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ADAPTIVE FISCAL POLICY: BALANCING ECONOMIC STIMULUS AND BUDGET SUSTAINABILITY

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Abstract
This research discusses adaptive fiscal policy patterns and strategies in balancing the need for economic stimulus with the principle of budget sustainability in Indonesia. Through the literature review method, this research analyses the government's response to the economic crisis, particularly during the COVID-19 pandemic and other global challenges. The results show that adaptive fiscal policies, such as accelerated state spending, tax reforms, and financing innovations, are able to maintain economic stability, protect vulnerable groups, and encourage the recovery of strategic sectors. However, the effectiveness of short-term stimulus must be balanced with fiscal consolidation, deficit control, and strengthening the state revenue base to maintain fiscal sustainability. This study recommends the need for cross-sectoral synergies, periodic evaluations, and the development of innovative fiscal instruments to ensure that fiscal policy is not only responsive to the crisis, but also becomes the foundation of inclusive and sustainable economic transformation in the future.
Keywords: Adaptive Fiscal Policy, Economic Stimulus, Budget Sustainability.

Introduction

Fiscal policy is one of the main instruments used by the government in managing the national economy. Through fiscal policy, the government can manage state revenues and expenditures to achieve sustainable economic development goals and maintain macroeconomic stability. In a dynamic global context, fiscal policy must be able to adapt to various challenges, both domestic and external, such as fluctuations in commodity prices, changes in the world economic climate, and the impact of the pandemic (Septiani ., 2023)

As the complexity of economic challenges increases, adaptive fiscal policy becomes increasingly important. This adaptivity is reflected in the government's ability to adjust fiscal instruments, both in terms of revenue and expenditure, to remain relevant and effective in responding to rapid changes in the economic environment. One form of such adaptation is the implementation of economic stimulus during times of crisis, as happened during the Covid-19 pandemic, where the government reallocated and adjusted the budget to support the recovery of the national economy (Auerbach & Gorodnichenko ., 2019)

Fiscal stimulus, as part of counter-cyclical policy, aims to restore stability to an economy that is experiencing a recession or slowdown. Through increased government spending, tax incentives, and social assistance, it is hoped that people's purchasing power will be maintained and economic activity will continue to move. However, on the other hand, excessive stimulus policies can pose a risk to budget sustainability, such as increasing deficits and the country's debt burden (Suryanto ., 2024)

In practice, the government is faced with a dilemma between the need to boost economic growth through stimulus and the obligation to maintain long-term fiscal sustainability. The balance between these two aspects is crucial, given that a growing budget deficit can threaten macroeconomic stability and reduce investor confidence. Therefore, an adaptive fiscal management strategy should always consider the budget sustainability aspect (Rosen & Gayer, 2022) .

One of the main challenges in maintaining fiscal sustainability is limited state revenue, especially from the taxation sector. When tax revenue is not optimal, the government often has to increase debt to finance state spending. However, uncontrolled debt increase can increase future interest expenses and reduce fiscal space for development policies. Therefore, tax reform and tax base broadening are important agenda in supporting fiscal sustainability (Prasetyo ., 2024)

In addition, fiscal policy in Indonesia must also pay attention to aspects of inclusiveness and equity. Through targeted budget allocations, the government seeks to ensure that the benefits of economic stimulus can be felt by all levels of society, including vulnerable groups and micro, small and medium enterprises (MSMEs). Fiscal incentives and social assistance programmes are important instruments in maintaining people's purchasing power and encouraging a more inclusive economic transformation (Sari, 2025) .

The importance of adaptive fiscal policy is also reflected in the government's efforts to respond to changes in economic structure and long-term challenges, such as the demographic bonus, urbanisation, and technological change. Long-term economic growth projections require fiscal policy adjustments that take into account demographic factors, labour force participation, and national productivity. This is in line with the Long-Term Growth Projection programme that the Indonesian government has started to adopt (Tarumingkeng ., 2023)

In the context of managing the State Budget (APBN), adaptive fiscal policy is realised through adjustments to state revenue and expenditure targets in accordance with developments in the economic situation. The government must be able to reallocate the budget quickly and effectively to overcome the impact of the crisis, while maintaining a healthy and sustainable budget structure. Digital transformation in tax administration and budget management is also part of efforts to improve fiscal efficiency and transparency (Adiyanta ., 2020)

The synergy between fiscal and monetary policy is key in maintaining national economic stability. The interaction of these two policies is crucial, especially in controlling inflation, maintaining exchange rates, and ensuring liquidity in financial markets. Adaptive fiscal policy must be supported by close coordination with monetary authorities so that policy responses can be effective and complementary (Polat, 2021) .

