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IMPACT OF FISCAL POLICY ON EAST KALIMANTAN'S CONSTRUCTION SECTOR GROWTH

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ABSTRACT

The Indonesian government's relocation of the national capital (IKN) from Jakarta to East Kalimantan is a strategic policy to address various challenges Jakarta faces, such as severe congestion, high population density, and natural disaster risks. Additionally, this move is expected to promote equitable development and accelerate economic growth in the eastern regions of Indonesia, which have lagged compared to Java Island. The realization of the infrastructure development budget for IKN in East Kalimantan has reached 97.50%, with the construction sector as the primary driver. This study aims to find out the general picture of the construction sector in East Kalimantan and analyze the construction sector's role through the fiscal policy of IKN infrastructure development in increasing output and employment. The method used is interregional input-output analysis. The results show that the construction sector is one of the key sectors in East Kalimantan, with an output multiplier of 1.87 and a labor multiplier of 0.003. An increase in final demand of 25.78 trillion rupiahs caused an increase in output in all sectors of the national economy of 48.32 trillion rupiahs and the absorption of 76919 workers.

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INTRODUCTION

The construction of the Nusantara Capital City is one of the National Strategic Projects. Indonesia's capital city will move from Jakarta to Nusantara in East Kalimantan following Law Number 3 of 2022 concerning the National Capital City. The law states that Nusantara will be the name of the new capital city, the Nusantara Capital City (IKN). This idea is one of the government's steps to realize equitable development of infrastructure, economy, and population density. In addition, Jakarta is considered to have an increasingly heavy burden as the center of the economy and government. The government wants development that is not only centered on the island of Java but also centered nationally, including in eastern Indonesia (Ministry of State Secretariat, 2023). The Ministry of Finance has stated that the government has allocated 39.30 trillion rupiah from this year's state budget to develop the Nusantara Capital City. This amount

represents an increase compared to previous years' allocations of 27.00 trillion rupiah realized in 2023 and 5.50 trillion rupiah in 2022. IKN will later become a provincial-level regional government with national capital status.

The development of IKN in East Kalimantan is also one of the government's policies to reduce unemployment because it triggers the creation of new jobs, especially for long-term labor for residents of East Kalimantan (DJBp Indonesian Treasury, 2023). The capital city's relocation is anticipated to generate more investment in the new region, boosting job creation and infrastructural development. Moreover, the infrastructure development that fosters the building industry and other sectors might positively impact economic growth (Kartiasih, 2019).

The relocation of the National Capital City (IKN) to East Kalimantan was decided with several considerations (The Nation's Capital, 2022). First, the minimum risk of natural disasters. Second, the location is strategic because it is in the middle of Indonesia. Third, its position is that of neighboring developed areas such as Samarinda and Balikpapan. Fourth, the infrastructure in this province is relatively adequate. Finally, the land area available and controlled by the government reaches 180,000 hectares (InfoPublik, 2019). In its implementation, the development of IKN is guided by the 15th Sustainable Development Goals (SDGs), namely protecting and utilizing terrestrial ecosystems sustainably, managing forests, restoring degraded land, and prioritizing the preservation of biodiversity.

In terms of the economy, East Kalimantan is the province that has the highest contribution to the regional value added of Kalimantan Island, with GRDP value at current prices reaching IDR 843.57 trillion with Gross regional domestic product (GRDP) per capita of IDR 215.76 million (BPS of East Kalimantan Province, 2024). It reflects the potential economic strength of East Kalimantan. When broken down by sector, three main sectors have the highest contribution to the 2023 East Kalimantan GRDP, namely Mining and Quarrying (Rp364,365.49 billion), Processing Industry (Rp149,526.42 billion), and Construction (Rp86,997.44 billion).

East Kalimantan's economic growth experienced a significant increase in 2023 at 6.22 percent (year on year). This figure exceeds the national economic growth of 5.06 percent and Kalimantan's 5.43 percent. This positive indicator demonstrates the region's solid economic capabilities as the new national capital. National capitals are an essential part of national identity, as the location of a state's power or demonstration of its great strength and as the site of the support groups, conflicts, and cohesion between groups that make up the state. The nation's capital is also expected to become a global center of sustainability, drive economic growth, and serve as a symbol of national identity that reflects the country's diversity (The Nation's Capital, 2022). With a focus on these principles, the city will blend innovation and cultural heritage to create an inclusive and sustainable future.

The government integrates funding from the State Budget and other legal sources by statutory regulations for IKN funding. This funding integration is necessary to ensure fiscal sustainability by maximizing the utilization of creative and innovative funding schemes while maintaining accountability. In 2023, the budget allocation for IKN infrastructure development in East Kalimantan was realized at 25.77 trillion, almost 97.50 percent of the total budget allocation for infrastructure development in East Kalimantan. This funding source comes from the State Budget. This IKN spending fund comprises the IKN supporting area and the Government Center Core Area. KIPP comprises three work clusters: housing and settlements, natural resources, irrigation and sanitation networks,

and road connectivity. At the same time, those included in the IKN supporting areas are road connectivity clusters, bridge connectivity, natural resource networks, irrigation and sanitation, air connectivity, and forestry infrastructure (DJBp Indonesian Treasury, 2023).

