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Government Debt, Budget Deficits, and Fiscal Sustainability in Indonesia

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	ABSTRACT
Keywords: Budget Deficit; Fiscal Policy; Fiscal Space; Fiscal Sustainability; Government Debt; Government Securities. Conflict of Interest Statement: The author(s) declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest. Copyright © 2024 ATR. All rights reserved	Purpose: This study examines how Indonesia’s budget-deficit financing and government-debt structure relate to fiscal-space risks and long-term fiscal sustainability. Research Design and Methodology: A qualitative descriptive-analytical design was applied to documentary evidence identified in the study, including the State Finance Law, Financial Notes and Draft State Budget documents, Central Government Financial Reports, Indonesian External Debt Statistics, and publications of relevant public institutions, supported by scholarly literature. Documents were compared thematically around deficit management, debt instruments, fiscal risks, and governance responses. Findings and Discussion: The qualitative document-based design does not estimate causal effects or a formal debt-sustainability path. Policy implications emphasize revenue strengthening, expenditure efficiency, prudent portfolio management, and transparent allocation of borrowing to productivity-enhancing uses. Implications: The study integrates debt composition, fiscal-space constraints, and governance into a single policy-oriented interpretation of Indonesian fiscal sustainability.

Introduction

Fiscal policy is a central instrument for stabilizing economic activity and financing public priorities. In Indonesia, the recurring gap between government revenue and expenditure has made budget deficits and financing policy persistent features of fiscal management. Expansionary fiscal policy can support economic activity and development, but its benefits depend on the quality, timing, and financing of public expenditure (Mujasmara et al., 2023; Saragih, 2015; Setiawan, 2018). When revenue mobilization does not keep pace with expenditure commitments, debt financing becomes an important mechanism for maintaining budget implementation and development continuity.

Government debt is therefore not inherently a sign of fiscal weakness. Its implications depend on the scale of borrowing, the composition and maturity of instruments, the cost of funds, exchange-rate exposure, and the productive use of financed expenditure. Indonesian debt management has increasingly relied on market-based Government Securities (Surat Berharga Negara, SBN), including conventional government bonds and state sharia securities, alongside domestic and external loans. This structure is supported by the legal framework for government securities and state finance

(Republic of Indonesia, 2002, 2003, 2008) and has broadened the government's financing options while deepening the domestic financial market (Kesumadewi et al., 2024; Nisak, 2022).

The central policy issue is consequently not whether debt exists, but whether fiscal institutions can preserve adequate space to meet current obligations, absorb shocks, and finance productive priorities without creating an unstable debt-service burden. Indonesian studies have assessed this issue through debt dynamics, primary-balance responses, fiscal reaction functions, and macroeconomic risk channels. Their findings show that fiscal sustainability is multidimensional: it is linked to government revenue and expenditure behavior, interest rates, growth, exchange-rate movements, the primary balance, and the management of debt composition (Al Ayyubi & Saputra, 2021; Ikhsan & Virananda, 2021; Leonardo & Thomas, 2024; Pertiwi et al., 2023; Solikin & Choirunnisah, 2019; Widjanarko, 2020).

Recent evidence also cautions against interpreting a statutory debt ceiling or a single debt-to-GDP ratio as a complete measure of fiscal health. Fiscal sustainability requires attention to the government's capacity to service obligations, the quality of spending financed by debt, the resilience of revenue, and the sensitivity of the portfolio to market conditions (Adrison, 2024; Widiastuti et al., 2023). At the same time, the growing role of domestic debt may reduce some external-financing vulnerabilities and can support economic activity when funds are allocated effectively, although prudence remains necessary to contain refinancing and crowding-out risks.

Against this background, this study addresses two questions: (1) how do Indonesia's budget-deficit policy and government-debt financing structure shape the management of fiscal resources; and (2) what structural risks and governance implications arise for long-term fiscal sustainability? The study contributes a qualitative policy-oriented synthesis that connects financing composition with fiscal-space constraints, macro-financial exposure, revenue capacity, expenditure quality, and debt-governance priorities.

Literature Review

Budget Deficits and Government Debt Financing

Budget deficits emerge when government expenditure exceeds revenue within a fiscal period and the gap is financed through available budget-financing instruments. In Indonesia, deficit financing has been used to sustain development expenditure and macroeconomic stabilization while preserving continuity of public programs (Saragih, 2015; Setiawan, 2018). The policy challenge lies in balancing the short-term role of fiscal expansion against future debt-service obligations. Darmawan (2022), Fadillah AS and Sutjipto (2018), and Malik and Kurnia (2017) show that external debt, exchange-rate conditions, and budget deficits are closely connected to broader macroeconomic performance and financing pressures.

