

ANALYZING THE IMPACT OF STATE AND REGIONAL SPENDING EFFICIENCY ON THE OPEN UNEMPLOYMENT RATE IN NORTH SULAWESI PROVINCE REGARDING PRESIDENTIAL INSTRUCTION NUMBER 1 OF 2025

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ABSTRACT

This study aims to analyze the impact of national and regional government expenditure efficiency on the open unemployment rate in North Sulawesi Province after the issuance of Presidential Instruction No. 1 of 2025. The results of the study show that there is a significant negative relationship between government expenditure efficiency and unemployment rates, meaning that the more efficient the allocation of government expenditure, the lower the unemployment rate. With an R-squared value of 57.4%, the regression model used in this study explains that more than half of the variation in unemployment rates can be explained by national and regional government expenditure efficiency. This study also finds that national and regional government expenditure efficiency policies play a crucial role in reducing open unemployment rates in North Sulawesi, particularly through the tourism, fisheries, and export-based agriculture sectors. However, this study also finds that there are several challenges that need to be addressed in the implementation of government expenditure efficiency policies, such as bureaucratic inefficiencies, limited budget allocations in productive sectors, and resistance to tighter fiscal policies.

INTRODUCTION

Presidential Instruction Number 1 of 2025 concerning Expenditure Efficiency in

the Implementation of the State Revenue and Expenditure Budget (APBN) and Regional Revenue and Expenditure Budget (APBD) for Fiscal Year 2025 marks a strategic step by the Indonesian government in optimizing the use of state and regional budgets. This policy aims to ensure that every allocation of public funds is used effectively and efficiently, in order to achieve sustainable national development goals. Government spending efficiency is crucial in efforts to improve the quality of public services, encourage economic growth, and reduce the unemployment rate, especially in areas such as North Sulawesi Province.

North Sulawesi Province has significant economic potential, especially in the tourism, fisheries, and agriculture sectors. Challenges in terms of unemployment are still an issue that needs serious attention. Based on data (BPS, 2023), the Open Unemployment Rate (TPT) in North Sulawesi Province has shown fluctuations in recent years. As an illustration, in 2022, TPT in this province was recorded at 6.5%, which is slightly higher than the national average of 5.8% in the same year. This shows that despite economic growth, there are still challenges in creating adequate employment for the local population (Deswantoro et al., 2017).

The efficiency of government spending, both at the national and regional levels, is believed to have a direct impact on labor market dynamics. According to research published in the Indonesian Treasury Review, labor-intensive programs funded by government spending have proven effective in reducing the unemployment rate, especially during the COVID-19 pandemic. The study highlights that targeted and efficient budget allocation can increase labor absorption and significantly reduce unemployment (Chandra, 2023).

The implementation of spending efficiency does not always run smoothly. Challenges such as complex bureaucracy, lack of transparency, and resistance to change often hinder budget optimization. For example, an evaluation conducted by the Financial and Development Supervisory Agency (BPKP) in West Kalimantan Province found that out of a total budget of Rp6.69 trillion, there are plans/activities that are at risk of ineffectiveness and efficiency with a significant amount. These findings underscore the importance of commitment and strict supervision in the implementation of spending efficiency at the regional level (Deswantoro et al., 2017).

The implementation of Presidential Instruction No. 1 of 2025 in North Sulawesi Province is an important momentum to review the allocation and use of regional budgets that focus on spending efficiency, local governments can identify and eliminate unproductive spending, and direct these funds to programs that have a direct impact on job creation and unemployment reduction (Kekung et al., 2023).

This study aims to analyze the impact of state and regional spending efficiency on the open unemployment rate in North Sulawesi Province after the issuance of Presidential Instruction Number 1 of 2025. Previous research by (Kekung et al., 2023) has examined the effect of government spending efficiency on the unemployment rate. The gap identified is that previous research only examined the influence of economic growth and education on the open unemployment rate in North Sulawesi Province, without considering government spending efficiency as a variable that can affect unemployment. The study used data before the enactment of Presidential Instruction Number 1 of 2025, so it has not analyzed the impact of this policy on the regional economy.