One sector that has a central role in the development of IKN infrastructure is the construction sector. This sector supports the development of other sectors. The construction sector is an activity whose output is a building/construction integrated with the land where it is located (BPS, 2023). The construction sector has an important role that reflects the community's prosperity, health, and quality of life (Alaloul et al., 2021). Construction significantly contributes to a country's economic output by creating jobs (Esposito et al., 2017). Construction activities require much labor, which can create many jobs and encourage the growth of supporting industries such as manufacturing materials and logistics services. Thus, the construction sector is the primary driver that ensures IKN infrastructure projects can be completed on time and by established standards and contributes to achieving equitable economic development in Indonesia.

Regarding creating sources of economic growth in East Kalimantan 2023, the construction sector is the business field with the most significant positive share of 1.25% after mining and quarrying of 2.42% (BPS, 2023). The status of East Kalimantan as the new national capital plays a vital role in policy-making, especially when determining government expenditures for funding IKN. Aristina et al. (2021) state that government revenue and expenditure are the main fiscal policy instruments. Determining taxes and government spending to reduce economic instability and maintain economic growth by paying attention to the unemployment rate so that high inflation rates can be avoided is part of fiscal policy. The allocation of the state budget to infrastructure development in East Kalimantan is a fiscal policy expected to significantly impact economic growth in various sectors, especially the construction sector.

While the development of IKN is anticipated to generate positive outcomes, particularly in the economic sector, Saraswati & Adi (2022) identify several associated risks and vulnerabilities. These include the substantial budget allocation, declining household spending and consumption in DKI Jakarta, geostrategic threats from land, sea, and air, and the potential for an increase in foreign debt and budget deficits. Furthermore, when assessed from various dimensions, including the economic and environmental aspects, the IKN development may not solely produce favorable effects (Syailendra & Hanggono, 2024). Economically, IKN is projected to stimulate growth, enhancing income levels and public welfare. However, attention should be directed toward the possibility of economic inequality, where local communities may lag in benefiting from development. From an environmental perspective, IKN's construction poses significant risks, such as deforestation and water contamination, which could degrade ecosystems and jeopardize environmental sustainability in the region.

Based on the explanation previously described, this study aims to determine the overview of the East Kalimantan economy, especially the construction sector in 2023, to determine the role of the construction sector through the fiscal policy of IKN infrastructure development on increasing output in 2023, and to determine the role of the construction sector through the fiscal policy of IKN infrastructure development on employment in 2023. The study by Ariutama et al. (2022), using interregional input-output (IRIO) analysis, found that fiscal stimulus in the agricultural sector in Bali not only had a positive impact on the region but also regions outside Bali Province. Research by (Ridho et al., 2024), which aims to measure the impact of moving the Indonesian capital to East Kalimantan on South Kalimantan's agricultural sector, found that the increase in the number of people migrating to East Kalimantan is around 12 percent of the total

population projection in 2024. Research by Panjaitan et al. (2020) using the Two Stage Least Square method shows that infrastructure development in North Sumatra is an economic growth catalyzer because it increases access to employment and equitable income distribution.

Fiscal policy impacts the effectiveness of the government's role as an economic stabilizer (Sacchi & Salotti, 2015). Empirical evidence from developed and developing countries shows that fiscal policy can influence the economy if managed well (Idris, 2019). Previous research using the Error Correction Model (ECM) on time series data from 1990 to 2010 indicates that government spending positively and significantly impacts manufacturing sector output (Eze, 2014). Based on this, the study argues that the IKN fiscal policy in the construction sector in East Kalimantan affects output enhancement.

According to Bova et al., (2015), fiscal policy can influence the decisions of firms and workers, thereby increasing labor demand and supply or the structure of the labor market, removing friction, and promoting skills. Previous research by Yousef (2023) found that increases in government spending reduce unemployment rates. Additionally, according to Utomo (2021), to increase employment opportunities, the government needs to focus on increasing the output of the manufacturing sector, which will have the highest labor absorption compared to other sectors. Thus, this study hypothesizes that the IKN fiscal policy in the construction sector in East Kalimantan impacts the increase in labor absorption.

To answer this research, the method used is input-output analysis with the interregional input-output table (IRIO), which has been updated. It aims to ensure that the analysis results can capture changes in the economic structure. This study will determine how fiscal policy influences the growth of IKN infrastructure, enhancing regional output and labor absorption in East Kalimantan and other Indonesian provinces.

RESEARCH METHODS

This research uses several analysis methods in the IRIO table: linkage and multiplier analysis. However, before that, the IRIO table was updated using the RAS method from 2016 to 2023 to obtain the IRIO table for the specified research period. After updating is complete, linkage and multiplier analysis are carried out next. The entire data processing process in this research uses Microsoft Excel and Rstudio software.

Transactions between economic activities and regions are contained in the IRIO table, which shows the linkages or dependencies in production activities as suppliers of goods and services and usage activities, including final demand and between regions, so a complete and comprehensive economic picture can be obtained (BPS of Statistics West Sumatra Province, 2021). Many uses can be obtained from using the IRIO table, such as describing macroeconomic analysis, including presenting the analysis of input structure and output allocation, evaluating the impact of changes in final demand in one sector or region on other sectors or regions, as well as examining backward and forward linkages (Meilaningsih & Yuniastuti, 2022). For example, there are two regions, A and B, so the direct input coefficient in regions A and B is obtained using the following equation.

$$a_{ij}^{AA} = \frac{x_{ij}^{AA}}{x_j^A} \; dan \; a_{ij}^{BB} = \frac{x_{ij}^{BB}}{x_j^B} \; untuk \; i,j = 1,2,\dots,n \quad (1)$$

$$a_{ij}^{AB} = \frac{x_{ij}^{AB}}{x_j^B} \; dan \; a_{ij}^{BA} = \frac{x_{ij}^{BA}}{x_j^A} \; untuk \; i,j = 1,2,\dots,n \quad (2)$$

Where the technical coefficient matrix is as follows :

$$A = \begin{vmatrix} A^{AA} & A^{AB} \\ A^{BA} & A^{BB} \end{vmatrix}$$

The output value due to final demand is formulated as follows :

$$X = (IA)^{-1}F \quad (3)$$

X is the output vector, F is the final demand vector, It is the identity matrix, and (IA)-1 is the inverse Leontief matrix.

