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Fiscal Discipline and Hospitality Performance: Hotel Operations and Adaptation Strategies in Bali

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Abstract

As Bali's tourism sector navigates an arduous recovery following the COVID-19 pandemic, the Indonesian government enacted Inpres No. 1 of 2025, a budget efficiency policy aimed at mitigating national fiscal deficits. This study examines the subsequent impact of this fiscal tightening on the hospitality industry in Bali and other Indonesian regions. Utilizing a survey of 471 General Managers from the Indonesian Hotel General Manager Association (IHGMA) alongside Focus Group Discussions (FGDs), the research reveals a significant contraction in key performance indicators. In the first quarter of 2025, Bali experienced an 8% decline in occupancy and an 18.38% revenue drop, while Jakarta suffered more severe losses due to heavy government MICE dependency. Furthermore, the 2025 Lebaran period recorded a national occupancy decline of 15% and shortened guest stays. To survive, the industry implemented multi-tier contingency plans, including market-switching strategies and temporary unpaid leave systems. This paper provides critical insights into the interplay between domestic fiscal policy and destination resilience, offering a framework for adaptive management in tourism studies.

Keywords: budget efficiency; Bali tourism; hospitality industry; IHGMA; post-pandemic recovery; contingency planning

INTRODUCTION

Background

The COVID-19 pandemic represented not only a global health disaster, but also a crisis for various aspects of life, including the global tourism industry (Gössling et al., 2020; Sigala, 2020). The systemic shock grounded international travel, causing an unprecedented collapse in supply and demand that impacted millions of livelihoods worldwide (UNWTO,

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2021). Consequently, the hospitality sector in Indonesia, particularly Bali, underwent an arduous recovery process following the pandemic (Budhi et al., 2022). As a region heavily dependent on international visitor flows, Bali suffered severe socioeconomic contraction, revealing the fragility of destination economies that rely heavily on single-sector growth.

Just as the industry began to regain its footing from these unprecedented challenges, a new systemic disruption emerged in early 2025. The Indonesian government enacted Inpres Number 1 of 2025 concerning Budget Efficiency, a fiscal policy designed to reduce the national deficit, which was projected to reach Rp 616.2 trillion or 2.53% of GDP. While aimed at strengthening the national economic foundation, the policy mandated a massive expenditure cut of Rp 306.69 trillion (Kompas.com, 2025a), significantly impacting the government's procurement of hotel services for meetings and travel. This sudden withdrawal of the public sector market created a policy-induced crisis for a hospitality industry that was already navigating a fragile recovery phase.

The urgency of this research lies in the paradoxical nature of government led economic management during periods of crisis recovery. Traditionally, government spending through Meeting, Incentive, Convention, and Exhibition (MICE) activities has played an important stabilizing role for hotels, particularly during low demand periods. Tourism studies have consistently shown that public sector expenditure on meetings, conferences, training programs, and official travel can generate substantial multiplier effects for accommodation providers and local economies (Dwyer et al., 2020; UN Tourism, 2024). In Indonesia, government institutions have long been among the most important clients of the hotel industry, particularly in destinations where MICE activities constitute a significant share of hotel revenue.

Following the implementation of Presidential Instruction (Inpres) No. 1 of 2025 on budget efficiency, many governments funded events were cancelled, postponed, or scaled down. The effects were felt almost immediately by hotels that depended on MICE activities, as previously confirmed bookings and government meetings were withdrawn due to spending restrictions (Detik Bali, 2025; Bali Discovery, 2025). Industry representatives reported that the decline was particularly evident in hotels equipped with convention and meeting facilities.

In Bali, tourism stakeholders observed a noticeable decline in hotel performance during the first months of 2025 despite continued growth in tourist arrivals. Hotel associations estimated that occupancy rates fell by approximately 10–20 percent compared with normal levels, attributing the decline partly to reduced government-related travel and events, as well as increasing competition from alternative accommodations and short-term rental platforms (Kompas.com, 2025b; ANTARA Bali, 2025). These developments suggest that growth in visitor arrivals alone is insufficient to guarantee strong hotel performance when important institutional market segments weaken.

The impact was even more pronounced in Jakarta, where the hotel sector is more heavily dependent on government meetings, conferences, and official travel. Statistics Indonesia recorded a sharp decline in occupancy rates among star-rated hotels in the capital during the early months of 2025, reflecting the vulnerability of urban hospitality markets to reductions in public-sector spending (BPS DKI Jakarta, 2025). The Jakarta experience highlights how fiscal austerity measures can generate uneven impacts across destinations depending on their dependence on government-generated demand.

These findings support broader tourism-economic arguments that accommodation performance is influenced not only by leisure tourism demand but also by institutional expenditure patterns. Consequently, budget-efficiency policies may create

indirect pressures on employment, business sustainability, and regional tourism economies, particularly in destinations characterized by a large accommodation supply and strong reliance on tourism-related services (WTTC, 2024).

This study examines the consequences of Indonesia's 2025 fiscal-efficiency policy for the hospitality industry, focusing primarily on Bali while drawing on evidence from other regions to contextualize the national dimensions of the phenomenon. Rather than offering a comparative regional analysis, the paper uses these additional cases to illustrate how reductions in government expenditure have affected tourism-related businesses in different parts of Indonesia. Specifically, the study centres on the following key research question: To what extent does pre-existing dependence on government MICE expenditure determine hotel operational performance, and how are hotel managers responding to the constraints imposed by the 2025 fiscal policy?

LITERATURE REVIEW

The resilience of Bali's tourism sector has been a central theme in recent academic discourse, particularly as the destination transitions from pandemic induced crisis to policy driven economic shifts. Utama et al. (2023) highlight that the recovery strategy following the COVID-19 pandemic required a creative and multi-dimensional approach to restore tourist confidence and stabilize the local economy. However, this recovery path is frequently interrupted by systemic changes. Handoko et al. (2025) argue that the Indonesian government's budget efficiency policies significantly influence the tourism sector, creating new concerns for stakeholders who have historically relied on public sector spending. This qualitative shift emphasizes that fiscal tightening acts as a secondary shock to an industry still in its convalescent stage.