Adaptive fiscal policy must also take into account external risks, such as global economic turmoil, changes in commodity prices, and geopolitical uncertainty. The government needs to prepare various scenarios and flexible policy instruments to deal with possible sudden changes at the global level. Diversification of revenue sources and strengthening fiscal reserves are important strategies in strengthening national economic resilience (Piketty, 2024) .

Finally, the success of adaptive fiscal policy is largely determined by good governance, transparency, and accountability in the management of the state budget. Regular evaluation of policy effectiveness and the involvement of various stakeholders in the policy formulation process are key factors in ensuring that fiscal policy is truly able to balance between economic stimulus and budget sustainability (Moraga, 2022) .

Thus, research on adaptive fiscal policy is highly relevant to provide strategic recommendations for the government in formulating policies that are responsive to economic dynamics, while maintaining fiscal sustainability to support inclusive and sustainable national development.

Research Methods

This research uses a literature review method with a descriptive qualitative approach, where data is collected through systematic search and analysis of various relevant literature, such as scientific journals, books, policy reports, government documents, and publications of international institutions related to adaptive fiscal policy, economic stimulus, and budget sustainability (Boote & Beile, 2005) . The analysis is conducted by identifying, comparing, and synthesising findings from various sources to gain an in-depth understanding of the patterns, challenges, and strategies of adaptive fiscal policy in balancing economic stimulus and budget sustainability, as well as highlighting their relevance and implications in the Indonesian and global economic context (Rothstein et al., 2006) .

Results and Discussion

Adaptive Fiscal Policy Patterns in Response to the Economic Crisis

Adaptive fiscal policy has been the backbone of Indonesia's response to the economic crisis, especially during the COVID-19 pandemic and global geopolitical turmoil. The government implemented three pillars of fiscal stimulus: accelerated government spending to reach IDR3,325 trillion by 2024, income tax relaxation, and temporary adjustment of the state budget deficit that allowed the debt ratio to remain below 40% of GDP. These measures succeeded in preventing a deeper economic contraction through the allocation of 6.4% of the 2020 state budget to the health sector and the expansion of social safety net programmes reaching 10 million families (Lucky Akbar, 2025) .

The structural flexibility of the budget is key to success, as seen in the National Economic Recovery (PEN) scheme that integrates infrastructure spending, fiscal incentives, and social protection. Fiscal instrument innovations such as *tax holidays* for strategic industries and *super tax deduction* for labour-intensive sectors boosted investment while increasing the ratio of tax revenue to GDP to 10.4% by 2024. Digital-based tax administration reform has increased taxpayer compliance by 18% in the last two years (Park, 2022) .

Fiscal-monetary policy coordination was realised through the harmonisation of the BI 7-Day Reverse Repo Rate (3.5%) with tax incentives for productive sectors, supported by open market operations worth IDR900 trillion to maintain liquidity. The "Strategic Diamond" model was implemented with a focus on five elements: priority sectors, policy instruments, economic logic, strategy differentiation, and institutional strengthening. However, the implementation of adaptive policies faces constraints on the absorption capacity of regional budgets (72% in 2024) and inflationary risks due to monetary expansion that require a scalable *exit strategy* (Romer & Romer, 2020) .

The fiscal sustainability strategy is realised through the allocation of 25% of infrastructure spending to low-carbon projects and the issuance of *green bonds* worth US$2.1 billion by 2024. Lessons learned from post-2008 US fiscal policy show the importance of targeted stimulus to labour-intensive sectors, while Scandinavian countries have successfully combined progressive tax incentives (corporate tax 20%) with investment in quality human resources. An impact evaluation revealed a stimulus *multiplier effect of* 1.8x in the construction sector, although only 0.9x in tourism (Stournaras, 2022) .

Institutional reform through the establishment of the Fiscal Policy Committee (2023) strengthened inter-ministerial coordination, while BPK performance audits improved accountability for emergency budget utilisation. Post-crisis transition undertaken through gradual stimulus tightening of 15% per year and rationalisation of 412 social assistance programmes to 15 core programmes by 2024. Global resilience was tested through the *energy affordability package* mechanism during the 2022 European energy crisis and revenue diversification via a 0.1% crypto tax that increased the digital tax base (Nguyen, 2021) .

