

Still standing, but the ground is shifting

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Summary

- Elevated oil prices and stalled peace process are increasing stagflationary risk across the region, with Indonesia's headline inflation shielded by subsidies are growing costlier by the day.
- Q1-26 growth is expected to remain resilient at 5.13-5.26% YoY, supported by strong Ramadan spending, fiscal acceleration, and continued investments toward gov't programme.
- Factors that lifted Q1 will largely be absent Q2 onwards, with M2 growth fading, private loan decelerating, and fuel price adjustment seems inevitable, we revise our 2026 GDP forecast to 5.0-5.1% YoY.

- Elevated oil prices remain the dominant market concern as peace negotiations have stalled, with little common ground between the United States and Iran's respective demands. On 22nd April, President Trump had indefinitely extended the ceasefire, citing Iran's "fractured" leadership and need for more time to submit negotiating terms, while keeping the US naval blockade of Iranian ports firmly in place. The extension of the ceasefire reads less as diplomatic progress but rather a managed stalemate between the two countries.
- The oil market is now telling two different stories simultaneously, depending on which screen you are watching. Physical crude oil was traded in the \$130-150/bbl range through March and early April, while ICE Brent futures was trading in the \$90-115/bbl range (*see chart 1*). The divergence reflects a structural split: East of Suez, buyers are pricing real physical shortage, freight stress and delivery risk, West of Suez, futures market continue to price a potential diplomatic resolution.
- Even in the scenario where the strait reopens, the relief is likely to be temporal and partial. Prior

ceasefire announcement has triggered the Brent price to drop by \$10-20 based on speculative positioning, only for the price to rise again and find a new floor as supply chain bottlenecks, rerouting costs, and infrastructure damages reassert themselves.

- The consequences of a prolonged energy shock are increasingly being captured in a single word: stagflation. Higher energy costs are feeding directly into production costs, transport inflation, and food prices across the region, further compressing purchasing power and consumer demand. The Philippines has become the latest casualty of this trend, following its benchmark rate hike of 25 basis points to 4.50% in its April meeting, as the country's inflation outlook has risen to 6.3%.
- Indonesia itself is not insulated from these dynamics, even if it appears so on the surface. Headline CPI, excluding the electricity base effect, is already on the rise with further acceleration expected, as Rupiah depreciation and rising raw material costs exert upward pressure.

A ray of light before the war

- In the weeks before the war erupted, the domestic economy was showing signs of recovery. With growth momentum from the previous quarter appearing well-supported by a confluence of fiscal stimulus, an earlier Ramadan, a manufacturing sector that had not yet absorbed the full weight of the energy shock, and a low base effect from last year's slower growth. Against this backdrop, **we are expecting the Q1-26's GDP growth to be in the range of 5.13% - 5.26%**, a moderation from Q4-25's 5.39%, though remain elevated.
- The largest contributor, **household consumption, appeared solid through much of the quarter**. Our BCA consumer transaction index recorded continued momentum through January and February, supported by elevated government stimulus, including higher Ramadan allowance (*Tunjangan Hari Raya*) disbursements ahead of Eid and an earlier and more vigorous Ramadan spending season. The vigorous January-February impulse, however, gave way to a sharper March deceleration as the post-Eid correction arrived. March data confirmed this decline: car sales reversed to -13.8% YoY with wholesale volumes falling 24.6% MoM, while motorcycle sales plummeted 17.2% YoY.
- **The government's fiscal expansion was indeed an indispensable pillar of Q1-2026 growth**, with total spending reached Rp815 trillion by end-March 2026, a surge of 31.4% YoY. Amplified by last year's low base from budget efficiency measures, the spending was a deliberate front-loading strategy to ensure fiscal stimulus is felt earlier across the year.
- This spending impulse had filtered visibly into investment activity, with agriculture sector loan growth accelerating sharply (*see chart 2*), likely

“Q1-26 will be the high-water mark for 2026 growth trajectory”

reflecting disbursements tied to the free nutritious meal programme and red-white cooperatives. The pattern is further corroborated by Q1 bank lending data, where several state-owned banks reported growth above 10% while several private banks fell far below that threshold.

