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How Does Indonesia's 2025 Budget Reform Reflect the Logic of Austerity Governance?

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ABSTRACT

The year 2025 saw Indonesia enacting a very authoritative presidential directive through Presidential Instruction No. 1/2025, encompassing a huge efficiency boost on the part of government ministries and intergovernmental transfers alike. While this drastic measure is couched in the language of technocratic necessity, it also relates to larger global trends in austerity governance-were decline in state expenditure is legitimized by notions of management and modernization. This article analyses the construction of budget efficiency as a priority strategy in the area of fiscal discourse and its implications for nonprioritized state actors such as provincial governments, law enforcement agencies, and actors in the MSME sector. The study does a selective review of approximately thirty articles from reputed journals to derive credible insights into the context around important national policy documents, centers its discussion on the Nota Keuangan APBN 2025 and Presidential Regulation No. 12/2025 on RPJMN 2025-2029. These documents are considered discursive materials that do not simply elaborate fiscal preferences but also constitute overarching principles of efficiency within governance. Some results show bifurcated pathways: In flagship programs and strategic sectors, protection and growth occur, while non-priority expenditures face restrictive contraction. This reallocation may present opportunities for several short-term efficiency gains, but it has the adverse effect of centralizing fiscal authority, limiting local discretion, and narrowing institutional capacity in components of utmost importance to inclusion and accountability. These processes are aggressively defined as coercive efficiency in the paper, whereby austerity is secondarily entrenched through technical discourses and rearrangement of institutions. This means that Indonesia's post-2025 reform is not just a temporary adjustment but an actual structural embedding of austerity within governance along the fiscal trajectory of the country.

Introduction

In fact, across much of the world, the post-2008 global financial crisis marked a sustained shift toward austerity governance. Defined here as a government that adopts fiscal restraint and pursues much-needed increase in budgetary 'efficiency', it is what austerity is all about in principle, which translates into real cuts in spending, institutional reforms, and transfer of responsibilities in order to reduce public deficits

(Dobbels, 2014; Penny, 2017). Austerity, however, has been used in academic parlance literally "widely deployed since the financial crises" in varied ways, depending on the political and institutional contexts to which it relates (Richardson & White, 2021). Common here is the pressure on governments to "follow the...imperatives of public service retrenchment" with an assumption of "no choice whatsoever" but cost-cutting and restructuring of services (Davies, 2024).

Implementations of austerity often follow, like a sequence of natural events responding to catastrophic action. After the crisis, austerity governance created by budget cuts, spending rationalization, deficit management, represents the major policy adopted in many states for policy-making (Stanley, 2016). Austerity governance, unlike crisis management, is usually pre-emptive: as in the case of the United Kingdom's pre-emptive fiscal consolidation, which sacrifices welfare in the short run for stability in the future. For example, in multi-level governance countries like Italy, fiscal discipline would be legally institutionalized in ways that severely limit subnational flexibility, thus creating vertical tension between national objectives and local needs (Guarini & Pattaro, 2017, 2019).Such tensions of outcome are usually a product of institutionalization: where the need to curb public expenditure for the state meets the demands from localities regarding the responsiveness and inclusivity of public services.

The starkest evidence for this contradiction within the obvious austerity policies has been shown in social sectors relating to welfare cuts. To illustrate, welfare budgets in Greece have been slashed in its fiscal consolidation plans- depriving social work practitioners from having enough resources to help serve poor populations (Pentaraki, 2019). Likewise, austerity in the UK has created heightened regional disparities by altering the nature of fiscal relationships between central government-local governments while transferring more responsibilities to poorly resourced regions (Gray & Barford, 2018). In Romania, social spending was initially countercyclical during the post-recession years although such principles proved hard to sustain over time (Titan et al., 2014). In a similar fashion, Israel adopted technocratic austerity; through the establishment of central budget authorities, who made institutional and discursive efforts to legitimatize strict social spending despite public outcry (Maron, 2021). These experiences from international development strengthen the complex trade-offs posed by austerity governance, not only in macro-fiscal terms, but also with respect to its impact on administrative autonomy, delivery of services and democratic accountability.

In this global context, Indonesia's post-pandemic fiscal trajectory reveals an increasingly austere orientation. After three years of emergency pandemic spending, the government reinstated its statutory 3% deficit ceiling in 2023, placing enormous pressure on the national budget. The fiscal stress was compounded by stagnant revenue performance, rising debt repayments, and a leadership transition that introduced ambitious social commitments despite a narrow fiscal space (Habir & Negara, 2025). By early 2025, Indonesia's budget deficit was projected to reach 2.78% of GDP (Yanwardhana, 2025), prompting urgent calls for state spending "efficiency" to avoid breaching the ceiling. Yet, rather than signaling retrenchment alone, this turn toward efficiency was coupled with populist, high-visibility programs targeting social outcomes creating a paradoxical mix of austerity and expansion. It is within this fiscal-political hybrid that Presidential Instruction No. 1 of 2025 (Inpres 1/2025) was issued.