The evolution of tourism development models in Indonesia suggests a move toward more sustainable and diversified frameworks. Kawuryan et al. (2022) provide a bibliometric overview indicating that sustainable tourism has become the dominant research paradigm in the Indonesian context. This is further supported by Priatmoko et al. (2021), who suggest that Bali serves as the primary laboratory for testing new tourism models that balance economic growth with cultural preservation. Despite this, the practical implementation of such models is often hampered by immediate economic pressures, such as the 2025 fiscal contraction, which forced hotel operators to pivot from long-term sustainability goals to short-term contingency survival.

Environmental and resource constraints also play a critical role in shaping the limits of tourism growth in Bali. Rimba et al. (2019) investigate the impact of tourism on water sustainability and land use, noting that rapid expansion often leads to resource depletion. To mitigate these impacts, Law et al. (2016) advocate for a transition toward a green economy, suggesting that Bali's tourism must decouple its growth from environmental degradation. Sutawa (2012) further emphasizes that community empowerment is essential for ensuring that sustainable development is not just a top-down mandate but a grassroots reality. The intersection of this with sudden budget cuts creates a complex environment where hotels must maintain green standards while operating under reduced margins.

Furthermore, the digital perception of a destination significantly influences its market resilience during periods of policy flux. Susanto et al. (2024) utilize artificial intelligence to analyze sentiment on platforms like TripAdvisor, revealing that Bali's destination image remains robust despite operational challenges. This digital sentiment provides a structural buffer for the industry; while government led MICE business fluctuates due to policy

interventions such as Inpres No. 1 of 2025, individual traveller perception remains a relatively stable source of demand. Within this context, the framework of Dynamic Capabilities (Teece, 2007) clarifies how hotel organizations navigate such institutional shocks beyond simple operational survival. Rather than relying on passive, short-term cost cutting measures or superficial price promotions which merely reflect reactive operational tactics managers exhibit dynamic capabilities through the deliberate sensing, seizing, and reconfiguring of organizational resources (Eisenhardt & Martin, 2000; Wilden et al., 2013). Empirically, this dynamic reconfiguration is evidenced by hotel managers redirecting marketing budgets toward direct-to-consumer digital channels, retraining MICE dedicated service staff for experiential leisure segments, and agilely repurposing physical event facilities for hybrid community or wellness concepts (Teece, 2018). In Bali's case, the abrupt withdrawal of government backed demand serves as an environmental stress test, forcing a strategic realignment from institutional reliance toward more volatile, yet highly adaptable, individual consumer markets.

The vulnerability of the Indonesian hospitality sector is exacerbated by the high degree of "public-private interdependence" within the MICE segment. Academic perspectives on MICE tourism often position the government not merely as a regulator, but also as a strategic anchor that stimulates demand, ensures event circulation, and sustains hospitality cash flow during periods of market uncertainty. This is evident in Bali, where major government linked events such as the G20 Summit in 2022 and ASEAN Summit in 2023 strengthened the island's reputation as a leading MICE destination while generating economic benefits through hotel bookings, catering, event organization, transportation, and destination promotion (Tirtawati et al., 2024; Tirtawati & Putra, 2025). Tirtawati and Putra (2025) further emphasize that MICE has been used strategically by the Indonesian government to revive Bali's tourism after crises, including after terrorist attacks and the COVID-19 pandemic.

When this public sector anchor is withdrawn through austerity measures, it creates a "liquidity vacuum" that traditional marketing strategies struggle to fill. The literature on Bali's green-hybrid conference development shows that MICE recovery depends not only on visitor volume, but also on the availability of infrastructure, human resources, technology, logistics, and stakeholder coordination (Tirtawati et al., 2024). Therefore, the impact of budget efficiency is not uniform; it disproportionately affects "MICE-heavy" destinations such as Jakarta and specific conference hubs in Bali, particularly Nusa Dua and other areas with strong convention infrastructure. In this sense, destination resilience is closely linked to the diversity of a hotel's client portfolio, the balance between government and non-government events, and the capacity of MICE stakeholders to adapt toward sustainable, hybrid, and green conference models (Tirtawati et al., 2024; Tirtawati & Putra, 2025).

Finally, the shift toward contingency management including the implementation of unpaid leave and aggressive price corrections reflects a move toward "Lean Operations" in a survival context. Recent studies on organizational resilience in hospitality emphasize that the ability to pivot resources during a fiscal downturn is what distinguishes surviving entities from those that face insolvency. By analysing the IHGMA data, this study demonstrates that the contingency plans enacted in 2025 were not merely cost cutting exercises but strategic realignments. This proactive adaptation, though painful in the short term for the labour force, underscores the industry's attempt to decouple its survival from state fiscal health, thereby fostering a more robust, market-driven resilience for the future.

As discussed above, existing studies on Bali tourism have predominantly focused on post-pandemic recovery strategies (Utama et al., 2023), sustainable tourism development (Kawuryan et al., 2022; Priatmoko et al., 2021), environmental challenges (Rimba et al., 2019; Law et al., 2016), destination image (Susanto et al., 2024), and the role of MICE in enhancing tourism competitiveness and supporting recovery efforts (Tirtawati et al., 2024; Tirtawati & Putra, 2025). While these studies provide valuable insights into the determinants of tourism resilience, they largely conceptualize resilience in relation to external disruptions, such as pandemics, environmental pressures, market fluctuations, and destination image challenges.