Multiplier analysis is a method used to understand how changes in one economic sector can affect other sectors in the whole economy. The two types of multiplier figures are used, namely, the output multiplier and the labor multiplier figure. The output multiplier figure shows the impact that ensues on sectoral output due to changes in final demand in the economy.

$$O_j = \sum_{i=1}^{n} b_{ij} \quad (4)$$

The labor multiplier figure explains the additional labor absorption in sector I when there is an additional final demand of 1 monetary unit.

$$E_j = \sum_{i=1}^{n} W_{n+1,i} b_{ij} \quad (5)$$

Intersectoral linkage analysis is used to understand the linkages between sectors and identify leading sectors. The basis for this identification is the backward and forward linkage measurement, as Rasmussen developed in 1957.

$$BL_j = \sum_{i=1}^{n} b_{ij} \quad (6)$$

$$FL_i = \sum_{i=1}^{n} b_{ij} \quad (7)$$

Where BL_j shows the backward linkage of sector j. Meanwhile, FL_i shows the future linkages of sector i. Additionally, b_{ij} comes from the Leontief inverse matrix $G = (I - A)^{-1}$.

There are two indices: the ability to disperse and the sensitivity to disperse (Rafiqah et al., 2018). This index can be used to identify critical sectors in economic development. BPS (2021) measures dissemination capacity using the index of the power of dispersion (IPD) and dissemination sensitivity with the index of sensitivity of dispersion (ISD). The index can be calculated with the following formula:

$$IPD_j = \frac{\sum_{i=1}^{n} b_{ij}}{\frac{1}{n}\sum_i \sum_j b_{ij}} \quad (8)$$

$$ISD_j = \frac{\sum_{j=1}^{n} b_{ij}}{\frac{1}{n}\sum_i \sum_j b_{ij}} \quad (9)$$

If the IPD value is more than one, the backward linkage of that sector is above the average backward linkage of all sectors. Likewise, if the ISD value is more than one, it can be interpreted that the future linkages of that sector are higher than the average future linkages of all sectors. A sector is a key or leading sector if the sector's IPD and ISD values are more than one (Rahmawan & Angraini, 2021).

RESULTS AND DISCUSSION

The economic structure of a region can be seen through the contribution of each business field to GRDP in that region. The contribution of each business field shows the role of each business field in the regional economy (Suryani, 2023). Figure 1 shows the significant role of 17 business fields in the economy of East Kalimantan province in 2023. In 2023, the mining and quarrying sector will still be the main contributor to the province's economy, with a share of 46.17%. It indicates that in 2023, East Kalimantan will still depend on the potential of non-renewable natural resources. The processing industry sector is the second largest contributor in the province. The high contribution of this sector indicates that the process of downstream/processing raw materials into finished materials has become the focus of the provincial economy. Then, the third largest contributor is the construction sector, with a share of 8.59%. The high contribution of the construction sector indicates that development that year played an essential role in the regional economy. The fourth highest GRDP contributor in East Kalimantan is the agriculture, forestry, and fisheries sector with a share of 6.43%, followed by the wholesale and retail trade sectors; Car and motorbike repairs are in fifth place with a share of 5.99% in 2023.

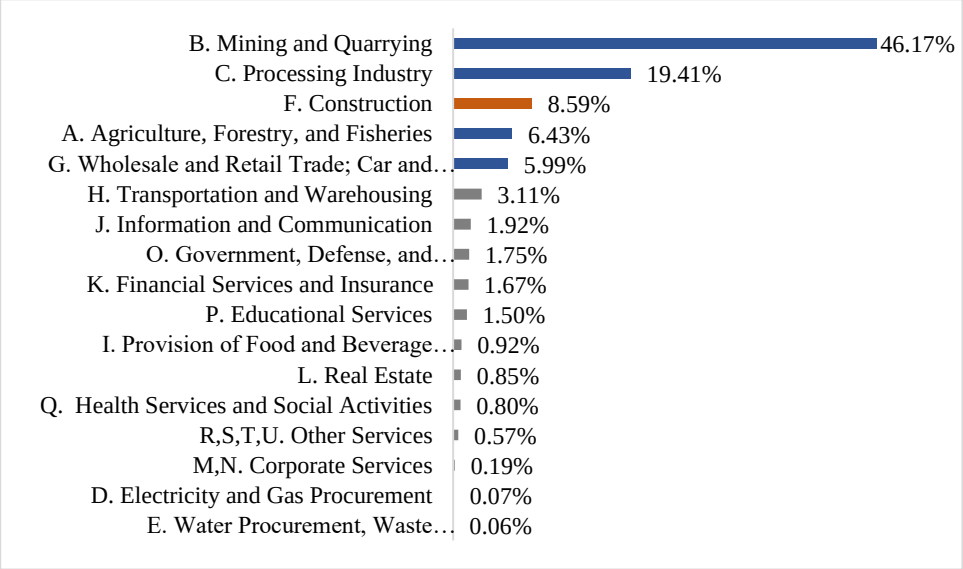

Figure 1. Contribution of Business Fields to PDRB ADHK East Kalimantan Province in 2023

