



# Indonesia Energy Subsidy Briefing<sup>1</sup>

NOV.  
2013

AS PART OF ITS WORK ON ENERGY POLICY AND SUSTAINABLE DEVELOPMENT IN INDONESIA, THE GLOBAL SUBSIDIES INITIATIVE (GSI) OF THE INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT (IISD) PUBLISHES A REGULAR BRIEFING ON ISSUES RELATED TO ENERGY SUBSIDIES. FOR MORE INFORMATION, CONTACT LUCKY LONTOH AT [LUCKY.LONTOH@IISD.ORG](mailto:LUCKY.LONTOH@IISD.ORG) AND CHRISTOPHER BEATON AT [CBEATON@IISD.ORG](mailto:CBEATON@IISD.ORG).

## Energy Subsidies and Indonesia's 2014 State Budget

Indonesia's House of Representatives, the Dewan Perwakilan Rakyat (DPR), approved Indonesia's 2014 State Budget on October 25, 2013, after more than two months of deliberation with the Indonesian Government (Antara, 2013). The budget-making cycle in Indonesia traditionally starts each year on August 16 and ends in late October. During this time representatives from parliament and the government meet to negotiate upcoming expenditure plans. In 2014, Indonesia will again run a budget deficit (measuring a modest 1.69% of GDP), having done so each year since 1999.

**Table 1: Indonesia's State Budget 2014**

Projected Balance	
Government Revenue	Rp1,667.1 trillion (US\$158.76 billion)
Government Expenditure	Rp1,842.5 trillion (US\$175.48 billion)
Budget deficit	Rp175.4 trillion (US\$16.7 billion)
Budget deficit ratio to GDP	1.69%
Primary Macroeconomic Assumptions	
Growth	6%
Inflation	5.5%
Exchange rate	Rp10,500/US\$1
Interests Rate	5.5%
Indonesian Crude Price	US\$105/barrel
Oil production	870,000 barrel/day
Gas production	1,240 barrel of oil equivalent/day
Energy Subsidy	
Fuel Subsidy	Rp210.7 trillion (US\$20.07 billion)
Electricity Subsidy	Rp71.4 trillion (US\$6.8 billion)

Source: Antara (2013); Tempo (2013).

The 2014 budget allocates Rp282.1 trillion (US\$26.87 billion) for two categories of energy subsidies: Rp210.7 trillion (US\$20.07 billion) for fuel subsidies and Rp71.4 trillion (US\$6.8 billion) for electricity subsidies. Energy subsidies continue to be one of the largest components of total government expenditure, eclipsing personnel expenditure (Rp263.9 trillion, US\$25.13 billion), capital expenditure (Rp205.8 trillion, US\$19.6 billion), and interest payments on debt (Rp121.2 trillion, US\$11.54 billion).



# Energy Subsidy Briefing



The 2014 energy subsidy allocation is approximately Rp10.8 trillion (US\$1.3 billion) higher than was allocated in the 2013 revised budget. In fact, the government initially proposed a reduction in total energy subsidies (Revised State Budget 2013); however in the final draft of the Budget the Rp-US\$ exchange rate was revised from Rp9,750/US\$1 to Rp10,500/US\$1, which affected the rupee value of subsidies as a whole, given US dollar-denominated international oil prices. In any case, in the absence of significant mid-year revisions, the 2014 State Budget largely represents a continuation of Indonesia's efforts to curtail the growth of total energy subsidies.

A substantial reduction in energy subsidies is expected to come from reduced electricity subsidies, which in 2013 were budgeted at Rp99.98 trillion. In 2013, electricity tariffs on all but the two lowest tariff classes, the 450VA and 900VA classes, have been increased by 15 percent.

