



Evaluating the Effectiveness of Fiscal Policy in Promoting Inclusive Economic Growth in Indonesia

Ana Santika

anasantika@gmail.com

Universitas Islam Annur Lampung

Article Info

Received: 10-08-2026	Revised: 11-08-2026	Accepted: 20-08-2026	Published: 26-08-2026
-------------------------	------------------------	-------------------------	--------------------------

Abstract

Fiscal policy plays an important role in supporting economic growth while reducing poverty, inequality, and regional disparities in Indonesia. This article aims to evaluate the effectiveness of fiscal policy in promoting inclusive economic growth through government expenditure, taxation, social protection, and fiscal decentralization. A literature review method was used to examine recent studies on fiscal policy and inclusive growth in Indonesia. The findings indicate that fiscal policy can contribute to poverty reduction and economic development, particularly through education, health, infrastructure, and social spending. However, its effectiveness remains influenced by regional disparities, the quality of public expenditure, fiscal capacity, and the targeting of social programs. Therefore, strengthening fiscal management and improving the distribution and quality of government spending are important for achieving more inclusive economic growth in Indonesia.

Keywords: fiscal policy, inclusive economic growth, poverty, inequality, Indonesia

1. Introduction

Economic growth is one of the main indicators of economic development, but high economic growth does not necessarily mean that its benefits are distributed equally across society. Inclusive economic growth requires not only an increase in economic output but also broader access to employment, income opportunities, public services, and improved living standards. Therefore, fiscal policy has an important role in ensuring that economic growth generates benefits for different groups of society (Purwanti, 2024).

Fiscal policy refers to government decisions concerning taxation, public expenditure, transfers, and other budgetary instruments used to influence economic activity. In Indonesia, fiscal policy has been used to respond to economic shocks while supporting development and social welfare. The post-pandemic period demonstrated the importance of maintaining fiscal support while gradually restoring fiscal sustainability (Indrawati et al., 2024).

The effectiveness of fiscal policy cannot be evaluated solely through its contribution to economic growth. A policy may increase aggregate economic activity while producing limited benefits for low-income households or regions with weaker economic capacity. Inclusive growth therefore requires fiscal policies that address poverty, inequality, unemployment, and unequal access to economic opportunities (Agussalim et al., 2024).

Government expenditure is one of the major instruments through which fiscal policy can promote inclusive development. Spending on education, health, infrastructure, and social protection can improve human capital and expand opportunities for disadvantaged groups. Recent evidence from Indonesia indicates that education and health expenditure can contribute directly to poverty reduction, particularly in regions outside Java (Agussalim et al., 2024).

Fiscal decentralization is also relevant to inclusive economic growth because Indonesia has substantial differences in economic conditions across provinces. Decentralization provides regional governments with greater responsibility for managing public resources and delivering public services. However, differences in institutional capacity and fiscal resources can influence how effectively decentralization contributes to inclusive development (Priscilla et al., 2025).

The distribution of fiscal resources is particularly important in a geographically diverse country such as Indonesia. Regional governments differ in their ability to generate local revenue and provide public services. Consequently, fiscal policy needs to consider not only the total amount of government spending but also whether resources reach regions and communities that have greater development needs (Wahyudi & Kurniawati, 2022).

Social protection is another important component of fiscal policy. Government transfers and assistance programs can protect vulnerable households from economic shocks and help reduce poverty. However, the effectiveness of social spending depends on accurate targeting, adequate coverage, and effective implementation. Evidence from Indonesia suggests that improvements in the targeting of social safety nets remain necessary to strengthen their contribution to poverty reduction (Agussalim et al., 2024).

Fiscal policy also needs to maintain long-term sustainability. Excessive fiscal expansion can create pressure on public debt and reduce the government's ability to respond to future economic challenges. Indonesia's fiscal consolidation after the pandemic illustrates the need to balance growth-supporting expenditure with fiscal discipline (Adrison, 2024).

Based on these considerations, this article aims to evaluate the effectiveness of fiscal policy in promoting inclusive economic growth in Indonesia. The discussion focuses on government expenditure, taxation, social protection, fiscal decentralization, poverty reduction, inequality, and the challenges of maintaining fiscal sustainability.

2. Research Method

This article uses a literature review method to examine recent research concerning fiscal policy and inclusive economic growth in Indonesia. The literature was selected based on its relevance to government expenditure, taxation, fiscal decentralization, poverty reduction, inequality, social protection, and economic growth (Indrawati et al., 2024).

The reviewed literature consists primarily of studies published within the recent five-year period. Academic articles, economic policy studies, and institutional reports were considered to obtain a broader understanding of the relationship between fiscal policy and inclusive development in Indonesia (Adrison, 2024).