Source: BPS, 2024

In 2023, the construction sector will become one of the pillars of the East Kalimantan economy. Figure 2 presents the GRDP growth in the construction sector from 2016-2023. In Figure 2, the construction sector's performance indicates a positive trend. This is because the construction sector has experienced continued economic growth from 2021 until now. GRDP growth in the construction sector will reach 15.82% in 2023. This figure represents the highest construction sector's GRDP growth in the last 10 years in East Kalimantan province, most likely due to developments in the IKN transfer process, which will begin in 2022 (Dinarjito, 2022). Figure 3 shows that the construction sector experienced an increase in its contribution to the GRDP of East Kalimantan province in 2016-2023 until it reached the highest contribution point in 2023. It indicates that the construction sector's performance is increasing in the East Kalimantan economy.

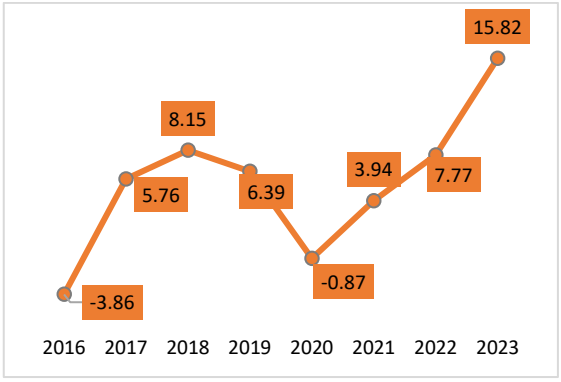

Figure 2. Construction Real GRDP Growth in East Kalimantan Province 2016-2023

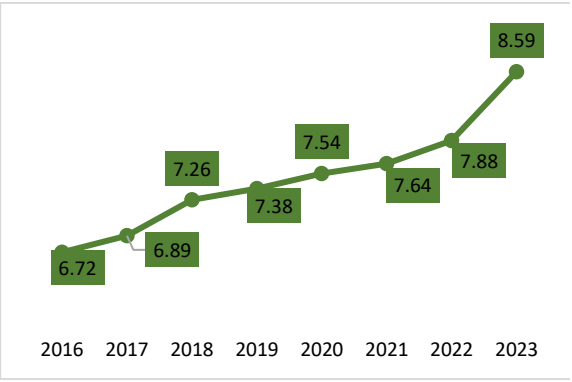

Figure 3. Contribution of Construction to Real GRDP East Kalimantan Province 2016-2023

Source: BPS, 2024

The linkage analysis between sectors, which consists of backward and forward linkage, can be used to identify leading sectors in a region's economy. Identification of critical leading sectors is based on the value of the index of the power of dispersion (IPD), which is derived from backward linkage, and the index of sensitivity of dispersion (ISD), which is derived through forward linkage, which must have a value of more than 1.

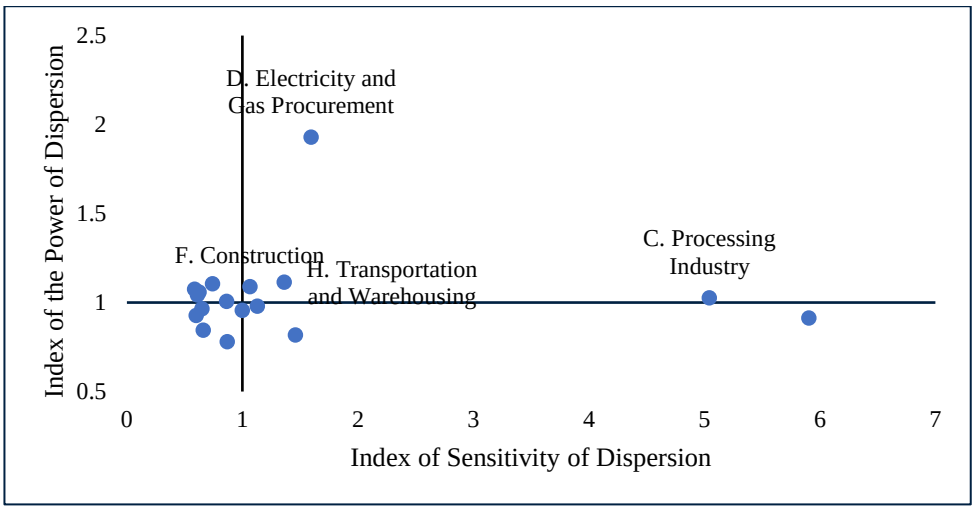

Figure 4. Scatter Plot of IPD and ISD 17 Business Fields in East Kalimantan Province

Source: Processed data, 2024

The plot between IPD and ISD results from updating the IRIO table in Figure 4 shows four sectors with IPD and ISD values of more than 1. These sectors are the electricity and gas procurement sector, construction, processing industry, and transportation and warehousing. This sector will be referred to as a key/leading sector in the economy of East Kalimantan province in 2023.