Inpres No. 1/2025 marks the institutionalization of austerity governance in Indonesia's contemporary policy landscape. It mandates all central ministries, agencies, and subnational governments to implement spending reviews and block budget components deemed inefficient or non-essential (Sekretariat Negara Republik Indonesia, 2025), The document sets an explicit savings target of Rp306.7 trillion, or roughly 8.5% of the total 2025 state budget. The Ministry of Finance, as the designated gatekeeper, is tasked with determining efficiency quotas and approving proposed cuts from line ministries. Spending categories subject to elimination include operational costs, ceremonies, publications, training, travel, and non-priority infrastructure. Meanwhile, categories shielded from cuts such as salaries and social assistance are simultaneously expanded for new populist agendas such as the Free Nutritious Meals (MBG) program and public health access.

This redirection reflects a deliberate reprioritization of fiscal allocations. President Prabowo's administration launched the MBG program in early 2025 as a nationwide school meal scheme targeting 83 million children and pregnant women (CEIC Data, 2025). The program's proposed budget initially Rp71 trillion has since been revised upward to at least Rp121 trillion (Yudi, 2025), far exceeding the state's prior school feeding commitments. Additional populist programs include free medical check-ups, a plan to build 66 new regional hospitals, and extensive school rehabilitation efforts (Firdaus, 2025). These initiatives are justified through an "efficiency narrative": that savings generated from cutting non-essential expenditure will directly finance inclusive welfare and human development. In this view, austerity is repurposed as an enabling mechanism for social investment, not merely a budget contraction tool.

Yet, beneath this rhetoric, there exists a growing disconnect between efficiency claims and empirical outcomes. Preliminary data indicate that efficiency mandates have triggered disruptions in regional governance, undermined institutional performance, and eroded support systems for small enterprises. Many districts reported delays in road construction, reductions in human resource budgets, especially for honorary workers in critical sectors, and reductions in daily operations (Juwita, 2025; Maranda, 2025). Institutions like the Ministry of Education experienced substantial budget ceilings cut, provoking protests from universities over research stagnation (CEIC Data, 2025). Meanwhile, MSMEs dependent on government seminars, events, and procurement such as printing vendors and local caterers have seen contracts disappear with no alternative markets offered. According to watchdogs like ICW, the lack of ex-ante impact assessment and the one-size-fits-all nature of the Inpres has created risks of service degradation, particularly in under-resourced regions (Indonesia Corruption Watch, 2025). In this light, Indonesia's 2025 budget reform reveals tensions common to post-crisis austerity regimes: between fiscal rationalization and social inclusion, between narrative performance and administrative capability.

This article examines Indonesia's 2025 budget efficiency policy through the lens of austerity governance. It investigates two core questions: first, how is the efficiency agenda operationalized as a strategy of fiscal reprioritization in the context of national governance? Second, what are the distributive and institutional consequences of this agenda on non-priority actors such as subnational governments, enforcement bodies, and MSMEs? The analysis draws on interpretive policy analysis, official fiscal documents, media coverage, and academic literature to assess whether Indonesia's turn to "efficiency" constitutes a meaningful administrative reform, or a performative austerity embedded in populist politics. This article contributes to the growing body of literature on austerity governance in the Global South by examining how fiscal retrenchment strategies interact with decentralization, populist programs, and institutional resilience in a middle-income democracy. It also seeks to extend theoretical debates on "coercive efficiency" and "austerity by stealth" by situating them in the Indonesian current condition.

Literature Review

Austerity governance frequently frames public service reform through narratives of modernization and efficiency. In the UK, for instance, urban planning reforms exemplify this trend as tight fiscal policies "encourage the use of advanced technologies" to deliver services with "very limited financial resources"

(Devlin, 2020). Initiatives like #PlanTech in Coventry and the broader smart city agenda reflect this trajectory (Devlin, 2020)., while similar developments occur in the justice sector where virtual courts and online proceedings are couched in the language of "efficiency" and "common sense," despite the risk of harming vulnerable groups (Birkett, 2023).

Public organizations have increasingly adopted strategies associated with the private sector. The Gelmini Reform in Italy explicitly aimed to cut staffing costs and tighten performance oversight (Civera & Meoli, 2024), while the University of Bergamo adopted a corporate entrepreneurship approach as a reorientation and rebranding strategy amid fiscal pressures (Civera & Meoli, 2024). Even at the local government level, innovation emerges from compulsion, as seen in Scotland where new design governance tools were introduced despite budget cuts (Richardson & White, 2021).

In social services, austerity creates pressure to choose between what to maintain and what to cut. In Lambeth, for example, the adult social care budget absorbs more than half of the local revenue, while services like parks and libraries are targeted for cuts (Penny, 2017). This reflects a tendency to focus social security solely on basic needs, undercutting community welfare infrastructure. (Pot, 2025)) critiques such "hyper-solutionism" in policies like social prescribing, which claim to solve a wide range of social and health problems through low-cost community interventions; Pot argues this trend shifts responsibility from the state to individuals and local networks. Similar phenomena also occur outside Western welfare states. (Zhang, 2022) examines elderly care reform in urban China and finds that discourses of efficiency and sustainability dominate care policy in a fiscally constrained climate (Zhang, 2022). Even where budgets are not explicitly cut as in Shanghai skepticism toward public welfare spending remains, suggesting that austerity also operates ideologically (Zhang, 2022).

