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NATIONAL DEBT MANAGEMENT STRATEGIES TO MAINTAIN FISCAL STABILITY DURING A CRISIS

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Abstract

This study discusses the state debt management strategy in maintaining fiscal stability amid the economic crisis. Using a qualitative approach based on literature review, this study analyses various policies and instruments implemented by the government, such as diversification of financing sources, exchange rate and interest rate risk management, and optimisation of debt funds for productive projects. The findings indicate that effective debt management must be based on the principles of prudence, transparency, and accountability, and supported by solid fiscal and monetary policy coordination. Additionally, key challenges include declining government revenue, global financial market volatility, and limited fiscal space due to increased debt repayment burdens. With adaptive strategies and good governance, government debt can be an important instrument to support economic recovery and maintain fiscal sustainability, provided it is used productively and in a measured manner.
Keywords: Government Debt Management Strategy, Fiscal Stability during Crisis.

Introduction

The global economic crisis that has occurred over the past two decades has placed national debt management at the centre of fiscal policy in many countries, including Indonesia. When government revenues decline while financing needs increase, governments often rely on debt instruments to cover budget deficits and finance strategic programmes, such as infrastructure development, health, and education.

In this context, government debt plays an important role in maintaining development continuity and promoting economic recovery, especially in times of crisis (Coordinating Ministry for Economic Affairs of the Republic of Indonesia, 2024). However, the use of government debt is not without risks that must be carefully managed.

If not balanced with adequate economic growth, increased debt can trigger a surge in the debt-to-GDP ratio, increase interest payment burdens, and potentially lead to a fiscal crisis. A fiscal crisis is a condition where the government faces serious difficulties in meeting its financial obligations due to a sharp imbalance between revenue and expenditure, typically characterised by rising budget deficits, soaring public debt, and a decline in the country's ability to finance priority programmes and pay maturing debts, thereby potentially disrupting overall economic stability and reducing market confidence in the government's fiscal capacity (Reinhart & Rogoff, 2023). Therefore, a prudent debt management strategy is essential to keep debt within safe limits and not jeopardise the country's fiscal stability.

One of the main challenges in managing public debt is maintaining a balance between short-term financing needs and long-term fiscal sustainability. The government must ensure that the debt taken on is used to finance productive projects that have a positive impact on economic growth, rather than merely to cover consumptive expenditures. Careless debt management can narrow fiscal space and limit the government's ability to respond to future crises (Handayani, 2023).

In addition, state debt management is also greatly influenced by global dynamics, such as exchange rate fluctuations, changes in international interest rates, and global financial market conditions. Dependence on external financing can increase vulnerability to external shocks, thus requiring a strategy to diversify funding sources and strengthen the domestic financial market.

In this case, synergy between fiscal and monetary policies is key to maintaining macroeconomic stability (Directorate General of State Assets, 2022). Transparency and accountability in state debt management are also important aspects. The government needs to provide clear reports on the use of debt and its impact on economic development in order to maintain public and investor confidence. Close supervision of institutions involved in debt management, such as the Ministry of Finance and Bank Indonesia, is essential to ensure that debt is incurred prudently and responsibly (Abbas & Pienkowski, 2021). Indonesia's experience during the COVID-19 pandemic is a clear example of how debt management strategies are tested in a crisis situation.

The government was forced to significantly increase debt to finance economic recovery programmes and social assistance, but this step posed new challenges related to future debt repayment burdens. Therefore, evaluating the effectiveness of debt use and its impact on fiscal stability is highly relevant (Presbitero et al., 2022).

In economic theory, government debt can be an effective instrument to spur economic growth, especially when used for productive investment amid sluggish demand. However, if not managed properly, debt can also be a source of economic instability, increase the risk of inflation, and reduce market confidence in the government's ability to meet its financial obligations (Sari, 2022).

Fiscal policies issued through debt instruments must always consider the principles of prudence and sustainability. The government needs to set safe budget deficit and debt-to-GDP ratios, as well as conduct regular monitoring of debt developments and the country's repayment capacity. In addition, state revenue reforms, such as tax optimisation and reduction of misdirected subsidies, are also needed to strengthen the fiscal position (Blanchard, 2021).

In the face of global uncertainty, the state debt management strategy must be adaptive and responsive to changes in the economic environment. The government needs to continue to improve debt management, increase the efficiency of fund use, and strengthen the regulatory framework that supports fiscal stability. These efforts are expected to ensure that government debt truly becomes an instrument that supports economic growth and community welfare, rather than a burden that hinders development (Panizza & Presbitero, 2022).

Therefore, research on national debt management strategies to maintain fiscal stability during crises is crucial for providing evidence-based policy recommendations that are relevant to the challenges Indonesia faces today and in the future.