Relatively little attention has been given to the implications of domestic fiscal policy for tourism dependent destinations. In particular, the effects of government-imposed budget-efficiency measures on hospitality performance, institutional demand, and destination resilience remain underexplored. Addressing this gap, the present study shifts the discussion of tourism resilience beyond crisis recovery by examining how policy induced demand shocks originating from fiscal governance rather than external crises can influence hotel performance and shape the adaptive strategies of hospitality businesses. By doing so, the study contributes to a broader understanding of the relationship between public sector expenditure, tourism resilience, and destination level adaptation.

METHOD

This study employs a descriptive quantitative research design to evaluate the impact of the government's 2025 budget efficiency policy on the hospitality sector in Indonesia, with a primary focus on Bali. Data collection was designed, administered, and executed by the research team under the direct leadership of the first author, who serves as the Vice President of the Indonesian Hotel General Manager Association (IHGMA) National Chapter. The primary dataset derived from this survey belongs to IHGMA; however, as the primary designers and administrators of the survey, the authors retain full permission to access, analyze, and publish the microdata, citing IHGMA as the institutional source. Quantitative data were supplemented with qualitative insights from an FGD held on April 15, 2025, via Zoom (Kemenpar Strategic Discussion Room). The qualitative data serve to support the quantitative results.

To evaluate the immediate policy shock following the enactment of Inpres Number 1 of 2025, data were collected in two distinct empirical phases using structured online questionnaires distributed through IHGMA's professional network. Phase I was administered in mid-February 2025 to capture retroactive hotel operational performance for January and February 2025. Phase II was administered in early May 2025 to capture performance across March and April 2025, a critical period encompassing the major Lebaran holiday season. Both survey phases tracked the exact same cohort of participating establishments to ensure panel-like longitudinal consistency.

A non-probability purposive sampling strategy was employed to target senior decision-makers with direct access to property-level financial metrics. Participant recruitment was conducted via official IHGMA digital communications and executive invitations. Out of 620 distributed invitations across both survey phases, 471 unique General Managers completed and validated the response pairs (a 76% response rate), with each respondent representing a single, distinct accommodation establishment. Bali serves as the primary geographical cluster with 285 properties (60.5%), complemented by regional comparative baselines across Jakarta (9.6%), West Java (6.8%), Central Java (5.9%), D.I. Yogyakarta (5.3%), East Kalimantan (3.8%), Riau Islands (3.2%), West Nusa Tenggara / NTB (2.8%), and South

Sumatra (2.1%). By property category, the sample comprises star-rated city hotels (52%), resort hotels (33%), luxury or boutique villas (10%), and non-star or budget accommodations (5%).

In addition to structured operational and performance indicators, respondents answered open-ended qualitative prompts detailing specific managerial strategies, cost containment measures, and adaptive initiatives deployed to navigate policy induced shocks. While this association-based sampling provided unprecedented access to verified executive microdata, it inherently over represents star-rated and mid-to-upscale properties affiliated with professional networks. Consequently, the empirical findings primarily reflect organized hospitality management rather than informal or non-affiliated micro-accommodations, and industry-wide generalizations are qualified accordingly.

Data collection was facilitated through a structured digital instrument focusing on four Key Performance Indicators (KPIs): occupancy rates, Average Daily Rate (ADR), total revenue, and Average Length of Stay (ALoS). The analysis involved a year-over-year (YoY) comparison between the 2024 actual performance and the 2025 results to isolate the impact of the fiscal tightening. Furthermore, the study categorized hotels into impact groups Low, Medium, and High based on their level of dependency on the government MICE market. This methodological framework ensures a granular understanding of how domestic policy shifts translate into regional economic contractions.

RESULTS AND DISCUSSION

Development of Bali's Tourism and Hospitality Sector

Bali's tourism landscape is currently defined by a high-velocity recovery, with international flight connectivity reaching levels comparable to pre-pandemic eras. The I Gusti Ngurah Rai International Airport has re-established its position as one of Indonesia's busiest hubs, facilitating an average of 15,000 to 18,000 international arrivals per day during peak seasons. Over the last five years, direct foreign tourist arrivals to Bali have shown a dramatic V-shaped recovery: from a record high of 6.27 million in 2019, dropping significantly during the 2020-2021 period, and rebounding toward national targets for 2025. The Indonesian government aims for 14.6 to 16 million international arrivals nationally by 2025, with Bali serving as the primary contributor to the target foreign exchange contribution of up to USD22.1 billion (Indonesian Hotel General Manager Association [IHGMA], 2025). In 2025, Bali recorded 6,9 million foreign visitors flew direct to Bali. This number was excluded domestic tourist whose number could reach one and half time of foreign tourists.

Bali's arrival data is supported by extensive international flight connectivity linking the island to key hubs in Asia, Europe, and Australia via major carriers including Singapore Airlines, Emirates, Qantas, and Virgin Australia. In the context of fiscal policy shocks, this high-density international route network serves as a critical structural buffer, enabling hotels to pivot toward international leisure markets to offset government MICE revenue contractions and support tourism's targeted 4.6% national GDP contribution (IHGMA, 2025; Widagdo et al., 2026).

According to data from the IHGMA, hotel occupancy in Bali declined from 71.8% in March 2024 to 61.8% in March 2025, representing a 10-percentage point (13.9% relative) decrease (IHGMA, 2025). This apparent disconnect between tourism growth and hotel performance has been widely attributed to the rapid expansion of alternative accommodation providers, including villas, homestays, and short-term rentals marketed through online platforms. Industry stakeholders have expressed concern that a growing proportion of tourists are opting for non-hotel accommodations.

According to I Gusti Ngurah Ray Suryawijaya, a senior representative of the Bali Chapter of the Indonesian Hotel and Restaurant Association (PHRI Bali), many visitors increasingly prefer villas and homestays over star-rated hotels, contributing to declining occupancy rates within the formal hotel sector (Denpost, 2025). These concerns have been directed particularly at online accommodation platforms, such as Airbnb, which have facilitated the rapid growth of short-term rental markets across Bali.