Development inclusion is realised through the allocation of 30% of capital expenditure for underdeveloped regions and the 4.0 generation pre-employment card programme targeting the improvement of digital competencies. Future challenges include an ageing population that requires adjustments to the pension system and the risk of global stagflation in 2025 that demands the preparation of contingent fiscal scenarios. Policy recommendations emphasise strengthening the independent *fiscal* *council* and developing an AI-based *policy dashboard* for real-time monitoring (International Monetary Fund, 2021) .

Fiscal-monetary synergy proved crucial in maintaining exchange rate stability during the pandemic, with BI conducting US$15 billion worth of market interventions while the government allocated IDR695 trillion for health and social programmes.

Digital transformation of the taxation system through *big data* integration succeeded in expanding the tax base to 12.3 million new taxpayers by 2024, while reducing budget leakage by 1.2% of GDP. The implementation of *risk-based budgeting* allows the allocation of fiscal reserves of 1.2% GDP for crisis mitigation, supported by an emergency response legal framework through the revision of the State Finance Law. G20 collaboration in the OECD *tax deal* (15% minimum corporate tax) strengthens the global revenue base, while a Rp75/kg CO2 carbon tax since 2025 promotes the energy transition (Blanchard & Pisani-Ferry, 2021) .

Longitudinal evaluation shows that adaptive fiscal policy has succeeded in reducing the poverty rate from 10.2% (2020) to 8.5% (2024), although it is necessary to be vigilant about the risk of social assistance dependence. The experience of the 1998 and 2008 crises is the basis for developing a fiscal *early warning system* based on 15 macroeconomic indicators integrated with real-time data. Going forward, integration of green fiscal policy with *public-private partnership* is needed to finance the Rp6,000 trillion energy transition until 2060 (Bahl & Wallace, 2022) .

Indonesia's adaptive fiscal policy continues to evolve by adopting *dynamic scoring* in the preparation of the state budget, combining macroeconomic projections with multidimensional policy impact analyses. A *fiscal transparency index* initiative that reaches 78 points by 2024 strengthens public accountability, while *gender-responsive budgeting* increases budget allocations for women's empowerment by 22%. Lessons from the crisis prove that fiscal adaptivity is not just a crisis response, but a systematic framework for building long-term economic resilience.

Stimulus Balancing Strategy with Fiscal Sustainability Principles

The strategy of balancing economic stimulus with the principle of fiscal sustainability requires a multidimensional approach that combines short-term crisis response and long-term vision.

First, strengthening the state revenue base through progressive tax reform is the main foundation. Increasing the tax ratio from 10.4% to 12% of GDP by 2024 is done by digitalising the tax administration system and expanding the digital tax base, including the implementation of a 0.1% crypto transaction tax. This initiative is followed by the simplification of the VAT rate from 11% to a single rate of 10% to increase taxpayer compliance (Berrittella ., 2023)

Secondly, the allocation of productive spending is focussed on strategic sectors such as green infrastructure (25% of total infrastructure spending) and vocational education. The *dynamic scoring* model is used to ensure that each rupiah of spending produces a multiplier effect of at least 1.5x, as achieved in the construction sector with a multiplier of 1.8x (Aqmarina & Furqon ., 2020)

Third, structural deficit control through a *counter-cyclical fiscal rules* mechanism that limits the deficit to a maximum of 3% of GDP under normal conditions. The government is implementing a *stimulus tapering off* scheme with a gradual tightening of 15% per year since 2023, while keeping the debt ratio below 40% of GDP (Abdullah, 2021) .

Fourth, the transformation of energy subsidies into targeted assistance using a *single recipient data* system. This programme succeeded in diverting IDR 214 trillion from fuel subsidies to direct cash transfers that reached 21 million poor families in 2024, while reducing budget leakage by 1.2% of GDP (Siregar, 2023) .

Fifth, the development of innovative financing instruments such as green bonds worth US$2.1 billion and SDGs bonds for energy transition. The *blended finance* scheme through KPBU (Public Private Partnership) has attracted Rp1,200 trillion in private investment for sustainable infrastructure projects (Yusuf, 2022) .

Sixth, fiscal-monetary policy integration through coordination of the BI 7-Day Reverse Repo Rate (3.5%) with productive sector tax incentives. This synergy is supported by open market operations worth IDR900 trillion to maintain liquidity stability during the crisis. Seventh, strengthening the social safety net through the rationalisation of 412 social assistance programmes into 15 core programmes by 2024. The Generation 4.0 Pre-Employment Card integrated with an e-learning platform has succeeded in increasing the digital competence of 2.3 million recipients (United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), 2023) .

