Budget Politics in Indonesia: Processes, Challenges, and Economic Implications

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Abstract

Budget politics in Indonesia is a very complex process, ranging from central to local government. The budget planning process involves planning, approving, executing, and evaluating, all of which require close coordination and cooperation between institutions. The main challenges in Indonesia's budget politics are the misallocation of funds, inequality between regions, growing debt, inflation, and unstable prices. The economic implications of inefficient budget politics are far-reaching. Imbalances between revenues and expenditures can increase the debt burden and interest costs, reducing the space for productive public spending. Inequalities in budget allocations can slow economic growth and increase social inequality. In addition, uneven financial decentralization exacerbates inequality between regions. Inflation rates fuelled by increased public spending without an increase in goods and services can reduce people's purchasing power. Budget policy uncertainty also brings uncertainty for investors, which can reduce private investment and hamper economic growth. Overall, reforms in the budget distribution process, improved financial management capacity, and a commitment to inclusive and data-driven policies are urgently needed. These measures are essential to meet the challenges and ensure sustainable and equitable development for all Indonesians.

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1 Introduction

The budget is one of the important aspects of public financial governance, which has the function of allocating the nation's resources to achieve development goals. Through the budget, the government can set development priorities, budget funds for strategic programs, and adjust fiscal policy to encourage economic growth and improve people's welfare (Harun et al., 2020). In Indonesia, where various development challenges such as poverty, social gaps, and uneven infrastructure are still significant, an effective and efficient budget is needed to achieve long-term development goals (Purnomo et al., 2021). In addition, good budget management helps ensure that public resources are used wisely and that predetermined development targets are achieved.

Moreover, the budget also serves as an instrument of control and supervision over government performance. Transparency and accountability in the budget preparation and implementation process are important elements in maintaining public trust in government (Berenschot et al., 2021). In Indonesia, budget preparation involves various stakeholders including the executive, legislature, and civil society, which reflects a democratic process in making decisions related to public finance (Muhyiddin & Nugroho, 2021). Thus, a good budget not only ensures fiscal sustainability but also strengthens governance, reduces the potential for corruption, and increases participation and social oversight in the implementation of public policies.

Broadly speaking, budget politics in Indonesia reflects the interplay of political and economic forces. Budget formulation, approval, and oversight serve as a platform for various parties to stake out their interests and influence. This creates a unique dynamic where budgets are not only seen as annual financial plans but also as a reflection of the distribution of power and resources in society (Jakob et al., 2020).

Political gamesmanship plays a dominant role in Indonesia's budgeting process, influencing aspects ranging from planning to allocation to budget approval. Although the budgeting process is formally regulated by laws and regulations, in practice it is often influenced by political dynamics between the executive and legislative branches (Alaerts, 2020). Compromises and negotiations between political parties often determine spending priorities and the distribution of funds. For example, legislators with local or constituency interests may ensure budget allocations for specific projects in their constituencies. This influence can create challenges in maintaining a balance between national and local interests and between sectors of development (Roziqin et al., 2021).

On the one hand, the budgeting process in Indonesia is governed by a series of formal rules and mechanisms that aim to ensure transparency and accountability. The Law on State Finance and its various implementing regulations regulate the stages from budget preparation by the executive to its approval by the legislature (Harun et al., 2020). In practice, however, this process is often influenced by political negotiations, bargaining between the executive and legislature, and the influence of interest groups.

The challenges of budget politics in Indonesia are diverse. At both the institutional and structural levels, bureaucratic constraints, limited technical capacity, and inter-agency coordination issues often stand in the way. In addition, low levels of transparency and accountability in the budget process compound the problem (Shi & Svensson, 2006; Garcia & Hayo, 2021). From a political perspective, the influence of lobbying and vested interests often complicates efforts to develop a fair and effective budget (Puspitaloka et al., 2021). The dominance of certain parties in the decision-making process often leads to budget allocations that are not in line with the main priorities of national development (Dahana, 2020).

The implications of these complex and challenging budget politics are far-reaching, covering various aspects of the country's economy. Inappropriate budget policies can reduce the effectiveness of public spending, affect economic growth, and exacerbate fiscal instability. Furthermore, unequal budget allocations have the potential to increase social inequality and hamper efforts to improve people's welfare (Handoyo et al., 2020).

Delving deeper into the processes, challenges, and impacts of budget politics in Indonesia is important to understand how budget policies can be improved. This research aims not only to provide a clearer picture of the dynamics of budget politics but also to identify areas where improvements and reforms can be made to make state budgets more responsive to people's needs and more effective in promoting sustainable economic development (Brender & Drezan, 2005).