The issue was raised again during the PHRI Bali Regional Working Meeting in December 2025. PHRI Bali Chairman Tjokorda Oka Artha Ardana Sukawati (Cok Ace) argued that some residential properties leased by foreign nationals are subsequently sublet to tourists through digital accommodation platforms, thereby increasing the supply of tourist accommodation outside the conventional hotel sector (Nusa Bali, 2026). At the same time, average hotel occupancy in Bali remained around 60%, despite international tourist arrivals reaching approximately 6.3 million in 2024, a figure that exceeded pre-pandemic levels. This mismatch between rising tourist arrivals and relatively stagnant hotel occupancy suggests that tourism growth is increasingly being absorbed by alternative accommodation markets rather than by registered hotels (Nusa Bali, 2026).

According to the latest data from the Bali Provincial Statistics Agency (BPS Bali, 2025), the total supply of rooms in star-rated hotels in Bali has reached 84,500 rooms distributed across 699 accommodation establishments. However, when non-star-rated accommodations such as budget hotels, homestays, and officially registered tourist lodges are included, the total number of available rooms is estimated to exceed 120,000 to 140,000 units. Importantly, these statistics do not capture the large number of rooms and properties offered through Online Travel Agencies (OTAs) and digital platforms such as Airbnb. As noted by Bali's hotel industry leaders, many of these accommodations operate outside the conventional hotel sector, contributing to a growing mismatch between rising tourist arrivals and relatively modest hotel occupancy rates.

These unregistered establishments often avoid the local development taxes that registered hotels must pay, siphoning off demand even as the island appears physically crowded with tourists. This shadow inventory creates an uneven playing field, a challenge noted in recent hospitality research regarding the impacts of unregulated accommodations on formal sector performance (Widagdo et al., 2026).

From an economic perspective, the hospitality industry remains the backbone of Bali's labour market, which is targeted to support 25.8 million workers nationally by 2025 (IHGMA, 2025). However, the current fiscal environment, exacerbated by the government's budget efficiency policy under Inpres No. 1 of 2025, has placed this workforce at significant risk. This policy aims to cut national expenditure by Rp306.69 trillion to manage the fiscal deficit. Recent analysis argues that budget efficiency policies can lead to significant declines in hotel occupancy and revenue, particularly in regions where MICE are a primary driver (Jehane et al., 2025). With Bali's quarterly revenue contracting by 18.38% in early 2025, the industry has shifted into a defensive posture. Nationally, the threat of budget efficiency is projected to lead to as many as 100,000 layoffs (IHGMA, 2025).

To navigate these challenges, hotel operators are implementing aggressive switching strategies and multi-tier contingency plans to maintain institutional integrity. Managers have adopted an "agility is the mantra" approach to reconfigure their internal capabilities, focusing on cost efficiency and workforce flexibility (IHGMA, 2025; Widagdo et al., 2026). While the industry attempts to strengthen its appeal to the international market to compensate for the reduction in government MICE spending, it must also manage internal

disruptions, including declining purchasing power and rising domestic airfares. Pujiastuti (2026) emphasizes that strengthening the resilience of the hospitality sector requires navigating this budgetary dependency while also focusing on long-term sustainability. Ensuring stability will require not only domestic fiscal discipline but also managing the competitive pressure from the shadow accommodation market to ensure Bali's success in arrivals is mirrored in the health of its formal hospitality sector.

Impact of Fiscal Tightening on Bali's Hospitality Performance

Immediately after President Prabowo's government announced a nationwide budget-efficiency policy in early 2025, concerns quickly emerged regarding its potential impact on Indonesia's tourism and hospitality sectors. Previous studies have shown that reductions in government expenditure can generate multiplier effects throughout tourism-dependent economies, particularly in destinations where hospitality businesses rely on meetings, conferences, exhibitions, and official travel expenditures (Dwyer et al., 2020; Blake et al., 2021).

In Indonesia, public concerns were widely reflected in media coverage. Several reports warned that reductions in government-funded meetings, conferences, training programs, and official travel could adversely affect hotel revenues and occupancy rates (Inilah.com, 2025; Bisnis.com, 2025). Other reports highlighted fears that the policy might lead to workforce reductions in the hospitality sector and create broader economic repercussions for tourism-related businesses, including restaurants, transportation providers, and event organizers (CNN Indonesia, 2025; Kumparan Bisnis, 2025; Obor Timur, 2025).

These concerns are consistent with tourism literature emphasizing that accommodation businesses often depend not only on leisure tourism but also on institutional and government-related demand. Consequently, sudden contractions in public sector spending may affect employment, business sustainability, and regional economic performance, particularly in destinations characterized by a large accommodation supply and strong dependence on tourism (UN Tourism, 2024; WTTC, 2024). Bali represents a particularly relevant case, given its substantial hotel inventory, increasing accommodation competition, and continuing reliance on tourism as a major economic driver.

The implementation of budget efficiency measures in early 2025 led to a measurable contraction in Bali's hospitality metrics during the first quarter. While Bali has a diversified market, the reduction in government procurement for hotel services created significant downward pressure on all key indicators (Figure 1).