- Higher investment activity, however, came at a cost to the external account. Imports grew 14.4% YoY in January-February period, with capital goods surging 34.4%. Exports, meanwhile, grew just 2.19% YoY in the same period, weighed down by weaker global industrial demand. Although March data showed some improvement, the full Q1-2026 trade surplus is estimated at around USD4.58 billion, less than half of Q1-2025's USD11.27 billion.

When the tailwind turn

- **The Q1 result, wherever it prints, will be the high-water mark for Indonesia's 2026 growth trajectory.** The confluence of factors that lifted Q1—Ramadan spending, low-base government expenditure, a manufacturing expansion that had not yet felt the full force of the energy shock will be largely absent in Q2 onwards. Meanwhile, the monetary tailwind that has supported nominal GDP growth in recent quarters (*see chart 3*) is itself beginning to fade: M2 growth has started to stagnate, and the high-base effect from the Rp200 trillion liquidity injections made in Q4-2025 will weigh further on YoY money supply readings later in the year.
- **The more immediate threat to the growth outlook is inflation**—and Indonesia is currently in a waiting game on that front. Subsidised fuel prices have shielded households from the full pass-through of global oil prices, but this shield is being financed by a fiscal position under growing strain. A fuel price adjustment—increasingly a

matter of when rather than if—would add an estimated 2.1–2.3% to headline CPI and likely push SBN yields higher as the market reprices both inflation risk and fiscal sustainability.

- Paradoxically, this is where ample corporate net bank balances (*see chart 4*) become a double-edged sword. Corporates with surplus liquidity are well-positioned to absorb gov't bond at attractive yields, providing a stabilising demand base for the bond market—but the same calculus that draws corporates toward high-yielding paper simultaneously discourages them from deploying that liquidity into loans and real investment.
- The most plausible escape from these dynamic lies in the commodity sector. Should prices remain elevated on a prolonged conflict, Indonesian exporters in coal, CPO, and base metals stand to benefit from it, encouraging them to expand and make a real investment instead. Realising this upside, however, **requires the government to relax the export restrictions tightened earlier in the year**. An elevated commodity price environment also carries a meaningful fiscal benefit through their non-tax

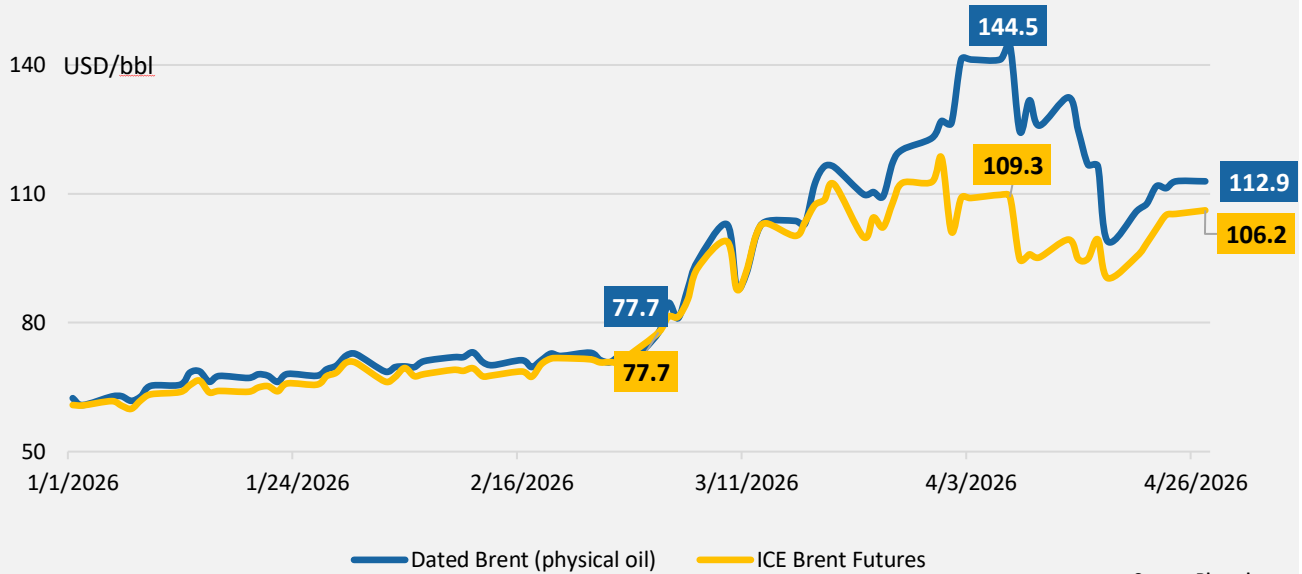
revenue, providing the government with additional cushion to partially offset the subsidy burden and prolong the fuel price shield.