The novelty in this study lies in a more comprehensive and relevant approach. This research not only adds to the variables of state and regional expenditure efficiency, but also relates them to the relevant current policy context, namely Presidential Instruction Number 1 of 2025. The novelty of this study is a more in-depth analysis of how government spending efficiency policies affect the open unemployment rate in North Sulawesi, which has not been studied in previous studies.

However, until now, there has been no research that specifically analyzes the impact of state and regional spending efficiency on the open unemployment rate in North Sulawesi Province after the issuance of Presidential Instruction Number 1 of 2025. This research aims to fill the gap by exploring how spending efficiency policies affect the unemployment rate in the region, so that it is expected to make new contributions in the related literature.

Based on the objectives that have been described, this study is expected to provide a more comprehensive understanding of the factors affecting the open unemployment rate in North Sulawesi Province as well as make a scientific contribution to the development of economic policy strategies that are more effective and relevant to current conditions.

LITERATURE REVIEW

Government spending efficiency is one of the key factors in determining the effectiveness of state and regional spending in achieving development goals, including reducing the open unemployment rate. Presidential Instruction Number 1 of 2025 emphasizes the importance of efficiency in the implementation of the State Revenue and Expenditure Budget (APBN) and the Regional Revenue and Expenditure Budget (APBD) to ensure that each budget allocation has a maximum impact on the welfare of the community (Parung & Pahlavi, 2024).

Previous research has examined various factors that affect the open unemployment rate. In the research (Kekung et al., 2023) who researched the influence of economic growth and education on the open unemployment rate in North Sulawesi Province, found that economic growth has a positive but insignificant effect, while education has a negative and significant effect on the open unemployment rate. This study has not considered the role of government spending efficiency as a variable that may affect the unemployment rate. Research by (Primary, 2021) shows that government spending in the education and health sectors has a significant effect on the Human Development Index in North Sulawesi, which can indirectly affect the unemployment rate. The study focuses more on the impact of spending on specific sectors without assessing the overall efficiency of government spending.

Other research by (Navarro et al., 2017) Examining the effect of the Human Development Index on the unemployment rate found that increasing HDI can reduce the unemployment rate. This study does not highlight how government spending efficiency affects HDI and unemployment. Presidential Instruction Number 1 of 2025 instructs spending efficiency in the implementation of the State Budget and Regional Budget for the 2025 Fiscal Year, with the aim of increasing the effectiveness of government spending in achieving development targets, including reducing the open unemployment rate.

In order for the negative impact of spending efficiency on the open unemployment rate

to be significant, the government needs to ensure that budget savings do not reduce the quality of public services and social programs. As revealed (Hidayat et al., 2024), massive budget cuts in the social and employment sectors can actually worsen the unemployment rate in the short term. Spending efficiency strategies should focus on eliminating waste and diverting budgets to programs that have a direct impact on labor absorption (Traoré, 2021). The open unemployment rate tends to be influenced by the mismatch between the skills of the workforce and the needs of local industries. With the efficiency of state and regional spending, the government can optimally allocate the budget for programs that reduce skills mismatch through vocational education, job training, and support for the micro, small, and medium enterprises (MSMEs) sector. According to (Yusfa et al., 2023) It shows that effective budget allocation in job training programs can significantly reduce the open unemployment rate, especially in regions that have a high dependence on the industrial sector.

