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Analysis Of Indonesia's Economic Conditions Amid Global Conflict And Increased Government Spending In The First Quarter Of 2026

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Abstract

Indonesia's economic growth in the first quarter of 2026 showed positive performance amidst global conflict and increasing government spending. This study aims to analyze Indonesia's economic conditions by examining the role of government spending, inflation, and the impact of global conflict on economic growth and public welfare. The study used a qualitative approach with descriptive methods. The study population included documents and publications related to economic growth, inflation, government spending, exchange rates, and global conflict from January 2025 to March 2026. The sample was determined purposively from reports from the Central Bureau of Statistics, Bank Indonesia, the Ministry of Finance, Encyclopaedia Britannica, and relevant scientific literature. The research instrument was the researcher with the help of a data abstraction sheet. Data were collected through documentation and literature studies, then analyzed using the Miles, Huberman, and Saldaña model. The results showed that Indonesia's economic growth reached 5.61% and was supported by household consumption and increased government spending. However, pressures on the cost of living, high prices of basic necessities, and the impact of global conflict still affect people's purchasing power. In conclusion, economic growth remains maintained, but its benefits have not been fully felt evenly, so more inclusive and sustainable policies are needed to improve people's welfare.

Keywords:Economic Growth, Fiscal Policy, Geopolitical Conflict, Government Expenditure, Inflation

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INTRODUCTION

Economic growth is a crucial indicator in assessing a country's development success because it reflects increased production capacity and economic activity. In recent years, various developing countries have faced growth challenges due to inflation, global uncertainty, and geopolitical conflict. Therefore, fiscal policy, through government spending, has become a key instrument for maintaining economic stability and growth (Susilawati & Wibowo, 2024; Rahmawati & Dewi, 2025).

In Indonesia, economic growth in 2026 showed relatively good performance, supported by household consumption and increased government spending. However, this growth has not yet been fully felt by the public due to ongoing pressure from rising prices of basic necessities and declining purchasing power. This situation indicates that high economic growth does not always correspond to an increase in welfare across the community (Moedy & Ling, 2024; Putra et al., 2026).

Various previous studies have shown that government spending plays a positive role in driving economic growth by increasing investment and economic activity. Conversely, high inflation can reduce people's purchasing power and hinder long-term economic growth (Rahmawati & Dewi, 2025; Pratama & Riofita, 2026).

However, previous research still shows mixed findings regarding the effect of inflation on economic growth. Furthermore, most studies focus solely on domestic factors and have not considered the impact of global geopolitical conflicts on national economic conditions (Susilawati & Wibowo, 2024; Saputra & Soelistyo, 2024).

The limitations of previous research are evident in the lack of studies integrating economic growth, government spending, inflation, and the impact of global conflict into a single analysis. Yet, the United States-Iran conflict has the potential to impact energy prices, the exchange rate, and Indonesia's economic stability. Therefore, research is needed that can explain the relationship between these various factors and the economic conditions of the Indonesian people in 2026.

Based on these conditions, this study aims to analyze the impact of government spending, inflation, and global conflict on Indonesia's economic growth in 2026 and their implications for public welfare. This research is expected to provide theoretical contributions to the development of macroeconomic studies and provide input for the government in formulating more inclusive and sustainable economic policies.

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METHOD

This study uses a qualitative approach with descriptive methods to analyze Indonesia's economic growth in the first quarter of 2026 in relation to government spending, inflation, and the impact of global conflict on public welfare. This approach was chosen because it allows researchers to interpret economic data and policies in depth, thus explaining the relationships between phenomena occurring within the national economic context (Creswell & Poth, 2018; Sugiyono, 2020).

The research population includes all documents and publications related to Indonesia's economic growth, inflation, government spending, the rupiah exchange rate, and the impact of global conflict during the period January 2025 to March 2026. The research sample was determined using a purposive sampling technique by selecting relevant and credible data sources, namely official reports from the Central Statistics Agency (BPS), Bank Indonesia (BI), the Ministry of Finance of the Republic of Indonesia, Encyclopedia Britannica, and various scientific journal articles that support the research study (Sudaryono, 2021; Sugiyono, 2020).