- The growth risk toward the remainder of 2026 remains wide. A diplomatic resolution to the conflict would ease oil price, relieve subsidy pressure and allow demand to recover, a scenario in which growth settling closer to the upper end of our revised full year forecast of 5.0-5.1% YoY. A prolonged stalemate, by contrast raises the probability of a forced fuel price adjustment and a sovereign yield spike — pushing the outrun toward the lower bound. In either case, the **government's ability to preserve fiscal credibility while navigating through the energy shock will be an important factor determining where Indonesia's 2026 growth trajectory lands**.

Chart 1

Diverging paper and physical oil

Physical oil buyers are pricing real physical shortage, freight stress and delivery risk, while paper oil buyers price in on a potential diplomatic resolution

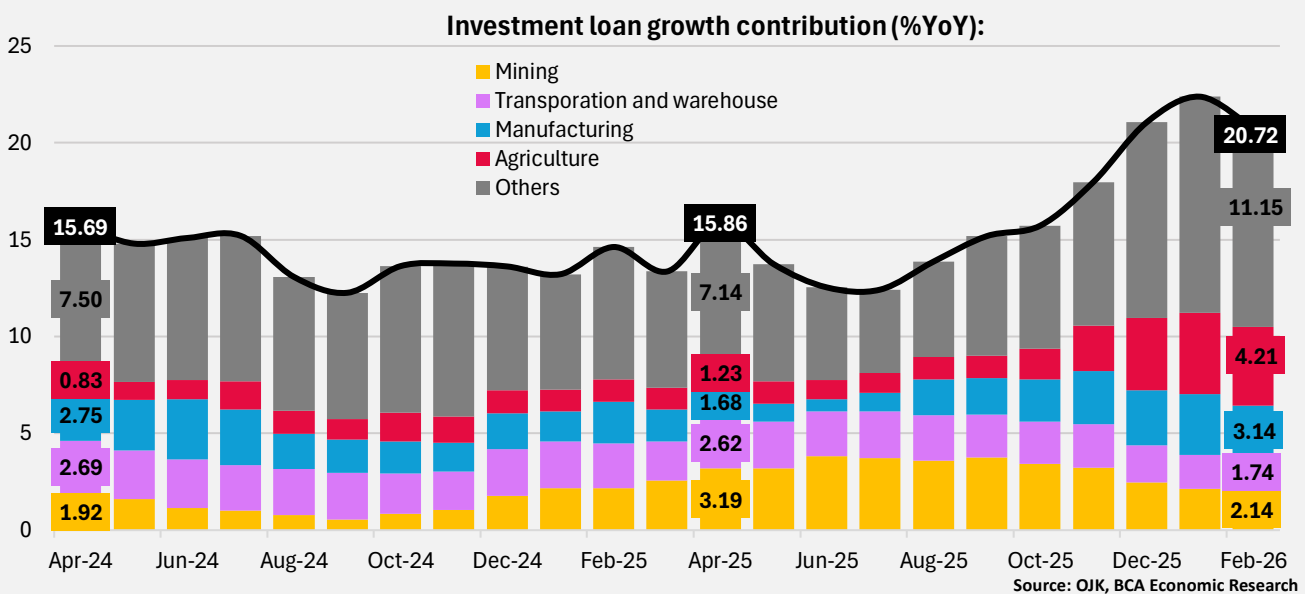


Source: Bloomberg

Chart 2

Last line of loan growth

Agriculture loans have the driver of investment loans for the past few months, likely related to free nutritious meal programme and red-white cooperatives



Source: OJK, BCA Economic Research

Chart 3

Fading velocity

Money supply has been a driver toward nominal GDP growth in the past few quarters, however declining money velocity index reflects money pooling in deposits rather contributing toward real economy.

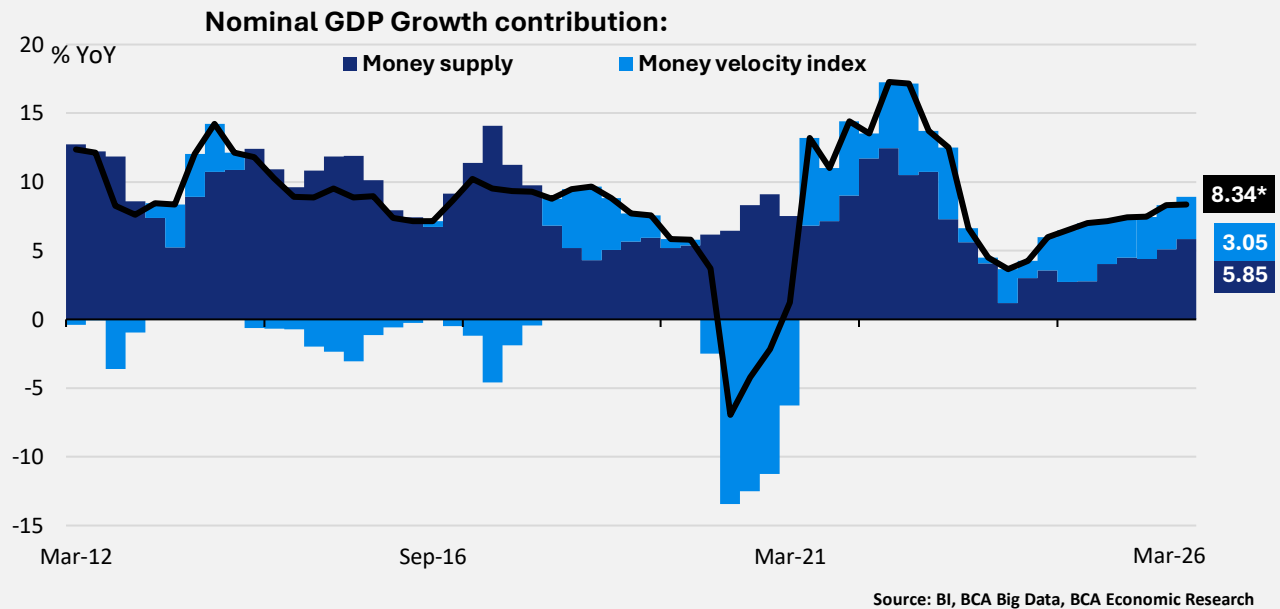


Chart 4

Corporate's ample balance

Corporates are seen to increase their savings at a faster rate than their loans, while their gov't bond ownership growth are seen to pick up pace again

