

DOI: <https://doi.org/10.38035/dijefa.v4i6>

Received: 25 January 2024, Revised: 17 February 2024, Publish: 27 February 2024

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## Increasing Costs For Development of Air Force Plane on The Financial Stability of Bank Indonesia (BI) In The Defense Budget

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**Abstract:** The Indonesian Air Force is directed to increase the fleet of fighter aircraft and radar units to meet Indonesia's air defense needs. Fulfilling air defense needs, especially the construction of Indonesian Air Force aircraft, requires a budget allocation from the government. Policies regarding budget allocations and their implementation certainly require more complex policies. Therefore, it is necessary to map and identify the Increased Cost of Aircraft Development for the Indonesian Air Force on the Financial Stability of Bank Indonesia (BI) in the Defense Budget. This type of research is qualitative with the method of observation, interviews and document studies. Data analysis was carried out interactively descriptive until saturated using the triangulation method. The results of the study indicate that the source of the TNI AU's defense budget comes from the APBN which is sourced from GDP, grants and foreign loans. The dynamics of increasing the defense budget in the procurement of TNI-AU aircraft depend on the dynamics of threats, availability of resources and government policies. The projected increase in the Indonesian Air Force's defense budget tends to fluctuate with an average budget change in 2018-2021 of 42%. The procurement of Indonesian Air Force aircraft is also projected to increase as a way to maintain the sovereignty of the Republic of Indonesia in accordance with the dynamics of the strategic environment. The defense budget affects and is influenced by the financial stability of Bank Indonesia, particularly the APBN, GDP and economic growth.

**Keyword:** Aircraft, Indonesian Air Force, Budget, Defense

### INTRODUCTION

The Indonesian Air Force has an important role in organizing the territorial defense of the Unitary State of the Republic of Indonesia in the face of security threats in the air. The form of implementation of the duties of the Air Force is manifested in the activities of Military Operations for War (OMP) and Military Operations Other Than War (OMSP) using the available fleet and defense equipment. However, the limitations of defense equipment and

fleets are an obstacle to securing airspace. The development of an adequate defense system, especially in increasing the construction of Indonesian Air Force aircraft, is needed so that all national airspace can be reached by the Indonesian Air Force so as to ensure the security of the national airspace (Savitri & Prabandari, 2020).

The Indonesian Air Force is directed to increase the fleet of fighter aircraft and radar units to meet Indonesia's air defense needs. The purchase of 3 units of Sukhoi Su-27 fighter aircraft and 3 units of the Su-30 type, which made the Indonesian Sukhoi fleet of 10 units the starting point for the development of Indonesian Air Force aircraft. and is included in the procurement of defense facilities (Dzikri, 2016). One of the main obstacles in the development of defense is the need for large amounts of money. Mature national planning and implementation is needed to maximize budget allocations so that national defense capacity has core competencies that are competitive at regional and global levels as a step to overcome threats (Montratama, 2014).

Military spending and capital spending have a security impact on economic stability and state security (Saputro et al., 2021). The defense budget starting in 2012 showed a significant increase from previous years. The combination of monetary policy with government fiscal policy tends to be expected to have the potential to have a positive impact on the size of the defense budget as a result of creating optimal GDP growth. Optimal GDP growth will generally improve the state's financial condition and enlarge the government's fiscal space/APBN. The policy mix is a stimulus/driver for economic growth, on the other hand it can also increase the amount of defense sector spending due to an increase in the capacity of the government's fiscal space. The synergistic relationship between monetary policy by Bank Indonesia will increase the alignment of macroeconomic policies which will also have a positive effect on the growth of the defense budget (Hadi et al., 2018).

Policies regarding budget allocations and their implementation certainly require more complex policies. Optimizing inter-institutional cooperation that is directly related to the procurement of defense equipment, especially the Ministry of Defense, the TNI, and Bank Indonesia (BI) as the manager of domestic state finances in the context of building defense facilities, one of the Indonesian Air Force aircraft. Many factors influence the creation of a peaceful situation, such as the support of foreign powers, friendly relations with neighboring countries, interdependence with countries in the region, the creation of alignment of interests of actors interacting with Indonesia, both state actors, international organizations and multinational companies. Montratama, 2014). Direct use of the budget is worth pursuing to increase the development of defense facilities, especially Indonesian Air Force aircraft. Therefore, research is needed to map and identify "The Development of Air Force Aircraft Against Bank Indonesia (BI) Financial Stability in the Defense Budget"