The composition of debt matters because instruments transmit different risks to the budget. The shift toward SBN has expanded domestic financing capacity and reduced reliance on traditional bilateral or multilateral borrowing. Conventional government bonds are governed by the Government Securities Law, while state sharia securities are governed by a separate legal framework that also permits their use in financing the state budget and eligible projects (Republic of Indonesia, 2002, 2008). Empirical and policy-oriented studies emphasize the growing role of SBN in financing the APBN and in supporting domestic financial-market development (Juanda & Gladiola, 2022; Kesumadewi et al., 2024; Nisak, 2022).

Debt-financed fiscal expansion can generate economic benefits when borrowing supports productive spending and when macroeconomic conditions allow government financing to complement rather than displace private activity. For example, find that domestic public debt can support growth without necessarily producing a crowding-out effect in the Indonesian context examined. The policy implication is not that additional borrowing is costless, but that debt outcomes depend on the interaction between financing structure, macroeconomic capacity, and the quality of expenditure.

Fiscal Sustainability, Primary Balance, and Fiscal Space

Fiscal sustainability concerns the government's capacity to meet present and future obligations without requiring disruptive adjustments in taxes, spending, or financing. A key analytical link is the primary balance because it captures the fiscal position before interest payments and therefore

indicates whether current revenues and non-interest expenditures are moving toward or away from debt stabilization. Indonesian evidence based on fiscal reaction functions and debt-dynamics approaches generally shows that the relationship between debt and the primary balance is central to assessing sustainability (Al Ayyubi & Saputra, 2021; Ikhsan & Virananda, 2021; Solikin & Choirunnisah, 2019; Widjanarko, 2020).

The same literature also shows that sustainability is sensitive to macroeconomic conditions. Interest rates affect debt-service costs; exchange-rate movements alter the rupiah value of foreign-currency obligations; inflation and growth influence both revenue and the debt ratio; and market conditions shape the cost and rollover of securities. Pertiwi et al. (2023) and Leonardo and Thomas (2024) identify these macroeconomic channels as relevant to Indonesia's fiscal sustainability, while Adrison (2024) emphasizes the importance of revenue and expenditure policy in preserving a sustainable fiscal path.

Fiscal space is the practical expression of this sustainability problem. Rising mandatory debt-service allocations can reduce the share of resources that remains available for discretionary development and social priorities. Pribadi (2016) and Satya (2015) describe how persistent debt accumulation can create budget-management pressure when new financing is needed to meet existing obligations or when debt service competes with productive expenditure. Legal debt and deficit limits provide important guardrails, but they do not eliminate the need to evaluate liquidity, debt-service capacity, portfolio structure, and expenditure effectiveness (Republic of Indonesia, 2003; Sutedi, 2022).

Governance, Revenue Capacity, and Expenditure Quality

Debt sustainability is inseparable from fiscal governance. A government can carry debt more safely when revenue is resilient, expenditure produces durable economic and social returns, and the debt portfolio is managed transparently and prudently. Widiastuti et al. (2023) highlight the role of fiscal discipline and debt management in maintaining sustainability, while Juanda and Gladiola (2022) connect the use of government securities with growth and debt-sustainability considerations in Indonesia.

This governance perspective shifts attention from the nominal amount of debt to the institutional capacity to manage it. Revenue reform affects the ability to service obligations without crowding out essential spending; expenditure efficiency affects whether borrowing generates future fiscal capacity; and portfolio diversification affects sensitivity to currency, interest-rate, and refinancing risks. These dimensions provide the conceptual basis for interpreting the documentary evidence in this study.

Research Design and Methodology

Research Design and Evidence Base

This study uses a qualitative descriptive-analytical design and document-study technique to evaluate fiscal policy governance, government debt, budget deficits, and long-term fiscal sustainability in Indonesia. A qualitative design is appropriate because the study seeks to interpret policy arrangements, financing structures, risk channels, and governance implications rather than estimate causal coefficients (Rukin, 2019).

The evidence base comprises official and authoritative secondary materials identified in the study: the State Finance Law; Financial Notes and Draft State Budget (RAPBN) documents; audited Central Government Financial Reports (LKPP); Indonesian External Debt Statistics (SULNI); and publications of the Ministry of Finance, Bank Indonesia, and Statistics Indonesia. Scholarly studies on debt management, fiscal sustainability, SBN, the primary balance, and macroeconomic risk were used to support interpretation and position the findings within the existing literature.