The primary research instrument was the researcher, supported by a data abstraction sheet to record and categorize the information obtained. Data collection was conducted through documentation and literature studies. Documentation studies were used to obtain economic data from official reports from BPS, BI, and the Ministry of Finance, while literature studies were conducted through reviewing books, scientific journals, and theoretical references related to economic growth, inflation, government spending, and the impact of global conflict on the domestic economy (Creswell & Poth, 2018; Emzir, 2020).

Data were analyzed using the Miles, Huberman, and Saldaña model, which includes data reduction, data presentation, and conclusion drawing. The research process begins with problem identification, data collection and selection, data grouping based on research themes, analysis of relationships between variables, and interpretation of findings based on relevant economic theories. To maintain data validity, the study employed source triangulation and technical triangulation by comparing data from various official sources and literature reviews to enhance the validity and credibility of the research findings (Miles et al., 2016).

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RESULTS AND DISCUSSION

Economic Growth in 2026

Table 1 Growth Rate and Sources of GDP Growth by Business Sector (percent)



According to data from the Central Statistics Agency (BPS), Indonesia's economic growth in the first quarter of 2026 reached 5.61 percent year-on-year (y-o-y). This figure indicates that the Indonesian economy is still improving compared to the same period the previous year. However, on a quarter-to-quarter (q-to-q) basis, Indonesia's Gross Domestic Product (GDP) actually contracted by -0.77 percent.

Based on the data from the Central Statistics Agency (BPS) above, Indonesia's economic growth by industry in the first quarter of 2026 was driven by several key sectors, particularly the manufacturing sector, which grew by 5.04 percent and contributed 1.03 percent to national GDP. Furthermore, the wholesale and retail trade sector also experienced growth of 6.26 percent, contributing 0.82 percent. The construction sector grew by 5.49 percent and contributed 0.53 percent to national economic growth.

In addition to the production sector, Indonesia's economic growth is also supported by spending. According to Statistics Indonesia (BPS) data, household consumption grew by 5.52 percent and contributed the largest share of economic growth, at 2.94 percent. However, the high growth in government consumption, which reached 21.81 percent year-on-year, contributed 1.26 percent to national economic growth, is of concern. This

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indicates that Indonesia's economic growth in early 2026 will be significantly supported by increased government spending.

GDP distribution data by expenditure also shows that household consumption remains the largest component of Indonesia's economic structure, contributing 54.36 percent to national GDP. Meanwhile, government consumption contributes 6.72 percent to Indonesia's GDP. This situation demonstrates that private consumption remains the primary driver of the national economy, but the government also plays a significant role in maintaining economic growth by increasing state spending.

According to Keynesian theory, proposed by John Maynard Keynes, increased government spending can boost aggregate demand, thereby driving national economic growth. Under certain economic conditions, increased government spending policies are used as economic stimulus to maintain stable growth. However, Keynes also emphasized that healthy economic growth should not rely solely on government consumption but should also be supported by increased economic activity from the public and the private sector.

Although Indonesia's economic growth appears quite high statistically, this has not yet been fully felt by the public. Rising prices of basic necessities, transportation costs, and the pressure of the cost of living will still be issues felt by the public in 2026. This indicates a disparity between macroeconomic growth and the real economic conditions of the community. In his theory of economic development, Michael Todaro states that high economic growth does not necessarily reflect increased public welfare if income distribution and purchasing power remain under pressure.

In addition to domestic factors, Indonesia's economic condition is also influenced by external factors, such as the conflict between the United States and Iran, which has led to rising global oil prices and pressure on the rupiah exchange rate. These conditions have resulted in rising production costs and imported inflation, ultimately impacting Indonesian purchasing power. Therefore, although Indonesia's economic growth in the first quarter of 2026 showed positive figures, the stability of the Indonesian economy still faces various challenges, both domestically and from global pressures.