2 Materials and Methods

The literature research method, also known as literature review or literature study, is one of the methods used in academic research to collect, analyze, and present relevant information from various secondary text sources such as
books, journals, articles, and data from the internet. This method allows researchers to get an initial overview of previously conducted research related to the topic under study and identify existing research gaps (Jelahut, 2022; Junaid, 2016).

In practice, the literature research method involves many stages, ranging from searching for relevant keywords, collecting library data, reading and recording important information, to organizing research materials to be presented systematically. Literature studies can also be conducted using various data collection techniques such as catalogues, indexes, and search engines to find reliable references. The information obtained is then analyzed descriptively and analytically to provide a comprehensive picture of the research topic (Abdussamad, 2022).

3 Results and Discussions

Theory of Budget Politics

Budget politics refers to the political processes and dynamics that colour the formulation, planning, distribution, and monitoring of public budgets. It involves interactions and power between various political actors such as the government, legislature, political parties, and other interest groups in determining priorities and distribution of financial resources (Wiyanti & Halimatussadijah, 2021). Budget politics not only covers the technical aspects of state financial management but also reflects political decisions taken based on certain values, ideologies, and interests. Budget politics is a reflection of how political power and interests influence budget policies that ultimately have an impact on people’s welfare (Naviantia, 2020).

The key concepts of budget politics include several important elements, such as the interaction between the executive and legislative branches, resource-sharing mechanisms, and transparency and accountability. In the context of the executive and legislative branches, budget discussions often become an arena for negotiation and compromise to obtain approval from the legislature for budget proposals submitted by the executive branch (Jatmiko et al., 2020). Resource-sharing mechanisms reflect decisions on how funds are allocated to sectors such as education, health, infrastructure, and defence, often based on the political interests underlying government priorities (Sembiring et al., 2022). Transparency and accountability are also key in ensuring that budget management is conducted honestly, openly, and efficiently to prevent corrupt practices and misappropriation of funds. Through these concepts, budget politics reveals the complexity of financial decision-making in government and how it affects development and public services (Setiawan & Tomsa, 2022).

In addition to the interaction between the executive and legislative branches, budget politics is also influenced by various external actors such as international organizations, donors, and non-governmental entities that often have specific agendas or interests. For example, international donor agencies may provide financial assistance with conditions that recipient governments must fulfil, which can influence budget policies (Ordonez et al., 2022). In addition, interest groups and non-governmental organizations (NGOs) often play a role in influencing budget formulation through various forms of advocacy and lobbying, particularly in pressing for the distribution of funds on specific issues such as health, education, or the environment (Humaide & Rahmadanti, 2023).

Openness and public participation in the budget process are also important elements of good budget politics. Openness ensures that the process of budget formulation and management is conducted openly, providing opportunities for the public to monitor and follow how public funds are managed. Public participation, on the other hand, provides space for citizens to be involved in the budget decision-making process, ensuring that the interests and needs of the community are reflected in budget policies (Wiratraman, 2022). This adds to the legitimacy and accountability of government and can reduce the gap between public policy and public aspirations. This open and participatory process not only increases public trust in government but also helps identify and eliminate corrupt practices in budget management (Setyowati & Quist, 2022).

Through this perspective, budget politics can be seen as a complex arena where various actors with different interests interact, negotiate, and compromise to achieve budget policies that reflect collective priorities and ensure effective and efficient resource allocation for public welfare.

Budget framework in Indonesia

The process of preparing the state budget involves various stages and elements of government to ensure transparent and accountable financial management. At the executive level, government ministries and agencies submit the following year's budget plan after analyzing needs and priorities. The Ministry of Finance then consolidates the proposals and prepares an overall draft budget while projecting state revenues. The draft budget is submitted by the head of state to the legislature for approval (Suwantika et al., 2021).

The House of Representatives oversees the draft and has the authority to review, modify, approve, or reject it. This vetting process is conducted through relevant commissions that assess the details of each program and consult with the relevant executives. After various stages of review and revision, the budget is passed through the legislature. The council's authority over the budget ensures oversight and accountability of financial management (Shoesmith et al., 2020).

Once passed, the Ministry of Finance allocates funds to ministries and agencies to implement planned programs. Budget implementation involves various levels of government so that funds are channelled and used according to the approved plan and are properly controlled to prevent irregularities and ensure efficiency (Sugihartati et al., 2020).