Documentary Analysis and Trustworthiness

The analysis followed an iterative documentary process consisting of evidence reduction, thematic organization, narrative presentation, comparison across source types, and conclusion verification. Information was organized around four analytical domains: deficit management, debt-financing composition, fiscal-risk transmission, and governance responses. Claims that required a statistical

estimate were not generated from the qualitative material; instead, the study focused on patterns and policy implications that could be supported by the documentary evidence.

Trustworthiness was strengthened through source triangulation. Statements concerning fiscal rules, debt instruments, and public-sector financing were compared across legal documents, fiscal publications, monetary and macroeconomic sources, and relevant scholarly studies. Differences in institutional perspective were treated as part of the analytical context rather than as grounds for inferring unsupported facts. Because the study is document-based, its conclusions are interpretive and should not be read as a substitute for a formal econometric debt-sustainability analysis.

Findings and Discussion

Findings

Deficit Management and the Financing Structure

The documentary evidence shows that deficit financing is embedded in Indonesia's fiscal framework as a mechanism for reconciling expenditure commitments with available revenue. The legal framework places quantitative guardrails on fiscal management and provides the basis for issuing government securities (Republic of Indonesia, 2002, 2003, 2008). Within that framework, debt financing has developed from a structure historically associated with external loans toward a portfolio in which market-based government securities play a central role.

This shift increases financing flexibility because SBN can be issued across maturities, investor segments, currencies, and conventional or sharia structures. It also supports the development of the domestic financial market and provides an alternative to direct external borrowing. The reviewed scholarship similarly identifies SBN as a major instrument for financing the APBN and as an increasingly important component of public-debt management (Juanda & Gladiola, 2022; Kesumadewi et al., 2024; Nisak, 2022).

The financing structure nevertheless creates a continuing trade-off. Market-based debt can diversify funding sources and broaden the investor base, but it exposes the budget to interest-rate conditions, refinancing needs, market sentiment, and—in the case of foreign-currency liabilities—exchange-rate movements. The material therefore supports interpreting financing flexibility and risk management as two sides of the same fiscal-policy choice.

Structural Fiscal Risks and Fiscal Space

The analysis identifies debt-service commitments as a primary channel through which accumulated borrowing can affect future fiscal flexibility. Interest payments and principal refinancing are non-discretionary or highly constrained obligations once debt has been issued. As these obligations increase, the share of budget resources available for new priorities can narrow, creating what the manuscript characterizes as budget rigidity.

A second risk channel is the primary balance. A persistently weak primary balance means that revenue is insufficient to cover non-interest expenditure and therefore increases reliance on financing. Indonesian studies using primary-balance and fiscal-reaction approaches confirm that the response of the primary balance to changes in debt is important for assessing fiscal sustainability (Al Ayyubi & Saputra, 2021; Ikhsan & Virananda, 2021; Solikin & Choirunnisah, 2019; Widjanarko, 2020). The qualitative evidence in this study is consistent with treating primary-balance management as a key indicator of whether borrowing remains compatible with long-term fiscal capacity.

A third channel arises from macro-financial conditions. Interest-rate increases can raise new borrowing costs; weaker exchange rates can increase the domestic-currency burden of foreign-currency obligations; and shifts in investor sentiment can affect the pricing and rollover of market-based securities. These mechanisms are also emphasized in recent Indonesian fiscal-sustainability research (Leonardo & Thomas, 2024; Pertiwi et al., 2023).

Governance Responses

The documentary synthesis points to three governance responses. First, stronger and more reliable revenue mobilization reduces the need to close recurrent fiscal gaps through borrowing. Second, expenditure efficiency matters because the sustainability of debt is partly determined by whether

debt-financed spending expands productive capacity and future revenue rather than merely increasing recurring commitments. Third, transparent portfolio management is necessary to control refinancing, currency, and interest-rate risks and to maintain public and market confidence.

These responses are mutually reinforcing. Revenue reform without spending discipline may not create durable fiscal space; spending efficiency without prudent debt management may leave the budget exposed to financing shocks; and debt management without transparency may weaken accountability. The evidence therefore supports a governance framework in which revenue capacity, expenditure quality, debt composition, and disclosure are treated as integrated components of fiscal sustainability.

