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> **Everybody you fight is not your enemy and everybody that helps you is not your friend.**
>
> **- Mike Tyson**

Michael Gerard Tyson, born June 30, 1966 (age 58) is an American professional boxer who competed from 1985 to 2005.

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Setting the Stage for the 2025 State Budget

The RAPBN formed by Jokowi serve as key tools to realize Prabowo-Gibran's strategic programs

By Putu Rusta Adijaya

The 2025 Budget bill (RAPBN) and Financial Note was submitted by President Joko "Jokowi" Widodo at the House of Representatives (DPR) plenary session on Friday (16/8). The key takeaways from President Jokowi's state of the nation address referred to the resilience of the Indonesia's economy in the past decade against various sources of turbulence, such as the Covid-19 pandemic, the Russian invasion of Ukraine, the US-China trade war, climate change, etc. His speech provided several notes on the basic macroeconomic assumptions in RAPBN 2025 which serve as the key tools for the incoming Prabowo-Gibran administration to realize their campaign promises. Figure 1 shows the realization of macroeconomic assumptions in the period from 2019 to 2023, as well as Budget (APBN) for 2024 and 2025.

Save for the year 2020, when the Covid-19 pandemic hit, and the ensuing year of recovery, Indonesia was able to maintain its economic growth, consistently between 5 and 5.3 percent in 2019, 2022, and 2023. Recently, Statistics Indonesia (BPS) announced 5.05 percent YoY growth in the second quarter (Q2), on the back of increased investments (domestic and foreign) and government spending. The economic vitality can also be seen from the expanded community mobility, tourist numbers, hotel occupancy rates and others. The Q2 growth was the same as the rates during the same period in 2019 and 2023. The World Bank, in its "Global Economic Prospects June 2024" projected that the Indonesian economy would grow by 5.1 percent in 2025 and 2026. In other words, the 5.2 percent target set in RAPBN 2025 is realistic, if we look at the trajectory. What has contributed to the country's steady economic growth? In the June 2024 edition of its Indonesian Update report, The Indonesian Institute's (TII) Center for Public Policy Research noted that Indonesia's economic growth under President Jokowi was mainly supported by household consumption, Gross Fixed Capital Formation (PMTB), exports, and government spending (see Figure 2). In the 2019-23 period, economic growth was contributed by household consumption (54.7 percent) while one-third was driven by PMTB, through capital goods such as buildings, machinery and equipment. Exports contributed 20.7 percent. The same factors were also at play in the second quarter – household consumption (54.53 percent), PMTB (27.89 percent), exports (21.4 percent) and government spending (7.31 percent).

Meanwhile, inflation in 2022 was recorded as the highest (see Figure 1), exceeding the target of 3±1 percent as set forth in the Finance Ministerial Regulation 101/PMK.010/2021 concerning inflation targets for 2022, 2023 and 2024. This was due to several factors, including the highest global inflation since the mid-1990s, the impact of the Russian invasion of Ukraine in February 2022, which triggered worldwide supply chain disruption especially in food and energy, subsidized fuel price hikes and supply-and-demand imbalances in global goods and commodities, as countries were recovering from the pandemic. Jokowi's government, in close synergy with Bank Indonesia (BI) as the monetary authority, has managed to maintain an inflation level within the target range in 2024.

However, as global economic turmoil is projected to continue into 2025, exacerbated by protectionist trade policies in China and the US – Indonesia's two largest trading partners – inflation in Indonesia could further surge, through "cost-push inflation" and "demand-pull inflation". Not to mention the climate change factor that will affect "volatile food" as it changes the harvest cycle or causes harvest failures in several essential commodities, such as rice, as well as the Government's shortcomings in managing "administered prices", such as fuel and electricity. These will all lead to higher domestic inflation.

Figure 1 also shows the yield of 10-year sovereign bonds (SBN) which are influenced by several things, especially inflation and interest rates. If inflation is too high, the monetary authority must raise interest rates in a bid to reduce the money in circulation, so inflation can be reined in. The implication of this measure is an increase in the yield of SBN, which has to be adjusted to meet investors' expectations. If the rate of return is higher, the cost of government debt will also rise, because the Government will have to pay higher interest to SBN holders. This will eventually lead to rising debt-to-GDP ratio.