The Role of Government Spending in Indonesia's Economic Growth in 2026

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Figure 1 Realization of Central Government Spending as of April 30, 2026
Source: Ministry of Finance, 2026
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According to data from the Ministry of Finance of the Republic of Indonesia in the 2026 APBN Kita report, the realization of Central Government Spending as of April 30, 2026, reached IDR 826.0 trillion, or approximately 26.2 percent of the total 2026 APBN. This figure represents a 51.1 percent increase compared to the same period in the previous year (year-on-year). This condition indicates that the government is implementing an expansionary fiscal policy to maintain national economic growth amid global economic uncertainty.

However, the high growth in government consumption compared to other economic components may indicate that accelerating economic growth still requires substantial fiscal support. In the long term, more sustainable economic growth should ideally also be supported by strengthened investment, real sector productivity, and increased private sector activity.

The increase in government spending consisted of Ministry/Institutional (K/L) spending of Rp400.5 trillion and Non-K/L spending of Rp425.5 trillion. The increase in K/L spending was primarily influenced by the implementation of the Free Nutritional Meals (MBG) program, the distribution of social assistance such as PBI JKN, Staple Food Cards, the Family Hope Program (PKH), and KIP Kuliah, as well as the payment of Eid Al-Fitr Allowances (THR). Meanwhile, Non-K/L spending was influenced by the payment of pension benefits, subsidies, and compensation for fuel (BBM) and electricity. This condition indicates that government spending is one of the important instruments in

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driving Indonesia's economic activity in early 2026 by increasing public consumption, supporting purchasing power, and the sustainability of national development programs.

According to John Maynard Keynes' theory, increased government spending can boost aggregate demand, thereby driving economic growth and maintaining national economic stability. In Keynes' theory, when economic conditions experience pressure or slowdown, the government can increase state spending as an economic stimulus to maintain consumption and production activities. This is evident in the increase in Indonesian government consumption in the first quarter of 2026, which is a major factor driving national economic growth.

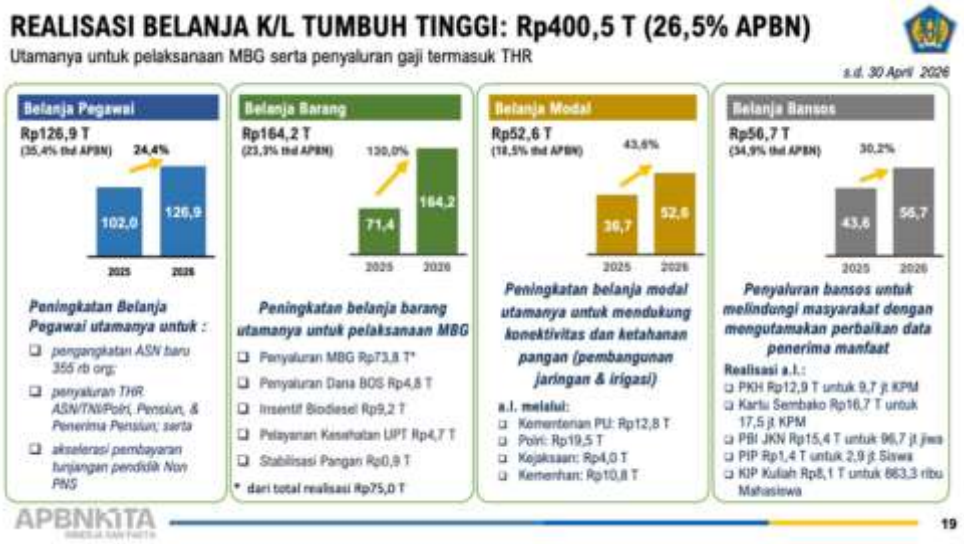


Figure 2 Realization of Ministry/Agency Expenditure Growth as of April 30, 2026

Source: Ministry of Finance, 2026
(APBN KiTA Publication, May 2026 Edition)

A more detailed look reveals that the increase in Ministry/Institutional (K/L) spending by April 2026 reached IDR 400.5 trillion, or 26.5 percent of the total State Budget, representing significant growth compared to the previous period. This increase was driven by several key components: personnel spending of IDR 126.9 trillion, goods spending of IDR 164.2 trillion, capital spending of IDR 52.6 trillion, and social assistance spending of IDR 56.7 trillion. Each component has a different impact on national economic activity.