Oversight of the use of public funds is a crucial aspect to ensure that state financial resources are utilized following agreed objectives. At the legislative level, parliamentary oversight committees have the responsibility to oversee budget execution. At the executive level, audit institutions such as the Supreme Audit Agency of the Republic of Indonesia are tasked with independently auditing government financial reports and providing recommendations for improvement (Ernawati et al., 2021). In addition, periodic reports and transparency also play an important role in oversight by providing access to information to the public and the media to monitor budget use. If irregularities are found in budget execution, these institutions have the authority to conduct further investigations and take necessary legal action (Sudapet et al., 2021).

The budgeting structure involves several levels and bodies in the executive and legislative sectors. At the executive level, the process starts with government ministries or agencies preparing budget plans based on their projected needs and programs for the next fiscal year. These proposals are then compiled by the Ministry of Finance or the national budget agency, which collects analyses, and drafts the national budget document. The head of government, such as the president or prime minister, then submits this draft budget to parliament for discussion (Wicaksana, 2021).

At the legislative level, parliament has the authority to discuss, amend, and approve or reject the budget proposal. This task is often carried out by budget commissions or special committees that focus on the details of the proposed budget. During these sessions, parliamentarians may hold deliberations with representatives of ministries and agencies to understand the basis of each budget allocation (Salim et al., 2020). After a process of evaluation and potential amendments, parliament will approve the budget through a formal vote. This authority is crucial to ensure that the state budget reflects the priorities and needs of the people and to ensure control and balance in the management of state finances (Harnovinsah et al., 2020).

Once the budget is passed by parliament, implementation begins. The Ministry of Finance is responsible for channelling funds according to budget allocations. Ministries and agencies then use the funds for programs and projects. Implementation is overseen through internal controls that prevent irregularities and ensure efficiency and effectiveness. This process involves various levels of government, from the center to the regions, to ensure implementation as planned (Azmy, 2021).

Oversight is essential to ensure transparency and accountability. Parliament, through oversight and audit committees, monitors budget execution by the executive. In addition, audit bodies such as BPK conduct audits of financial statements to ensure accuracy and probity. Periodic reports and information disclosure facilitate public and media scrutiny. If irregularities or non-compliance are found, oversight agencies have the authority to investigate and take legal or administrative action (Rogers et al., 2020).

The process begins with the preparation of the Government Work Plan by Bappenas and is aligned with the RPJMN. Ministries and agencies prepare Work Plans and Budgets, including proposed program and activity budgets. The proposals are consolidated by the Ministry of Finance into the Draft State Budget. This process involves analyzing needs and priorities, as well as revenue projections, to ensure a balance between income and expenditure (Maria et al., 2021).

After the RAPBN is prepared, it is submitted by the President to the DPR for discussion and approval. In the DPR, the RAPBN is discussed in commission meetings and the Budget Agency is responsible for scrutinizing each budget item. During the process, the DPR can provide input and amend allocations before approval. After comprehensive discussion and assessment, the Draft APBN Law is approved in a plenary session. If approved, it becomes the APBN
Law that the government implements. This process ensures checks and balances between the executive and legislature (Fatoni, 2020).

After the DPR approves the State Budget Bill, the next step is implementation. The government through the Ministry of Finance issues the Budget Implementation List (DIPA) as a guideline for ministries and state agencies in carrying out approved expenditures (Sayer et al., 2021). Each agency then carries out programs and activities according to the plan that has been set. This stage involves the distribution of funds, procurement of goods and services, as well as the implementation of development projects. This process is supervised internally through the supervisory mechanisms of each ministry and agency, as well as by information technology systems that facilitate real-time monitoring of budget utilization (Elia et al., 2020).

Oversight of budget implementation in Indonesia involves various institutions and tools to ensure transparency and accountability. The House of Representatives (DPR), through its relevant commissions and the Budget Agency (Banggar), oversees the implementation of the APBN. The Supreme Audit Agency (BPK) also plays an important role by auditing the government’s financial statements and issuing annual reports on budget compliance, effectiveness, and efficiency. In addition to DPR and BPK oversight, the Ministry of Finance also has an Inspectorate General tasked with internal auditing and monitoring budget implementation in various ministries and institutions (Sulasmi et al., 2023). Public information disclosure, through the publication of budget realization reports and audit results, also allows the public to participate in supervision and provide constructive input on state financial management. If irregularities or non-compliance are found, corrective measures including administrative and legal action can be taken to ensure the integrity of the use of the state budget (Rosser, 2023).