Key sectors have an IPD value of more than 1, meaning that relatively final demand from the electricity and gas procurement, construction, processing industry, and transportation and warehousing sectors can stimulate economic growth more significantly than the average of other sectors. These sectors also have an ISD value of more than 1, meaning that relatively speaking, the electricity and gas procurement, construction, processing industry, and transportation and warehousing sectors can meet final demand from other sectors above the capabilities of other sectors. As key sectors, these four sectors are crucial to encourage economic development in the region. These sectors use

more domestic production as an intermediate input, including imports between provinces. Then, these sectors also distribute more of their output as an intermediate input for the domestic production sector.

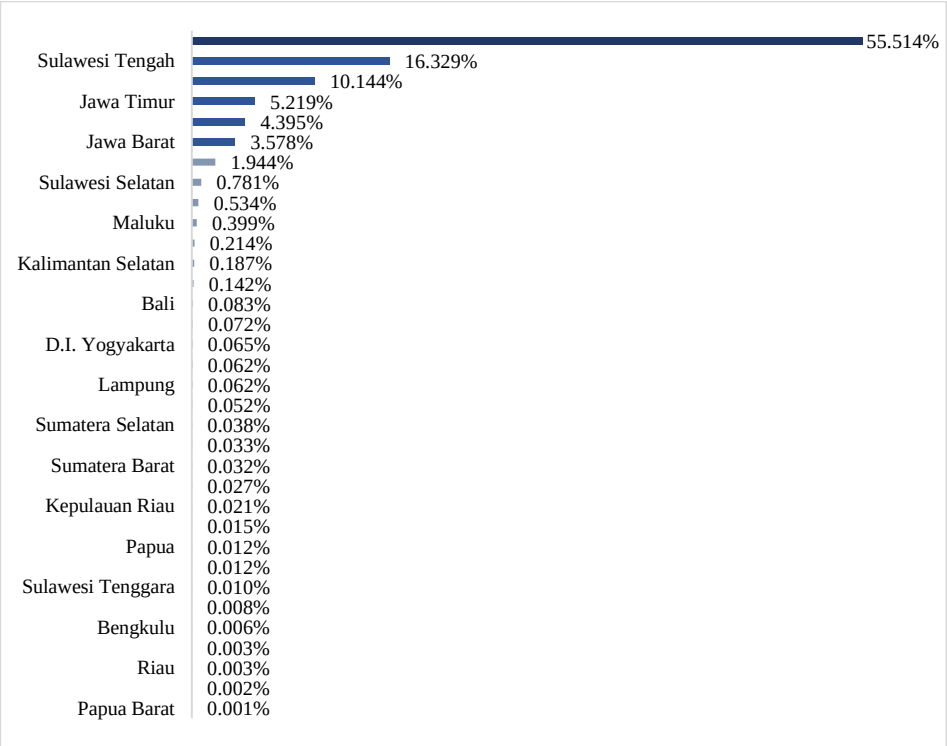

Figure 5. Intermediate Input Structure in the Construction Sector of East Kalimantan Province by Province

Source: Processed data, 2024

Figure 5 shows that the intermediate inputs used in the construction sector in East Kalimantan come from all provinces in Indonesia, with different values in each province. Intermediate input for the construction sector mainly comes from the province of East Kalimantan itself, with 55.51% of the total intermediate input originating from the national economy. It shows that the region can still fulfill most of the intermediate inputs used in the East Kalimantan construction sector, compared to imports from other regions. Figure 5 also shows that in producing output, the construction sector in East Kalimantan not only requires intermediate inputs originating from its province but also from other provinces. It means that the increase in output produced in the East Kalimantan construction sector will not only have an impact in that province but will also have an impact on increasing output in other provinces in Indonesia. Provinces that contribute more in providing intermediate inputs for this sector will most likely experience a higher increase in output due to the increase in output produced in the East Kalimantan construction sector.

Afterward, calculations are carried out for the output and employment multiplier. Output multiplier shows the output produced due to the additional final demand of 1 unit of money. In the IRIO table, there are several types of output multiplier numbers. Some of them are the intraregional output multiplier, the interregional output multiplier, and the total output multiplier. Figure 6 shows the magnitude of the intraregional output multiplier figures for 17 business fields in East Kalimantan province. This figure shows the additional output of all sectors in a region due to the additional final demand for the output of a sector of 1 unit of money in that region.

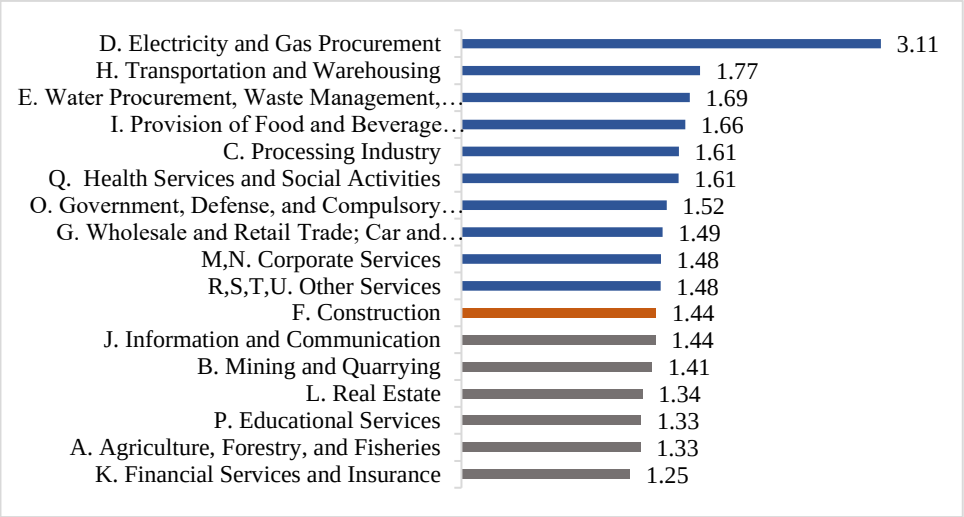

Figure 6. Intraregional Output Multiplier for 17 Business Fields in East Kalimantan Province

