

# INDONESIA ENERGY SUBSIDY BRIEFING

A bi-monthly review of developments in Indonesian energy subsidy policy and energy markets

## September 2016

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 Lasse Toft at [ltchristensen@iisd.org](mailto:ltchristensen@iisd.org).

### Highlights

- Overall subsidy expenditure for the year ahead is anticipated to remain relatively stable, estimated at USD 6.99 billion (IDR 94,355 billion) in 2016 and USD 6.83 billion (IDR 90,872 billion) in 2017.
- The 2017 state budget proposal introduced a new energy subsidy post for new and renewable energy. According to the government, this subsidy is intended to support renewable power generation and bioethanol fuel.
- The government is still deliberating over when to implement reforms of subsidies to electricity and liquefied petroleum gas (LPG). These subsidy posts are expected to cost USD 3.65 billion (IDR 48,588 billion) and USD 2.40 billion (IDR 31,984 billion) respectively in 2017.
- PT PLN and Indonesian coal producers have not yet agreed on the price of coal. Currently, the coal price for mine mouth power plants is based on the cost of production and a 15–25 per cent profit margin. However, according to PT PLN, it could obtain a better price by negotiating the price of coal directly with the power plants, free of government interference.

### State Budget Negotiations

On August 16, the annual state budget negotiations for the 2017 fiscal year began. As per tradition, the process was inaugurated by a Presidential keynote speech, marking the official presentation of the government's development program and state budget proposal for the upcoming fiscal year. Then follows a series of discussions between relevant government agencies and their parliamentary counterparts. The process is normally completed by late October through the approval of the 2017 state budget.

Ahead of this year's budget talks, in July 2016 President Joko Widodo shuffled his cabinet, which included changes in several key ministries. The shuffle was viewed by many as an effort to bolster the President's ability to deliver on major political priorities such as a repatriation of national investments through a tax amnesty, infrastructure development and power sector investments to ramp up electricity generation capacity.

The cabinet changes saw the return of Sri Mulyani Indrawati—a highly respected technocrat and former Managing Director of the World Bank—as Minister of Finance, a position she also held from 2005 to 2010. She replaces Bambang Brodjonegoro, who has been put in charge of the National Development Planning Agency (Amindoni, 2016).

President Jokowi also appointed Archandra Tahar as Minister of Energy and Mineral Resources, replacing Sudirman Said. The appointment, however, proved controversial because Tahar in 2012 had obtained dual citizenship, which is not allowed in Indonesia. On August 15, the controversy led to President Jokowi removing Tahar from the cabinet. Luhut Pandjaitan, Coordinating Minister of Maritime Affairs, is currently serving as acting Minister of Energy and Mineral Resources until a permanent replacement is appointed ("President discharges," 2016).

## Macroeconomic Outlook and Energy Subsidies

According to the government's state budget proposal, the economic forecast for 2017 is stable, expecting the rupiah to strengthen slightly and international crude oil prices to increase.

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The state budget proposal also introduced a new energy subsidy post for new and renewable energy. According to the government, this subsidy is intended to support renewable power generation and bioethanol fuel.

Although the proposed budget allocation was modest, at USD 0.1 billion (IDR 1.3 billion), the parliament has since rejected the proposal (Government of Indonesia, 2016). In addition, Said Abdullah, the parliament's Budget Body Vice Chairman, indicated that other energy subsidy posts would also be cut. According to Abdullah, LPG subsidies would be capped at USD 1.5 billion (IDR 19.9 trillion), kerosene subsidies at USD 0.16 billion (IDR 2.1 trillion), diesel subsidies at USD 0.6 billion (IDR 8 trillion), and electricity subsidies at USD 3.38 billion (IDR 44.98 trillion) (Katadata, 2016).

Key elements from the government's 2017 state budget proposal are highlighted in Table 1 below.

**Table 1. Macroeconomic indicators and energy subsidies in state budgets**

Indicators	2014 (Audited)	2015 (Audited)	2016 (Revised)	2017 (Proposal)
Inflation (%)	8.36	3.35	4.00	4.00
Growth (%)	5.06	4.79	5.20	5.30
Exchange Rate (IDR/ 1 USD)	11,878	13,392	13,500	13,300
Central Bank's Interests Rate (%)	5.80	5.97	5.50	5.30
Crude Oil Production (thousand/bbl)	794.00	777.59	820.00	780.00
Natural Gas Production (mboepd)	1,224.00	1,195.40	1,150.00	1,150.00
Crude Oil Price (USD/barrel)	97.00	49.20	40.00	45.00
GDP (billion)	USD 849.88 IDR 10,094,928	USD 861.77 IDR 11,540,800	N/A	N/A
State Revenue (billion)	USD 130.53 IDR 1,550,490	USD 112.61 IDR 1,508,020	USD 132.31 IDR 1,786,200	USD 130.65 IDR 1,737,629
State Expenditure (billion)	USD 158.01 IDR 1,876,872	USD 152.22 IDR 2,038,500	USD 154.29 IDR 2,082,900	USD 155.67 IDR 2,070,465
State Budget Surplus/Deficit (billion)	USD -20.33 IDR -241,494	USD -39.61 IDR 2,038,539	USD -21.98 IDR 2,082,921	USD -25.03 IDR 2,070,490
Budget Deficit Ratio to GDP (%)	2.40	2.58	2.35	2.41
Total Fuel Subsidy (billion)	USD 20.20 IDR 239,994	USD 4.54 IDR 60,758	USD 3.24 IDR 43,686	USD 3.18 IDR 42,314
Gasoline (billion)	USD 9.17 IDR 108,957	USD 0.84 IDR 11,194	N/A	N/A
Diesel (billion)	USD 6.30 IDR 74,860	USD 1.53 IDR 20,484		
Kerosene (billion)	USD 0.61 IDR 7,200	USD 0.24 IDR 3,207		
LPG (billion)	USD 4.12 IDR 48,975	USD 1.93 IDR 25,872		
Total Electricity Subsidy (billion)	USD 8.57 IDR 101,816	USD 4.36 IDR 58,332	USD 3.75 IDR 50,668	USD 3.65 IDR 48,558
Total Energy Subsidy (Fuel + Electricity Subsidies) (billion)	USD 28.78 IDR 341,810	USD 8.89 IDR 119,091	USD 6.99 IDR 94,355	USD 6.83 IDR 90,872