The literature was analyzed thematically by identifying findings related to the effectiveness of fiscal instruments in reducing poverty and inequality, supporting economic growth, improving public services, and reducing regional disparities. The findings were then synthesized to evaluate the strengths and limitations of fiscal policy in promoting inclusive economic growth (Purwanti, 2024).

3. Results And Discussion

Fiscal policy has an important role in supporting economic growth in Indonesia because government spending can stimulate economic activity, provide public infrastructure, and support household welfare. However, the effectiveness of fiscal policy depends on how resources are allocated and whether spending is directed toward activities that generate broad economic and social benefits (Indrawati et al., 2024).

The evidence indicates that fiscal policy can contribute to poverty reduction through government expenditure on essential public services. Education and health spending are particularly important because they can improve human capital and increase people's ability to participate in economic activities. Recent research using provincial data in Indonesia found that education and health expenditure had significant direct effects on poverty reduction, especially outside Java (Agussalim et al., 2024).

Infrastructure expenditure can also support inclusive growth by improving connectivity and expanding access to economic opportunities. Infrastructure development can reduce geographical barriers, facilitate trade, improve access to public services, and encourage investment in less-developed areas. However, the benefits of infrastructure spending depend on the quality and distribution of projects across regions (Maulani et al., 2025).

Fiscal policy also affects inclusive growth through taxation. A well-designed tax system can provide government revenue for public programs while contributing to redistribution. However, the relationship between taxation and inequality can be complex. Recent evidence suggests that taxation in Indonesia may have unintended effects on income inequality, indicating the importance of improving tax design and administration (Agussalim et al., 2024).

Social protection represents another important fiscal instrument for supporting vulnerable households. During periods of economic uncertainty, social assistance can help households maintain consumption and avoid falling into poverty. The Indonesian experience following the pandemic shows that social expenditure contributed to welfare protection, although better targeting remains necessary to improve its effectiveness (Indrawati et al., 2024).

The relationship between fiscal decentralization and poverty reduction is also important in evaluating Indonesia's fiscal policy. Provincial-level evidence shows that fiscal decentralization has contributed to poverty reduction, although the relationship is not necessarily linear. This suggests that the transfer of fiscal responsibilities to regional governments needs to be accompanied by effective institutions and appropriate fiscal management (Siburian, 2022).

Fiscal decentralization, however, does not automatically guarantee inclusive economic growth. Recent evidence from Indonesian provinces shows that the degree of fiscal decentralization can have different effects depending on institutional conditions and other development factors. Human capital and institutional performance may be more important in determining inclusive growth than fiscal decentralization alone (Priscilla et al., 2025).

Regional disparities remain one of the major challenges for fiscal policy in Indonesia. Differences in infrastructure, economic structure, fiscal capacity, and access to public services

can influence the impact of government expenditure. Consequently, policies designed at the national level may generate different outcomes across provinces (Agussalim et al., 2024).

Evidence from East Java demonstrates that fiscal intervention needs to be assessed in relation to poverty, inequality, and unemployment simultaneously. Local government fiscal intervention can support inclusive growth, but the effectiveness of such intervention depends on regional economic conditions and the ability of governments to translate fiscal resources into broader opportunities for society (Purwanti, 2024).

Economic growth itself remains an important channel through which fiscal policy can influence welfare. Government spending that stimulates productive activities can generate employment and income opportunities. However, growth will be considered inclusive only when these opportunities are accessible to a broad section of society rather than concentrated among particular regions or income groups (Purwanti, 2024).

The quality of government expenditure is therefore as important as the quantity of spending. Increasing the fiscal budget does not automatically produce better development outcomes if expenditure is inefficient, poorly targeted, or disconnected from regional needs. Effective fiscal policy requires careful planning, implementation, monitoring, and evaluation of public programs (Adrison, 2024).

Fiscal sustainability also influences the long-term effectiveness of inclusive development policies. A government that maintains a sustainable fiscal position has greater capacity to finance education, health, infrastructure, and social protection over time. Indonesia's fiscal consolidation following the pandemic demonstrates the importance of maintaining fiscal credibility while preserving expenditure that supports economic and social development (Indrawati et al., 2024).

Another challenge is the distribution of fiscal benefits between Java and regions outside Java. Economic activity and infrastructure remain unevenly distributed across the country. Research on poverty reduction indicates that the effectiveness of fiscal spending can vary between regions because of differences in socioeconomic conditions and infrastructure availability (Agussalim et al., 2024).