Source: Processed data, 2024

Based on Figure 6, the most enormous intraregional output multiplier figure in East Kalimantan is the electricity and gas procurement sector. The construction sector is in 11th position with an intraregional output multiplier of 1.44. This figure is small compared to other sectors in the province. The intraregional output multiplier figure of 1.44 means that an additional final demand for output in the construction sector in East Kalimantan province of 1 million rupiahs will increase output in all sectors in the province of 1.44 million rupiahs.

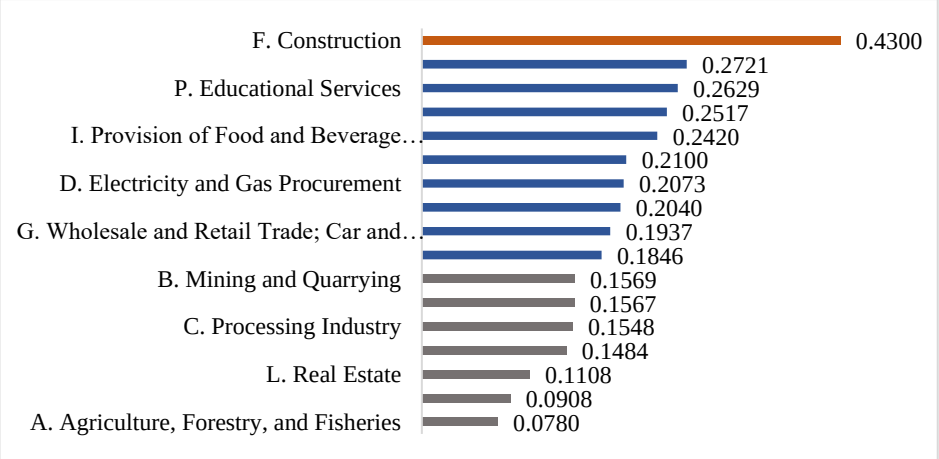

Figure 7. Interregional Output Multiplier for 17 Business Fields in East Kalimantan Province

Source: Processed data, 2024

Figure 7 shows the magnitude of the interregional output multiplier figures for 17 business fields in East Kalimantan province. This figure shows the size of the additional output of all regional sectors due to the additional final demand for the output of a sector of 1 unit of money in another region. Based on Figure 7, the most enormous interregional output multiplier figure in East Kalimantan is the construction sector. The construction sector has the highest interregional output multiplier in East Kalimantan province, with a value of 0.43. The interregional output multiplier figure of 0.43 means that an additional final demand for output in the construction sector in East Kalimantan province of 1 million rupiahs will increase output for all sectors in the 33 other provinces (apart from East Kalimantan) by 0.43 million rupiahs.

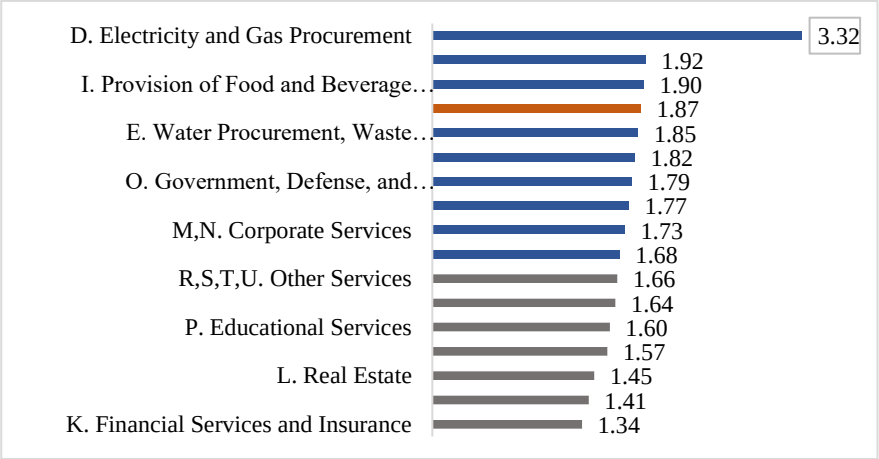

Figure 8. Total Output Multiplier for 17 Business Fields in East Kalimantan Province

Source: Processed data, 2024

Figure 8 shows the total output multiplier figures for 17 business fields in East Kalimantan province. This figure shows the size of the additional output of all sectors in the national economy (all provinces) due to the additional final demand for the output of a sector of 1 unit of money in a region.

Based on Figure 8, the most significant total output multiplier in East Kalimantan is the electricity and gas procurement sector. The construction sector is in fourth position with a total output multiplier of 1.87. The interregional output multiplier figure of 1.87 means that an additional final demand for output in the construction sector in East Kalimantan province of 1 million rupiahs will increase all sectors's outputs throughout the province (national economy) by 1.87 million rupiahs.

In the IRIO table analysis, there are several employment multiplier figures, including the total employment multiplier figure. The total employment multiplier shows the amount of additional labor throughout the economy due to the additional final demand for the output of a sector of 1 unit of money in a region. This total labor multiplier figure describes labor absorption in all provinces in Indonesia.