## **METHOD**

The research approach used is qualitative. Qualitative research contains efforts to gain enlightenment, understanding of a phenomenon from the same situation. Qualitative research is research related to ideas, perceptions, opinions, beliefs of people to be studied and all of them cannot be measured (Anggito & Setiawan, 2018). Data analysis was carried out based on data description and literature study which included the research focus. Qualitative data analysis is carried out interactively and continuously until it is complete until the data is saturated. The data analysis process is based on simplification and interpretation of the data carried out before, during and after the data collection process. This process consists of three interrelated sub-processes, namely data reduction, data display, and conclusion drawing/verification. This research will be carried out through observation, interviews and document studies at the Ministry of Defense, Indonesian Air Force and Bank Indonesia. In this study, data sources consist of two types, namely primary data sources and secondary data

sources. The main data comes from interviews and is supported by secondary data from books, journals, planning policies, and compilations of regulations related to research.

## **RESULTS AND DISCUSSION**

### **The Dynamics of Increasing the Cost of Development of the Indonesian Air Force**

Global and regional issues can be a threat, both military and non-military, for example, internal and external conflicts. Potential threats and dynamics of the strategic environment become a reference in determining the amount of the defense budget in each period. The budget policy is prepared in the form of a strategic plan (renstra), divided into three stages with a period of fifteen years. Law Number 17 of 2007 concerning the Long-Term Development Plan of the National Development Plan (RPJPN), a defense posture development policy implemented in the form of a Minimum Essential Force (MEF) and starting from 2010 to 2024. Phase I of the MEF was compiled in the 2010-2014 strategic plan, The MEF phase II is prepared in the 2015-2019 strategic plan, while the MEF phase III is prepared in the 2020-2024 strategic plan. MEF covers several aspects, including aspects of modernization of defense equipment, aspects of maintenance and care, aspects of organization and facilities, infrastructure, aspects of professionalism, aspects of welfare and aspects of the defense industry. Several issues that threaten defense include the issue of air space conflicts. This threat becomes one of the references for the need to achieve MEF in accordance with the agreed budget so that it becomes the optimum essential forces in 2024.

In phase I, the fulfillment of the TNI AU has reached 46.17% of the total target. Several obstacles are a factor in the low achievement of the Indonesian Air Force's MEF I, among others, the modernization of the defense equipment system is lagging behind, while the threat scenario requires fulfillment and development. This is an indication that the delivery system is not compatible with the context of the problem so that policy outcomes or policy expenditures are biased. The second factor is caused by domestic relations related to civil policy and coordination between the Ministry of Defense and the TNI. Defense foreign policy regarding the budget also reduces the realization of the TNI AU's defense budget so that budget disbursement is delayed. Purchases of G to G weapons are often influenced by international dynamics with varying price fluctuations that affect realization and budget requirements. Lending and producing countries have complex regulations that reduce the realization and fulfillment of the development budget.

The achievement of MEF I in 2014 has reached 40% of the 30% that has been targeted but has decreased during the MEF II period. The threat of an economic gap can also be one of the obstacles to achieving the optimum target of 2024. The defense force, especially the squadron of Indonesian Air Force fighter aircraft, should be likened to having the strength of a squadron in guarding an island the size of Kalimantan which borders directly with Malaysia. The increase in the number of aircraft developments is expected to protect the borders that still have a high defense threat with a low level of defense. The construction of Indonesian Air Force aircraft is expected to be able to form air defenses up to the EEZ (Exclusive Economic Zone) limit. Ideally the air defense force consists of 3 to 4 squadrons of combat air, especially in border areas (Leonard et al, 2013).

The dynamics of the budget relates to the availability of resources and is influenced by the technicalities of the policy. The modernization and development of defense equipment, especially Indonesian Air Force aircraft, depends on foreign or imported manufacturers because the national defense industry has not yet achieved the capability. Data from the Ministry of Defense states that 70% of the TNI AU's defense equipment relies on imports so that the budget spent is more expensive, not accompanied by the purchase of licenses and technology transfer agreements do not run optimally, especially in meeting the availability of spare parts.