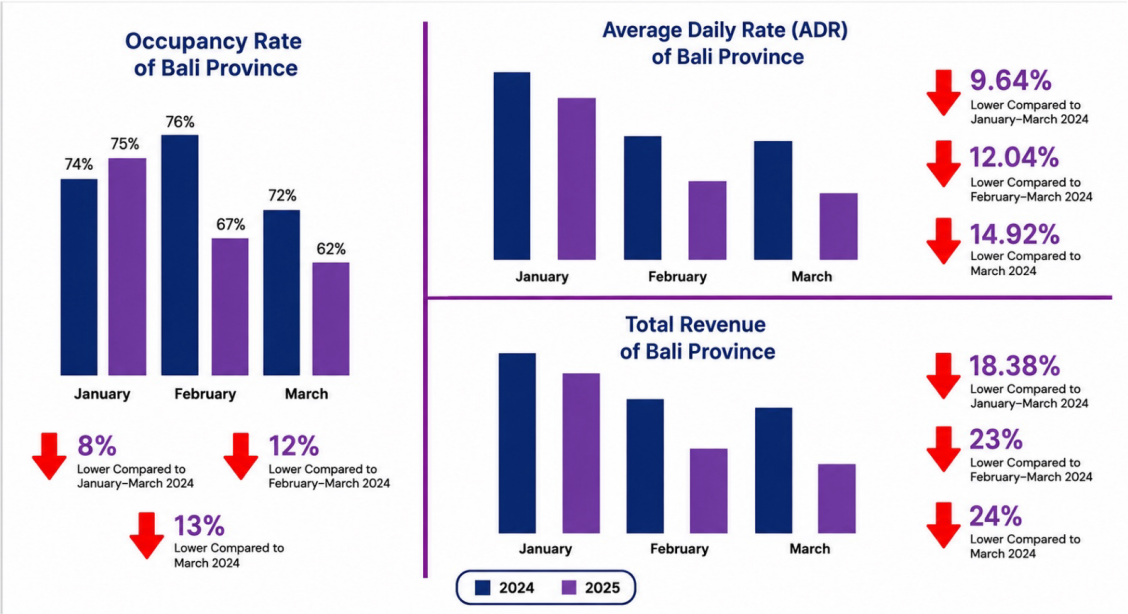

Figure 1. Illustration of the decline across three hospitality business metrics occupancy rates, length of stay, and revenue during the first three months of 2024 and 2025, before and after the implementation of the fiscal efficiency policy.

Figure 1 illustrates a substantial deterioration in Bali's hotel performance during the first quarter of 2025 following the implementation of Indonesia's budget-efficiency policy. Compared with the corresponding period in 2024, hotel occupancy rates declined from 76% to 67% in February and 72% to 62% in March 2025, indicating a significant reduction in accommodation demand. This trend is consistent with previous studies suggesting that government expenditure cuts can negatively affect tourism demand, particularly in destinations where hotels depend on meetings, incentives, conferences, and exhibitions (MICE) as well as official travel activities (Dwyer et al., 2020; Blake et al., 2021).

The contraction in demand was accompanied by a decline in Average Daily Rate (ADR), which fell by 9.64% in period of January-March, 12.04% in period of February-March, and 14.92% in March 2025 compared with the same period months in the previous year. From a market perspective, declining occupancy often weakens hotels' pricing power, prompting operators to lower room rates in order to maintain market share and stimulate demand (Ivanov & Webster, 2013). The simultaneous decline in occupancy and ADR suggests that Bali's hotel industry experienced both a reduction in customer volume and intensified price competition during the period.

The most pronounced impact was observed in hotel revenue, which decreased by 18.38% in period of January-March, 23% in period of February-March, and 24% in March 2025 compared with the same period months in the previous year. The magnitude of this decline reflects the multiplicative relationship between occupancy and room rates, whereby reductions in both indicators generate disproportionately larger revenue losses. This finding supports the broader tourism economics literature, which emphasizes that fiscal tightening can produce indirect economic consequences through multiplier effects, reducing business activity not only in accommodation services but also across interconnected tourism sectors such as food and beverage, transportation, event management, and local employment (UN Tourism, 2024; WTTC, 2024).

More broadly, the Bali case demonstrates how fiscal policy decisions can influence tourism-dependent regional economies beyond their immediate public-finance objectives. Although the budget-efficiency policy was designed to improve government spending effectiveness, the reduction in public-sector meetings, conferences, training programs, and official travel appears to have generated significant demand-side shocks for the hospitality sector. Given Bali's large accommodation capacity and continued reliance on tourism as a key economic driver, these findings provide empirical evidence that fiscal contraction may have measurable short-term consequences for hotel occupancy, pricing strategies, and revenue performance, highlighting the interconnected relationship between public expenditure and tourism-sector resilience (Dwyer et al., 2020; WTTC, 2024).

Comparative Regional Analysis: Bali, Jakarta, and NTB

Although Bali serves as the primary focus of this study, evidence from other Indonesian destinations demonstrates that the effects of Presidential Instruction (Inpres) No. 1 of 2025 were unevenly distributed across regions. The variation in outcomes highlights the importance of market structure and institutional demand in shaping destination resilience. Data from the IHGMA indicate that the magnitude of the impact was closely associated with the degree to which local hospitality industries depended on government-funded meetings, conferences, and official travel activities (Table 1).

Table 1. Regional Performance Comparison (March 2025 YoY Change)

Province	Occupancy Change	Revenue Change	ADR Change
Jakarta	-39%	-40%	-11.05%
Bali	-13%	-24%	-14.92%
NTB	-7%	-8%	-7.19%

Source: IHGMA, 2025

In Bali, hotel occupancy declined by 13% year-on-year in March 2025, accompanied by a 24% reduction in revenue and a 14.92% decrease in Average Daily Rate (IHGMA, 2025). While these figures represent a significant setback for an industry still recovering from the COVID-19 pandemic, the decline was less severe than initially feared. Bali's tourism economy benefits from a relatively diversified demand structure, drawing visitors from international leisure markets, domestic tourism, digital nomads, long-stay travellers, and MICE activities. Consequently, although the reduction in government-sponsored meetings and events weakened an important source of demand, the broader tourism market continued to provide a degree of stability. This finding suggests that destination resilience is influenced not only by visitor volume but also by the diversity of market segments available to absorb external shocks (Teece, 2007; Tirtawati et al., 2024).