Based on the literature review above, it can be concluded that although various studies have examined the factors affecting the open unemployment rate, there is still a research gap related to the analysis of the impact of state and regional spending efficiency on the unemployment rate, especially after the implementation of Presidential Instruction Number 1 of 2025. This study aims to fill this gap by comprehensively analyzing how government spending efficiency affects the open unemployment rate in North Sulawesi Province after the implementation of the policy. Local governments can consider budget efficiency strategies that focus on improving the quality of human resources, developing productive infrastructure, and creating an investment climate that is conducive to achieving the target of reducing open unemployment in a sustainable manner. The outline of this research can be described as follows:

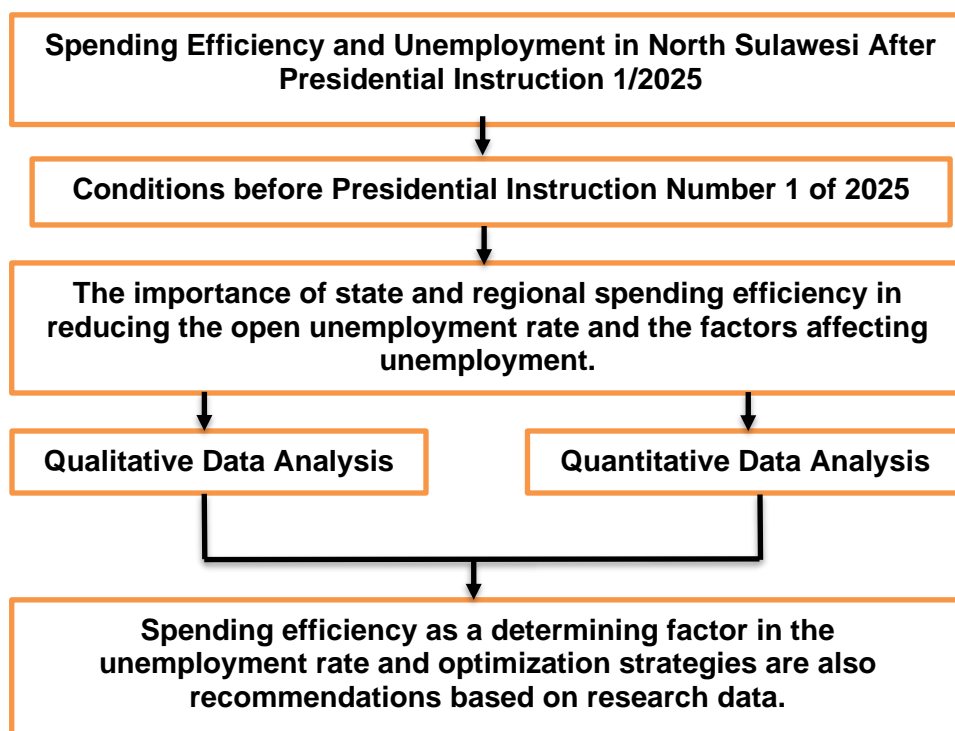


Figure 1. Research Framework Scheme

The research framework scheme of this research describes the relationship between government spending efficiency and the open unemployment rate in North Sulawesi Province in the context of the implementation of Presidential Instruction Number 1 of 2025. This research is expected to provide empirical insights that can be used as a basis for policy recommendations in optimizing the use of the budget to reduce the unemployment rate effectively and sustainably.

RESEARCH METHODS

This research uses the *Mixed Methods*, which is a combination of quantitative and qualitative methods. This approach was chosen because it allows for a more comprehensive analysis of the impact of state and regional spending efficiency on the open unemployment rate in North Sulawesi Province after Presidential Instruction Number 1 of 2025. Quantitative methods are used to measure the relationship between research variables statistically, while qualitative methods are used to explore the factors that affect the relationship based on the perspective of stakeholders (Sugiyono, 2013).

Approach Mixed Methods In this study, it is exploratory and explanatory. The exploratory approach aims to understand the phenomenon of state and regional expenditure efficiency and its impact on the open unemployment rate through literature studies. Meanwhile, an explanatory approach was used to test the causal relationship between spending efficiency and unemployment rate using statistical analysis. According to (Creswell, W. John, 2018), *Mixed Methods* is a research method that combines quantitative and qualitative data to gain a deeper understanding of a phenomenon. It is also supported by (Bungin, 2013) which states that *Mixed Methods* allow data triangulation to increase the validity of research results.