### Prediction of increasing the cost of construction of the aircraft

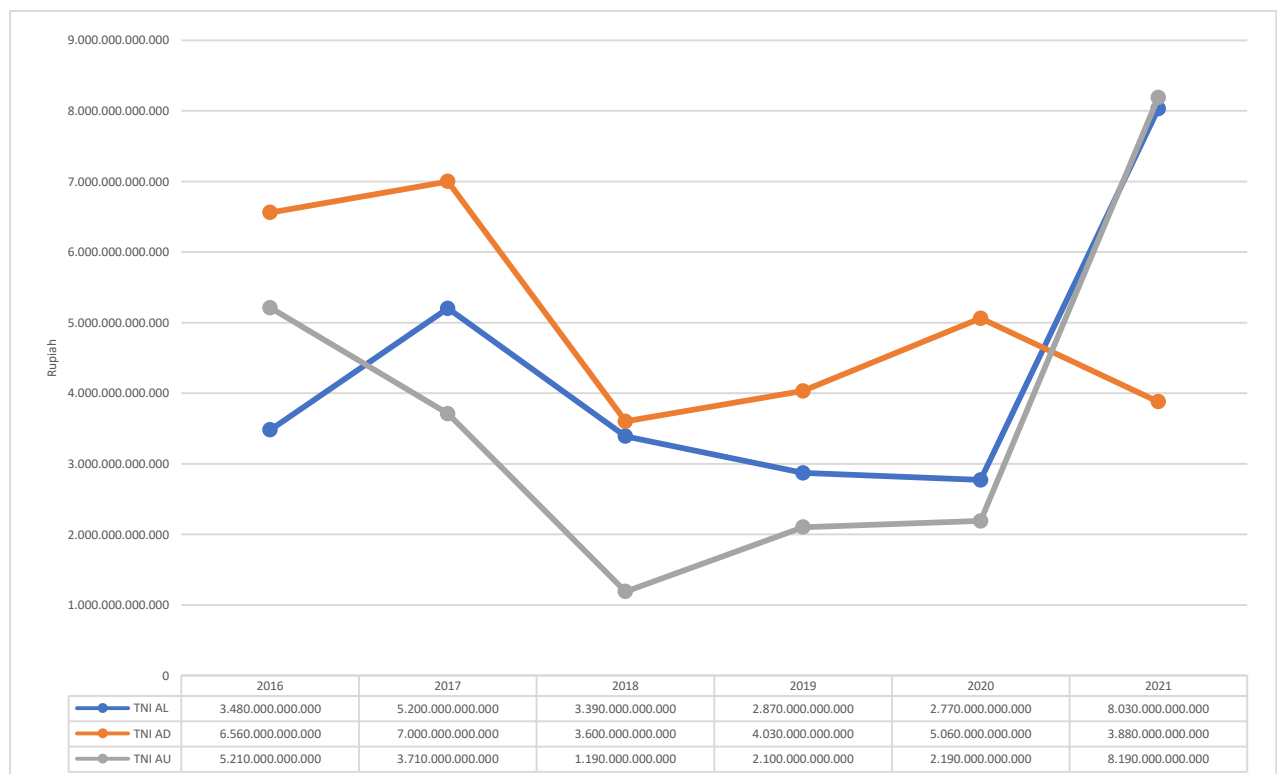
The dynamics of the strategic environment, especially regional and international, show that there is a growing trend of the defense sector budget for each country including Indonesia both at the regional and global levels. The condition of the Indonesian Air Force's defense equipment should have experienced improvement, development and modernization so that it requires a large enough budget in accordance with the level of needs in dealing with threats. The Ministry of Defense Budget based on the Ministry of Finance's State Budget can be seen in Table 1.

**Table 1. The Ministry of Defense Budget based on the Ministry of Finance State Budget data**

No	Year	Navy	Army	Air Force
1.	2015	4.190.000.000.000	5.000.000.000.000	5.500.000.000.000
2.	2016	3.480.000.000.000	6.560.000.000.000	5.210.000.000.000
3.	2017	5.200.000.000.000	7.000.000.000.000	3.710.000.000.000
4.	2018	3.390.000.000.000	3.600.000.000.000	1.190.000.000.000
5.	2019	2.870.000.000.000	4.030.000.000.000	2.100.000.000.000
6.	2020	1.930.000.000.000	2.780.000.000.000	750.000.000.000

(Source : Annur, 2021)