The government conducts periodic evaluations of the implementation of the state budget. This evaluation includes an assessment of performance achievements and the effectiveness of budget utilization by each ministry and institution. The results of the evaluation are outlined in the Central Government Financial Report (LKPP) prepared by the Ministry of Finance. The LKPP is then audited by BPK to ensure that the report complies with government accounting standards and reflects transparent and accountable use of the budget (Sururi et al., 2022).

Public participation in the process of budget formulation, implementation, and monitoring plays an important role in ensuring transparency and accountability. The public can be involved through various channels, such as public consultations, stakeholder forums, and access to information provided by the government. In addition, mass media and civil society organizations also play a role in conducting independent oversight and providing criticism and advice on state budget management (Ollingo & Putra, 2020).

The budget cycle in Indonesia is annual and consists of several stages, from preparation to evaluation. This cycle typically includes: 1) Budget Preparation: Starts from the previous year (around January to June) with the preparation of the Government Work Plan (RKP) and RKAKL. 2) Submission and Discussion of the Draft State Budget: Submission of the RAPBN to the DPR (around August) and discussion until approval around October. 3) Budget Implementation: Once passed, the APBN begins to be implemented in January of the following year until December. 4) Evaluation and Reporting: Assessment and reporting of budget realization in the first half and end of the year, which is then audited the following year (Imelda et al., 2022; Nasri et al., 2022).

Each stage of the budget cycle is designed to ensure effective, efficient, and transparent use of the state budget, and to fulfill the principles of good financial governance.

Economic implications of budget policy

Budget policies have a significant impact on the economic growth of any country. When the government implements expansionary fiscal policies, such as increasing public spending and lowering taxes, the main objective is to boost aggregate demand. Increased government spending on infrastructure, education, and health projects, for example, can create jobs and increase people’s income (Retnandari, 2022). This in turn will increase people's purchasing power and boost household consumption, which is the largest component of Gross Domestic Product (GDP). In addition, tax reductions can provide more disposable income for consumers and increase corporate investment, thereby promoting economic growth (Muhtar, 2023).

Conversely, if the government implements a contractionary fiscal policy to control inflation or reduce the budget deficit, such as by reducing public spending and/or raising taxes, it may suppress economic growth in the short term. A reduction in government spending may reduce the number of projects and programs that can be implemented, reduce demand for goods and services, and ultimately reduce employment (Tambunan & Rosdiana, 2020). Tax increases can reduce people's disposable income and discourage business investment. However, in the long run, contractionary fiscal
policies that aim to achieve a healthier budget can create economic stability and market confidence, which are also essential for sustainable economic growth. Effective and balanced budget policies are essential to achieve economic growth objectives while maintaining macroeconomic stability (Sparrow et al., 2020).

The state budget not only impacts economic growth but is also closely related to various other economic indicators. One of the key indicators is inflation. Expansionary fiscal policies, such as an increase in public spending or a reduction in taxes, can increase aggregate demand. If this increase in demand is not matched by an increase in supply, it can lead to inflation (Kim, 2021). Conversely, contractionary fiscal policies, such as reduced spending or increased taxes, can reduce inflationary pressures by reducing aggregate demand. Controlled inflation is an important objective for fiscal policy as price stability is essential for a healthy economy (Hasan, 2021).

Apart from inflation, the state budget also affects the unemployment rate. Through government spending on infrastructure, education, and health projects, employment can be created, which in turn reduces the unemployment rate. Subsidy policies and training programs can also be tools to reduce unemployment. Conversely, if the government cuts the budget, especially in labor-intensive sectors, this can lead to an increase in the unemployment rate. Therefore, how the budget is structured and implemented has direct consequences on the labor market (Sandi et al., 2021).

The state budget is also closely linked to the balance of payments indicators and fiscal position. A high budget deficit may lead to an increase in public debt if the government has to borrow to cover the shortfall. High debt levels can raise concerns about the government’s ability to repay its debt, which can affect a country's credit rating and create economic instability (Putri & Saputro, 2022). In addition, a sustained deficit can have an effect on the exchange rate of the national currency, as the government may need to attract foreign investment to cover the deficit. Conversely, a balanced or surplus state budget can boost investor confidence and strengthen a country's fiscal position, the stability of which greatly impacts the overall economy (McCarthy et al., 2022).