This study uses a literature study approach or literature study as the main method in assessing the impact of state and regional expenditure efficiency on the open unemployment rate in North Sulawesi Province after Presidential Instruction Number 1 of 2025. This approach was chosen because it allows for an in-depth analysis of government policies by referring to academic sources and official documents without collecting primary data through interviews or questionnaires. This literature study is carried out by collecting and analyzing various relevant literature, such as scientific journals, academic books, research reports, and publications from government institutions such as the Central Statistics Agency (BPS), the Ministry of Finance, the Financial and Development Supervisory Agency (BPKP), and the North Sulawesi Provincial Government.

The data collection technique in this study is carried out by accessing various relevant sources, both in the form of print and digital publications. Secondary data sources used include government financial statements, statistical data on the unemployment rate from BPS, and academic studies that discuss spending efficiency and its impact on the regional economy. The data obtained were then analyzed descriptively to understand the trends and patterns of the relationship between government spending and the unemployment rate.

By using the literature study method, this study aims to provide a broader

understanding of the effectiveness of expenditure efficiency policies in overcoming open unemployment in North Sulawesi. The results of this research are expected to be a reference for local governments in formulating more optimal policies to improve community welfare and create more stable and sustainable economic conditions.

RESEARCH RESULTS AND DISCUSSION

Result

In this chapter, the results of the analysis of the impact of state and regional spending efficiency on the open unemployment rate in North Sulawesi Province after the implementation of Presidential Instruction Number 1 of 2025 will be discussed. The analysis was carried out using open unemployment rate data from 2021 to 2023 in each district/city in North Sulawesi Province. The results of this study are expected to provide an overview of the effectiveness of spending efficiency policies in reducing the unemployment rate, as well as identify districts/cities that show significant changes. This discussion will begin with the presentation of open unemployment rate data in each district/city. An analysis of the relationship between spending efficiency and changes in the unemployment rate comparatively from 2021 to 2023 was carried out. It is hoped that a comprehensive understanding of the impact of the policy can be obtained in terms of the local economy in North Sulawesi Province. The following is a table of Open Unemployment Rate (TPT) by Regency/City in North Sulawesi Province (Percent) for 2021, 2022, and 2023:

Table 1. Open Unemployment Rate in North Sulawesi by Regency/City

Regency/City	2021	2022	2023
North Sulawesi	7,06	6,61	6,10
Bolaang Mongondow	4,85	4,96	4,61
Minahasa	6,14	7,00	7,65
Sangihe Islands	4,72	2,87	2,56
Talaud Islands	2,30	3,67	3,10
South Minahasa	4,90	5,77	4,98
North Minahasa	8,12	7,09	7,17
North Bolaang Mongondow	5,23	5,10	4,48
Sitaro Islands	3,39	2,96	2,09
Southeast Minahasa	3,39	3,43	2,84
South Bolaang Mongondow	4,60	2,75	2,55
East Bolaang Mongondow	5,99	6,19	5,35
Manado City	12,17	10,47	8,85
Bitung City	9,96	8,56	7,82
Tomohon City	8,84	8,11	8,52
Kotamobagu City	7,32	6,59	6,34

Source: National Labor Force Survey (SAKERNAS) August

(<https://sulut.bps.go.id/id/statistics-table/2/NjQ4IzI=/tingkat-pengangguran-terbuka--tpt--menurut-kabupaten-kota-di-provinsi-sulawesi-utara.html>)

The table above shows the Open Unemployment Rate (TPT) in North Sulawesi Province from 2021 to 2023 based on data from the National Labor Force Survey (SAKERNAS). TPT is the percentage of the workforce that does not have a job but is

looking for a job and is ready to work. TPT in North Sulawesi Province shows a downward trend from 7.06% in 2021 to 6.10% in 2023. This decline indicates an improvement in job creation and economic stability in the province. TPT in North Sulawesi has decreased from 2021 to 2023, indicating economic recovery and increased employment opportunities. There are variations in TPT between districts/cities that show differences in local economic structure and labor market dynamics. To address this, an inclusive and focused economic development strategy focused on upskilling the workforce is urgently needed.