The situation in Jakarta was markedly different. As Indonesia's administrative and political centre, Jakarta hosts a large concentration of government ministries, state-owned enterprises, and public institutions. Prior to the implementation of budget-efficiency measures, many hotels relied heavily on government meetings, training programs, conferences, and official travel, which constituted a substantial proportion of room and MICE revenue. Consequently, the cancellation or postponement of government-funded activities had an immediate and severe impact on hotel performance. Occupancy rates declined by 39%, revenue contracted by 40%, and average daily rate fell by 11.05% in March 2025 (IHGMA, 2025). In several business-

oriented hotels, occupancy dropped to approximately 37%, illustrating the vulnerability of destinations whose hospitality sectors depend disproportionately on a single market segment. From a resilience perspective, Jakarta represents a case of high exposure to policy induced demand shocks, where institutional dependence limited the industry's adaptive capacity.

West Nusa Tenggara (NTB) presents a different pattern. Occupancy declined by only 7%, while revenue decreased by 8% and ADR fell by 7.19% during the same period (IHGMA, 2025). Although the region was not immune to the effects of fiscal tightening, its performance suggests a relatively lower dependence on government-generated demand. Nevertheless, revenue contraction remained evident, reflecting the broader influence of price competition and weaker regional purchasing power. NTB's experience demonstrates that even destinations with lower institutional dependence can experience secondary economic effects when national fiscal policies reduce overall business activity and consumer spending.

In Jakarta, occupancy rates plummeted by 39% in March, reaching a low of 37%. This "High Impact" category reflects a dependency on the government market exceeding 20% of total room and MICE revenue. In contrast, Bali and NTB demonstrated higher resilience. NTB's cumulative occupancy decline from January to March was only 2%, though its revenue still contracted by 15.30% due to regional pricing pressures. Bali's status as a "Low to Medium Impact" destination where government dependency is generally below 20% allowed it to avoid the near collapse seen in Jakarta's business hotels.

Taken together, these regional variations reveal that the impact of fiscal efficiency policies extends beyond simple reductions in government expenditure. Rather, they expose structural differences in destination economies and hospitality business models. Bali, despite experiencing notable losses, demonstrated greater resilience due to its diversified tourism base. Jakarta emerged as the most vulnerable destination because of its strong reliance on government-related demand. NTB occupied an intermediate position, showing moderate resilience but remaining susceptible to broader economic pressures. These findings support the argument that destination resilience depends not only on tourism demand levels but also on the composition of demand, market diversification, and the capacity of businesses to adapt when institutional demand suddenly contracts.

The Lebaran Holiday Period: An Inadequate Buffer

Traditionally, major holiday periods have functioned as important stabilizers for Bali's tourism economy. Unlike many destinations that depend heavily on a single visitor market, Bali benefits from recurring waves of domestic travel associated with major religious and national holidays. The Eid al-Fitr (Lebaran) holiday, Christmas and New Year (Natal dan Tahun Baru), and Chinese New Year (Imlek) have historically generated substantial increases in domestic tourist arrivals, hotel occupancy, and tourism-related spending. These periods often compensate for seasonal fluctuations in international arrivals and provide a critical source of revenue for accommodation providers, restaurants, transportation operators, and tourism-related businesses (UN Tourism, 2024; WTTC, 2024).

Among these holiday periods, Lebaran occupies a particularly important position in Indonesia's tourism calendar. The combination of extended public holidays, family reunions, and domestic travel traditions creates one of the largest annual movements of people in the country. For Bali, which has increasingly relied on the domestic market since the COVID-19 pandemic, the Lebaran season has become an essential mechanism for maintaining occupancy rates and supporting business cash flow during periods of market uncertainty.

However, findings from this study indicate that the 2025 Lebaran holiday did not provide the level of economic stimulus typically expected by the hospitality industry. To ensure an equivalent comparison, performance was measured across identical 10-day peak holiday windows for both years: April 5–14, 2024 (Lebaran Day 1 on April 10) and March 28–April 6, 2025 (Lebaran Day 1 on March 31), tracking the exact same cohort of 285 Bali hotels. During this 10-day window, Bali achieved an average occupancy rate of 76% in 2025, a noticeable decline from the 85% recorded during the equivalent 10-day period in 2024 (IHGMA, 2025). This specific holiday window is critical for Bali, as it primarily captures domestic non-fasting/non-celebrating tourists utilizing the long break to visit the island. Although Bali continued to outperform the 2025 national average occupancy rate of 60%, this year-on-year drop during an equivalent holiday window suggests that domestic leisure travel was insufficient to offset broader policy-induced market pressures.

The weakening performance was not limited to occupancy rates. Nationally, hotel revenue declined by 27%, while Average Daily Rate (ADR) fell by approximately 4% compared with the previous year (IHGMA, 2025). More importantly, the Average Length of Stay (ALoS) decreased across destinations. In Bali, average stays during the Lebaran period declined from four days to three days, while the national average contracted by approximately 0.53 days. From a tourism economics perspective, shorter lengths of stay reduce visitor expenditure and diminish the multiplier effects generated by tourism activity. Consequently, even when visitor arrivals remain relatively high, the economic benefits captured by local businesses may decline significantly (Dwyer et al., 2020).

Several factors may contextualize these observed operational trends. First, while hotel performance metrics alone cannot directly measure household motives, external macroeconomic indicators suggest that broader economic uncertainty and reduced purchasing power have encouraged more cautious spending behavior among domestic travelers. Under period-specific financial pressure, consumers typically prioritize affordability, opting for shorter stay durations and lower discretionary expenditures (UN Tourism, 2024). Second, although rising domestic airfares have constrained travel budgets across Indonesia, Bali benefits from a highly competitive flight landscape. Unlike other regional destinations, Bali maintains superior flight frequency, multiple carrier options, and flexible scheduling options, which together offer price versatility and help sustain consumer interest despite broader cost pressures. Nevertheless, given that guest motives were not directly surveyed in this study, these macroeconomic conditions and structural transport dynamics serve as plausible contextual frameworks supported by secondary data rather than direct empirical attributes of consumer behavior.