The government has pledged to continue efforts to reduce both electricity production costs and petroleum consumption in electricity generation by securing greater supplies of gas, coal and other alternative energy sources for power generators. Cost savings will also be sought through improvements to the performance of PT Perusahaan Listrik Negara (PT PLN), the state-owned power company, and further evaluating subsidy and pricing systems for retail electricity, with plans in place to continue to increase electricity tariffs in 2014 (Fiscal Note and State Budget Proposal 2014, p.4-104; Suara Merdeka, 2013). However, there are several policy issues that are likely to emerge in the course of this process, including the way the government manages electricity prices for lower tariff classes (450VA and 900VA), and the exact design and nature of new electricity subsidy and pricing systems.

Indonesia's total fuel subsidy in 2014 will continue to cover gasoline, diesel, kerosene, LPG, and LGV (liquid gas for vehicles). The combined total volume of subsidized liquid petroleum products (gasoline, automotive diesel, and kerosene) in 2014 was set at 48 million kiloliters, which is similar to the quota contained in the 2013 revised budget. For 2014, the government initially proposed a quota of 50.44 million kiloliters (comprised of 32.9 million kiloliters of gasoline, 1.1 million kiloliters of kerosene, and 16.44 million kiloliters of automotive diesel); however deliberations between the government and parliament resulted in a lower annual quota of 48 million kiloliters (Kompas, 2013).

This is likely to be a tough target for the government to meet, since several new policies designed to control fuel consumption, such as Radio Frequency Identification (RFID), a cashless fuel transaction system and the domestic green car industry initiative, will likely take considerable time to be implemented and change consumption patterns. Furthermore, there are questions as to whether the political will exists to continue to increase fuel prices, given the upcoming parliamentary and presidential elections in April and August 2014, respectively (Jakarta Globe, 2013).

The subsidy for automotive gas was set at Rp100 billion (US\$9.52 million) (Fiscal Note and State Budget 2014), an amount significantly smaller than the subsidy given to conventional liquid fuels. According to the 2014 Fiscal Note and State Budget Proposal, the subsidy for LPG (3kg canisters) - provided to households and small businesses - will be to the value of Rp36.77 trillion (US\$3.5 billion).





# Energy Subsidy Briefing

**Table 2: Indonesia's Consumer Price Index and Inflation, 2013**

2013	Consumer Price Index (2007 = 100)	Inflation
January	136.88	1.03
February	137.91	0.75
March	138.78	0.63
April	138.64	-0.1
May	138.60	-0.03
June	140.03	1.03
July	144.63	3.29
August	146.25	1.12
September	145.74	-0.35
October	145.87	0.09

Source: National Statistics (2013).

The inflationary impact of fuel price increases in late-June 2013 peaked in the month of July, but has eased in the subsequent months (see Table 2), matching the forecasts made by the government prior to these initial price changes (Jakarta Post, 2013; Liputan6.com, 2013; Tribun Manado, 2013). However Indonesia will still experience significant inflation this calendar year, with inflation in 2013 currently nearing the annual target of 9.2 percent (PortalKBR.com, 2013). Data from the Bank of Indonesia shows year-on-year inflation at 8.32 percent in October 2013 (Bank of Indonesia, 2013), with the likelihood of further generalized price-level rises towards the end of this year as a result of increased seasonal demand around the Christmas and end-of-year holidays.



# Energy Subsidy Briefing



GSI Global  
Subsidies  
Initiative

iisd International  
Institute for  
Sustainable  
Development Institut  
international du  
développement  
durable

## References

Antara. (2013, October 25). DPR passes national budget for 2014. Retrieved from: <http://www.antaranews.com/en/news/91246/dpr-passes-national-budget-for-2014>

Bank of Indonesia. (n.a.). Inflation. Retrieved from: <http://www.bi.go.id/web/en/Moneter/Inflasi/Data+Inflasi/>

Detik.com. (2013, September 26). Siap-siap 1 Oktober Tarif Listrik Naik Lagi. Retrieved from: <http://finance.detik.com/read/2013/09/27/152157/2371475/1034/siap-siap-1-oktober-tarif-listrik-naik-lagi>

Fiscal Note and State Budget Proposal 2014.

