Macro Weekly Notes

A Stronger Fiscal Push Behind Indonesia's Firm Year-End Growth in 4Q25

Key Takeaways

- 4Q25 GDP strength was driven by **domestic demand improvement**, lifting growth to **5.39% YoY** and bringing **FY25 growth** to **5.11% YoY**, above **FY24 performance**.
- **Government consumption slowdown** did **not signal weaker fiscal support**, as spending was increasingly directed toward **social assistance** and **capital expenditure**.
- Under **BPS accounting**, fiscal spending directed to **social assistance and capital expenditure** is often recorded under **household consumption and investment**, meaning **slower government consumption does not imply weaker fiscal support**.
- **Social assistance grew by 70.55% YoY to IDR 73.90tn**, flowing into **household income** and supporting **stronger private consumption** momentum in 4Q25.
- **Capital expenditure rose by 44.19% YoY to IDR 254.40tn**, translating into **stronger investment execution**, particularly in **construction** and **government project-related activities**.
- Overall fiscal support had a **clear positive impact** on **consumption growth** and **investment momentum**, anchoring **year-end economic strength**.

Domestic Demand-Led Year-End Strength

Indonesia's economy closed 2025 on a **stronger footing**, with GDP growth reaching **5.39% YoY in 4Q25** (3Q25: 5.04% YoY), lifting **full-year growth** to **5.11% YoY** (FY24: 5.03% YoY). **Compared with earlier quarters, growth momentum strengthened into 4Q25 on the back of firmer consumption and investment.** Notably, the **fiscal impulse** in 4Q25 may not be fully apparent in the GDP **"government consumption"** line, since **expenditure-side GDP** records spending by **final use** across **household consumption**, **investment**, and **government services**. When execution tilts toward **capital outlays** and **household-facing support**, the growth contribution is typically captured more clearly in **investment** and **household consumption**, rather than mechanically lifting **government consumption**. This pattern aligns with a **late-year fiscal catch-up**: fiscal spending realisation strengthened into **year-end**, with **12M25 at IDR 2,602.30tn** or **+4.25% YoY** (9M25: IDR 1,589.90tn or -1.62% YoY), underscoring faster **4Q disbursement momentum** that reinforced **domestic demand** even as **government-consumption growth** moderated in the national accounts.

BPS accounting: why fiscal impulse may not show in GDP "G Variable"

In **BPS's expenditure-side GDP**, fiscal execution is allocated across **household consumption (C)**, **investment (I)**, and **government consumption (G)** based on the **economic nature** and **final use** of the spending, rather than the **budget label** alone. **Investment (I)** captures outlays that add to the economy's **stock of fixed assets**, such as **construction**, **machinery**, and **vehicles**, consistent with BPS's definition of **gross fixed capital formation** as the net **addition and reduction of fixed assets**. **Household consumption (C)** captures household spending on **goods and services** for **consumption purposes**, so the impact of **cash-based social assistance** tends to be reflected in **C** when **beneficiaries spend** the transfer. By contrast, **government consumption (G)** is linked to the value of **non-market government output** compiled using a **cost-based approach**, and BPS explicitly includes **social transfers in kind purchased market production** within the **government-consumption compilation**, meaning **in-kind assistance** (for example, **government-purchased goods** distributed to households) can be recorded under **G**. **Therefore, a moderation in measured government consumption does not automatically imply weaker fiscal support or lower total fiscal spending**. It can reflect a **shift in the composition of execution**, where the fiscal impact is recorded more in **C and I** (**household demand** and **capital formation**) than in the GDP **government-consumption** component.