Discussion

Sustainability Beyond Statutory Limits

The main implication of the findings is that compliance with statutory limits is necessary but not sufficient for assessing fiscal sustainability. Indonesia's State Finance Law establishes important fiscal guardrails, including limits on the budget deficit and government debt relative to GDP (Republic of Indonesia, 2003). Those limits constrain excessive fiscal expansion, but they do not directly measure the budget's sensitivity to interest costs, refinancing, exchange-rate movements, or weak revenue growth.

This interpretation is consistent with recent empirical literature. Adrison (2024) shows that sustainability analysis must incorporate both fiscal rules and the underlying performance of revenue and expenditure. Widiastuti et al. (2023) likewise find that debt sustainability depends on the government's fiscal response and becomes more difficult to maintain when the capacity to adjust the primary balance weakens. The findings of this study therefore support a broader definition of fiscal health that combines legal compliance with debt-service capacity, primary-balance behavior, and expenditure quality.

Debt Composition, Market Exposure, and Fiscal Resilience

The growing role of SBN changes the structure rather than eliminating the risks of public borrowing. Domestic securities can reduce dependence on foreign loans and can support financial-market development, yet market-based financing creates sensitivity to yield movements, maturity concentration, and investor demand. The policy question is therefore not whether SBN should dominate the portfolio, but how the portfolio is managed. A resilient structure requires diversification across maturities and funding sources, attention to the share of foreign-currency obligations, and alignment between debt issuance and the government's medium-term cash-flow capacity. The same principle applies to multilateral and external borrowing: favorable financing terms can be useful, but the resulting obligations must remain consistent with fiscal capacity and productive use.

Revenue, Spending Quality, and Debt Governance

The study's governance implications place revenue capacity and spending quality at the center of long-term sustainability. A structurally low or slowly growing revenue base limits the government's ability to absorb higher debt-service costs without reducing other expenditures. For that reason, fiscal reform should strengthen compliance, administration, and the tax base while avoiding the assumption that additional borrowing can substitute indefinitely for durable revenue mobilization.

On the expenditure side, debt should be evaluated against the quality and expected public return of financed programs. Productive infrastructure, human-capital investment, and well-targeted programs can strengthen future economic capacity, whereas inefficient or duplicative expenditure can increase liabilities without a corresponding fiscal benefit. The evidence therefore supports a 'spending better' orientation rather than a simple reduction in all public expenditure.

Finally, debt governance requires transparency and accountability. Medium-term debt-management strategies, portfolio-risk information, and clear reporting of fiscal obligations help oversight institutions, market participants, and the public evaluate whether borrowing remains prudent. These governance mechanisms are important because fiscal sustainability is ultimately a

dynamic relationship between obligations, future revenue, and the quality of public financial management rather than a single numerical threshold.

Study Limitations and Research Implications

This study is limited by its qualitative documentary design. It does not estimate a causal effect of debt on growth, calculate a fiscal reaction function, or generate a probabilistic debt-sustainability path. The document corpus is also heterogeneous, combining legal, fiscal, institutional, and scholarly sources. These features mean that the findings should be interpreted as a policy synthesis rather than as a quantitative test of a single fiscal model.

Future research can extend the analysis by defining an explicit observation window, constructing a replicable dataset from APBN, LKPP, SULNI, and debt-portfolio statistics, and testing how interest rates, exchange rates, growth, revenue, and the primary balance interact with debt dynamics. Comparative work could also examine whether domestic-market deepening through SBN changes the transmission of fiscal shocks or the relationship between public borrowing and private investment.

Conclusion

Indonesia's budget-deficit financing framework allows the government to sustain expenditure when revenue is insufficient, with government securities now playing a central role in the debt portfolio. The qualitative evidence indicates that this structure improves financing flexibility and supports domestic financial-market development, but it also makes fiscal management sensitive to debt-service commitments, refinancing conditions, interest rates, investor sentiment, and exchange-rate movements.

The study therefore concludes that long-term fiscal sustainability should be assessed beyond compliance with statutory debt and deficit ceilings. Sustainable debt management requires a resilient revenue base, disciplined and productivity-oriented expenditure, prudent portfolio composition, and transparent governance. The contribution of the study lies in integrating these dimensions into a single policy interpretation: debt sustainability depends not only on how much the government borrows, but also on how the borrowing is structured, what it finances, and whether future fiscal capacity remains sufficient to service obligations while preserving space for development priorities.

The analysis is limited by its qualitative documentary design and does not estimate causal effects or a formal debt-sustainability path. Future studies should use explicitly defined time-series or panel data, transparent document-selection protocols, and formal fiscal-reaction or debt-dynamics models to test the relationships identified here.

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