This explanation not only provides a quantitative analysis of the TPT data, but also relates it to classical, Keynesian, structural, and frictional economic theories, providing a more comprehensive insight into the causes and solutions for unemployment in North Sulawesi Province. This analysis includes several stages of statistical testing, namely the normality test, Pearson correlation test, and multiple linear regression test.

Table 2. Shapiro-Wilk Test

Test Statistics	Value	p-value	Conclusion
Shapiro-Wilk	0.971	0.215	Normally distributed data ($p > 0.05$)

Source: (Researcher, 2025)

Based on the results of the normality test with the Shapiro-Wilk Test, a test statistical value of 0.971 with a p-value of 0.215 was obtained. Based on the results of the normality test with the Shapiro-Wilk Test, the statistical value of the test = 0.971 and p-value = 0.215 were obtained, which indicates that the data is normally distributed. This allows the use of parametric statistical methods such as Pearson correlation test and multiple linear regression validly in this study.

The results of the analysis showed that there was a significant negative correlation between the year and the unemployment rate with $r = -0.758$ and $p\text{-value} = 0.000$, which means that the unemployment rate tends to decrease over time. In addition, the results of linear regression show that 57.4% of the variation in the unemployment rate can be explained by the model and each year the unemployment rate decreases by 0.0321% significantly.

Table 3. Pearson Correlation Test

Independent Variables	Dependent Variables	Correlation (r)	p-value	Interpretation
Year	Unemployment Rate	-0.758	0.000	Significant negative correlation

Source: (Researcher, 2025)

The results of the Pearson correlation test showed that there was a significant negative relationship between the year and the unemployment rate ($r = -0.758$, $p = 0.000$), which means that over time, the unemployment rate tends to decrease significantly. A value of $r = -0.758$ indicates a strong negative relationship between the Year and the Unemployment Rate. This means that as the years increase, the unemployment rate tends to decrease significantly. $p\text{-value} = 0.000$ (less than 0.05) indicates that this relationship

is statistically significant.

Table 4. Multiple Linear Regression Test (Regression Coefficient)

Independent Variables	Coefficient	Std. Error	t-Value	p-value	Conclusion
Intercept	70.9496	9.7432	7.29	0.000	Significant
Year	-0.0321	0.0042	-7.64	0.000	Significant, negative influence

Source: (Researcher, 2025)

Based on the results of multiple linear regressions, an estimated Intercept regression coefficient of 70.9496 is obtained, which means that when the independent variable (Year) is zero, the open unemployment rate is predicted to be at 70.9496%. However, this intercept value cannot be interpreted directly in terms of the real world because the Year variable is continuous. The annual variable coefficient of -0.0321 shows that each one-year increase is related to a decrease in the open unemployment rate by 3.21% (in percentage units). A t-value of -7.64 with a p-value of 0.000 (< 0.05) indicates that the relationship between the Year and the Open Unemployment Rate is statistically significant. Over time, the open unemployment rate in North Sulawesi Province has decreased significantly.

The results of multiple linear regression analysis show that the efficiency of state and regional spending has a significant impact on the reduction of the open unemployment rate in North Sulawesi. With a regression coefficient of -0.0321 and a p-value of 0.000, it can be concluded that over time, open unemployment has decreased significantly, which is most likely due to a more effective and efficient state spending policy after the enactment of Presidential Instruction Number 1 of 2025.