Therefore, the Prabowo-Gibran administration must further strengthen the synergy between BI, Central Inflation Control Team (TPIP) and Regional Inflation Control Team (TPID) to maintain inflation within the target range of 1.5 to 3.5 percent in the next three years. If the Government can keep inflation in check, the benchmark interest rate will remain moderately low and the community and businesses can carry out economic activities optimally and not have to worry about servicing more expensive debt, following an interest rate hike.

In addition to the economy, the RAPBN 2025 is also geared toward improving the education sector, which will play a key role in enhancing the competitiveness of Indonesia's human capital. To this end, the Government needs to promote access to education, improve the quality and infrastructure, and align the outcome with industrial needs through "link and match". One of the key plank policies is the free nutritious meals (MBG) program for students at all educational levels. The 1945 Constitution has mandated that 20 percent of the national and regional budgets be allocated for the education sector.

AGUNG WAHYUDI/IO

In general, the education budget from 2019 to 2025 has increased steadily, moving from Rp508.8 trillion (Rp473.7 trillion utilized) in 2020 to Rp550.1 trillion (Rp479.6 trillion utilized) in 2021, to Rp621.3 trillion (Rp480.3 trillion utilized) 2022 and further to Rp624.3 trillion (Rp513.4 trillion utilized, up 6.89 percent YoY) in 2023. This year, the utilization is projected to be Rp581.3 trillion. RAPBN 2025 pumped it further to Rp722.6 trillion.

Of the total Rp700 trillion in the education budget, Rp71 trillion will be used to fund the MBG program, expected to employ approximately 820,000 workers and contribute 0.1 percent to GDP growth, while drastically reducing stunting prevalence and poverty rates in several regions.

However, MBG is only a small part of the larger effort to improve an Indonesian education sector beset by complex and multidimensional issues. The implementation of the program must also ensure that the entire process is transparent, accountable, realistic, contextual, and participatory, by involving various stakeholders (school committees, health and nutrition experts, food providers, food distributors, and so on). Given the great enthusiasm and expectation for the program, and the fact that it is funded by the education budget, the Government needs to conduct a thorough evaluation with measurable outcomes in its implementation, seek alternative funding source to support the program and ensure that it reaches the intended recipients.

On the other hand, the Prabowo-Gibran administration faces several complex and longstanding educational issues that it must address immediately. First, improving the quality of teachers, especially in public schools in frontier, outermost and least developed (3T) regions. The Government must intervene by providing not just physical aspects such as facilities and infrastructure for teachers, but also their training, especially in pedagogic and communication skills, to boost student motivation, because each student has their own style of learning. This knowledge-enhancing approach must be strengthened by involving the private sector, such as educational enterprises. It is hoped that this effort can improve the overall quality of the teaching and learning process.

Second, the curriculum needs to be adjusted to the needs of business and industry. In a digital era that is rapidly evolving and highly disruptive, the curriculum in Indonesia should put more emphasis on crucial fields such as science, technology, engineering and mathematics (STEM). Additionally, the curriculum should not be overly theoretical but rather practical, with regard to real-world applications. Collaboration between school and industry will

Figure 1. Basic Macroeconomic Assumptions 2019-2025

Macroeconomic Assumptions	2019		2020		2021		2022		2023		APBN 2024	APBN 2025
	LKPP	APBN	LKPP	APBN	LKPP	APBN	LKPP	APBN	LKPP	APBN		
Economic growth (% YoY)	5.02	5.30	-2.07	5.3	3.70	5.0	5.31	5.2	5.05	5.3	5.2	5.2
Inflation (% YoY)	2.72	3.50	1.68	3.1	1.87	3.0	5.51	3.0	2.61	3.6	2.8	2.5
10-Year SBN Yields (%)*	5.62	5.30	5.89	5.4	6.38	7.29	7.02	6.82	6.63	7.90	6.7	7.1
Exchange rate (Rp/US$)	14,146	15,000	14,577	14,400	14,312	14,600	14,871	14,350	15,255	14,800	15,000	16,100
Crude oil prices (US$/barrel)	62.37	70	40.39	63	68.51	45	97.09	63	78.43	90	82	82
Oil lifting (Mbpd)	746	775	707	755	660.22	705	612.41	703	604.71	660	635	600
Gas lifting (Mboed)	1,057	1,250	983	1,191	994.83	1,007	953.56	1,036	999.88	1,100	1,033	1,005