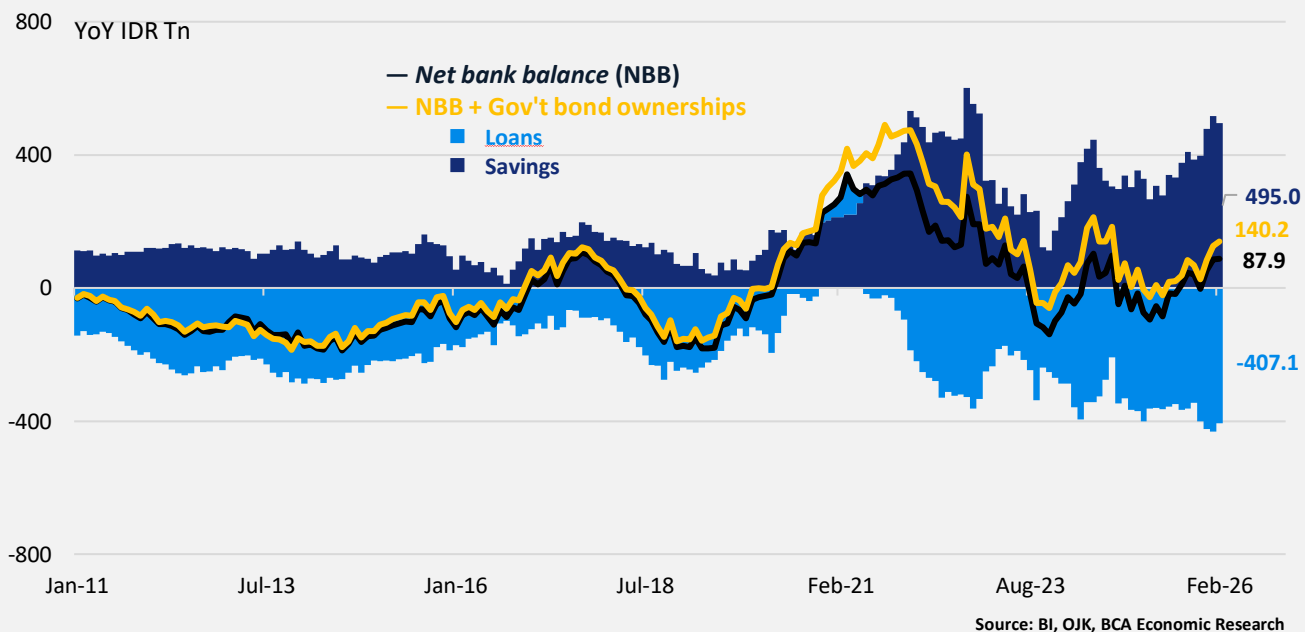
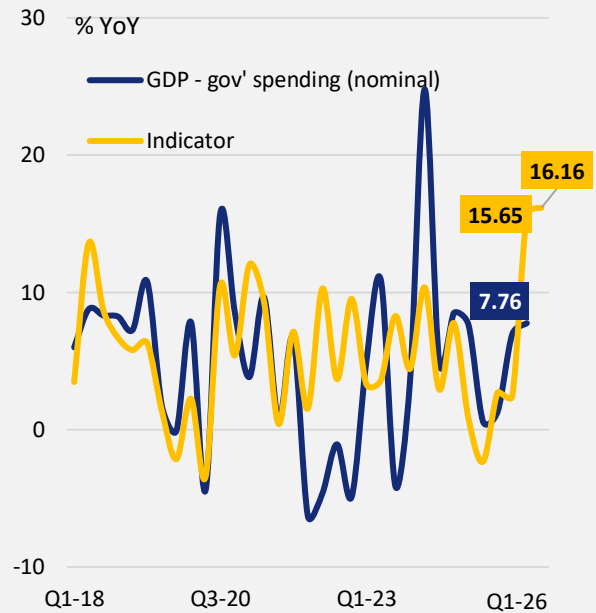
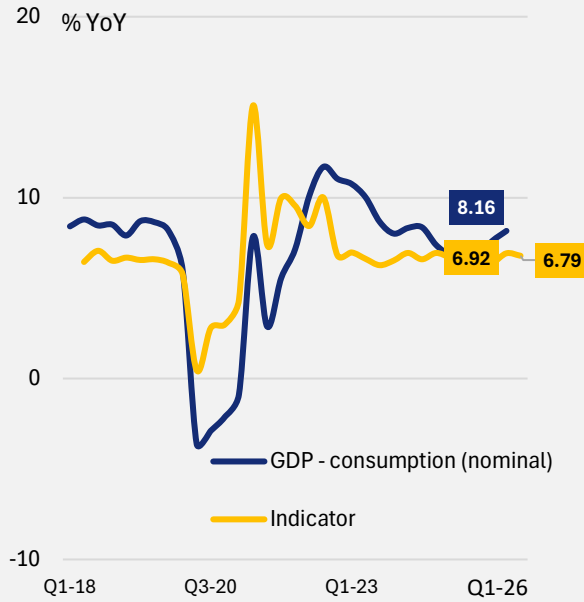