The role of local government capacity is therefore essential. Fiscal decentralization gives regions greater responsibility, but regions with limited institutional and fiscal capacity may face difficulties in translating budgetary resources into effective public services. Strengthening institutional capacity can therefore improve the effectiveness of fiscal decentralization in supporting inclusive growth (Priscilla et al., 2025).

The findings also indicate that fiscal policy should integrate short-term and long-term objectives. Short-term spending can protect households and businesses during economic shocks, while long-term investment in human capital and infrastructure can increase productive capacity. Balancing these objectives is necessary to ensure that fiscal policy supports both immediate welfare and sustainable economic development (Indrawati et al., 2024).

Inclusive growth also requires fiscal policy to address unemployment and access to quality employment. A reduction in poverty does not necessarily mean that all households have obtained stable and productive employment. Recent evidence shows that informal and part-time employment remain important concerns in Indonesia, indicating that fiscal policy should also support the creation of better-quality economic opportunities (World Bank, 2024).

Another consideration is the vulnerability of households that remain close to the poverty line. Even when national poverty rates decline, a substantial share of households can remain economically insecure and vulnerable to future shocks. This means that fiscal policy should not

focus only on households officially classified as poor but should also consider broader groups that face economic vulnerability (World Bank, 2024).

Overall, the evidence suggests that fiscal policy has contributed to Indonesia's economic and social development, but its effectiveness in promoting inclusive growth remains uneven. Fiscal policy is most likely to support inclusive growth when government expenditure improves human capital, infrastructure, social protection, and economic opportunities while taxation and fiscal transfers are designed to reduce disparities (Agussalim et al., 2024).

The evaluation also indicates that inclusive fiscal policy requires coordination between national and regional governments. Central government transfers, local revenue, and regional expenditure need to work together so that fiscal resources respond to differences in development needs. Without effective coordination, fiscal decentralization may not produce the desired reduction in regional disparities (Priscilla et al., 2025).

Therefore, improving fiscal policy effectiveness in Indonesia requires more than increasing government spending. It requires better targeting, stronger institutions, improved public-service quality, more equitable resource allocation, effective tax administration, and continuous evaluation of fiscal programs. These elements are essential for ensuring that economic growth generates wider opportunities and benefits across Indonesian society (Adrison, 2024).

4. Conclusion

Fiscal policy has an important role in promoting inclusive economic growth in Indonesia through government expenditure, taxation, social protection, infrastructure investment, and fiscal decentralization. The available evidence indicates that fiscal intervention can contribute to poverty reduction and improve access to essential services, particularly when resources are directed toward education, health, infrastructure, and vulnerable households.

However, the effectiveness of fiscal policy remains uneven across regions and population groups. Regional disparities, differences in fiscal capacity, the quality of public expenditure, institutional capacity, and the targeting of social programs can influence the extent to which fiscal policy contributes to inclusive growth.

Therefore, improving the effectiveness of fiscal policy requires a stronger focus on the quality and distribution of public spending rather than simply increasing the size of the fiscal budget. Better targeting of social protection, stronger tax administration, investment in human capital and infrastructure, improved coordination between central and regional governments, and continued attention to fiscal sustainability are important for ensuring that economic growth produces broader and more equitable benefits.

5. References

- Adrison, V. (2024). Fiscal sustainability in Indonesia: Policies and progress. *Asian Economic Policy Review*, 19(2), 224–247.
- Agussalim, A., Nursini, N., Suhab, S., Kurniawan, R., Samir, S., & Tawakkal, T. (2024). The path to poverty reduction: How do economic growth and fiscal policy influence poverty through inequality in Indonesia? *Economies*, 12(12), 316.
- Indrawati, S. M., Satriawan, E., & Abdurrohman. (2024). Indonesia's fiscal policy in the aftermath of the pandemic. *Bulletin of Indonesian Economic Studies*, 60(1), 1–33.

- Priscilla, H., Rindayati, W., & Anggraeni, L. (2025). Effect of fiscal decentralization and institutional performance on inclusive growth in Indonesia. *Jurnal Ekonomi dan Kebijakan Pembangunan*, 14(2), 174–192.
- Purwanti, D. (2024). Inclusive economic growth and fiscal intervention: Could it reduce poverty, inequality, and unemployment in East Java? *Jurnal Ekonomi & Studi Pembangunan*, 25(1), 148–166.
- Siburian, M. E. (2022). The link between fiscal decentralization and poverty—Evidence from Indonesia. *Journal of Asian Economics*, 81, 101493.
- Wahyudi, S. T., & Kurniawati, L. (2022). The effect of fiscal decentralization on economic growth: A study of the province level in Indonesia. *Jurnal Ekonomi Kuantitatif Terapan*, 15(1).
- World Bank. (2024). *Indonesia Poverty & Equity Brief*. World Bank.