*Source: Supreme Audit Agency (BPK) and Finance Ministry (Kemenkes). LKPP is the Central Government Financial Report. APBN is state budget. Mbpd is thousands of barrels per day. Mboed is thousands of barrels of oil equivalent per day. *Note: Yield of 3-Month Treasury bills (SPN) until fiscal year 2020. 10-Year Sovereign Bond (SBN) until present.*

MUHAMMAD HIDAYAT/IO

An officer monitors the loading and unloading of containers at the Port of Tanjung Priok, Jakarta.

lead to the alignment of curricula that focus on skills needed for jobs. Furthermore, the curriculum needs to be constantly updated to keep up with changes in a fast-paced world, to ensure that graduates will remain competitive. Teachers also need to upgrade themselves with 21st century pedagogical skills and thoroughly understand their students' learning needs. In a nutshell, education must prepare students for the real world.

Third, to build an effective education system to propel the nation toward the Golden Indonesia Vision 2045, the Prabowo-Gibran administration must strengthen its anti-corruption drive, the reason being that the education sector is not immune from a latent risk of corruption. Indeed, the Indonesia Corruption Watch (ICW) on June 10 stated that education was among the five most corrupt sectors. In the period from January 2016 to September 2021, there were 240 cases of corruption in educational settings, costing a staggering Rp1.6 trillion of losses of public funds. And this is just the tip of an iceberg.

According to Myint (2000), corrupt practices take many forms: bribery, extortion, fraud, embezzlement, nepotism, cronyism, seizure of assets and public property for personal gain, to influence peddling. Bribery, for example, has various euphemisms, such as "sweetener", "grease money", "commission", "kick-back", etc. (Amundsen, 2000). Giving a "grease payment" is a common practice, even at villages. For example, a village head candidate who disburses money to villagers to get him elected is a form of bribery because the money can be considered a "binding contract" to influence community votes (Adijaya, 2024). Various studies have found that the root causes of corruption in Indonesia are diverse, including a corrupt political system and political parties, because the majority of them are run by a small clique or political families (Syarif & Faisal, 2019), corrupt government officials (Ibrahim, Yusoff & Koling, 2018), and poor leadership (Prabowo, 2016).

To ensure that the implementation of Budget 2025 remains in the proper corridor, the Prabowo-Gibran administration needs to do the following. First, step up anti-corruption drive. Second, according to Adijaya (2024), maintain and strengthen the democratic and political system in Indonesia, through collaboration and synergy with the General Elections Commission (KPU), Elections Supervisory Agency (Bawaslu), and civil society organizations (CSO). The role of representative institutions, Ombudsman, as well as law enforcement and judicial institutions must also be expanded. Strengthening the democratic and political system can be done through education and training (reskilling and upskilling) on democracy and corruption prevention for government employees and the general public. If a weak democratic and political system is compounded by the absence of checks and balances, and weak quality of institutions, then corrupt practices in Indonesia will mushroom and become entrenched.

In addition, the Government needs to implement the "pentahelix" approach to the greatest extent possible, to safeguard democracy and the supremacy of law, including seeking the enactment of the Asset Forfeiture Law to tackle corruption. The executive branch must be able to implement the law or other related anti-corruption policies, supervised by relevant bodies (representative institutions, Ombudsman, CSOs), the media and the general public, through meaningful and impactful participation, and transparency and access to public information. The judiciary must also be able to conduct effective, efficient, and fair trials if there is any violation of the Constitution by the Government.

Toward economic freedom

President-elect Prabowo Subianto has, on several occasions, expressed his optimism about achieving economic growth above 5 percent. The question is, what needs to be done then?