Chart 5

Gov't assists in consumption

Consumer consumption remained resilient in Q1-26 supported by government stimulus and higher Ramadan allowance disbursement

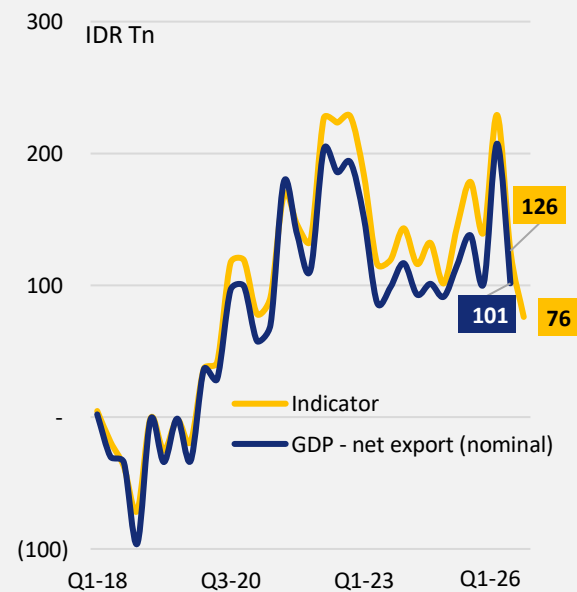


Source: BCA Economic Research

Chart 6

Investing at the cost of import

Higher investment growth has come at a cost of a higher import, with quarterly net export expected to be the lowest in the past 4 years



Source: BCA Economic Research

Economic Calendar				
		Actual	Previous	Forecast*
02 April 2026				
US	Trade balance (Feb-26), USD Bn	-57.3	-54.7	-60.0
03 April 2026				
US	Non Farm Payrolls, th	178	-133	50
08 April 2026				
ID	Foreign Exchange Reserves, USD Bn	148.2	151.9	164
EA	Retail Sales YoY, %	1.7	2.1	1.8
09 April 2026				
US	PCE Price Index YoY (Feb), %	2.8	2.8	2.8
ID	Motorbike Sales YoY, %	-17.1	1.0	-
10 April 2026				
CN	Inflation Rate YoY, %	1	1.3	1.1
ID	Consumer Confidence	122.9	125.2	120
US	Inflation Rate YoY, %	3.3	2.4	3.2
ID	Car Sales YoY, %	-13.8	12.3	-
13 April 2026				
ID	Retail Sales YoY, %	6.5	5.7	5.9
14 April 2026				
CN	Trade balance, USD Bn	51.13	90.98	105
16 April 2026				
CN	Retail Sales YoY, %	1.7	2.8	3.5
21 April 2026				
US	Retail Sales YoY, %	4.0	4.0	2.4
22 April 2026				
ID	BI-Rate Decision, %	4.75	4.75	4.75
ID	Loan Growth YoY, %	9.49	9.37	7.5
23 April 2026				
ID	M2 Money Supply YoY, %	9.7	8.7	-
27 April 2026				
ID	Foreign Direct Investment YoY, %	8.5	4.3	-
30 April 2026				
US	Fed Interest Rate Decision, %		3.75	-
US	PCE Price Index YoY (Mar), %			3.3