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Goods spending saw a record increase of 130 percent compared to the previous year. This increase was primarily influenced by the implementation of the Free Nutritious Meals (MBG) Program, the distribution of BOS funds, biodiesel incentives, and health care spending. Economically, increased goods spending can have a short-term impact on growth by increasing aggregate demand due to increased production and consumption activities. The MBG program, for example, not only increases public consumption but can also create a multiplier effect on the agricultural sector, food industry, distribution, and MSMEs involved in the program's supply chain.

On the other hand, increased capital spending is a positive signal because this type of spending tends to have long-term economic impacts. Capital spending directed at developing connectivity and food security, such as infrastructure and irrigation network development, has the potential to increase economic productivity and strengthen national production capacity. Unlike consumer spending, capital spending generally has a more sustainable effect on economic growth because it can increase the efficiency of future economic activity.

However, the increase in government spending also requires a more critical analysis. The majority of the increase in spending is still dominated by employee spending, social assistance, and various public consumption programs. While this spending can maintain public purchasing power and stimulate economic growth in the short term, its impact on increasing national production capacity is relatively limited compared to productive investment. This situation suggests that economic growth driven by expanded government spending has the potential to create temporary growth if it is not accompanied by increased investment, real sector productivity, and sustainable job creation.

Therefore, the increase in government spending in early 2026 demonstrates the crucial role of fiscal policy as an instrument of economic stabilization amidst global conflict and economic uncertainty. However, its effectiveness on long-term economic growth remains dependent on the quality of budget allocations, particularly the balance between consumptive and productive spending.

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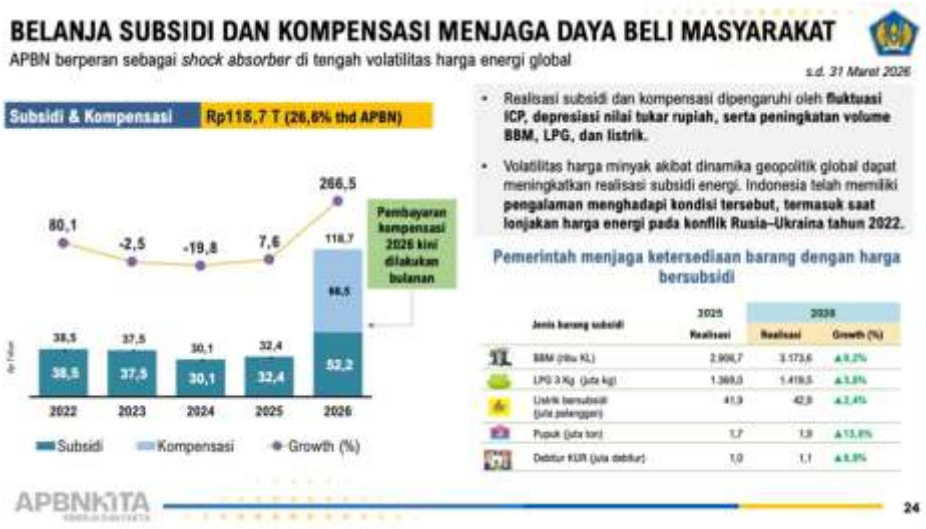


Figure 3 Subsidy and Compensation Spending to Maintain Public Purchasing Power as of March 31, 2026
Source: Ministry of Finance, 2026
(APBN KiTA Publication, May 2026 Edition)

Government spending in 2026 will also be directed at maintaining public purchasing power through subsidies and social assistance. As of March 2026, subsidies and compensation reached IDR 118.7 trillion, or approximately 26.6 percent of the state budget. The government stated that the state budget serves as a shock absorber amidst global energy price volatility due to international geopolitical dynamics. These subsidies include fuel, 3-kg LPG, subsidized electricity, fertilizer, and the People's Business Credit (KUR).