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Government Spending: Fiscal Reallocation Toward Consumption and Investment

Headline **government consumption** slowed to **4.55% YoY** in 4Q25 (4Q24: 5.66% YoY). However, this moderation should **not be interpreted as a weaker fiscal stance**. Instead, it reflects the **composition of late-year fiscal support**, which was increasingly channelled through **social assistance** and **capital expenditure**, components that are recorded in the GDP accounts under **household consumption** and **investment** rather than government consumption. **Social assistance grew by 70.55% YoY to IDR 73.90tn** in 4Q25 (4Q24: IDR 43.33tn), likely boosting **household income** and **private consumption** rather than measured **government consumption** in the national accounts. Meanwhile, **capital expenditure rose by 44.19% YoY to IDR 254.40tn** (4Q24: IDR 176.43tn), supporting stronger **investment activity**, particularly in **construction** and **project-related segments**. As a result, the **fiscal impulse in 4Q25** was transmitted more prominently through **private consumption** and **investment**. This **composition effect** mechanically **dampened measured government-consumption growth**

Component	1Q24	1Q25	Growth 1Q	4Q24	4Q25	Growth 4Q
Personnel Expenditure	70.69	79.50	12.46%	71.70	84.10	17.29%
Goods Expenditure	80.60	51.80	-35.73%	229.18	287.00	25.23%
Capital Expenditure	27.64	25.90	-6.30%	176.43	254.40	44.19%
Social Assistance	43.33	38.90	-10.22%	43.33	73.90	70.55%
Non K/L Expenditure	205.37	217.10	5.71%	359.49	313.00	-12.93%

Table 1: Indonesia's 2025 Government Spending (In tn IDR)

This **framework** helps explain why **government consumption growth** slowed even as **fiscal support became more visible toward year-end**. **Personnel expenditure grew by 17.29% YoY to IDR 84.10tn** in 4Q25 (4Q24: IDR 71.70tn), while **goods expenditure rose by 25.23% YoY to IDR 287.00tn** (4Q24: IDR 229.18tn), consistent with **firmer disbursement execution** and stronger **procurement momentum** heading into year-end.Meanwhile, **non-Ministry/Agency expenditure declined by 12.93% YoY to IDR 313.00tn** (4Q24: IDR 359.49tn), indicating that the **late-year fiscal push** was **more concentrated in selected spending categories** rather than **broadly distributed across the overall expenditure envelope**. This **reallocation across spending components** reinforces the view that the **composition of fiscal support**, rather than its overall size, shaped the **moderation in measured government consumption** during 4Q25.

Household Consumption: Seasonal Demand Reinforced by Fiscal Flows

Household consumption **accelerated to 5.11% YoY** in **4Q25** (3Q25: **4.90% YoY**), reaffirming its role as the **main growth driver**, given its **53.63% share of GDP**. **The improvement was broad-based**, indicating **underlying demand strength** rather than a narrow pickup. **Food and beverages** growth increased to **4.40% YoY** (3Q25: **4.13% YoY**), while **clothes and footwear** strengthened to **4.58% YoY** (3Q25: **3.89% YoY**). **Household appliances** rose to **4.31% YoY** (3Q25: **3.74% YoY**), and **health and education** spending improved to **4.80% YoY** (3Q25: **4.15% YoY**).

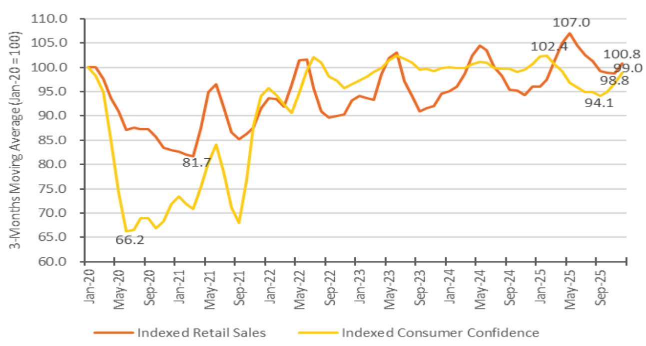

Figure 1: Indonesia's Retail Sales & Consumer Confidence

The acceleration coincided with **year-end holidays**, which traditionally lift discretionary spending, and was further supported by **stronger fiscal transfers**. The sharp increase in **social assistance to IDR 73.90tn or +70.55% YoY** (4Q24: **IDR 43.33tn**) likely helped maintain household purchasing power into peak consumption months. This is consistent with improvements observed in **retail sales** and **consumer confidence** indicators throughout the quarter (See Figure 1), suggesting that consumption momentum was **supported by both seasonal factors and firmer income conditions.**

