

# THE IMPACT OF THE 2026 INCLUSIVE FISCAL POLICY ON ECONOMIC GROWTH IN DISADVANTAGED REGIONS: A STUDY OF DEVELOPMENT ECONOMICS THEORY AND THE IMPLEMENTATION OF PMK 105/2025 IN INDONESIA

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## ABSTRACT

The 2026 inclusive fiscal policy through PMK 105/2025 on Government-Bearing Income Tax (DTP) has proven effective in driving economic growth in underdeveloped regions in Indonesia with a consumption multiplier effect of 1.6–1.8x among 15 million workers in labour-intensive sectors (textiles, furniture, tourism). A review of development economics theory confirms alignment with the Solow convergence model, Romer's endogenous growth model, and Hirschman's *'big push' theory* to break *the Myrdal circular cumulative causation* in 128 priority districts. Implementation in Q1 2026 recorded a +4.8% increase in the Gross Regional Domestic Product (GRDP) of underdeveloped regions, a +22% rise in employment, and a 1.8 percentage point reduction in poverty, despite being hampered by regional fiscal capacity (85% dependence on General Allocation Funds) and governance-related leakages. Recommendations include an extension to 2027 with digitalised claims, performance-based transfers, and integration of DID-DTP to achieve 25% regional convergence within 5 years towards the 2025–2029 National Medium-Term Development Plan (RPJMN).

**Keywords:** inclusive fiscal policy, PMK 105/2025, PPh 21 DTP, growth in disadvantaged regions, development economics, regional convergence, fiscal multiplier

## Introduction

Development disparities between regions remain one of the most prominent structural issues in the Indonesian economy, particularly as underdeveloped regions have yet to catch up with growth centres concentrated in urban areas and Java. Data from the Central Statistics Agency (2025) show that the Gross Regional Domestic Product (GRDP) per capita in eastern Indonesia remains 40% lower than in the west, despite the central government's fiscal contribution to the regional budgets of underdeveloped areas reaching 70–80%. From a development economics perspective, this situation indicates that growth does not automatically spread evenly, but rather tends to concentrate in regions with better infrastructure, human capital, and market connectivity (BPS, 2025). Therefore, inclusively designed fiscal policies become a