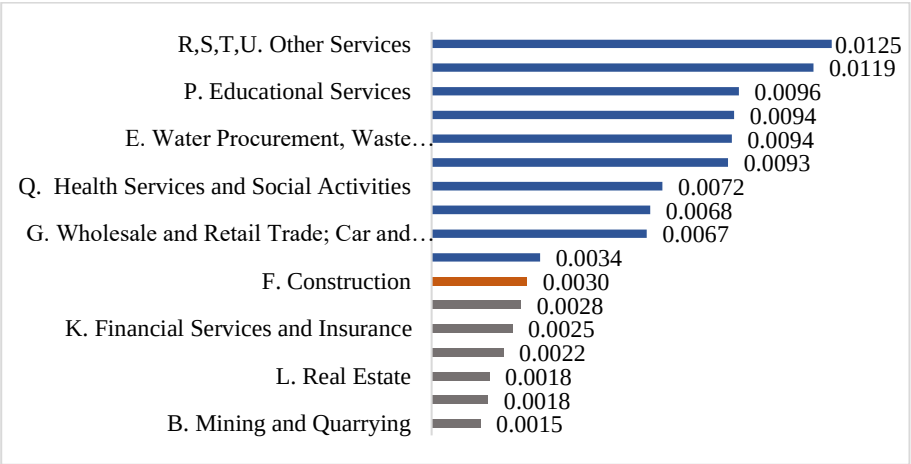

Figure 9. Total Employment Multiplier for 17 Business Fields in East Kalimantan Province

Source: Processed data, 2024

Figure 9 shows the magnitude of the total employment multiplier for 17 business fields in East Kalimantan province. Based on Figure 9, the other services sector is the

most significant multiplier for total employment in East Kalimantan. The construction sector is in 11th position with a total output multiplier of 0.003. The total labor multiplier figure for the construction sector of 0.003 means that an additional final demand for construction sector output in East Kalimantan province of 1 billion rupiah will increase labor absorption in all sectors throughout the province (national economy) by three workers.

After calculating the multiplier effect, an impact analysis simulation will be carried out to determine the impact of the additional final request, namely the government's IKN fiscal policy in the construction sector for infrastructure development, in the form of a budget of 25.78 trillion rupiah in 2023. Based on this additional final demand, a simulation will be conducted to determine this impact on additional output and labor absorption in that province and other provinces.

Figure 10. Impact of Increased Output by Province Due to IKN Fiscal Policy in the Construction Sector (Billions of Rupiah)

Source: Processed data, 2024

An increase in final demand of 25.78 trillion rupiah boosted output across all sectors in the national economy by 48.32 trillion rupiahs, 1.82 times the final demand increase. Figure 10 shows East Kalimantan experienced the most significant impact, with output rising by 37.24 trillion rupiahs. This includes a direct impact of 25.78 trillion rupiahs and an indirect impact of 11.46 trillion rupiahs from input and raw materials. East Kalimantan accounted for 77.06% of the total output gain, followed by Central Sulawesi (6.56%), DKI Jakarta (4.91%), East Java (3.10%), and other provinces (8.36%). East Kalimantan's economic structure heavily relies on its regional economy. The three provinces outside East Kalimantan contributed the most significant input to its construction sector in 2023.

Table 1. Impact of Increased Output by Sector in East Kalimantan Province Due to IKN Fiscal Policy in the Construction Sector (Million Rupiah)

Sector	Direct Impact	Indirect Impact	Total Impact
F. Construction	25,775,576.010	182,413.797	25,957,989.800
G. Wholesale and Retail Trade; Car and Motorcycle Repair	0.000	4,753,165.613	4,753,165.613
A. Agriculture, Forestry and Fisheries	0.000	2,436,418.691	2,436,418.691
C. Processing Industry	0.000	1,583,148.926	1,583,148.926
B. Mining and Quarrying	0.000	1,371,180.712	1,371,180.712
Other	0.000	1,133,405.062	1,133,405.062

Source: Processed data, 2024

An increase in output is one of the indicators of economic growth (Fukase & Martin, 2021). Table 1 shows that construction is the sector with the most significant increase in

output among other sectors due to this fiscal policy in East Kalimantan Province. Fiscal policy remains relevant and is a powerful tool for combating long-term and short-term economic stagnation (Nuru, 2020). Additionally, growth in the construction sector can also make a significant contribution to output growth (Kim et al., 2021). The increase in output in the construction sector dominates 69.71 % of the total increase in output in the province, or 25.96 trillion rupiah, with a direct impact of 25.78 trillion rupiah and an indirect impact of 182.41 billion rupiah. The other sectors that were most affected were the wholesale trade sector and the wholesale and retail trade sector: car and motorbike repairs, agriculture, forestry and fisheries sectors, processing industry sectors, and mining and quarrying sectors. It is because this sector is the sector that contributes the most significant input to the construction sector in East Kalimantan. Those sectors are the ones that contribute the most considerable intermediate inputs to the construction sector in East Kalimantan. It occurs because output performance is influenced by fluctuations in input (Merten et al., 2024).