However, participatory governance often clashes with the coercive logic of austerity regimes. (Penny, 2017) shows that the "Cooperative Council" agenda in Lambeth carries a dual burden of fiscal retrenchment and demands for co-production. While involving citizen participation, decisions remain top-down libraries are closed and public protests suppressed (Penny, 2017). Ultimately, participatory forms are folded into a hierarchical framework driven by the logic of budget austerity. Austerity also encourages a preference for short-term, experimental solutions over structural change. Many cities opt for low-cost, temporary projects such as pop-up cycle lanes as visible yet cost-effective quick responses (Verlinghieri et al., 2024). However, researchers warn that this approach has the potential to depoliticize policy, framing decisions as technical trials that avoid substantive debate (Verlinghieri et al., 2024).

At the local level, these tensions manifest in policy trade-offs. Models like the cooperative council in Lambeth encourage residents to take over the management of services but are often perceived as an abdication of responsibility by the state (Penny, 2017), The tension between the rhetoric of localism and the reality of state withdrawal becomes increasingly apparent when communities resist replacing the state for free. At the European Union level, the logic of austerity is institutionalized through the New Economic Governance framework and various rules such as the Six-Pack and the Fiscal Compact, which limit national budget sovereignty (Dobbels, 2014). He also argues these measures diminish democratic control over fiscal decision-making. The COVID-19 pandemic temporarily forced the EU to suspend some of these rules and launch the Recovery and Resilience Facility (RRF) (Abels, 2024) Leaders such as Macron and Draghi have called for a new fiscal framework that allows for public investment. Yet Abels (2024) warns these measures constitute a "passive revolution," not a true paradigm shift, as restrictive fiscal foundations remain intact (Abels, 2024).

Nationally, technocratically framed fiscal rules and budget reviews make budget cuts seem inevitable (Davies, 2024), limiting the space for political debate and prioritizing deficit control over social outcomes.

At the local level, (Taylor-Collins & Downe, 2022) identify three patterns of response to budget pressures: **Efficiency** (cost-cutting and digitizing services even if they become insufficient) (Taylor-Collins & Downe, 2022) ; **Investment** (entrepreneurial strategies, even if high-risk and uneven); and **Retrenchment** (drastic reductions or termination of services when budgets no longer suffice). Peter John (2014) praised the resilience of English local governments in the face of multiple waves of reform but also noted that these adaptations risk obscuring the erosion of local democracy (John, 2014)

Meanwhile, (Davies, 2024; Penny, 2017) show how austerity urbanism shifts responsibility to localities without providing adequate resources, thus reducing local autonomy, Some councils have even had to declare bankruptcy through Section 114 notices. Despite facing structural limitations, some local governments learn from each other and develop coping strategies from full compliance, as in Athens, to quiet resistance (Davies, 2024). In areas dominated by the austerity narrative, deeper cuts occur; conversely, in areas with local political resistance, some services remain protected, albeit temporarily. Overall, local governments demonstrate resilience through efficiency and innovation; however, this resilience often comes at the cost of service quality, democratic accountability, and long-term sustainability. Austerity regimes whether explicit, temporary, or rebranded continue to shape the political economy of public services at the national, regional, and global levels.

Methods

This study employs an interpretive policy analysis approach combined with a selective literature review. Rather than pursuing an exhaustive survey, the review is purposive, focusing on works that directly address austerity governance, fiscal retrenchment, and institutional restructuring (Paré & Kitsiou, 2017; Snyder, 2019). Thirty peer-reviewed journal articles indexed in Scopus and other major databases were included based on their relevance to the research questions. In addition to secondary literature, the analysis draws heavily on **primary policy documents,** notably the *Nota Keuangan APBN 2025* and *Presidential Regulation (Perpres) No. 12/2025 on the RPJMN 2025–2029* together with its annexes (Lampiran I–IV). These documents provide textual evidence of how the Indonesian state frames budget efficiency, sets fiscal priorities, and reorganizes expenditure across sectors. The study treats these materials not only as technical instruments but as discursive texts that reveal the government's normative and strategic orientation. The research process involved close reading and observing the key terms such as *efisiensi* (efficiency), *penghematan* (savings), *belanja nonprioritas* (non-priority expenditure), and *spending better*. These were then interpreted in relation to global concepts of austerity governance. Analysis proceeded iteratively, moving between academic literature and policy documents to identify convergences and tensions. The method does not aim at statistical generalization but at **contextual interpretation:** clarifying how efficiency is constructed, justified, and operationalized within Indonesia's 2025 fiscal reform. This approach enhances analytical depth by grounding abstract debates on austerity in concrete evidence from national budgetary texts.

Results and Discussion

Fiscal Reprioritization and the Logics of Coercive Efficiency

RQ1: How is the 2025 budget efficiency policy implemented as a fiscal priority strategy in the context of governance?

The issuance of **Presidential Instruction (Inpres) No. 1/2025** on January 22, 2025, constitutes a watershed moment in Indonesia's fiscal governance. It signals not only a pragmatic budget reform but also the embedding of an austerity-like logic in the state's developmental agenda. In its place, efficiency, a perennial concern of management, becomes the core doctrine of fiscal policy whereby state spending becomes a matter of priority and control. This governance transformation cannot be separated from the governance transformation by three institutional instruments: Inpres 1/2025 Enforcement Mechanism; RPJMN 2025-2029 (Perpres No 12/2025) as developmental blueprint and 2025 State Budget (Nota Keuangan APBN 2025) for budget execution. These give forth the architecture of efficiency-as-governance.