The findings also suggest that holiday-driven tourism alone is insufficient to compensate for the decline in institutional demand resulting from the implementation of Presidential Instruction No. 1 of 2025. Traditionally, holiday leisure tourism and government-related MICE activities have complemented one another within Bali's tourism economy. While holiday periods generate temporary surges in leisure demand, government meetings, conferences, training programs, and official travel provide more stable year-round demand. The contraction of the latter reduced one of the industry's most important stabilizing mechanisms. As a result, even strong holiday performance could not fully offset the loss of business generated by the public sector.

This phenomenon highlights an important dimension of destination resilience. Resilience is not solely determined by the number of visitors arriving at a destination but also by the quality of tourism demand, visitor spending patterns, and the balance

between leisure and institutional markets. Bali's experience during Lebaran 2025 demonstrates that high occupancy alone does not necessarily translate into strong economic performance when visitors shorten their stays, reduce expenditures, and shift toward lower-cost accommodation options. The case therefore reinforces the importance of market diversification and balanced demand structures in sustaining tourism-dependent economies during periods of fiscal and economic uncertainty.

The 2025 Lebaran holiday, while providing a temporary spike in activity, failed to reach the heights of the previous year (Table 2). For Bali, the holiday season traditionally serves as a peak revenue generator, but the 2025 data suggest a broader cooling of the domestic travel market.

Table 2. Lebaran Holiday Performance (2025 vs. 2024)

KPI	2024 Actual	2025 Actual	Change
National Occupancy	71%	60%	-15%
Bali Occupancy	85%	76%	-11%
National ADR	-	-	-4%
National Revenue	-	-	-27%
National ALoS	3 Days	2 Days	-1 Days

Source: IHGMA, 2025

During Lebaran 2025, Bali achieved a 76% occupancy rate, which was significantly higher than the national average of 60% but still well below the 85% achieved in 2024. A critical observation from this study is the reduction in the Average Length of Stay (ALoS). In Bali, the ALoS during Lebaran dropped from 4 days to 3 days, mirroring a national trend where stays shortened by approximately 1 day. This suggests that domestic tourists are becoming more budget-conscious, likely due to declining purchasing power and rising travel costs, such as increased airfares.

Responding to Fiscal Contraction: Collaboration, Survival, and Agility

The findings reveal that the hospitality industry's response to the 2025 budget-efficiency policy extended beyond conventional cost-cutting measures. Rather than treating the downturn solely as a temporary decline in demand, hotel operators increasingly viewed it as a structural adjustment requiring organizational adaptation. Qualitative data from the FGDs crystallized into three interconnected themes: *ultimate collaboration, survival-oriented business strategies, and managerial agility.* These three concepts highlight an original and powerful framework, framing the current industry challenges through a lens of strategic resilience and optimism.

First, respondents emphasized the importance of collaboration among government agencies, tourism associations, destination management organizations, airlines, and private-sector stakeholders. The implementation of Inpres No. 1 of 2025 reduced one of the hospitality sector's most stable sources of institutional demand, namely government-sponsored meetings, conferences, and official travel. As a result, recovery could no longer depend on a single actor. Instead, industry stakeholders highlighted the need for stronger partnerships between the public and private sectors to stimulate alternative demand sources. This reflects a broader understanding that destination resilience is not merely an organizational attribute, but a collective capacity built through stakeholder cooperation and coordinated action (Hall et al., 2018; Biggs et al., 2012).

Second, many hotel operators adopted what industry leaders described as a *"Survival is the New Profit"* approach. Under conditions of declining occupancy

and shrinking revenues, preserving business continuity became more important than maximizing short-term profitability. Rather than focusing exclusively on profit margins, management prioritized liquidity, operational sustainability, workforce retention, and cash flow management. Similar responses have been observed in hospitality industries facing major disruptions, where resilience depends on maintaining core organizational functions until market conditions improve (Prayag, 2018).

This survival-oriented mindset was operationalized through a two-tier adaptation strategy. The first stage focused on immediate operational optimization, including energy efficiency measures, stricter supplier terms, and market diversification toward independent domestic travelers, international leisure segments, and direct digital booking channels. When revenue pressures deepened, a second stage emerged, characterized by structural labor cost management. To maintain business continuity and prevent full organizational closure, a significant proportion of surveyed establishments implemented temporary labor adjustments: 68% of hotels utilized workforce rotation schemes, 52% implemented temporary unpaid leave, and 41% deferred non-essential capital investments.

However, a clear distinction must be made between business continuity and employee welfare. While measures such as unpaid leave and shift rotations preserved formal employment contracts and kept establishments operational, they simultaneously imposed substantial financial strain on workers through reduced take-home pay and income volatility over periods ranging from one to three months. Therefore, avoiding formal, permanent layoffs reflects a strategic decision to maintain operational readiness and institutional memory for an eventual recovery, rather than a measure of optimal employee welfare or friction-free workforce retention.

Third, the data highlight the growing importance of managerial agility or "*Agility is the Mantra"*. General managers repeatedly emphasized the need for rapid decision-making, flexible resource allocation, and continuous market repositioning. This agility was particularly evident in the implementation of a "push-and-pull" strategy. On the one hand, hotels aggressively pushed their products into alternative markets through promotions, digital marketing campaigns, corporate partnerships, and online travel agencies. On the other hand, they sought to pull new demand by redesigning packages, targeting emerging customer segments, and enhancing value propositions for independent travellers.