Jakarta Globe. (2013, October 29). Energy Subsidy Seen at Risk of Exceeding 2014 Target. Retrieved from: <http://www.thejakartaglobe.com/business/energy-subsidy-seen-at-risk-of-exceeding-2014-target/>

Kompas. (2013, September 25). Retrieved from: <http://bisniskeuangan.kompas.com/read/2013/09/25/1857475/Anggaran.Subsidi.BBM.2014.Masih.Besar>

Liputan6.com. (2013, April 15). BI: Dampak Pengurangan Subsidi BBM ke Inflasi Hanya 3 Bulan. Retrieved from: <http://bisnis.liputan6.com/read/562014/bi-dampak-pengurangan-subsidi-bbm-ke-inflasi-hanya-3-bulan>

National Statistics (BPS, Badan Pusat Statistik). (2013). Inflasi. Retrieved from: <http://www.bps.go.id/aboutus.php?inflasi=1>

PortalKBR.com (2013, October 2). Menteri Hatta: Target Inflasi 2013 Bisa Dicapai. Retrieved from: [http://www.portalkbr.com/berita/nasional/2960068\\_4202.html](http://www.portalkbr.com/berita/nasional/2960068_4202.html)

Revised State Budget 2013.

Suara Merdeka. (2013, October 25). Subsidi Listrik Turun, Tarif Listrik Naik. Retrieved from: <http://www.suaramerdeka.com/v1/index.php/read/news/2013/10/25/177089/Subsidi-Listrik-Turun-Tarif-Listrik-Naik>

Tempo. (2013, October 25). Rapat Paripurna DPR Sahkan APBN 2014. Retrieved from: <http://www.tempo.co/read/news/2013/10/25/087524654/Rapat-Paripurna-DPR-Sahkan-APBN-2014>

The Jakarta Post. (2013, October 2). Indonesia sees deflation, trade surplus. Retrieved from: <http://www.thejakartapost.com/news/2013/10/02/indonesia-sees-deflation-trade-surplus.html>

Tribun Manado. (2013). Dampak Inflasi Akibat Harga BBM Hanya Tiga Bulan. Retrieved from: <http://manado.tribunnews.com/2013/05/27/dampak-inflasi-akibat-harga-bbm-hanya-tiga-bulan>





# Energy Subsidy Briefing

Published by the International Institute for Sustainable Development.

## **International Institute for Sustainable Development**

Head Office

161 Portage Avenue East, 6th Floor, Winnipeg, Manitoba, Canada R3B 0Y4  
Tel: +1 (204) 958-7700 | Fax: +1 (204) 958-7710 | Web site: [www.iisd.org](http://www.iisd.org)

## **About IISD**

The International Institute for Sustainable Development (IISD) contributes to sustainable development by advancing policy recommendations on international trade and investment, economic policy, climate change and energy, and management of natural and social capital, as well as the enabling role of communication technologies in these areas. We report on international negotiations and disseminate knowledge gained through collaborative projects, resulting in more rigorous research, capacity building in developing countries, better networks spanning the North and the South, and better global connections among researchers, practitioners, citizens and policy-makers.

IISD's vision is better living for all—sustainably; its mission is to champion innovation, enabling societies to live sustainably. IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the International Development Research Centre (IDRC), from the Danish Ministry of Foreign Affairs and from the Province of Manitoba. The Institute receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations and the private sector.

## **About GSI**

GSI is an initiative of the International Institute for Sustainable Development (IISD). GSI puts a spotlight on subsidies—transfers of public money to private interests—and how they impact efforts to put the world economy on a path toward sustainable development. In cooperation with a growing international network of research and media partners, GSI seeks to lay bare just what good or harm public subsidies are doing; to encourage public debate and awareness of the options that are available for reform; and to provide policy-makers with the tools they need to secure sustainable outcomes for our societies and our planet.

## **International Institute for Sustainable Development**

Global Subsidies Initiative

International Environment House 2

9 chemin de Balexert, 1219 Châtelaine, Geneva, Switzerland

Tel: +41 22 917-8373 | Fax: +41 22 917-8054