From the outset, the RPJMN codifies fiscal discipline as a structural obligation binding all actors. As Article 3 of Perpres No. 12/2025 makes explicit: *"RPJM Nasional wajib ditaati oleh seluruh pelaku pembangunan pemerintah dengan melibatkan pelaku pembangunan nonpemerintah"* ("The National Medium-Term Development Plan must be obeyed by all governmental development actors with the involvement of non-governmental development actors"). This language is not merely aspirational; it institutionalizes compliance as law. Efficiency here is framed not only as rational allocation but as a **disciplinary mechanism**, ensuring ministries, local governments, and even non-state entities align with a centrally defined blueprint. In austerity terms, this resembles what (Cunningham, 2016) described as the *hollowing out* of state pluralism development space is narrowed to central directives, marginalizing peripheral initiatives.

At the macro-fiscal level, efficiency is implemented through flexibility and prudence rather than rigid precommitment. The RPJMN outlines that *"… serta kerangka ekonomi makro … berupa kerangka regulasi dan kerangka pendanaan yang bersifat indikatif"* ("… as well as the macroeconomic framework … consisting of regulatory frameworks and funding frameworks of an indicative nature"). The use of the term *indicative* highlights a deliberate attempt to avoid fiscal over-commitment, maintaining space for reallocation under uncertainty. This principle is concretely operationalized in the **Nota Keuangan**, which emphasizes debt management efficiency: *"… meningkatkan efisiensi bunga utang pada tingkat risiko yang terkendali dengan pemilihan komposisi utang yang optimal dan waktu pengadaan utang yang tepat"* ("… improving debt interest efficiency at a controlled level of risk by selecting the optimal composition of debt and timing of debt procurement") (Nota Keuangan 2025, p.125). The subsequent section reiterates: *"Pemerintah selalu berupaya melakukan efisiensi belanja bunga utang melalui diversifikasi instrumen utang"* ("The government always seeks efficiency in debt interest spending through diversification of debt instruments") (p.126). These provisions exemplify how fiscal efficiency functions as a macro-prudential tool: safeguarding fiscal space by reducing interest burdens while signaling credibility to markets, a hallmark of austerity strategies in post-crisis Europe (Tovar, 2020; Stuckler et al., 2017).

Efficiency also takes the form of **targeted social protection**. The RPJMN mandates integration: *"Pengentasan kemiskinan, integrasi bantuan sosial, jaminan sosial … dengan perwujudan satu sistem Registrasi Sosial Ekonomi (Regsosek)"* ("Poverty alleviation, integration of social assistance, social security … with the establishment of a single Social and Economic Registry system") (Perpres 12/2025). This centralization aims to reduce leakage, duplication, and clientelism. The **Nota Keuangan** reinforces the same logic of triage: *"Arah kebijakan belanja negara tahun 2025 yaitu: (i) efisiensi belanja nonprioritas khususnya belanja barang dan dialihkan untuk belanja yang lebih produktif"* ("The direction of state spending policy in 2025 is: (i) efficiency in non-priority spending, especially goods expenditure, and its reallocation to more productive spending") (p.73). Taken together, these documents embed a logic of fiscal selectivity: protecting targeted subsidies such as electricity for the poor ("*… pemasangan sambungan baru listrik bagi rumah tangga belum berlistrik yang tidak mampu*" / "… installation of new electricity connections for poor households without electricity") while retracting broad-based transfers. As (Guo et al., 2024; Hernandez, 2021) caution, such targeting may enhance short-term efficiency but risks exclusion errors and long-term erosion of social solidarity.

Sectoral prioritization provides further evidence of efficiency institutionalization. The RPJMN directs state resources toward high-multiplier activities such as *"Pengembangan hilirisasi kelapa sawit … industri bahan bakar terbarukan generasi kedua (HVO/SAF – Hydrotreated Vegetable Oil/Sustainable Aviation Fuel)"* ("Development of palm oil downstreaming … renewable second-generation fuel industries such as HVO/SAF") and specialized health services: *"Pengembangan layanan unggulan berbasis kompetensi, dengan output: peningkatan kompetensi RS dalam layanan Kanker, Jantung, Stroke, dan Uro-Nefrologi (KJSU)"* ("Development of competence-based flagship health services, with outputs: strengthening hospital competence in Cancer, Cardiac, Stroke, and Uro-Nephrology services") (Perpres 12/2025). The **Nota Keuangan** mirrors this selective focus in its treatment of state-owned enterprises: *"Optimalisasi dividen BUMN... disertai perluasan perbaikan kinerja dan efisiensi BUMN"* ("Optimization of SOE dividends... accompanied by expanded performance improvements and SOE efficiency") (p.92). Efficiency thus manifests as **value for money** directing scarce resources toward sectors with measurable returns and global competitiveness. As austerity literature notes, this form of prioritization often deepens reliance on strategic nodes while marginalizing less profitable but socially vital sectors (Stuckler et al., 2017).