Investment: Government Capital Expenditure Anchored Capital Formation

Investment growth strengthened further to **6.12% YoY** in **4Q25** (3Q25: **5.04% YoY**), making it another key contributor to headline growth. The pickup was supported by improvements **across major investment components. Building investment** increased to **3.74% YoY** (3Q25: **3.02% YoY**), while **machinery investment** remained strong at **22.16% YoY** (3Q25: **22.16% YoY**). **Vehicle investment** also improved to **7.29% YoY** (3Q25: **6.24% YoY**).

Figure 2: Indonesia's S&P Prompt Manufacturing Index

Business conditions remained supportive, with **PMI readings** staying in the **expansion range** throughout 4Q25 (See Figure 2). The most **direct fiscal linkage** came from the surge in **capital expenditure**, which reached **IDR 254.40tn or +44.19% YoY** (4Q24: **IDR 176.43tn**). This increase likely supported construction activity, procurement cycles, and project-related investment, **reinforcing capital formation toward year-end.**

Net Exports: External Contribution Turned Modestly Negative

Net exports contracted by **-0.32% YoY** in **4Q25** (3Q25: **57.12% YoY**), reflecting a normalization after an unusually strong contribution in the previous quarter. Given its relatively small **1.65% GDP share**, the negative impact from net exports was limited and more than offset by **strong domestic demand**, particularly from **household consumption and investment**. As a result, the overall growth profile in 4Q25 remained **clearly domestically driven**, with **fiscal execution dynamics** providing the main support.

Our Investment Team
Is **Your Trusted Investment Partner**

MEGACAPITAL Sekuritas

FIT & IB Director

Dedi Pramadya
dedi.pramadya@megasekuritas.id
6221-7917-5599 **ext** 62435

Fixed Income Trading Division

Associate Director & Head of FIT
Soni Pande
soni.pande@megasekuritas.id
6221-7917-5599 **ext** 62030

Senior Vice President
Alfani Rachma
alfani@megasekuritas.id
6221-7917-5599 **ext** 62112

Vice President
Kreshna Narendra Satriya
kreshna.ksatriya@megasekuritas.id
6221-7917-5932 **ext** 62087

Senior Dealer
Agus Saputra
agus@megasekuritas.id
6221-7917-5599 **ext** 62157

Dealer
Denis Asprila Pratama
denis@megasekuritas.id
6221-7917-5599 **ext** 62643

Dealer
Cici Sri Hartati
cici@megasekuritas.id
6221-7917-5599 **ext** 62087

Administrations Sales FIT
Syauqi Wafi Yulianto
syauqi@megasekuritas.id
6221-7917-5599 **ext** 62160

Investment Banking Division

Vice President
Alif Issadi
ib@megasekuritas.id
6221-7917-5599 **ext** 62068

Senior Investment Banking
Fitri Nuringhati
ib@megasekuritas.id
6221-7917-5599 **ext** 62032

Investment Banking Officer
Septian Wahyudin
ib@megasekuritas.id
6221-7917-5599 **ext** 62094

Investment Banking Associate
Yudha Perwira
ib@megasekuritas.id
6221-7917-5599

Investment Banking Staff
Faizzal Abdullah
ib@megasekuritas.id
6221-7917-5599 **ext** 62062

Fixed Income & Macroeconomic Research Team

Fixed Income & Macro Strategist
Lionel Priyadi
lionel.priyadi@megasekuritas.id
6221-7917-5599 **ext** 62149

Junior Macroeconomist
Muhamad Haikal
muhamad.haikal@megasekuritas.id
6221-7917-5599 **ext** 62425

Research Analyst
Nanda Puput Rahmawati
nanda@megasekuritas.id
6221-7917-5599 **ext** 62089

Equity Analyst
Revo Gilang Firdaus
revo.gilang@megasekuritas.id
6221-7917-5599 **ext** 62431