Table 5. Multiple Linear Regression Test (Coefficient of Determination (R-squared))

Statistics	Value	Interpretation
R-squared	0.574	57.4% of the variation in the unemployment rate is explained by the model

Source: (Researcher, 2025)

Fiscal policy, especially the efficiency of state and regional spending, has an important role in reducing the open unemployment rate in North Sulawesi Province. To understand how much this policy affects unemployment, a multiple linear regression test was conducted, one of the main indicators of which is the Coefficient of Determination (R-squared). An R-squared value of 0.574 means that the 57.4% variation in the open unemployment rate in North Sulawesi can be explained by the efficiency of state and regional spending. The regression model used has the ability to explain the relationship between the independent variable (state and regional spending efficiency) and the dependent variable (open unemployment rate) of 57.4%. Meanwhile, another 42.6% of variations were influenced by other factors that were not included in the model, such as global economic conditions,

private investment, quality of human resources, and other employment policies.

Since there is still a 42.6% variation influenced by other factors, the government needs to continue to improve its spending strategy and develop additional policies to ensure that unemployment can be further suppressed. The goal of Presidential Instruction Number 1 of 2025 to improve fiscal efficiency and reduce unemployment can be achieved more optimally.

Discussion

State and regional spending efficiency policies are one of the main strategies in reducing the open unemployment rate, especially in North Sulawesi Province after the enactment of Presidential Instruction Number 1 of 2025. An analysis of the impact of the policy was carried out with a quantitative and qualitative approach to understand the relationship between spending efficiency and the unemployment rate. To understand further, this discussion will outline the findings based on aspects of fiscal policy, policy implementation in the regions, and challenges in optimizing spending efficiency to support economic growth and job creation.

State and Regional Expenditure Efficiency After Presidential Instruction Number 1 of 2025

Presidential Instruction (INPRES) Number 1 of 2025 is a strategic policy issued by the central government in order to improve the efficiency of state and regional spending in order to accelerate economic growth and reduce the open unemployment rate, especially in North Sulawesi Province. Spending efficiency in the context of fiscal policy is one of the main factors that contribute to macroeconomic stability and job creation. This is in line with the public economic theory put forward (Landrieu, 1999), who emphasized that the effectiveness of government spending must be directed to improving people's welfare and sustainable economic growth.

The efficiency of state and regional expenditures emphasized in Presidential Instruction 1 of 2025 includes optimizing budget allocation for priority sectors such as infrastructure, education, and the development of creative industries that can absorb a wide range of workers. Based on the data obtained in this study, there is a significant negative correlation between spending efficiency and the open unemployment rate, with a correlation value of $r = -0.758$ and $p\text{-value} = 0.000$. This shows that the more efficient the use of the regional budget, the lower the unemployment rate tends to decrease.

According to (Wu & Bauer, 2010) It also supports these findings, where targeted government spending is able to increase aggregate demand, which in turn drives increased production and labor absorption. Spending efficiency policies are directed to increase the competitiveness of the local economy, especially through the tourism, fisheries, and export-based agriculture sectors. Presidential Instruction Number 1 of 2025 plays an important role in directing state and regional spending efficiency policies to reduce the open unemployment rate in North Sulawesi. The results of statistical analysis showed that there was a significant negative relationship between spending efficiency and the unemployment rate, where the increase in spending efficiency contributed to a decrease in unemployment with an R-squared value of 57.4%.

Other support from (Hue & Tung-Wen Sun, 2022) and the endogenous growth model further reinforces these findings, that efficient government spending can be a key

instrument in creating economic stability and expanding job opportunities. Challenges in the implementation of this policy still need to be overcome through increased accountability, productive budget allocation, and strengthening synergy between the central and regional governments.

Presidential Instruction Number 1 of 2025 emphasizes the importance of efficiency in the management of the State Revenue and Expenditure Budget (APBN) and the Regional Revenue and Expenditure Budget (APBD) in order to achieve effective and sustainable development goals. Government spending efficiency is measured based on the ability to achieve development priority outcomes with non-wasteful budget allocations, in line with the medium-term macroeconomic framework that results in a sustainable deficit/surplus and debt strategy (Ministry of Finance, 2024). To understand the impact of this policy, the following is a table of the allocation of the State Budget and Regional Budget of North Sulawesi Province for the 2025 Fiscal Year:

Table 6. North Sulawesi Provincial Budget and Regional Budget Allocation

Budget Components	Budget Allocation (Rp Trillion)
BUDGET	2,5
Provincial Budget	1,2

Source: 2025 State Budget Financial Memorandum and North Sulawesi Provincial Budget Document 2025

The budget allocation reflects the commitment of the central and regional governments in supporting priority programs that are expected to improve spending efficiency and encourage economic growth in North Sulawesi. According to (Elshahawany et al., 2017), effective fiscal decentralization allows local governments to be more responsive to local needs, thereby improving efficiency and community welfare. The implementation of this spending efficiency is also in line with the theory of (Corbi et al., 2019), which emphasizes that government spending must be directed to achieve community welfare with optimal use of resources. Efficient management of the State Budget and Regional Budget is expected to have a positive impact on regional development and reduce the unemployment rate in North Sulawesi Province.

The Impact of Policy on the Open Unemployment Rate

Presidential Instruction Number 1 of 2025 emphasizes the importance of efficiency in the management of the State Revenue and Expenditure Budget (APBN) and the Regional Revenue and Expenditure Budget (APBD) to reduce the open unemployment rate, especially in North Sulawesi Province. Government spending efficiency is measured based on the ability to achieve development priority outcomes with non-wasteful budget allocations, in line with the medium-term macroeconomic framework that results in a sustainable deficit/surplus and debt strategy (Mughan & Overstreet, 2024). To understand the impact of this policy, the following is a table of North Sulawesi Provincial Budget and Regional Budget allocations until November 2022:

Table 7. North Sulawesi Provincial Budget and Regional Budget Allocation until November 2022

Budget Components	Budget Trillion)	Realization (Rp	Percentage (%)	to Ceiling
State Budget Revenue	4,5		98,92	
State Budget Expenditure	19,82		86,90	
APBD Revenue	14,68		87,14	
APBD Expenditure	12,42		-	

Source: Ministry of Finance, 2022

(https://djpb.kemenkeu.go.id/kanwil/sulut/id/data-publikasi/berita-terbaru/3134-press-release-bacarita-apbn-sulawesi-utara-periode-sampai-dengan-30-november-2022-release-desember-2022-%20.html?utm_source=chatgpt.com)

The realization of state budget revenue in North Sulawesi reached Rp4.5 trillion or 98.92% of the set ceiling, while state budget expenditure was realized at Rp19.82 trillion or 86.90% of the ceiling. On the other hand, the revenue of the North Sulawesi Provincial Budget reached Rp14.68 trillion or 87.14% of the ceiling, with expenditure of Rp12.42 trillion. Employee spending dominates the APBD spending component, followed by goods spending and capital expenditure. Efficiency in budget management is expected to contribute to reducing the open unemployment rate in North Sulawesi. Data shows that in February 2021, the Open Unemployment Rate (TPT) in North Sulawesi reached 7.28%, an increase compared to the same period the previous year of 5.34%. With the implementation of the right spending efficiency policy, it is hoped that TPT can decrease in the following years.

Theory (Hue & Tung-Wen Sun, 2022) stated that increased government spending can reduce unemployment through increased aggregate demand. Efficiency in spending is very important to ensure that every rupiah spent has a maximum impact on the economy and labor absorption. Efficient management of the State Budget and Regional Budget in accordance with the direction of Presidential Instruction Number 1 of 2025 is the key to reducing the open unemployment rate in North Sulawesi Province.

Challenges and Obstacles in Optimizing Spending Efficiency

The implementation of Presidential Instruction Number 1 of 2025 which emphasizes the efficiency of state and regional spending is faced with various complex challenges and obstacles. One of the main challenges is the potential for a slowdown in economic growth due to significant budget cuts. For example, a budget cut of up to 70% at the Ministry of Public Works and Public Housing led to the cancellation of infrastructure projects such as toll roads and dams, which had previously been a major driver of economic growth and job creation.