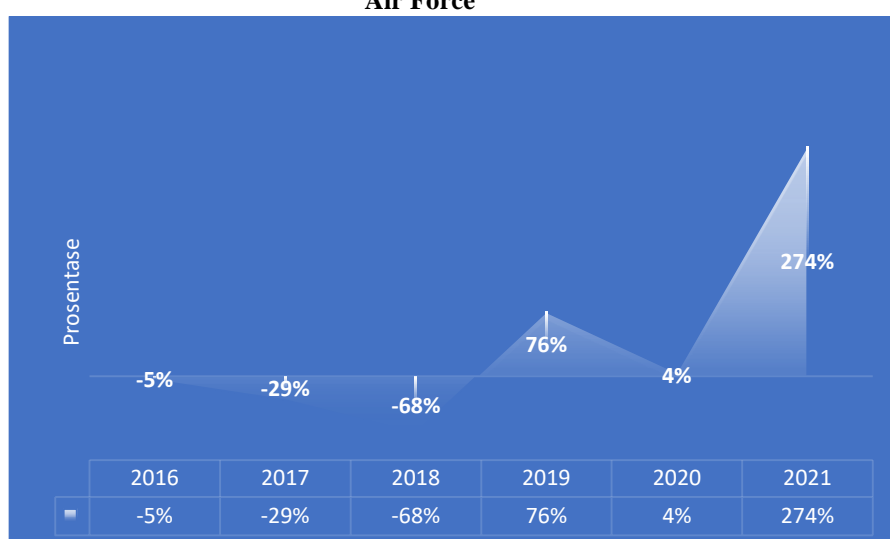
The allocation of defense equipment modernization based on the dimension shows that the modernization budget for the Indonesian Air Force's defense equipment is at the highest peak in 2021 compared to other dimensions. However, the average budget allocation for modernization of the Indonesian Air Force's defense equipment is lower than other dimensions with a value of 3.8 trillion compared to the Navy of 4.15 trillion and the Army of 4.69 trillion as in Figure 1.



**Figure 1. Budget for the modernization of defense equipment for each dimension (Source: Researcher Processed)**

The percentage of the increase and decrease in the Air Force's budget in the last 5 years has changed significantly. The results showed that there was a decrease in the percentage of the budget in 2016-2018 and the increase in the percentage of the budget in 2019-2021 began with 2021 to be the peak of the budget allocation. The average increase in the decline in the budget of defense equipment modernization is 42% based on the percentage of the last 5 years. The increase and decrease in budget allocation can be influenced by the increase and decrease in the defense budget and the distribution of budget allocation with other defense components. Defense budget allocation in 2012-2021. Percentage of Kanaikan and Investigation of the TNI Air Force's Assistant Modernization Budget Allocation can be seen in Figure 2.

**Figure 2. Percentage of Increase and Decreased Allocation of Budget Modernization of the Indonesian Air Force**



(Source: Researcher Processed)

The defense budget starting in the 2012 fiscal year shows the fluctuations in the increase and decline. The defense budget can be said to be pseudo because it has not yet considered to increase/increase the ratio of the defense budget to total GDP significantly. The growth of the defense budget ratio follows the growth of GDP with the consideration of the diverse allocation of allocation depending on the level of state needs in dealing with the dynamics of threats. Budget Limited Factors and Policy Factors Distribution of Budget Allocation of Opinions and State Expenditures (APBN) because they must accommodate development in sectors other than the defense sector so that the government should be able to overcome the limitations of the defense budget by increasing the capacity of the Fiscal / APBN space by creating a high GDP not through loans overseas.

The procurement system and defense equipment construction is one of the crucial issues in the defense sector. The defense equipment policy for the TNI must be implemented through the Ministry of Defense as a political authority in defense policy. This policy requires the procurement of the TNI's defense equipment to follow the mechanism determined by the Ministry of Defense and the TNI as well as the Ministry of Finance as the manager of the state budget, challenges and obstacles in the modernization of the Indonesian Air Force's defense equipment is quite complex and very basic. Besides being related to the budget, it is also the dynamics of global politics which sometimes makes the government's

strategic steps in an effort to improve the ability of the Air Force to be hampered because it affects the country's GDP.

### **Relationship between Defense Budget in the Framework of Increasing the Construction of the Air Force to Bank Indonesia's Financial Stability**

The budget is a form of government policy contained in numbers and applies within a certain period of time. The defense budget is a benchmark for the ability and policy of the state in overcoming and developing the defense sector and looking at the ability of defense resources in the management and improvement of defense capabilities. Pestle (Political, Economical, Social, Technological, Legal and Environmental) is a tool to describe the conditions of the external environment that can affect the defense budget. Bank Indonesia's financial stability is one of the external factors of the defense budget in the context of increasing the construction of the Air Force aircraft. External factors as a material for the formulation of the aircraft aircraft aircraft construction budget, especially in terms of Bank Indonesia's financial stability, can be seen in Table 2.