In addition to energy subsidies, the government is also increasing the disbursement of social assistance to maintain public welfare. The Family Hope Program (PKH) has disbursed Rp 7.3 trillion to 9.7 million beneficiary families, while the Staple Food Card program has disbursed Rp 10.5 trillion to 17.5 million beneficiary families. The government has also increased the budget for the Free Nutritious Meals (MBG) program, which has disbursed Rp 55.34 trillion as of March 2026, reaching approximately 61.8 million beneficiaries.

These programs demonstrate that the government is striving to maintain public consumption and stem the decline in purchasing power amidst increasing economic pressures.

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On the other hand, increased government spending is also directed at supporting national food security. The food security budget realization as of March 2026 reached IDR 53.7 trillion, comprising fertilizer subsidies, support to the State Logistics Agency (Bulog), and investment in the food sector. The government is also absorbing farmers' unhusked rice and rice to maintain food price stability and domestic stock availability. This policy aims to mitigate the impact of rising food prices on the public.

However, despite significant increases in government spending and positive national economic growth, the economic conditions of the people have not fully improved. Rising prices of basic necessities, the cost of living, and inflationary pressures will continue to be felt by the public in 2026. This indicates that Indonesia's economic growth remains quite dependent on government spending and has not been fully driven by direct economic empowerment of the people.

According to Sadono Sukirno, expansionary fiscal policy can indeed boost economic growth in the short term, but its effectiveness on public welfare depends on the distribution of economic benefits and price stability. If increased government spending is not accompanied by increases in economic productivity and public purchasing power, economic growth will only appear high statistically without having a significant impact on the public's economic condition.

Furthermore, global pressures such as the United States-Iran conflict have also led to rising global oil prices, increasing the government's energy subsidy burden. The April 2026 APBN Kita report explains that oil price volatility due to global geopolitical dynamics has the potential to increase energy subsidy realization and put pressure on the Indonesian state budget. Therefore, although the state budget plays a crucial role in maintaining national economic stability, increased government spending also poses challenges to fiscal sustainability and the effectiveness of economic growth in improving public welfare.

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Conditions of Public Purchasing Power and Inflation in 2026



Figure 4 Development of Inflation and Public Purchasing Power in 2026
Source: Ministry of Finance, 2026
(APBN KiTA Publication, May 2026 Edition)

Based on data on Indonesia's inflation developments from 2025 to the beginning of the second quarter of 2026, the national inflation rate remains relatively manageable despite facing global economic pressures and increasing government spending. Consumer Price Index (CPI) inflation was recorded at 2.42%, indicating that the increase in prices of goods and services has generally remained relatively stable. This indicates that the government is still able to maintain macroeconomic stability amidst international economic uncertainty.

However, inflation stability does not fully reflect the public's well-being. Volatile food inflation was recorded at 3.37%. Despite this decline, this figure indicates that food prices remain a significant source of inflationary pressure. The decline in food inflation was supported by adequate supply and smooth distribution, which maintained control over the prices of basic necessities.

On the other hand, core inflation stood at 2.44% and was considered stable. Core inflation reflects the level of public demand for goods and services excluding fluctuating components. Stable core inflation indicates that public consumption activity is still quite strong and purchasing power has not experienced a significant decline. However, this condition may also indicate that people are prioritizing consumption for essential needs due to the rising cost of living and global economic uncertainty.

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Figure 5 Development of Staple Goods Prices for the April 2026 Period
Source: Ministry of Finance, 2026
(APBN KiTA Publication, May 2026 Edition)

Based on national staple food price data for April 2026, several food commodities remain quite high. Red chilies reached Rp62,795 per kilogram, shallots Rp41,113 per kilogram, chicken eggs Rp29,634 per kilogram, packaged cooking oil Rp21,707 per liter, and fresh beef Rp138,729 per kilogram. This situation indicates that even though national inflation is under control, people still face spending pressure due to high staple food prices.