Research Method

The research method used in this study is a qualitative method with a literature review approach, in which the researcher collects and analyses secondary data from various relevant literature sources, such as books, journal articles, research reports, and policy documents related to national debt management and fiscal stability. The analysis was conducted critically and systematically to understand the concepts, policies, and practices of government debt management, as well as to identify the challenges and solutions faced in maintaining fiscal stability during a crisis. This study does not involve the collection of primary data through surveys or interviews, but rather focuses on an in-depth review of existing theories and findings in the literature, thereby providing a comprehensive overview of effective national debt management strategies (Rothstein et al., 2006); (Boote & Beile, 2005).

Results and Discussion

State Debt Management Strategies Can Maintain Fiscal Stability During a Crisis

The national debt management strategy plays a vital role in maintaining fiscal stability, especially when facing an economic crisis that puts pressure on state revenue and increases financing needs. In crisis situations, such as the COVID-19 pandemic or global economic turmoil, the government is often forced to increase debt to cover budget deficits and finance priority programmes, such as social assistance and economic stimulus. However, without the right strategy, a surge in debt can actually worsen fiscal conditions and undermine market confidence in the government's ability to manage public finances (Stiglitz, 2020).

The principle of prudence is the cornerstone of public debt management. Every decision to increase debt must be based on a comprehensive analysis of repayment capacity, economic prospects, and long-term impacts on the economy.

The government needs to maintain the debt-to-Gross Domestic Product (GDP) ratio within safe limits—in Indonesia, this ratio is kept below 60 per cent of GDP—to ensure fiscal sustainability and avoid the risk of default (Directorate General of State Assets, 2022). Diversification of financing sources is another very important strategy.

By expanding access to various instruments and markets, such as the issuance of domestic Government Securities (SBN), international bonds, and loans from multilateral institutions, the government can reduce dependence on a single source and minimise market volatility risks. Diversification also allows the government to select instruments with the most efficient costs and risks according to market conditions (Kurniawan, 2024).

Risk management is key to managing the national debt portfolio. The government must identify and manage key risks, such as interest rate risk, exchange rate risk, and refinancing risk. One of the steps taken is to extend the maturity of loans to reduce short-term debt repayment pressure, as well as to hedge against exchange rate fluctuations to protect the value of foreign debt in local currency (Yusni, 2025).

Optimising the use of debt funds is also crucial. The government must ensure that funds obtained from debt are used to finance productive projects that can drive economic growth and increase state revenue in the future. The use of debt for consumption spending should be avoided, as it will only add to the fiscal burden without providing long-term positive impacts (Dabla-Norris & Gulde, 2022).

Transparency and accountability in state debt management are increasingly important to maintain public and investor confidence. The Ministry of Finance regularly publishes debt reports and involves various stakeholders in the decision-making process. This step not only increases oversight but also encourages government accountability in managing debt responsibly (Lee, 2025).

Coordination between fiscal and monetary policies is also a key factor in the success of national debt management. Synergy between the Ministry of Finance and the Bank of Indonesia is necessary to maintain macroeconomic stability, manage interest rates, foreign exchange reserves, and exchange rates, all of which influence the country's ability to repay debt and manage deficits (Doi et al., 2021).

The efficiency and effectiveness of government spending must be improved so that every rupiah of debt used truly provides optimal benefits for the economy. The government must reduce waste and prioritise spending on sectors with high multiplier effects, such as infrastructure, education, and health (Dabla-Norris & Gulde, 2022).

Regular monitoring and evaluation of the country's debt portfolio are essential. The government must be prepared to adjust its debt management strategy based on global and domestic economic dynamics, as well as the results of evaluations of the impact of policies that have been implemented. In this way, fiscal risks can be identified and anticipated early on (Kose et al., 2021).

A strong legal and regulatory framework is also an important foundation for national debt management. In Indonesia, Law No. 1 of 2020 provides the legal basis for the government to take flexible fiscal policy measures during crises, while still prioritising the principles of prudence and national financial system stability (Mbaye et al., 2022).

Increasing state revenue through tax reform and broadening the tax base is also an integral part of debt management strategies. With stronger revenue, dependence on debt can be gradually reduced, thereby maintaining fiscal space to deal with future crises (Aizenman & Jinjarak, 2021).

Ultimately, effective debt management requires a holistic and adaptive approach. The government must continue to improve debt governance, increase the efficiency of fund utilisation, strengthen the regulatory framework, and maintain transparency and accountability. All these efforts aim to ensure that public debt truly becomes an instrument to support economic growth and people's welfare, rather than a burden that hinders development.

Thus, a planned, prudent, and adaptive national debt management strategy has proven capable of maintaining fiscal stability during crises. Through the principles of prudence, diversification of financing sources, risk management, optimisation of fund utilisation, as well as transparency and accountability, the government can ensure that national debt remains within safe limits and contributes positively to national development. Therefore, good debt management not only maintains fiscal stability but also enhances market confidence and strengthens the resilience of the national economy in facing various challenges in the future.