First, the Prabowo-Gibran administration must be able to improve the state of economic freedom in Indonesia. According to the Heritage Foundation (2024), Indonesia's economic freedom index has been in decline since it peaked in 2020 (scoring 67.2). It began to drop in the following years, from 66.9 in 2021 to 64.4 in 2022 and 63.5 in 2023 and 2024. Economic freedom, especially with regard to the rule of law, such as protection of property rights, government integrity, and the effectiveness of the judiciary, must be seriously heeded by the Prabowo-Gibran government.

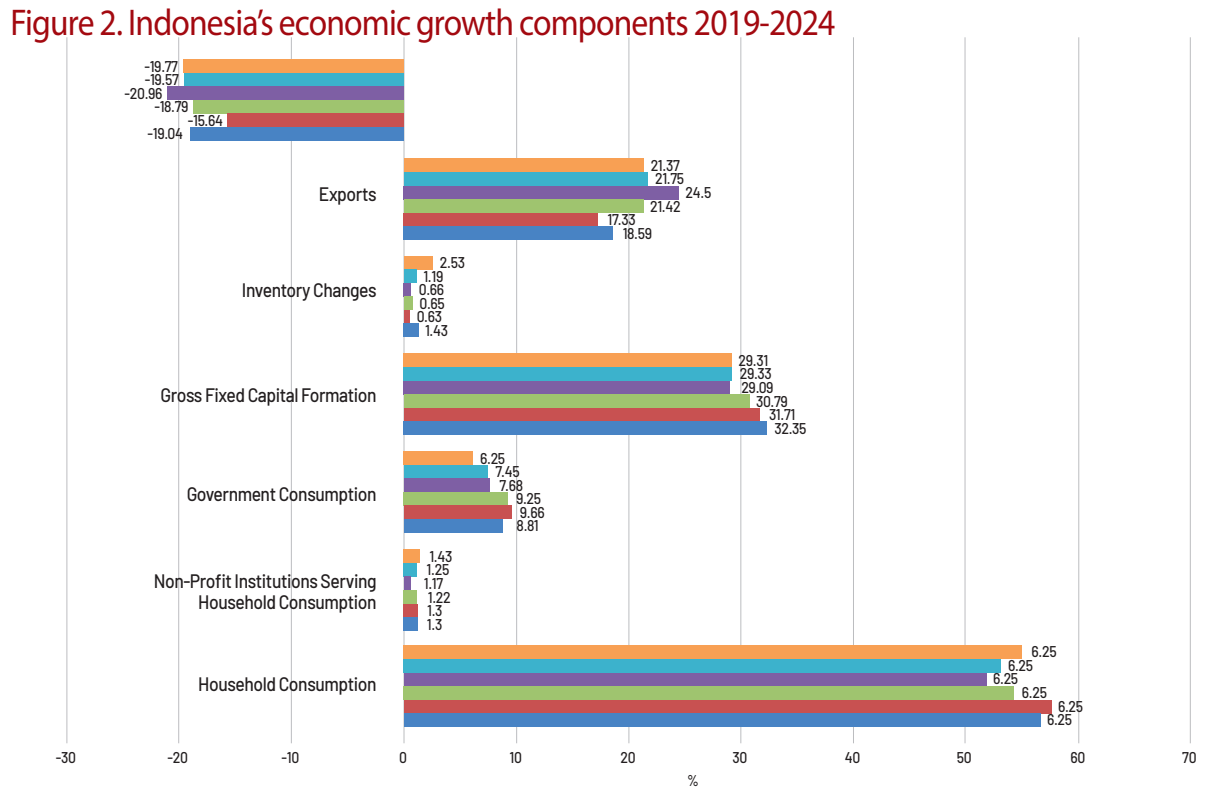
According to the Heritage Foundation, the rule of law must be able to provide a sense of security and a guarantee to individuals, in their carrying out economic activities. For example, protecting property rights, including intellectual property, is important for Indonesia, because the country's economy is still dominated by the informal sector, including the creative economy sector and micro, small, and medium enterprises (MSME) (Adijaya, 2024). In addition to economic freedom, "economic complexity" also needs to become a priority, to achieve an economic growth above 5 percent. "Economic complexity" is a holistic measure of the productive capabilities of a country's economy, where the more complex and sophisticated a country's economy, such as having a variety of productive knowledge, the more diverse and complex the goods it can produce (World Bank, 2024). A benchmark is the Economic Complexity Index (ECI) which ranks countries based on accumulated knowledge in a population and their economic activities. This index also provides a measure indicating a country's economic development (World Bank, 2024).

