

CHALLENGES IN ACHIEVING 8 PERCENT ECONOMIC GROWTH TARGETS

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Abstract

The Indonesian government is targeting an economic growth rate of 8 percent for 2025–2029, despite the IMF's projection of only 5 percent. Historically, Indonesia achieved growth rates exceeding 8 percent in 1973, 1977, and 1995, even with a relatively low investment-to-GDP ratio. These achievements were driven by industrialization, modernization, and capital accumulation in the health, education, infrastructure, and institutional sectors. This article discusses the challenges in achieving the 8 percent economic growth target for 2025–2029. Reaching this target is crucial to escaping the middle-income trap and realizing Indonesia's aspiration of becoming a developed country. The main challenges include managing transmigration while preserving nature and culture, ensuring environmental sustainability in nickel downstreaming, and optimizing the social budget. Priorities include strengthening the export sector, adjusting fiscal policies to support MSMEs, and advancing the green-blue and sharia economies. DPR RI, particularly Commission XI, should oversee state budget implementation and ensure that fiscal and monetary policies and investments promote inclusive and sustainable growth.

Introduction

In the October 2024 edition of the World Economic Outlook report, the International Monetary Fund (IMF) estimated that Indonesia's economic growth would stagnate at 5 percent, with growth in 2025–2029 projected to reach only 5.1 percent. However, President Prabowo has set an am-

bitious economic growth target of 8 percent (Nugraha, 2024). Historically, Indonesia achieved its highest economic growth rates in 1973, 1977, and 1995, when growth reached 8 percent despite a relatively low investment-to-gross domestic product (GDP) ratio. During those periods, household consumption contrib-



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uted an average of 66 percent of GDP, and government spending accounted for an average of 10 percent. Remarkably, the investment ratio was only 17.9 percent in 1973, 20.1 percent in 1977, and 28.4 percent in 1995 (Buhaerah, 2024).

The key to achieving these growth levels is structural transformation through industrialization and increased modernization. Capital accumulation and fundamental investments in health, education, infrastructure, and institutions need also to be strengthened. Keynesian stimulus through specific channels should also be identified to boost growth. There are three critical channels: first, implementing effective labor productivity policies to address the persistent productivity gap; second, introducing innovations to maximize the short-term growth effects of investments in education, health, infrastructure, and institutions; and third, prioritizing downstreaming and modernization as key structural changes (Falianty, 2024). Based on this introduction, this paper will explore the challenges in achieving the economic growth target of 8 percent during the 2025–2029 period.

The Importance of 8 Percent Economic Growth

According to the Ministry of National Development Planning/Bappenas, Indonesia needs to achieve 6–7 percent economic growth to escape the middle-income trap (MIT). Reaching an 8 percent growth rate is essential for breaking free from MIT and

realizing Indonesia's aspiration of becoming a developed country. With Indonesia's demographic bonus projected to end by 2030, it is critical to maximize this momentum before the window of opportunity closes. Other populous countries like India and China have achieved higher growth rates. Over the past 16 years, India has consistently grown at 8–9 percent, while China's highest growth rate in the last 20 years was 14.23 percent in 2007, with near-8 percent growth last recorded in 2012. However, neither India nor China has successfully escaped MIT, as both face substantial challenges transitioning to high-income status (Falianty, 2024).

The World Bank outlines a three-phase strategy for MIT countries to escape the trap, tailored to each stage of economic development. For low-income countries, phase 1 emphasizes investment-centric policies. Upon reaching lower-middle-income status, phase 2 recommends a policy mix of investment and infusion, including technology adoption from abroad and its integration into the economy. For upper-middle-income countries, phase 3 requires strengthening the focus on investment, infusion, and innovation (Kemenkeu, 2024).

However, maintaining stability, inclusiveness, and sustainability in economic growth is essential. Growth should not come at the expense of excessive exploitation of natural and human resources. The lessons of Indonesia's 1997–1998 monetary crisis underscore the importance of

balancing growth with risk mitigation. Prudent management of monetary and fiscal stability and attention to environmental, equity, and socio-cultural considerations are vital.

Moreover, avoiding economic overheating is critical. Overheating occurs when the economy surpasses its capacity to meet demand, leading to rapid price increases. This phenomenon highlights the need for balanced and measured growth to ensure that economic development remains sustainable and equitable.

Challenges in Achieving the 8 Percent Economic Growth Target

Achieving quality economic growth involves more than just reaching high final figures; every aspect of the government's plan needs to improve the community's welfare while ensuring sustainability and long-term benefits. The Indonesian government faces several key challenges in achieving the ambitious target of 8 percent economic growth:

First, increasing the number of formal workers, particularly through transmigration and strengthening the tourism and creative economy sectors. Informal workers currently dominate these sectors, and a significant effort is needed to formalize their roles to improve productivity and sustainability (Revanda, 2024).

Second, downstreaming should be optimized while addressing environmental concerns and the risk of over-exploiting nickel reserves. Although collaboration with international elec-

tric car manufacturers for battery development is promising, the Indonesian Nickel Miners Association warns that quality nickel reserves may be depleted by 2030. The government needs to ensure environmental sustainability in nickel smelters while maximizing economic benefits (Kurniawan, 2024).

Third, managing a tight but targeted free food budget. To address food insecurity effectively and sustainably, the government needs to standardize a national free meal system tailored to regional conditions (Liputan 6, 2024).

Fourth, maintaining export growth amid global uncertainty. Indonesia's heavy reliance on the Chinese market poses risks as the Chinese economy is projected to slow down, with growth expected to reach only 4.6 percent in 2025. Diversifying export markets and addressing geopolitical uncertainties will be crucial for sustaining and expanding export contributions (Nugraha, 2024).

Fifth, serious fiscal policies should be implemented to support micro, small, and medium enterprises (MSMEs). While MSMEs are growing in number and adopting digital tools, fiscal policies need to adapt to the changing landscape. Many MSMEs still need to gain awareness of taxation requirements, contributing to low tax contributions despite their increasing economic presence. Extensive socialization and tailored fiscal strategies are necessary to unlock their full potential.

Sixth, providing fiscal incentives and creative financing

for the green-blue and sharia economies. Although the carbon tax was ratified under the Law on Harmonization of Tax Regulations (HPP Law) in 2022, its implementation still needs to be improved. Environmental taxes can improve environmental quality and support green initiatives when applied effectively. However, improper implementation risks burdening small industries and driving up costs. The government needs to carefully design environmental tax policies while increasing fiscal support for green and blue economies and the Sharia economy to foster sustainable growth (Safarina, 2021).

Addressing these challenges requires coordinated efforts across sectors and policies that balance economic ambitions with inclusivity, sustainability, and stability. Only by overcoming these obstacles can Indonesia achieve its economic growth target of 8 percent and realize its vision of becoming a developed country.

Conclusion

The new government's economic growth target of 8 percent is ambitious but achievable with the right strategies and careful planning. This growth is essential for Indonesia to escape the middle-income trap and achieve its aspiration of becoming a developed country. Addressing key challenges, such as expanding the formal sector, optimizing natural resource downstreaming, strengthening fiscal policies, and maintaining sustainability, is crucial for success.

DPR RI, especially Commission XI, is pivotal in overseeing the state budget and ensuring that fiscal and monetary policies and investments align with inclusive and sustainable growth objectives. With effective supervision and supportive regulations, Commission XI can help realize economic growth that is not only high but also stable and sustainable, fostering greater welfare for the Indonesian people.

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