Factors Hindering the Effectiveness of Debt Management in Times of Crisis

The effectiveness of national debt management in times of crisis is often hampered by various interrelated internal and external factors. One of the main factors is a decline in government revenue due to weak economic activity, which leads to a widening budget deficit and a significant increase in the need for debt financing. When tax revenues and other sources of income decline, the government is forced to rely on debt to cover the shortfall, thereby increasing the fiscal burden in the future (Bua & Pradelli, 2023).

Another factor is the rise in borrowing costs amid global economic uncertainty. Economic crises often increase investment risks, prompting investors to demand higher returns on government bonds. As a result, interest costs on debt rise, and the debt repayment burden becomes heavier for the government budget. This situation can narrow the fiscal space available to fund the government's priority programmes (Cevik, 2021).

Exchange rate fluctuations also pose a major challenge in debt management, particularly foreign debt. Depreciation of the domestic currency against foreign currencies can increase the value of debt denominated in local currency, thereby increasing the debt repayment burden and adding to the risk of default.

The government must implement hedging strategies to minimise the impact of exchange rate fluctuations, but these instruments are not always available or effective in all market conditions (Ghosh et al., 2022). Lack of budgetary discipline and expansionary fiscal policies are also major obstacles to effective debt management.

When government spending is uncontrolled, especially for unproductive programmes, debt accumulation will increase rapidly without providing commensurate economic benefits. This worsens the fiscal position and increases the risk of debt sustainability (Financial Services Authority, 2025).

Dependence on external sources of funding makes countries vulnerable to political and economic pressure from lenders. In a crisis, lenders may impose onerous conditions or even restrict access to financing, thereby narrowing the government's options for managing debt. In addition, domestic political pressures can also influence debt policy, for example through demands to increase social spending that are not matched by increases in government revenue (Chamon & Mauro, 2021).

The risk of default becomes a real threat when a country's cash flow is insufficient to meet principal and interest payments. This can lead to a downgrade in the country's credit rating, reduced investor confidence, and worsening currency depreciation. The domino effect of default can have widespread impacts on economic and social stability (Corsetti et al., 2023).

Limited institutional capacity and weak governance also hinder effective debt management. Lack of transparency, accountability, and oversight in the debt decision-making process can open opportunities for corruption and budget waste. Without a good reporting system, it is difficult for the public and supervisory agencies to monitor the optimal use of debt (Bastourre et al., 2022).

Monetary policies that are not synchronised with fiscal policies can also worsen debt management. For example, high interest rates will increase borrowing costs and debt interest burdens, while overly loose monetary policy can trigger inflation and reduce purchasing power. Weak coordination between fiscal and monetary authorities can cause macroeconomic imbalances that affect debt stability (Abubakar & Handayani, 2022).

In addition, weak legal and regulatory frameworks related to debt management can cause uncertainty in the implementation of debt policies. Without clear and strict rules, the government may take on excessive debt without regard for fiscal prudence and sustainability. This opens the door to the accumulation of unproductive and high-risk debt (Chamon & Mauro, 2021).

Finally, social and economic pressures during a crisis add to the complexity of debt management. The government is faced with an urgent need to finance social assistance, health, and economic recovery programmes, while fiscal space is increasingly limited. If not managed properly, debt taken on to respond to the crisis could become a long-term burden that hinders economic recovery and public welfare (Krugman, 2020).

Thus, the effectiveness of debt management in crisis conditions is greatly influenced by a combination of economic, policy, institutional, and social factors. Efforts to overcome these obstacles require improvements in governance, strengthening of the regulatory framework, enhanced fiscal discipline, and close coordination between fiscal and monetary authorities to ensure that debt management truly supports national economic stability and recovery.

Conclusion

An effective national debt management strategy during a crisis is crucial to maintaining fiscal stability and market confidence in the government's ability to manage public finances. The government needs to implement various approaches, such as cost efficiency, diversification of financing sources, management of exchange rate and interest rate risks, and extension of loan maturities. With this strategy, the country can minimise the risk of market volatility, optimise debt costs, and ensure the availability of liquidity to meet debt repayment obligations amid high global economic pressure.

In addition, sound national debt management must be supported by prudent fiscal policies, increased spending efficiency, transparency, and accountability. The government must also ensure that debt proceeds are used to finance productive projects that drive economic growth and improve public welfare, rather than for consumption-oriented spending that does not yield long-term benefits. Regular monitoring and evaluation of the debt portfolio are essential to enable the government to adjust policies in line with economic dynamics and avoid the risk of debt accumulation that could burden fiscal finances in the future.

By consistently and adaptively implementing these strategies, debt management will not only maintain fiscal stability during crises but also strengthen the resilience of the national economy. Prudent debt management will provide the government with the flexibility to respond to various economic challenges, maintain investor confidence, and ensure that public debt remains a supportive instrument for sustainable development and public welfare.

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