Research by TII (2024) noted that economic complexity has the potential to drive economic growth, as has been successfully demonstrated by Singapore, Thailand and Vietnam. Therefore, improving economic complexity that focuses on developing high-productivity goods and/or services can drive the economy, because high economic complexity is intertwined with the development of technology, innovation, and more productive capabilities. Improvement of economic complexity will lead to economic diversification, more jobs and a higher human development index, for both the middle class and underprivileged communities. So, what needs to be done to drive economic complexity? The Government should diversify exports that are oriented towards high productivity. Relevant ministries/agencies ought to conduct an in-depth and thorough analysis of high-productivity sectors that are close in complexity to the current sector. This requires "cluster development", a protocol through which the private sector becomes the initiator. Improved law enforcement and policy transparency can attract the private sector to establish collaboration.

In addition, the Prabowo-Gibran government, through the Cooperatives and SME Ministry and other relevant ministries/agencies, should support and foster entrepreneurship in existing MSMEs, by providing funding, as well as mentoring programs with the support of the private sector, and start-ups that have produced complex goods and/or services. This calls for regulations that are in line with economic freedom, such as property rights and business freedom, in order to provide legal certainty and trust, so that innovation can take root. IO

Putu Rusta Adijaya is an economic researcher at The Indonesian Institute's (TII) Center for Public Policy Research. He graduated from Atma Jaya Catholic University's Faculty of Economics and Business, majoring in Development Economics, in 2019. Before joining TII, he was involved in an array of research projects on energy, market, sustainability and media. In line with his research experience, his areas of interest and focus center on the political economy, energy, environmental economics and sustainability.

Figure 2. Indonesia's economic growth components 2019-2024



SOURCE: BPS, 2024. DISTRIBUTION OF QUARTERLY GDP ON CURRENT PRICES ACCORDING TO EXPENDITURES

SEPTO KUN WIJAYA/IO

Elementary school students participate in the free nutritious meals trial program at State Elementary School (SDN) Tangerang 4, Tangerang City, Banten.

Finance Deputy-Minister Thomas Djiwandono

Thomas Djiwandono on the policy directions of 2025 Budget bill

There are five major factors that are projected to support economic growth in 2025: household consumption, quality government spending, increased investment, stronger export performance and economic transformation. This was conveyed by Finance Vice-Minister Thomas Djiwandono in an exclusive TV interview on the 2025 Budget bill (RAPBN) and Financial Note on Friday (16/8).

"Economic transformation is no less important, as this relates to efforts to charge competitiveness, productivity, food security, energy security, green industry, and development in the electronics and digital sectors," said Thomas.

He added that the government will continue to pursue two national priority programs, namely, the development of Indonesia's new administrative capital Nusantara (IKN) initiated by the current government, and President-elect Prabowo Subianto's centerpiece Free Nutritious Meals (MBG) program. "Both will be continued and equally prioritized," he said.

Thomas went on to confirm that the government has earmarked Rp71 trillion budget for the MBG program, which will be run by a special newly-created agency called the "National Nutrition Agency" (BGN).

"I want to reiterate that this program has three goals, namely, superior and smarter human resources and the empowerment of micro, small and medium-sized enterprises (MSME). We expect it to create an economic multiplier effect," he added.

The Government is also aware of the lingering geopolitical and global economic risks, especially the war in Ukraine, turmoil in the Middle East, and the precarious footing of the global economy.

"These are the major risks that we need to watch out for, as they can impact Indonesia's economic resilience. Nevertheless, our economic growth so far has been quite robust and next year's target is 5.2 percent, so this reflects our optimism," noted Thomas. **(des)**