Besides being influenced by food inflation, the rising cost of living is also influenced by the high cost of living for workers in various regions. The 2026 Decent Living Needs (KHL) data released by the Ministry of Manpower shows that the cost of living for workers in several regions in Indonesia has experienced a significant increase. In Jakarta, the decent living cost reached IDR 5.89 million per month, in East Kalimantan IDR 5.73 million per month, in the Riau Islands IDR 5.71 million per month, and in Bali IDR 5.25 million per month. This condition indicates that the cost of living in urban areas and industrial areas is increasing.

On the other hand, the increase in the cost of living has not been fully accompanied by an increase in income across the community. In some regions, the Regional Minimum Wage (UMR) remains below the minimum living wage. This situation causes some people to continue experiencing economic pressure despite increasing national economic

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growth. People tend to prioritize spending on essential needs such as food, transportation, and household expenses over other consumption items.

People's purchasing power is also influenced by global factors, particularly the conflict between the United States and Iran, which has led to increases in global oil prices and distribution costs. Rising global energy prices have increased logistics and food distribution costs, putting downward pressure on domestic prices of basic necessities. This indicates that inflation experienced by the public stems not only from domestic demand but also from global economic pressures and imported inflation.

Thus, even though Indonesia's economic growth in 2026 showed positive figures and national inflation was relatively controlled, some people still haven't experienced a tangible increase in prosperity. This phenomenon indicates a gap between macroeconomic stability and the real economic conditions of everyday life. Therefore, economic growth has not been fully accompanied by an increase in purchasing power and prosperity across the population.

The Impact of Global Conflict on the Indonesian Economy



Figure 6 Basic Macroeconomic Assumptions 2026
Source: Ministry of Finance, 2026
(APBN KiTA Publication, May 2026 Edition)

Based on the 2026 Basic Macroeconomic Assumptions, Indonesia's economic growth is projected to reach 5.4%, up from 5.11% in 2025. This increase is driven by increased government spending to maintain public consumption and investment.

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However, amid this economic growth, the public still faces economic pressures due to rising prices of basic necessities and global economic instability.

One of the biggest impacts of the US-Iran conflict is the rise in global oil prices. The conflict in the Middle East has disrupted global energy supplies, leading to a sharp rise in oil prices. Data shows that the price of Indonesian crude oil in the 2026 State Budget was set at USD 70 per barrel, while the 2026 outlook is estimated to be in the range of USD 78.5 to USD 83.8 per barrel. This increase in oil prices has increased energy and transportation costs, thus increasing the prices of everyday goods. This situation has a direct impact on people's purchasing power, especially the lower-middle class.

Furthermore, the US-Iran conflict has also affected the rupiah exchange rate. In unstable global conditions, investors tend to shift their capital to assets perceived as safer, such as the US dollar. As a result, the rupiah exchange rate is under pressure. Data from the 2026 State Budget (APBN) shows the rupiah exchange rate is projected at Rp16,500 per US dollar, with the outlook even reaching Rp17,324 per US dollar. The weakening rupiah makes imported goods more expensive, including industrial raw materials and certain necessities that still rely on imports. This, in turn, increases production costs and pushes up domestic prices.

Although the government estimates inflation will remain under control at 2.5%, the public is still experiencing price increases for some basic necessities. This means that while macroeconomic data appears relatively stable, the public continues to feel economic pressure. This phenomenon demonstrates a disparity between national economic growth and the economic conditions directly experienced by the public.

On the other hand, the government increased state spending to maintain economic growth from weakening due to the impact of global conflict. Government spending was directed toward energy subsidies, social assistance, infrastructure development, and other priority programs. This policy aimed to maintain public consumption and mitigate the impact of the global economic slowdown. However, increased government spending also increased the country's fiscal burden, particularly as global oil prices continued to rise due to the US-Iran conflict.