Perhaps the most striking institutionalization of efficiency is its elevation into a governance ethic. The RPJMN promotes infrastructural and data integration: *"Pengembangan Sistem Pengelolaan Air Minum (SPAM) terintegrasi hulu ke hilir … tata kelola dan pemanfaatan data registrasi sosial ekonomi"* ("Development of integrated drinking water management systems (SPAM) from upstream to downstream … governance and utilization of social-economic registry data") (Perpres 12/2025). The Nota Keuangan echoes and expands this doctrine: *"… peningkatan kualitas belanja negara (spending better), melalui peningkatan efisiensi dan efektivitas belanja, ... pengalihan program kurang produktif ke program yang lebih produktif"* ("… improving the quality of state spending (spending better), through improved efficiency and effectiveness of spending, ... reallocating less productive programs to more productive ones") (p.333). The fiscal strategy section codifies this as principle: *"Strategi [APBN 2025]... spending better... melalui efisiensi belanja nonprioritas, penguatan kualitas belanja pusat dan daerah"* ("The 2025 Budget Strategy… spending better… through efficiency of non-priority spending and strengthening the quality of central and local government spending") (p.374). Even the Komnas HAM annex adopts the same mantra: *"… mengedepankan prinsip spending better melalui prinsip efisiensi dengan catatan tanpa mengesampingkan kualitas capaian kinerja"* ("… prioritizing the principle of spending better through efficiency, provided that quality of performance outcomes is not compromised") (p.690). Efficiency is thus no longer confined to fiscal technocrats; it is normalized across all state institutions as an ethical imperative.

The architecture of efficiency is further illustrated through the **11 National Priority Programs**, which demonstrate how efficiency reframes development. *Free Nutritious Meals(MBG)*, framed in RPJMN as part of stunting prevention *"Penguatan pencegahan dan percepatan penurunan stunting … fasilitasi Gerakan Orang Tua Asuh Cegah Stunting (GENTING)"* ("Strengthening prevention and accelerating stunting reduction … facilitating the Foster Parent Movement for Stunting Prevention (GENTING)") is explicitly recognized in the Nota Keuangan: *"Pemerintah merancang Program Free Nutritious Meals(MBG)… pemberian makan bergizi dan susu gratis di sekolah dan pesantren, serta bantuan gizi untuk anak balita, dan ibu hamil/menyusui"* ("The Government designs the Free Nutritious Meal Program (MBG)… providing nutritious meals and free milk at schools and Islamic boarding schools, as well as nutrition support for toddlers and pregnant/breastfeeding mothers"). This reflects preventive-first logic: spending on nutrition reduces future healthcare costs. Similarly, *FLPP (Fasilitas Likuiditas Pembiayaan Perumahan)* is referenced in both documents as targeted housing finance, though the ambitious "3 million homes" target is absent from the Nota Keuangan. Other programs such as *Cek Kesehatan Gratis* ("free health checkups"), *Penuntasan*

TBC ("tuberculosis eradication"), *Rumah Sakit Berkualitas* ("quality hospitals"), and *Lumbung Pangan Masyarakat* ("community food barns") are cross-validated in both RPJMN and APBN, illustrating how efficiency re-channels resources toward flagship interventions. Conversely, programs like *Koperasi Desa Merah Putih*, *Sekolah Rakyat*, and *Sekolah Unggulan Garuda* appear substantively in the RPJMN but are absent as explicit entries in the Nota Keuangan revealing the filtering process by which fiscal efficiency determines which priorities survive the transition from plan to budget.

Here, RQ1 reveals that Indonesia's 2025 budget efficiency policy is implemented not as an isolated measure but as a **multi-layered governance strategy**. At the legal-structural level, RPJMN mandates universal compliance, ensuring fiscal discipline across actors. At the macro level, efficiency takes the form of prudent, indicative frameworks and debt cost reduction. At the distributive level, it manifests in targeted subsidies and Regsosek integration. At the sectoral level, it privileges high-multiplier activities such as downstream industries, specialized hospitals, and vocational training. Finally, at the ethical level, efficiency is normalized as "spending better," extending to all institutions including independent bodies. The incorporation of 11 National Priority Programs into this framework further illustrates how fiscal triage reshapes development itself: preventive, targeted, synergistic, and selective.

Yet, while the rhetoric is reformist, the underlying substance mirrors the austerity logics documented globally: centralized enforcement, selective reinforcement, and institutional narrowing (Stuckler et al., 2017; Tovar, 2020). What emerges is not merely technical rationalization but a paradigmatic shift in fiscal ethics: from distributive inclusion to selective impact.

RQ2: What are the consequences of efficiency policies for non-priority actors such as local governments, law enforcement institutions, and the MSME sector?

While the fiscal efficiency strategy of 2025 is framed as rational triage, its consequences are far from neutral. The very design of Inpres 1/2025 Rp306.69 trillion in efficiency gains, with Rp256.1 trillion from central ministries and Rp50.59 trillion from intergovernmental transfers produces redistributive effects that weigh heavily on actors categorized as "non-priority." These include local governments, law enforcement institutions, and the MSME sector. In each case, evidence from both the RPJMN (Perpres 12/2025) and the 2025 State Budget (Nota Keuangan) demonstrates how efficiency produces contraction, operational strain, and a reconfiguration of governance authority.

Local Governments and Fiscal Re-Centralization

The most significant blow to local governments is the reduction of intergovernmental transfers (TKD). Inpres 1/2025 explicitly instructs ministries and subnational authorities to realign spending, halting ceremonies, official events, and reducing travel. This is accompanied by a Rp50.59 trillion cut in transfers, especially from *Dana Alokasi Khusus (DAK) Fisik*. The **Nota Keuangan** underscores this shift by reiterating: *"… pembiayaan utang... konsekuensi adanya potensi risiko... disiplin fiskal secara konsisten dijaga"* ("… debt financing... with the consequence of potential risks... fiscal discipline is consistently maintained") (p.339). This effectively enforces fiscal contraction at the local level by limiting their discretion to spend beyond central directives.