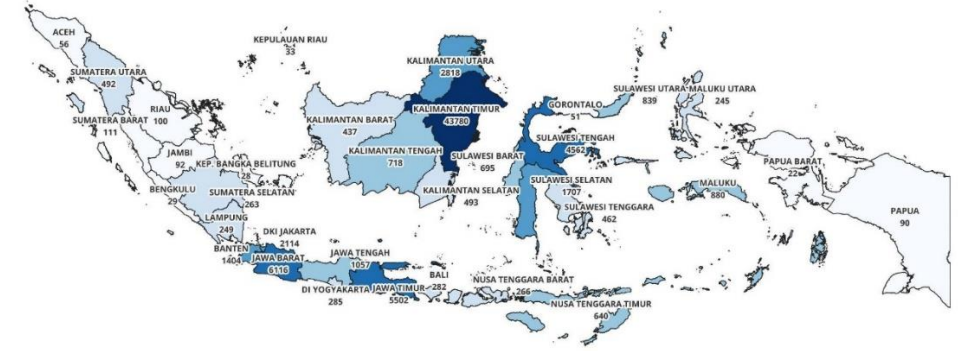

Figure 11. Additional Impact of Labor Absorption by Province Due to IKN Fiscal Policy in The Construction Sector

Source: Processed data, 2024

The additional final demand not only causes an increase in output but also causes additional labor absorption. Increased output production reduces unemployment rates (Ahiadorme, 2022; Butkus et al., 2020). The additional 25.78 trillion rupiah in final demand for the East Kalimantan construction sector has opened employment possibilities for 7,6919 workers nationwide across all sectors. In Figure 11, it can be seen that the increase in final demand in the East Kalimantan construction sector not only increases labor absorption in that province but also increases labor absorption in other provinces. Nevertheless, East Kalimantan Province is the province with the highest labor absorption, namely 43,780 people, due to the IKN fiscal policy. It happened because East Kalimantan experienced the highest increase in output, which resulted in the need for more workers to produce this output. Then, relatively high labor absorption occurred in West Java Province (6,116 people), East Java (5,502 people), Central Sulawesi (4,562 people), and other provinces (16,958 people).

Fiscal stimulus can impact reducing unemployment rates (Alloza & Sanz, 2021). Table 2 shows additional labor absorption in all sectors in East Kalimantan province. In Table 2, it can be seen that the construction sector in East Kalimantan Province is the sector that absorbs the most additional workers as a result of this fiscal policy. It is in line with the fact that this sector is experiencing additional final demand due to the IKN infrastructure development budget in the construction sector. Bova et al. (2015) state that increasing government spending, especially on goods and services, has significantly increased labor demand and employment levels in the short term. It is also supported by

research by Julia et al. (2015), who concluded that fiscal policy, in the form of increasing expenditure on the agricultural sector in Riau province, significantly increased GRDP and labor absorption. Then, the construction sector has more additional output than other sectors, so a relatively sizeable additional workforce is required to produce this output. Apart from the construction sector, the wholesale and retail trade sectors, car and motorcycle repairs, the agricultural, forestry, and fisheries sectors, and the processing industry sectors are the sectors with the most significant additional labor absorption among other sectors. As a result, more workers are absorbed in these industries than in other sectors, which is also consistent with the fact that these three sectors have the most significant incremental output compared to other sectors in East Kalimantan Province.

Table 2. **Additional Impact of Labor Absorption by Sector in East Kalimantan Province Due to IKN Fiscal Policy in the Construction Sector**

Sector	Additional Labor Absorption
F. Construction	21,984
G. Wholesale and Retail Trade; Car and Motorcycle Repair	8,328
A. Agriculture, Forestry, and Fisheries	7,593
C. Processing Industry	2,174
Other	3,700

Source: Processed data, 2024

Research findings reveal several significant benefits that may emerge from the development of IKN. Enhancing infrastructure and economic growth in the surrounding areas is anticipated to create new employment opportunities and attract a skilled workforce, thus increasing income tax revenues. Furthermore, private investments in infrastructure projects and economic zones hold the potential to strengthen national revenue through associated taxes and fees. IKN is poised to become an attractive destination for foreign and domestic investments. The government can facilitate investment in infrastructure development by implementing Public-Private Partnership (PPP) frameworks, leading to fiscal gains from project profitability and increased economic activity. Moreover, IKN's design as a modern and environmentally sustainable city positions it as a prospective tourism hub, with anticipated revenue growth from the tourism sector that will further stimulate creative economic initiatives. Ultimately, the fiscal outcomes associated with IKN will depend heavily on effective governance planning, which should incorporate strategic incentive policies for investors and optimize tax and fee collection processes.

CONCLUSION

The conclusion of this research shows that the fiscal policy for infrastructure development in the Indonesian Capital City (IKN) in East Kalimantan has significantly impacted the construction sector by increasing output and absorbing labor. The Input-Output Analysis used in this research reveals that massive investment in the construction sector drives regional economic growth by increasing GRDP and creating substantial new jobs for local communities. In addition, the IKN development project has proven to be a catalyst that strengthens related industrial sectors, such as building materials manufacturing and logistics services, thereby contributing to equitable national economic development. Thus, fiscal policies that support IKN development have proven effective

in achieving equitable development goals, reducing the burden on Jakarta as the center of the economy and government, and promoting sustainable economic development in eastern Indonesia. Some of the implementation suggestions that can be given include increasing the capacity of the local workforce through training, collaborating with the private sector through a Public-Private Partnership (PPP) scheme, developing supporting infrastructure such as health and education facilities, regular monitoring and evaluation of projects, implementing environmentally friendly development practices, as well as the involvement of local communities in project planning and implementation.

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