Source: Government of Indonesia, 2016

## Update on Electricity Subsidy Reform

Indonesia's support of electricity has become its most expensive energy subsidy following substantial reforms of fuel subsidies in January 2015. In the past 10 years, this subsidy has increased exponentially, from IDR 8.8 trillion (USD 661 million) in 2005, to IDR 57.6 trillion (USD 4.3 billion) in 2010, and to IDR 101.82 trillion (USD 7.6 billion) in 2014.<sup>1</sup> This increase was primarily caused by high oil prices from 2009 until the end of 2014, in addition to the weakening of the exchange rate against the U.S. dollar. As of 2016, electricity subsidy costs have fallen in line with world oil prices, but remain significant. The revised 2016 State Budget allocated IDR 50.7 trillion (USD 3.75 billion) to electricity subsidies. In the government's state budget proposal for 2017 they are projected at IDR 90.9 trillion (USD 3.65 billion).

Electricity is priced according to a complex tier system that separates users into categories (residential, business, industry etc.) and then further disaggregates those categories according to the size of their electricity connection or total monthly consumption. PT PLN's R-1 tariff class covers household customers according to whether they have a connection sized 450VA, 900VA, 1,300VA or 2,200VA. Households with 450VA and 900VA power connections receive subsidized electricity.

The generally agreed purpose of Indonesia's electricity subsidy is to assist low-income and vulnerable households. However, the subsidy is not well targeted, as the majority of people receiving the subsidy are relatively well-off. For example, the latest verification by Indonesia's National Team for the Acceleration of Poverty Reduction (TNP2K) and PT PLN found that the number of 900VA customers who are also listed in TNP2K's database of poor households (the Unified Registry, used to target Indonesia's main social assistance programs) is only 3.9 million households. This finding indicates that more than 18 million households in the 900VA category do not meet the criteria to receive social assistance.

The Government of Indonesia has therefore signalled its intention to reform subsidies for electricity, and the reform plan has already been scheduled twice for implementation by the government. The first attempt, supposed to be conducted in January 2016, was postponed by the request of President Joko Widodo in order to allow PT PLN and TNP2K to harmonize their

databases of poor households. The second attempt, which was to be conducted in June or July 2016, did not receive parliament's approval. Reform is currently scheduled for early 2017.

The exact details of Indonesia's reform plan are not fully disclosed, but are expected to focus primarily on better targeting of subsidies to poor households. Reform is expected to focus on both 450VA and 900VA connection classes through which 22.8 million and 22.3 million customers respectively receive discounted electricity. According to the latest bulletin from the state budget negotiations, electricity reform will aim to reduce the number of subsidy recipients to 19.1 million customers in the 450VA class and 4.05 million customers in the 900VA class (Kontan, 2016; Government of Indonesia, 2016a)

## Coal Update

As reported previously in this publication, the government's plan to expand electricity capacity by 35GW by 2019 has got off to a rocky start. To this end, on August 26, acting Minister of Energy and Mineral Resources, Luhut Panjaitan, convened a meeting with the director of PT PLN, Indonesia's state-owned electricity company, representatives from the Indonesian Coal Mining Association (APBI-ICMA) and the Independent Power Producers Association of Indonesia (APLSI). The purpose of the meeting was to discuss the progress of the 35GW plan and issues around coal supply and participation of private sector players.

The meeting was also intended to mediate between PT PLN and Indonesian coal producers who are still not in agreement about the price of coal. Currently, the coal price for mine mouth power plants is based on the cost of production and a 15–25 per cent profit margin. However, according to PT PLN, it could obtain a better price by negotiating the price of coal directly with the power plants, free of government interference (Detik, 2016).

It should be noted that although the Indonesian Coal Price Reference (*Harga Batubara Acuan*, HBA) has been increasing since June, the upward trend is expected to be only temporary, following a period where Chinese coal production has been declining faster than demand. This has led to a hike in China's coal imports, pushing international coal prices upwards (Buckley, 2016).

<sup>1</sup> For comparison, a fixed exchange rate at IDR 13,300 per USD has been used in this section. The rest of the briefing uses the official exchange rates from the state budget. See Table 1 for more information.

In June 2016, the HBA was set at USD 51.81 (IDR 689,073) per tonne, while in August 2016 it was set at USD 58.37 (IDR 776,321) per tonne (Liputan6, 2016; Ministry of Energy and Mineral Resources, 2016). In September 2016, HBA was set at USD 63.93 (IDR 850,269) per ton (Kontan, 2016).

On September 9, the Director General of Electricity, Jarman, explained that domestic coal consumption was expected to increase in accordance with the progress of 35GW plan. According to Jarman, current domestic coal consumption for power generation totals 87.7 million tonnes, but is expected to reach 166.2 million tonnes in 2019 (Katadata, 2016).

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