The RPJMN also stresses integration: *"Peningkatan kapasitas tata kelola perkotaan … penguatan kerja sama multipihak dalam pembiayaan dan pembangunan perkotaan"* ("Strengthening urban governance capacity … enhancing multi-stakeholder cooperation in financing and urban development") (Perpres 12/2025). While this may sound like decentralization, the efficiency frame transforms it into a vehicle of central oversight. By directing local governments to rely on multi-stakeholder financing, the state reduces its fiscal obligation, shifting responsibility onto local actors and private partners.

The effect is twofold: first, contraction of regional capital expenditure due to cuts in DAK; second, re-centralization of fiscal authority. **PMK No. 56/2025**, issued as part of the budget framework, allows Jakarta to withhold unallocated TKD unless otherwise ordered by the president. This reproduces what (Miller & Hokenstad, 2014) describe as austerity federalism: subnational governments are required to "do more with less," while their autonomy is structurally constrained. In practice, municipalities are left to cancel development projects or reallocate scarce local revenues already weakened by reduced consumption in hotels, airlines, and service sectors as public agencies slash travel.

Law Enforcement Institutions and Institutional Strain

Law enforcement and oversight bodies are also deeply affected. The **Corruption Eradication Commission (KPK)** saw a 16% reduction in its 2025 allocation, mainly targeting operational and capital expenditures. While salaries are maintained, other critical budget lines travel, investigations, surveillance were sharply reduced. Similarly, the **Indonesian Financial Transaction Reports and Analysis Center (PPATK)** lost 31% of its budget, with reports suggesting potential cashflow crises by August 2025 without supplementary funds.

This contraction echoes global austerity effects in justice institutions. (Birkett, 2023; Ismail, 2022) mentioned about how austerity produces "workload intensification" and "organizational precarity," as fewer resources are spread across rising caseloads. In Indonesia, the consequence is that KPK now deploys fewer personnel per case, compromising its ability to conduct field investigations. PPATK, tasked with monitoring illicit financial flows, risks operational paralysis in the absence of liquidity.

The irony lies in the rhetorical alignment of efficiency with good governance. The **Nota Keuangan** explicitly connects efficiency with integrity: *"… agar tercapai pemerintahan yang efisien, efektif, melayani, dan bebas dari korupsi"* ("… to achieve governance that is efficient, effective, service-oriented, and free from corruption") (p.142). Yet, by cutting operational capacity of anti-corruption and surveillance bodies, efficiency risks undermining the very governance goals it claims to protect. (Solar & Smith, 2022) remind us that austerity often weakens collaborative governance frameworks, as seen in the UK where policing–mental health integration collapsed under fragmented budgets. Indonesia risks a similar outcome: reduced capacity in law enforcement may compromise the credibility of justice institutions, exacerbating governance fragility.

The MSME Sector and the Hollowing Out of Support

The **Ministry of Cooperatives and MSMEs** experienced one of the sharpest contractions, with its 2025 budget nearly halved from Rp463.9 billion to Rp221 billion. Minister Maman Abdurrahman publicly justified this as *"a reallocation toward greater benefit,"* but the substance reflects purposeful contraction. Operational costs, renovations, and non-core programs were eliminated; only microcredit and essential training programs were retained.

This contraction starkly contrasts with the RPJMN's emphasis on empowerment: *"Penguatan kewirausahaan produktif untuk kemandirian masyarakat, dengan output: peningkatan kapasitas pelaku usaha, pendampingan usaha keluarga penerima manfaat (KPM), kewirausahaan sosial, tenaga kerja mandiri pemula dan akses pembiayaan"* ("Strengthening productive entrepreneurship for community self-reliance, with outputs: increasing business actors' capacity, mentoring family beneficiary businesses, social entrepreneurship, start-up self-employed workers, and access to financing") (Perpres 12/2025). In theory, efficiency should reduce waste and enhance output. In practice, the fiscal contraction hollows out institutional scaffolding for MSMEs, forcing them to rely on entrepreneurial self-help and private financing.

Comparative evidence underscores the risks. In Spain and the UK, austerity-era contractions in SME support agencies led to restructuring under duress, eroding the institutional base for inclusive economic growth (Brauer, 2025; Campoy-Muñoz et al., 2022). As (Cunningham et al., 2021) argue, prolonged underfunding of peripheral sectors shifts the burden of resilience onto local governments and private actors. Indonesia risks repeating this trajectory: MSMEs critical for post-pandemic recovery face diminished state facilitation, precisely when they require institutional support.

Selective Protection: The Eleven National Priorities

The consequences for non-priority actors must be understood in contrast to the selective protection of central programs. Both the RPJMN and Nota Keuangan elevate **11 National Priority Programs**, including *Free Nutritious Meals(MBG)*, *FLPP housing*, *Cek Kesehatan Gratis* (free health checkups), *Penuntasan TBC* (tuberculosis eradication), *Rumah Sakit Berkualitas* (quality hospitals), *Lumbung Pangan Masyarakat* (community food barns), and *Bendungan dan Irigasi* (dams and irrigation). Each is validated in planning and budget documents, reflecting the triage principle of efficiency: certain sectors are reinforced even amid contraction elsewhere.