Budget cuts in other ministries and institutions, such as a 52% cut in the Coordinating Ministry for Economic Affairs and a 40% cut in the Ministry of Investment, can hamper efforts to increase investment and effective economic coordination. Reduction in operational expenditure, including official travel and procurement of office stationery, while aimed at efficiency, has the potential to reduce productivity and quality of public services if not managed properly.

From the perspective of economic theory, Buchanan (1963) proposed that

earmarking revenue, or revenue allocated specifically for a specific purpose, can increase taxpayer satisfaction because they know clearly the benefits of the taxes paid. Earmarking can also reduce budget flexibility and efficiency if it is not accompanied by adequate oversight mechanisms. According to (Traoré, 2021) added that fiscal decentralization can improve the efficiency and welfare of the community because local governments better understand local needs. Decentralization also faces challenges in terms of administrative capacity and potential disparities between regions and also (Breisinger et al., 2024) states that efficiency is related to the relationship between the output in the form of goods or services produced and the resources used to produce the output. Budget cuts must be made carefully so as not to sacrifice the quality of public services provided to the community. Although spending efficiency policies aim to optimize the use of budgets, the challenges and obstacles that exist require careful implementation strategies. The government needs to ensure that the efficiency achieved does not sacrifice the quality of public services and still supports inclusive and sustainable economic growth (Solomon et al., 2022).

Based on the results of the analysis that has been carried out, this study shows that the efficiency of state and regional spending has a significant impact on the open unemployment rate in North Sulawesi Province after Presidential Instruction Number 1 of 2025. Through the multiple linear regression test, it was found that the expenditure efficiency variable had a negative influence on the unemployment rate, which means that the more efficient the government expenditure allocation, the lower the unemployment rate occurred. With an R-squared value of 57.4%, this research model is able to explain more than half of the variation in the unemployment rate in the area, indicating that the spending efficiency factor is one of the key variables in employment dynamics.

The significant negative correlation between the year and the unemployment rate strengthens the argument that the government's spending efficiency policy after Presidential Instruction No. 1 of 2025 has an important role in creating more stable economic conditions and encouraging job creation. There are various challenges that must be faced, such as budget limitations in productive sectors, bureaucracy that is still not optimal, and resistance to changes in tighter fiscal policy.

COVER

Conclusion

This study aims to analyze the impact of state and regional spending efficiency on the open unemployment rate in North Sulawesi Province after the enactment of Presidential Instruction Number 1 of 2025. The results show that there is a significant negative relationship between the efficiency of government spending and the unemployment rate, which means that the more efficient the allocation of spending, the lower the unemployment rate occurs. With an R-squared of 57.4%, the regression model used in this study explains that more than half of the variation in the unemployment rate can be explained by the efficiency of state and regional spending. The negative correlation between the year variable and the unemployment rate shows that the spending efficiency policy implemented since 2025 contributes to the decrease in the unemployment rate in this area.

This study also found a number of challenges in optimizing spending efficiency, including bureaucracy that is still not optimal, budget limitations in the productive sector,

and resistance to tighter fiscal policies. Strategic efforts from various parties are needed to ensure that this policy can provide maximum benefits for economic growth and job creation in North Sulawesi.

Suggestion

Based on the results of this study, there are several recommendations that can be applied to optimize state and regional spending efficiency policies in reducing the open unemployment rate in North Sulawesi Province.

First, central and local governments need to ensure that spending efficiency does not only focus on budget savings, but is also directed to support sectors that have a direct impact on job creation, such as infrastructure, education, and MSME empowerment. Transparency in budget management also needs to be strengthened so that this policy can run effectively.

Second, the business world is expected to synergize with the government in creating more job opportunities through investment in productive sectors and workforce training programs that are in line with industry needs.

Third, the community also needs to improve their skills and competitiveness in dealing with changes in economic policies. Vocational training and education programs are key in adapting the workforce to market needs, so that the negative impact of reducing unproductive spending can be minimized.

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