

Government rolls out stimulus to pump-prime the economy

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On December 16, 2024, President Prabowo Subianto's administration launched the *Economic Policy Package for Prosperity*, through the Coordinating Ministry for Economic Affairs and the Ministry of Finance. It is intended to work as a stimulus to offset the upcoming increase in the Value Added Tax (VAT or *PPN*) rate rising to 12 percent, which is set to take effect on January 1, 2025.

The increase is mandated by Law No. 7 of 2021, on Harmonization of Tax Regulations (UU HPP). In Article No. 3, the law allows VAT rates to be adjusted to between 5~15 percent through government regulations (Article No. 4). The administration has however decided to proceed with the 12 percent rate while introducing a series of economic measures to help ameliorate its impact on households, workers and key industries.

According to the Coordinating Minister for Economic Affairs Airlangga Hartarto, and the Minister of Finance in various media and Ministry of Finance Press Conference reports (16 December 2024), the Government's stimulus package focuses on six key areas of economic support. The first is households, where the Government will provide food assis-

tance in the form of 10 kilograms of rice per month for two months (January and February 2025) to 16 million food assistance recipients in the first- and second-income deciles (PBP). The Government will also provide a 1 percent subsidy of the 12 percent VAT for essential goods (*Bapokting*) such as wheat flour, industrial sugar, and "Minyak Kita" cooking oil. A 50 percent discount on electricity bills for customers with 2,200 VA or lower in January and February 2025, will also offer significant relief for many families.

In the second area, the stimulus focuses on workers. The Government has announced improvements in access to the Unemployment Insurance Program (JKP) for employees who have been laid off, to provide better protection and financial security for those affected by job losses. The third area is to support the Micro, Small, and Medium Enterprises (MSMEs) by prolonging the final income tax (*PPh*) rate of 0.5 percent on turnover until 2025. Additionally, MSMEs with annual turnover below IDR 500 million will be excused from this tax, allowing them to grow and generate more earnings.

The fourth area focuses on labor-intensive industries: 1) the Government-borne income tax relief (*PPh* Article 21) for workers earning up to IDR 10 million per month; 2) a government subsidy of 5 percent interest for companies seeking to revitalize equipment, to improve productivity; 3) six months of government "50 percent workplace accident insurance" (JKK) coverage for workers in labor-intensive industries.

The fifth area addresses the growing demand for Electric Vehicles (EVs) and hybrid vehicles. For EVs, the Government will provide a 10 percent VAT subsidy for completely knocked-down (CKD) EVs and a 15 percent luxury goods sales tax (*PPnBM*) subsidy for imported, completely built-up (CBU) EVs. Additionally, the Government will waive import duties on CBU EVs. For hybrid vehicles, the Government will offer a 3 percent *PPnBM* subsidy.

This comprehensive policy package

demonstrates the Government's commitment to balancing economic growth with public welfare. Addressing the needs of households, workers, MSMEs, and key industries will ensure a smoother transition, as the Government implements the VAT hike. These measures are designed to provide much-needed relief and support across various sectors, fostering a more resilient economy in the face of challenges. Stay tuned for further updates as these measures take effect in 2025!

According to *Kompas.com* (February 21, 2022), the terms CBU ("Completely Built-Up") and CKD ("Completely Knocked Down") refer to motor vehicles' import statuses. CBU vehicles arrive fully assembled from the manufacturing country, while CKD vehicles are imported as complete components to be assembled in the importing country.

The sixth area is the housing sector, where the Government offers a IDR 2 billion VAT subsidy to encourage home purchases. Buyers purchasing homes priced up to IDR 5 billion will receive a VAT subsidy for the first IDR 2 billion of the property value, with the remaining IDR 3 billion will be taxed without a subsidy. The VAT discount is set at 100 percent for January–June 2025 and 50 percent for July–December 2025, to attract potential buyers.

From an economic perspective, Indonesia is adopting a mixed fiscal policy, combining expansionary and restrictive measures. On the one hand, the Government aims to stimulate demand and boost economic activity within a suffering middle class. On the other hand, it seeks to reduce the fiscal deficit and increase state revenue by raising the VAT rate to 12 percent. These measures are discretionary fiscal policy, one which involves deliberate changes to government revenue and spending to stabilize the economy (Gwartney et al., 2022).

Gwartney et al. (2022) also explained that discretionary fiscal policies do not yield immediate results to a country's macroeconomy but rather may take 6–12 months to exert significant results – a delay known as "impact lag".

For example, the 10 percent VAT subsidy for CKD electric vehicles (EVs), which will commence on January 1, 2025, may yield noticeable results by mid-2025. The delay is caused by several factors, including the lack of EV infrastructure (affecting the middle class to switch modes of transport), the relatively high cost of subsidized EVs, consumer needs and preferences, and limited public awareness of the VAT incentive.

Another factor influencing the effectiveness of fiscal policies is public expectations, which can be explained by two anticipated hypotheses: adaptive and rational expectations. An adaptive expectation assumes people's future decisions are based on past experiences, meaning their response to policy changes may take time. Meanwhile, rational expectations adopt the idea that decisions are informed by all available data, including how to anticipate economic disruptions. For instance, if people expect future uncertainties, they will save more than they spend, which will not immediately show an impact of fiscal stimulus or the VAT rise.

A simple question surfaces: What steps should the Government take to ensure that fiscal policies benefit the public sooner? Firstly, both central and regional governments must ensure that stimulus packages are distributed transparently and efficiently, with accountable and real-time data tracking to prevent mismanagement (leakage) and ensure the stimulus reaches the intended recipients. Secondly, both central and regional governments must campaign about the stimulus packages clearly and widely, for the public to better understand the short-, medium-, and long-term benefits of these measures. Lastly, a structured approach to monitoring and evaluating policy implementation is critical to identify challenges and achieve the desired results.

By addressing these challenges, President Prabowo's administration expects to build a more resilient economy, aligning with the *Asta Cita* vision toward 2045 Golden Indonesia.