The country's economic sector is a benchmark in determining the national defense budget. Tax revenue, Indonesian government debt, capital expenditure and regional autonomy policies simultaneously have a significant effect on economic growth (GDP) in Indonesia 1992-2011 in terms of fiscal perspective. Tax revenue, Indonesian government debt, capital expenditure and regional autonomy policies also have a positive effect on economic growth (GDP) in Indonesia. Variable Tax Revenue (T), Indonesian Government Debt (UPI), Capital Expenditure (BM) and Regional Autonomy Policy (DUM) have an impact on economic growth in Indonesia (GDP). Tax receipts have a positive and significant effect on economic growth (GDP), the Indonesian government debt (UPI) affects economic growth (GDP), the effect of the Capital Expenditure Variable (BM) on Economic Growth (GDP) in Indonesia shows a significant number partially. This influence shows that the state budget, GDP and economic growth affect the defense budget in Indonesia and vice versa.

#### **1 The effect of the state budget on the defense budget**

The state expenditure reception budget is the veins for a country in running the government. The APBN posture includes the government budget component which is grouped into three large groups, namely state income and grants, state expenditure, and financing. State income and grants consist of domestic revenue such as taxes and non-tax revenues, and grants, while state expenditure consists of central government expenditure and expenditure for regions whose financing comes from domestic and foreign financing. State expenditure is very important for people's lives, the absorption of the state budget is expected to be carried out quickly, effectively, efficiently, transparently and accountably. Budget absorption that is not optimal and slow causes government public services to the community to be hampered and function as fiscal policy instruments, especially for economic stimulus to be ineffective. In Indonesia, when viewed in terms of expenditure in the government budget allocated to one of them for the defense sector with the budget responsibility at the Ministry of Defense which consists of employee expenditure for payment of military salaries and personnel, goods expenditure for care and maintenance and capital expenditure for modernization or buyers defense equipment.

One of the requirements to increase growth is to increase investment and the number of private and community savings. Some other factors that need to be considered before declaring approval to increase the defense budget, namely, the financial condition of the government is limited. This situation is burdensome for state finances so that the increase in the state budget is difficult to realize due to limited funds and ultimately also hamper the increase in defense budget. Second, increasing the defense budget can be counter-productive with the government's economic program to increase economic growth rates.

## 2 Effect of GDP on Defense Budget

Pandia, Sutrasna and Navalino (2022) based on data from 2010-2020 show that gross domestic product (GDP) has a significant positive influence on the defense budget. T-count probability is  $0.0475 < \alpha$ ,  $0.0475 < 0.05$ . GDP is one of the economic indicators in assessing economic development and measuring the level of community welfare of a country where the higher a country's GDP, it can be said that the better the country's economic performance. State spending has a strong relationship with GDP and is a good measure in showing the size of defense loads in the country's economy. The defense budget is a reflection of how strong a country is in building its military power. With strong economic conditions, military power will be strong with sufficient budget support.

## 3 The effect of economic growth on the defense budget

Economic growth affects government expenditure where in an economy if income per capita increases, the relative expenditure of government spending will increase. Increasing Economic Growth, it can increase defense spending to pursue increasing defense force and improving domestic economy, economic growth is influenced by interest rates, savings and investment and is influenced by improving the economic sector of the community, including the productive workforce, technology, exports and consumption of the community.

The higher the economic growth of a country, the higher the level of defense spending. The greater strength and economic wealth also increases defense expenditure due to the abundance of budget sources. Economic progress and state financial stability will increase the defense budget. The main factor driving the country's economy increase is investment and household consumption which is driven by increasing the ability of the domestic industry.

## CONCLUSION

The conclusions obtained in this study are as follows.

- 1 The source of the Indonesian Air Force's defense budget comes from the state budget sourced from GDP, grants and foreign loans. The dynamics of increasing the defense budget in the procurement of Air Force aircraft depends on the dynamics of threats, availability of resources and government policies.
- 2 The projected increase in the Indonesian Air Force's defense budget tends to volatile with the average budget change in 2018-2021 by 42%. The procurement of Air Force aircraft is also projected to have increased as a way to maintain the sovereignty of the Republic of Indonesia in accordance with the dynamics of the strategic environment.
- 3 The defense budget affects and is influenced by Bank Indonesia's financial stability, especially in the following factors.
  - a. APBN (State Expenditure Budget)
  - b. GDP (Gross Domestic Product)
  - c. Economic growth

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