Challenges in budget politics in Indonesia

One of the major challenges in Indonesia's budget policy is the imbalance between incoming revenue and expenditure. Despite the government's efforts to increase revenue through various tax reforms and natural resource management, the budget deficit is still a major problem (Lev, 2021). The suboptimal tax collection process, due to the low level of tax compliance and a narrow tax base, makes state revenues not proportional to the need to spend funds. This causes the government to rely on debt to cover budget shortfalls, which in the long run can increase the burden of interest costs and reduce the space for productive spending (Buehler et al., 2021).

Another challenge is that budget allocations are not yet fully effective and efficient. This problem is often caused by complicated bureaucracy and high levels of corruption. The allocation of funds is often not following the priorities that are needed, such as infrastructure, education, and health. Budget misuse can slow down development and reduce the effectiveness of government programs. In addition, the implementation of projects is often hampered or not completed on time due to administrative problems and inadequate supervision (Basri & Hill, 2020).

Finally, uneven fiscal decentralization is also a challenge in Indonesia's budget policy. The transfer of funds from the central government to the regions through the General Allocation Fund (DAU) and Special Allocation Fund (DAK) is often not accompanied by adequate management capacity at the local level (Temenggung et al., 2021). Many regions still face difficulties in planning and managing their budgets efficiently. In addition, there are fiscal imbalances between regions due to the unequal distribution of income and different levels of development between regions. These challenges call for strengthening the capacity of local governments and reforming budget distribution patterns to make them more equitable fair, and more responsive to local needs (Lederer & Höhne, 2021).

Economic implications of budget politics in Indonesia

The implications of state budget policy in Indonesia are wide-ranging and complex. The gap between budget revenues and expenditures often forces the government to take on additional debt, increasing the debt burden and long-term interest costs. Growing debt without improved financial management can undermine investor confidence and increase financial risks, ultimately hampering growth (Mamonto & Gani, 2022).

Ineffective and inefficient budget allocation can also hamper development and poverty alleviation efforts. Misallocation of resources such as disproportionate budgets for certain sectors or projects that do not meet the needs of the community can reduce the benefits to the community. In the long run, this can slow growth and increase inequality between regions and social groups. These inefficiencies can also exacerbate existing social and economic problems such as education disparities and unequal access to health (Jayasinghe et al., 2020).
Unequal fiscal decentralization can also exacerbate inequality between regions, negatively impacting social cohesion and political stability. Differences in financial resources between regions mean that some regions can finance development while others struggle to meet basic needs, exacerbating regional inequality and hampering the government’s efforts to spread growth equitably. Reforming budget distribution patterns and strengthening management capacity at the local level is needed to enable each region to develop sustainably and comprehensively (Sahide et al., 2023).

The economic implications of Indonesia’s budget policy are far-reaching, encompassing debt burden, resource allocation inequality, regional inequality, inflation, and investment climate. Achieving sustainable and equitable economic growth requires reforming budget distribution patterns, strengthening financial management, and committing to open, responsive, and fact-based budget policies. This step is important to face economic challenges, increase investor confidence, and ensure inclusive development for Indonesians (Wampler et al., 2021).

4 Conclusion

Budget politics in Indonesia involves a complex process that includes planning, allocating, and monitoring the use of public funds. The process begins with the preparation of the Draft State Budget (RAPBN) by the central government, followed by discussion and approval by the legislature. Despite a clear policy framework, implementation is often hampered by various obstacles, including lengthy bureaucracy and inter-agency coordination challenges. At every stage, it is important to ensure transparency and accountability so that the budget can be properly absorbed and provide optimal benefits to the community.

Nevertheless, significant challenges remain with budget politics in Indonesia. Key challenges include imbalances between revenues and expenditures, budget allocations that are not yet fully effective and efficient, and uneven fiscal decentralization. Budget imbalances often force the government to increase debt, which can burden the economy in the long run. In addition, misdirected budget allocations and delays in the implementation of development projects result in suboptimal use of public funds. Fiscal decentralization has also not been fully successful as disparities between regions persist, leading to inequalities in public services.

The economic implications of improper budgetary politics are far-reaching and impact the stability of the national economy. Large budget deficits can increase the debt burden and reduce investor confidence. Inefficient budget allocations have the potential to hamper the pace of development and economic growth. Overcoming these challenges requires sustained reforms in the budget management system, increased bureaucratic capacity, and strengthened oversight and transparency mechanisms. Thus, the state budget can be better directed toward achieving inclusive and sustainable development goals for all Indonesians.

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The authors declared that they have no competing interests.

Statement of authorship
The authors have a responsibility for the conception and design of the study. The authors have approved the final article.

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