Take MBG, for example: RPJMN frames it under stunting prevention *"Penguatan pencegahan dan percepatan penurunan stunting … fasilitasi Gerakan Orang Tua Asuh Cegah Stunting (GENNONG)"* while the **Nota Keuangan** confirms: *"Pemerintah merancang Program Free Nutritious Meals(MBG)… pemberian makan bergizi dan susu gratis di sekolah dan pesantren, serta bantuan gizi untuk anak balita, dan ibu hamil/ menyusui"*. The preventive-first logic is clear: invest in early nutrition to reduce long-term healthcare costs. Similarly, *Cek Kesehatan Gratis* is explicitly recognized: *"… peningkatan akses layanan kesehatan primer dan rujukan (a.l. melalui pemeriksaan kesehatan gratis, penanganan TBC, dan penyediaan rumah sakit lengkap yang berkualitas di daerah secara bertahap)"* ("… improving access to primary and referral health services (including free health checkups, TB handling, and provision of comprehensive quality hospitals in the regions in stages)").

Meanwhile, programs with populist branding like *Koperasi Desa Merah Putih*, *Sekolah Rakyat*, and *Sekolah Unggulan Garuda* appear in RPJMN discourse but vanish in the Nota Keuangan. Their absence illustrates the selective narrowing produced by efficiency: not all priorities survive the transition from plan to budget. What remains are programs with demonstrable fiscal or political returns, aligned with the logic of "value for money" and "spending better."

Governance Consequences and Ethical Implications

The broader governance consequence is a re-stratified fiscal landscape. Central flagship programs are shielded, even expanded, while non-priority actors local governments, law enforcement, MSMEs absorb the contraction. This redistribution consolidates fiscal authority at the center, narrowing the scope of decentralized development. It reproduces austerity patterns documented globally: short-term fiscal control at the expense of long-term equity and resilience (Blossey, 2025; Friebel et al., 2022).

Critically, efficiency is framed as a governance ethic rather than a temporary measure. The Nota Keuangan repeatedly stresses "spending better" ("… *upaya penguatan kualitas Belanja Negara (spending* *better) dilakukan... percepatan pertumbuhan ekonomi... efisiensi belanja nonprioritas"* / "… strengthening the quality of state spending (spending better) … accelerating economic growth … efficiency in non-priority spending") (p.380). Yet as (Penny, 2017) warns, austerity governance often results in "coercive cooperation," where subordinate actors are compelled to comply without meaningful participation. Indonesia's efficiency policy, by centralizing control and narrowing fiscal discretion, risks undermining the participatory ethos of decentralization enshrined in earlier reforms.

In the sense, efficiency considerations have ramifications for governance aside from the purely economic. They affect the moral and institutional landscape: law enforcement dissipates under the rationale of efficiency; MSMEs are forced to become self-reliant with little to no facilitation; local governments are de-centralized under financial duress. National developmental prides like MBG and RS Berkualitas are creating an arena for selective developmentalism duplicating the kind of governance that ever held an argument for austerity. We see retrenchment efficiency land become animus' from the protection of property.

Discussion

Evidence across Perpres No. 12/2025 (RPJMN) and the Nota Keuangan APBN 2025 indicates that "efficiency" operates simultaneously as a fiscal constraint and a governance doctrine. In the Indonesian reform of 2025, the enforcement of this through Presidential Instruction (Inpres) 1/2025 not only calls for a change in spending priorities but also tightens the scope of discretionary transactions. The budgetary and planning texts, through their rhetoric, normalize this change, thus depicting it as the most rational way to "quality of spending" in the long run. The main trend noted in RQ1–RQ2, namely, the sheltering of flagship projects and the shrinking of lower-profile capacities, seems to follow the same route as the international austerity conditions documented in your review (e.g., anticipatory consolidation, selective protection, and institutional narrowing) rather than being just a managerial upgrade (Stanley, 2016; Gray & Barford, 2018; Stuckler et al., 2017; Tovar, 2020).

The unbreakable structure of the RPJMN together with the "spending better" frame in the Budget Paper has placed the issue of efficiency from the side of a technique to one of an ethic. The Budget Paper does not mince words in regard to the 2025 strategy saying it is meant for "spending better…by efficiency of non-priority spending and upgrading the quality of both central and local spending" (Financial Note, 2025). Rather than rephrasing the same in other sections, the import of the statement is the institutional consequence: efficiency is made to be the performance criterion throughout the departments thus the choices in favor of redistribution look like being made on technical grounds. This is similar to the situation at the time of austerity in Europe where the political space was compressed by rule-based fiscal governance (Dobbels, 2014; Abels, 2024). In Indonesia, a blend of binding plans, indicative macro-frames, and quota-like savings necessary brings about a similar the road of de-escalation through decisions about what to cut and what to protect moving from deliberative arenas to procedural instruments and review cycles.