The US-Iran conflict has also impacted the national energy sector. Data shows that the 2026 oil lifting target is 610,000 barrels per day, while the actual outlook is only around 535,800 barrels per day. This situation indicates that Indonesia's domestic energy production is still suboptimal, leaving it dependent on global energy conditions. When

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global oil prices rise due to international conflict, Indonesia becomes more vulnerable to economic pressures.

Thus, the US-Iran conflict has had a significant impact on the Indonesian economy, particularly through rising oil prices, a weakening rupiah, and an increased cost of living. Although the government has succeeded in maintaining economic growth through increased state spending, some people still feel economic pressure in their daily lives.

Analysis of the Inequality Between Economic Growth and Social Conditions

Indonesia's economic growth of 5.61 percent in the first quarter of 2026 demonstrates that national economic activity is still increasing amidst global pressures. This growth is driven by household consumption, increased government spending, and growth in the industrial, trade, and construction sectors. However, this economic growth has not been fully accompanied by an increase in welfare across the community.

This situation is evident in the persistently high cost of living pressures felt by the public. Although national inflation is relatively controlled at 2.42 percent, prices for several basic necessities such as chilies, shallots, cooking oil, eggs, and meat remain high. Furthermore, rising living costs in various regions indicate that public spending continues to rise, while increased incomes have not fully offset the rising prices of daily necessities.

The disparity between economic growth and societal conditions indicates that macroeconomic stability does not necessarily reflect microeconomic well-being. In the theory of economic well-being proposed by Arthur Cecil Pigou and Amartya Sen, development success is measured not only by Gross Domestic Product (GDP) growth, but also by a society's ability to meet its basic needs and achieve a better quality of life. Therefore, high economic growth cannot be considered successful if the community continues to experience pressures on purchasing power and rising living costs.

In addition to domestic factors, global pressures also exacerbate this inequality. The conflict between the United States and Iran has led to rising global oil prices and a weakening of the rupiah, which in turn has triggered imported inflation. The weakening rupiah has made imported goods and industrial raw materials more expensive, increasing production and distribution costs. This impact is then passed on to the public in the form of rising prices for goods and services.

On the other hand, the government has increased state spending through energy subsidies, social assistance, and various social protection programs to maintain economic stability and public purchasing power. These policies have helped maintain stable national economic growth. However, this situation also indicates that Indonesia's

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economic growth remains quite dependent on government fiscal stimulus and has not been fully supported by sustained strengthening of public purchasing power or real sector productivity.

CONCLUSION

This study demonstrates that Indonesia's economic growth in the first quarter of 2026 remains relatively strong, reaching 5.61%, supported primarily by household consumption and a significant increase in government expenditure. Fiscal expansion through social assistance programs, energy subsidies, food security initiatives, and the Free Nutritious Meals Program contributed to maintaining aggregate demand and economic stability amid global uncertainty. However, the findings indicate that positive macroeconomic performance has not been fully translated into improvements in public welfare. Although inflation remains relatively controlled, rising prices of essential goods, increasing living costs, and pressure on household purchasing power continue to affect many segments of society. Furthermore, the conflict between the United States and Iran intensified external economic pressures through higher global oil prices, exchange rate depreciation, and imported inflation, thereby widening the gap between economic growth indicators and the actual economic conditions experienced by the public.

This study is limited by its reliance on secondary data and its observation period, which only covers January 2025 to March 2026. As a result, the findings may not fully capture economic developments throughout the remainder of 2026, particularly given the dynamic nature of global geopolitical tensions. Future studies are recommended to employ longer observation periods, incorporate primary data through surveys or interviews, and examine additional variables related to income distribution, employment, and household welfare. From a practical perspective, the findings suggest that policymakers should not focus solely on achieving high economic growth rates but also prioritize strengthening purchasing power, controlling inflation, improving the effectiveness of social protection programs, and increasing productive public investment. Such measures are essential to ensure that economic growth becomes more inclusive, sustainable, and capable of generating tangible welfare improvements for society.

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