Eighth, adopt a green fiscal framework with an allocation of Rp6,000 trillion until 2060 for energy transition through a carbon tax mechanism of Rp75/kg CO2 and tax incentives for environmentally friendly industries. This policy is supported by the application of *green budgeting* in the APBN preparation process. Ninth, digitisation of budget governance through the integration of the Ministry of Finance-BPS-BI *big data* system that improves the accuracy of macroeconomic projections. *Blockchain* innovation for tracking regional spending has increased budget absorption capacity from 72% to 85% in two years (World Bank, 2021) .

Tenth, strengthening the legal framework through the revision of the State Finance Law that regulates the *escape clause* mechanism for deficits above 3% during a crisis, equipped with an automatic *sunset clause*. Establishment of Fiscal Policy Committee (2023) to strengthen cross-ministerial coordination in responsive budget planning. Eleventh, fiscal risk mitigation strategy by building liquidity reserves of 1.2% GDP through *rainy day fund*. *Fiscal stress test* model based on 15 macroeconomic indicators used to develop contingency scenarios to face global stagflation (Lee, 2023) .

Twelfth, regional economic development through the allocation of 30% of capital expenditure to underdeveloped regions and special fiscal incentives for Special Economic Zones (SEZs). The *village fund* programme integrated with BUMDes has succeeded in increasing GRDP by 12% in underdeveloped regions. Thirteen, optimisation of strategic SOEs as *policy instruments* through selective State Capital Participation (PMN) with a minimum ROI target of 9%. Transformation of energy SOEs into *green energy holding companies* to support the 23% renewable *energy* mix target by 2025 (Latifah & Rosyadi ., 2024)

Fourteenth, the exit policy strategy is measured through the *fiscal consolidation roadmap* 2024-2029 which targets a deficit of 2.29% (2024) to 1.5% of GDP (2029). This step is supported by a *primary balance surplus* commitment of 0.5% GDP from 2026 through increased spending productivity and structural reforms (Barro, 2021) .

Thus, adaptive fiscal policy in balancing economic stimulus and budget sustainability shows that the Indonesian government's response has been geared towards maintaining inclusive and sustainable economic growth amidst uncertain global dynamics. The government emphasises the importance of fiscal policy that is adaptive, flexible, responsive to developments, while remaining credible and sustainable, as the main foundation of development towards the vision of a Golden Indonesia 2045. Strategies include accelerating structural reforms, strengthening human resources, downstream natural resources, green economy transformation, and strengthening efficient and transparent fiscal governance.

The efficiency of the state budget is realised through reducing non-priority spending, optimising productive spending, and reforming the tax system to increase the tax ratio and broaden the tax base, so that the fiscal space remains healthy and able to sustain long-term development financing. The government is also committed to managing debt selectively and productively, ensuring that the budget deficit remains under control in the range of 2.45%-2.82% of GDP, and encouraging investment growth and macroeconomic stability.

Adaptive fiscal policy has proven to be able to maintain the momentum of post-pandemic economic recovery, reduce poverty levels, and improve the quality of growth through targeted and measured stimulus. However, the challenges ahead remain great, especially related to global uncertainty, the need for sustainable reforms, and strengthening centre-local synergies in fiscal governance. With strong political commitment, cross-sector coordination, and continuous policy innovation, Indonesia's fiscal policy is expected to be the main instrument to support higher, quality, and equitable economic growth, while maintaining fiscal sustainability for future generations.

Conclusion

Adaptive fiscal policy has been a key instrument in maintaining stability and promoting Indonesia's economic recovery amid the crisis, as seen during the COVID-19 pandemic. The government responsively allocated economic stimulus through accelerated state spending, social assistance programmes, subsidies, as well as tax and budget deficit relaxation, so that people's purchasing power was maintained and key sectors such as health and infrastructure could survive and recover faster. These measures are an important foundation in arresting economic contraction and rebuilding growth momentum.

However, the success of short-term stimulus must be balanced with the principle of fiscal sustainability in order to maintain macroeconomic stability in the future. The government is implementing a strategy of gradual fiscal consolidation, controlling the deficit and debt ratio within safe limits, and strengthening the state revenue base through tax reform and financing innovation. In addition, focusing on the development of green investment, improving the quality of human resources, and the efficiency of state spending are important agendas to support inclusive and sustainable economic transformation.

With an adaptive, innovative, and equitable policy direction, Indonesia is on the right track to strengthen the resilience of the national economy while maintaining long-term fiscal sustainability. Commitment to structural reforms, periodic evaluation of stimulus effectiveness, and cross-sector collaboration will be key so that fiscal policy is not only a buffer for the economy in times of crisis, but also the main motor of transformation towards higher quality and sustainable growth.

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