The observed effectiveness of these adaptive strategies varied significantly based on a property's baseline reliance on government-generated demand. To evaluate performance outcomes rather than mere strategic intent, hotel performance metrics were cross-analyzed against customer concentration levels.

Empirically, hotels with diversified customer portfolios—where government MICE accounted for less than 20% of pre-policy revenue—demonstrated stronger resilience: this segment limited revenue declines to an average of 8–12% year-on-year, supported by a 15% growth in direct domestic leisure bookings following redirected marketing campaigns. Conversely, highly dependent establishments (where government MICE exceeded 50% of revenue) experienced severe operational disruption; this group suffered average revenue contractions exceeding 35%, with workforce rotation schemes failing to fully cushion the drop in gross operating profit. These observed changes in revenue and market mix confirm that while strategic actions (such as market redirection and cost controls) were reported across all hotel tiers, their actual capacity to offset fiscal shocks depended strictly on pre-existing structural diversification, rather than destination popularity alone

These firm-level findings demonstrate that organizational adaptation involves more than immediate crisis survival; it serves as a micro-level foundation for broader destination resilience (Teece, 2007; Dahles & Susilowati, 2015). In the Bali case, aggregate manager accounts of resource reorganization, staffing adjustments, and market pivoting illustrate how individual hotel adaptive capacities collectively influence a destination's overall ability to absorb fiscal policy shocks (Hall et al., 2020; UN Tourism, 2024). However, short-term operational survival does not automatically equate to long-term destination resilience (Jiang et al., 2019; 2023). While firm-level agility helps buffer immediate revenue losses, establishing true destination-level sustainability requires observing longitudinal outcomes, such as multi-year capital reinvestment rates, long-term workforce retention, and permanent market-mix shifts away from institutional dependency, over an extended temporal horizon (Pearce & Robinson, 2013; Saarinen, 2006).

From a policy perspective, these findings demonstrate that fiscal discipline and tourism resilience can be aligned through targeted, actionable governance rather than broad expenditure cuts alone. Based on our finding that highly dependent establishments suffered severe revenue contractions (>35%) due to an immediate absence of institutional demand, policy interventions must focus on structured demand diversification.

Specifically, the Ministry of Tourism, in formal coordination with local provincial tourism boards and regional hotel associations (such as IHGMA and PHRI), should establish a national 'MICE Transition Task Force.' Rather than advocating for a full restoration of government travel budgets—which would contradict state fiscal efficiency goals under Inpres No. 1 of 2025—this Task Force should implement a matching-grant incentive mechanism and tax-credit offsets for hotels that successfully pivot from public-sector reliance to international corporate, association, and regional private MICE markets. Furthermore, local governments should facilitate co-marketing platforms to aggregate individual leisure demand. By tying fiscal incentives directly to market diversification milestones, policymakers can preserve private-sector business continuity and safeguard employment without undermining national fiscal restraint.

CONCLUSION

This study demonstrates that Indonesia's 2025 budget efficiency policy generated substantial consequences for the hospitality sector, particularly in destinations with strong dependence on government related MICE activities. Although Bali remained one of Indonesia's most resilient tourism destinations, declines in occupancy, revenue, and average room rates indicate that growing tourist arrivals alone were insufficient to compensate for the contraction of institutional demand resulting from reduced government meetings, conferences, and official travel. Comparative evidence from Jakarta and West Nusa Tenggara further confirms that the impacts of fiscal tightening varied according to the degree of dependence on public sector expenditure and the diversity of market segments.

The findings also reveal that the industry's response extended beyond conventional cost-cutting measures. Rather than treating the downturn as a temporary decline in demand, hotel operators increasingly viewed it as a structural adjustment requiring organizational adaptation. Three interconnected responses emerged: *stronger stakeholder collaboration*, *survival-oriented business strategies*, and *managerial agility*. Hotels prioritized business continuity over short-term profitability, diversified their customer base, optimized operations, and adopted flexible workforce and marketing strategies. The effectiveness of these measures, however, depended largely on the ability of hotels to

reduce reliance on government-generated demand and reposition themselves toward leisure, private-sector, and international markets.

From a theoretical perspective, this study extends the tourism resilience literature by highlighting policy induced demand shocks as an underexplored source of vulnerability in tourism-dependent economies. While previous studies have primarily examined resilience in response to pandemics, natural disasters, terrorism, and economic crises, this research demonstrates that domestic fiscal governance can also directly influence destination performance, business sustainability, and adaptive behaviour. The findings suggest that resilience should be understood not only as the capacity to recover from external disruptions but also as the capability to adapt to policy driven changes in the economic environment.

Based on these empirical observations, this study proposes an interpretive framework suggesting that destination resilience may be conceptualized through the interaction of three interrelated dimensions: collaborative capacity (stakeholder coordination), adaptive capacity (firm-level agility and market diversification), and market structural resilience (the balance between institutional and non-institutional demand). While these dimensions offer an analytical lens to contextualize our findings beyond established resilience concepts, several methodological limitations must be acknowledged.

First, the data rely on non-probability purposive sampling through an industry association (IHGMA), self-reported financial and operational metrics, and a short observation window following the policy implementation, which introduces potential attribution bias and limits aggregate statistical comparability. Consequently, empirical conclusions regarding immediate operational survival, cost-containment measures, and revenue shifts apply strictly to the sampled establishments. The broader systemic proposition, that diversifying demand structures and strengthening public-private partnerships enhances long-term destination resilience, serves as a grounded hypothesis for future longitudinal and destination-level research.

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AI USE STATEMENT

The research data and analysis presented in this article are entirely the work of the authors. Generative AI tools (ChatGPT and Gemini) were used solely to refine the clarity and readability of the English text and to assist in reference identification. All generated outputs were thoroughly checked and verified by the authors. Any omissions or shortcomings remain the sole responsibility of the authors.

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