Distributionally, the pattern is consistent with the reviews before findings on selective protection: visible social programmes (e.g., school meals, health access) are insulated, while lower-visibility capacities (law-enforcement operations, MSME facilitation, local capital budgets) tighten. Cross-national literature indicates that this trade-off can be a short-term leg to stand on for legitimacy but at the same time make the organization spine less firm on the equity and accountability dimensions (Cunningham, 2016; Birkett, 2023; Hernandez, 2021). The case of Indonesia fits into that risk category: toughening operations in the controlling bodies and the infrastructure of SME support will make the workload heavier while reducing the room for going softexactly the types of impacts that had been seen in the justice and social sectors in Europe affected by austerity measures (Ismail, 2022; Cunningham et al., 2021). While aiming and registry integration can eliminate some of the leakage, the reviews of studies warns that tight targeting often results in exclusion errors and over time eats away at the solidarity coaltions' strength (Guo et al., 2024; Stuckler & Basu, 2009).

At the lower levels of government, the efficiency-first approach that is prevailing now is coupled with recentralization. The withholding or reserving of parts of the transfers and the stronger conditions of local spending trigger what austerity federalism literature calls "do more with less" under tighter centre rules (Miller & Hokenstad, 2014). This section focus on the implications that are stressed: (i) shrinking of capital spending at the local level, (ii) larger vulnerability to cyclical revenue shocks (e.g., from fewer travels/events), and (iii) a shift from developmental localism to implementation under constraint. This scenario corresponds into austerity urbanism, where the responsibilities are passed down faster than the resources leading to uneven territorial outcomes and governance fatigue (Penny, 2017; Davies, 2024).

Organisationally, Indonesia's mix of efficiency and modernization ambitions mirrors patterns where "innovation from compulsion" becomes the prevailing adaptation (Richardson & White, 2021; Devlin, 2020). The digitalisation of meetings, the prohibition of paper invoices, and the imposition of stricter travel regulations are all logical reactions but as previous studies,the aforementioned actions can lead to the same amount of output which would then hide the dropping of capacity and the inequalities of service access and delivery (Birkett, 2023; Bruno et al., 2020). In line with Taylor-Collins and Downe (2022), the local governments in Indonesia might use three different approaches efficiency (cost-cutting and digitisation), selective investment (entrepreneurial revenue-seeking), and retrenchment (project cancellations) but with different variations according to fiscal resources and political alliances.

The 2025 agreement normatively seems to be more of a politically selective recalibration that favors the measurable, politically visible gains while compressing the organizational plumbing that sustains inclusion and accountability than a neutral managerial upgrading. This interpretation resonates with concept of compendium of rule-bound fiscalism (Dobbels, 2014), passive revolution in fiscal governance (Abels, 2024), and participatory rhetoric under hierarchical control (Penny, 2017): the participation and integration are still there but they have been re-embedded in frameworks that limit the discretion and reframe the contestation as technical review.

In the end, this analysis contributes only in a limited way to the existing frames instead of creating new ones. To begin with, it clarifies the interaction between a binding plan, an indicative macro frame, and savings quotas as a way of normalising efficiency across agencies as an ethical value. Secondly, it illustrates a gradient of visibility in protection where headline social programmes have the highest visibility and low-visibility capacities are the ones that absorb strain cumulatively, which is similar to literature review od evidence on distributional and organizational effects. Thirdly, it compares the strategies: cases which apply strict fiscal discipline and at the same time enlarge the social sector are more prone to immediate public acceptance of cuts and, consequently, great risks of unsynchronized capacity in the long run. Due to our single-country, document-based design, these inferences are only suggestive; causal assessment would require either comparative or panel evidence. Nonetheless, the Indonesian case sheds light on how today's "efficiency" projects can replicate the main logics of austerity governance while at the same time pushing for socially accepted programmes, a balance of power that is politically strong but institutionally weak (Guarini & Pattaro, 2017, 2019; Gray & Barford, 2018; Stuckler et al., 2017).

Conclusion

The 2025 budget reform in Indonesia that is guided by the Presidential Instruction on efficiency in expenditure might be understood as a mere fiscal-side-operational change here. Still, such a reform may also be regarded as the first step of the administration's philosophical change. While the article sheds light on how efficiency principles are applied, it mentions the numerous processes of planning and budgeting that are made to favor the festivals over the ones that are left to suffer, such as sub-national institutions, oversight institutions, and MSMEs. Efficiency, as a managerial role, however, disappears and, on the other hand, becomes a normative benchmark for the reshaping of state institutions' functions, the centralization of fiscal powers, and the severe limitation of development choices. Indonesia's case is, hence, connected to a broader debate about the nature of austerity governance in the world where spending cuts have been routinized through the speeches of the technocrats and the restructuring of the institutions. Fiscal selectivity, therefore, is redefined as a discipline instrument which postpones the negative impact on issues such as inclusiveness, local autonomy, and institutional resilience. For example, they not only lead to financial gains, but also to the accumulation of political capital in the early stage of the reform. The problem is that such a model of change hinders the abilities of the state to act in the interests of democracy and social justice. This work, however, is primarily based on policy document analyses and secondary literature and hence totally unaware of policy implementation ground realities, as well as the sectorial longitudinal impact of budget shrinkage. Later on, the research will focus on the way local actors perceive, argue against, or even accept efficiency guidelines in actual practice, by comparing them with other middle-income democracies that are under fiscal pressure following the pandemic. At last, Indonesia's example is that austerity may not be a better option, yet still, it is a political decision that reveals how governments through their spending policies determine what is of value and how they change their accountability forms. The occurrence of the world entering another unstable period, having to battle with governance issues such as the contradictory pair of efficiency and equity on the one hand, and central authority and local discretion on the other, is what will be examined by the scholars and the practitioners here.

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