*Forecasts of some indicators are simply based on market consensus

Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	27-Apr	-1 mth	Chg (%)
US	3.75	Dec-25	0.45	Baltic Dry Index	2,666.0	2,031.0	31.3
UK	3.75	Dec-25	0.45	S&P GSCI Index	738.2	739.2	-0.1
EU	2.15	Jun-25	-0.45	Oil (Brent, \$/brl)	108.2	112.6	-3.9
Japan	0.75	Dec-25	-0.75	Coal (\$/MT)	134.1	150.7	-11.0
China (lending)	2.00	Sep-24	3.35	Gas (\$/MMBtu)	2.72	2.99	-9.0
Korea	2.50	May-25	0.30	Gold (\$/oz.)	4,682.1	4,494.1	4.2
India	5.25	Dec-25	1.85	Copper (\$/MT)	13,139.3	12,124.1	8.4
Indonesia	4.75	Sep-25	1.27	Nickel (\$/MT)	18,905.4	16,994.8	11.2
				CPO (\$/MT)	1,141.7	1,129.7	1.1
				Rubber (\$/kg)	2.15	2.00	7.5
Money Mkt Rates	27-Apr	-1 mth	Chg (bps)	External Sector	Feb	Jan	Chg (%)
SPN (1Y)	3.36	4.79	-143.1	Export (\$ bn)	22.17	22.16	0.05
SUN (10Y)	6.77	6.84	-6.4	Import (\$ bn)	20.89	21.20	-1.45
INDONIA (O/N, Rp)	4.34	3.92	42.1	Trade bal. (\$ bn)	1.27	0.95	33.43
JIBOR 1M (Rp)	5.03	5.03	0.0	Central bank reserves (\$ bn)*	151.9	154.6	-1.73
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Prompt Indicators	Mar	Feb	Jan
Lending (WC)	8.05	8.06	-1.00	Consumer confidence index (CCI)	122.9	125.2	127.0
Deposit 1M	4.47	4.46	1.00	Car sales (%YoY)	-13.8	12.3	7.1
Savings	0.68	0.69	-1.00	Motorcycle sales (%YoY)	-17.1	1.0	3.1
Currency/USD	27-Apr	-1 mth	Chg (%)	Manufacturing PMI	Mar	Feb	Chg (bps)
UK Pound	0.739	0.754	2.08	USA	52.3	51.6	70
Euro	0.853	0.869	1.84	Eurozone	51.6	50.8	80
Japanese Yen	159.4	160.3	0.56	Japan	51.6	53.0	-140
Chinese RMB	6.827	6.911	1.24	China	50.8	52.1	-130
Indonesia Rupiah	17,195	16,965	-1.34	Korea	52.6	51.1	150
				Indonesia	50.1	53.8	-370
Capital Mkt	27-Apr	-1 mth	Chg (%)				
JCI	7,106.5	7,097.1	0.13				
DJIA	49,167.8	45,166.6	8.86				
FTSE	10,321.1	9,967.4	3.55				
Nikkei 225	60,537.4	53,373.1	13.42				
Hang Seng	25,925.7	24,951.9	3.90				
Foreign portfolio ownership (Rp Tn)	Mar	Feb	Chg (Rp Tn)				
Stock	3,208.6	3,864.0	-655.43				
Govt. Bond	848.9	875.4	-26.42				
Corp. Bond	6.2	5.1	1.08				

Source: Bloomberg, BI, BPS

Notes:

*Data from an earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, **>50** indicates economic expansion, **<50** otherwise

Indonesia – Economic Indicators Projection

	2020	2021	2022	2023	2024	2025	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.1	5.0
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5457
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	3.3
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	4.75
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	6.76
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,216
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	17,430
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	33.8
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-0.4

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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