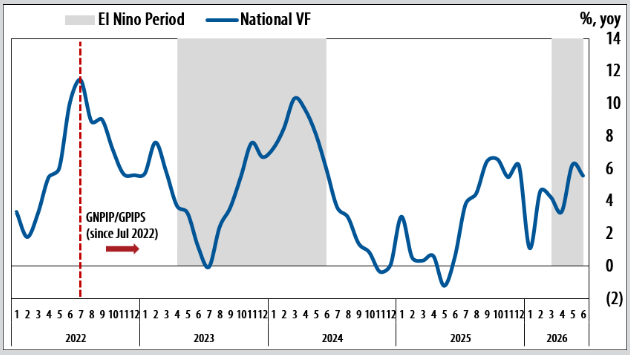
AP inflation declined in all regions, with the lowest rate recorded in Java. Lower AP inflation in the second quarter of 2026 was primarily attributable to electricity tariffs in line with the low base effect following electricity tariff discounts in the first quarter of 2025. A further decline was offset by adjustments to non-subsidised fuel prices and Liquefied Petroleum Gas (LPG) distribution constraints in several regions.

CPI inflation in 2026 is projected to remain within the 2.5±1% target range. The outlook is supported by consistent Bank Indonesia monetary policy to anchor inflation expectations and minimise the impact of imported inflation arising from the ongoing escalation of global geopolitical tensions. In terms of volatile foods, inflation is projected to remain below the 5% (yoy) target, supported by improving supply from food production hubs amid ongoing inflation control measures. Inflation control will focus on supply availability and seamless distribution. Bank Indonesia will also continue strengthening synergy with the Government through the National/Regional Inflation Control Teams (TPIP/TPID), coupled with strengthened implementation of the Inflation Control and Food Prosperity Movement (GPIPS), including measures to anticipate the impact of weather disruptions (El Nino) on food prices.

BOX 2

National Initiative For Inflation Control and Food Prosperity(GPIPS)

VF inflation remains one of the determinants affecting inflation dynamics in Indonesia. Food security must continue to be strengthened to maintain price stability, particularly in the face of various challenges, including climate variability, changes in agricultural productivity and interregional supply dependencies. Such conditions require synergy between short-term stabilisation measures and efforts to strengthen food supply resilience.



Source: BPS-Statistics Indonesia and the Meteorological, Climatological and Geophysical Agency (BMKG), processed
Graph II.1. Volatile Food Inflation and El-Nino Risk Periods, 2022 - June 2026 (% yoy)

In response to these challenges, Bank Indonesia and the Government strengthened implementation of the National Movement for Food Inflation Control (GNPIP), transforming the program in 2026 into National Initiative For Inflation Control and Food Prosperity (GPIPS). The transformation reflects three main philosophies. First, supporting inflation control by strengthening supply availability and ensuring uninterrupted food distribution. Second, supporting implementation of the Government's Asta Cita program, particularly efforts to achieve national food security and self-sufficiency. Third, improving public welfare, particularly among farmers, by strengthening institutions, partnerships with offtakers, downstreaming food commodities and expanding market access, thereby creating an integrated food ecosystem.

The three philosophies have been translated into seven GPIPS flagship programs, encompassing productivity improvements through Good Agricultural Practices (GAP), stronger post-harvest management and downstreaming, optimisation of Interregional Cooperation (KAD), Food Distribution Facilitation (FDP), the Affordable Food Movement (GPM)/Market Operations (OP), stronger food balance management, as well as policy coordination and communication through synergy between the National Inflation Control Team (TPIP), Regional Inflation Control Teams (TPID), government ministries/agencies, regional governments, businesses and farmer groups.

Figure II.2. Seven Flagship Programs within the GPIPS 2026 Framework

GPIPS implementation has also fostered the development of various inflation control innovations tailored to the potential opportunities and challenges of each region. In South Sumatra, North Sumatra, East Kalimantan and several other regions, innovations have been implemented through the development of an Early Warning System (EWS) integrated with inflation management protocols, thereby supporting the TPID teams when anticipating potential price volatility earlier and on a more forward-looking basis. Meanwhile, in South Sulawesi, a Mini Distribution Centre (MDC) has been developed to strengthen food distribution and maintain affordable prices for the public.

In the second half of 2026, the focus of GPIPS implementation will be directed towards improving the quality of interventions to make them more accurate, anticipatory and impactful. Short-term interventions will continue to be optimised through market operations based on the three principles of right time, right location and right target, supported by stronger upstream interventions and utilisation of the early warning system

(EWS) to enable a more forward-looking approach. Through this strategy, GPIPS is expected to contain VF inflation below 5%, while strengthening food supply resilience and preserving public purchasing power.

EDITORIAL TEAM

Steering Committee
Rudy Brando Hutabarat

Editorial Coordinator
Tri Yanuarti

Authors

Regional Department

KEKDA Formulation Group
Hasiando Ginsar Manik
Wahyu Ari Wibowo
MHA Ridhwan
Farisan Aufar
Leinnia Fawaqa
Muhamad Rifki Maulana
Rasyid Ramadhan Samsuri
Alisya Hasna Fahrizi

KEKDA Implementation Group
Citra Agustina
Elisabeth R.S.Y. Silitonga

BANK INDONESIA

For further information please contacting:

BANK INDONESIA
Regional Department
KEKDA Formulation Group

BANK INDONESIA

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