On August 14, 2015, Indonesia's President Joko Widodo addressed the parliament to present the draft budget for 2016. The budget proposal for 2016 underlines the fiscal benefits gained from fuel sector reforms in early 2015.

While the budgetary savings from diesel and gasoline subsidies are significant, subsidies to LPG continue to increase year-on-year. The 2016 draft budget also proposes to cut electricity subsidies by 41 per cent compared to 2015, estimating total expenditure for electricity subsidies at IDR 50 trillion in 2016.

Despite clear signals from the government in early 2015 to pass through international prices to domestic pump prices, the government’s policy towards actually increasing fuel prices has been less consistent.

In July, Minister of Energy and Mineral Resources, Sudirman Said, announced that the government was aiming to establish an oil fund as an instrument to manage fluctuations in international oil prices as well as to support PT Pertamina’s upstream activities.

Energy Subsidies in Indonesia’s 2016 Budget Proposal

On August 14, Indonesia’s President Joko Widodo addressed the parliament to present the draft budget for 2016. Widodo's speech formally represented the start of a series of detailed budget negotiations with parliament members. The budget negotiations are planned to last until October 5, and will result in the adoption of the final state budget for 2016.

The 2016 budget proposal totals IDR 2.100 trillion (US$153 billion), representing an increase in government expenditure from IDR 1.984 trillion in 2015 (US$140 billion) (Indo-Investments, 2015).

The proposed budget includes an energy subsidy allocation at IDR 120.96 trillion (US$8.4 billion). This is comprised of IDR 70.96 trillion (US$5 billion) to subsidies for fuel and LPG, and IDR 50 trillion (US$3.52 billion) for electricity subsidies (State Budget 2016 - Proposal, 2015).

The budget proposal for 2016 underlines the fiscal benefits gained from fuel sector reforms in early 2015 and also highlights the government’s continued commitment to keep gasoline and diesel subsidies at bay (Reuters, 2015).

For comparison, provision for fuel and LPG subsidies in the audited budget for 2014 stood at IDR 239.99 trillion (US$16.9 billion). In the revised but still unaudited budget for 2015, fuel subsidies are estimated to reach IDR 64.67 trillion (US$4.5 billion). While slightly higher than the fuel subsidy projections for 2015, subsidies in the 2016 budget proposal are still significantly lower than post-reforms and projected at around IDR 70.96 trillion (US$5 billion). It should be noted, however, that the budget estimations for subsidies are normally below the audited expenditure for fuel subsidies. The audited budget for 2015 is expected to be published in mid-2016.
LPG Subsidies Continue to Rise

Although the budgetary savings from diesel and gasoline subsidies are significant, subsidies to LPG continue to increase year-on-year. The provision of subsidized LPG is part of the government’s policy to continue to support domestic gas consumption, particularly at the household level. The policy is a continuation of the so-called “Zero Kero” programme launched in 2007. Officially known as the “LPG-to-Kerosene Conversion Program”, the scheme aims to replace household consumption of subsidized kerosene with LPG. Since its adoption in 2007, the “Zero Kero” programme has been one of the main drivers behind a consistent increase in Indonesia’s LPG consumption at household level. In 2016, the “Zero Kero” programme will focus its expansion on the eastern archipelago of Indonesia, namely Sumbawa, East Nusa Tenggara and Maluku. In 2017, the programme is expected to reach Papua Island (Bisnis.com, 2015).

Government expenditure to LPG subsidies in 2015 is expected to reach IDR28 trillion (US$1.97 billion) in 2015. With the proposed increase of the volume of subsidized LPG in 2016, the budgetary expenditure for LPG subsidies is projected to increase in 2016. However, at the time of writing it has not been possible to estimate the exact amount (State Budget 2016 - Proposal, 2015).

LPG in Indonesia for the household sector can be purchased in 3kg and 12kg canisters. Formally, subsidies are universally provided to consumption of the 3kg canisters as a means to support energy access for low-income households. In reality, however, PT Pertamina, has also been selling 12kg LPG canisters at subsidized prices, reporting losses totaling IDR21.8 trillion (US$1.5 billion) between 2008 and 2013. To cover the gap, PT Pertamina adopted a price adjustment scheme to gradually increase the price for “non-subsidized” LPG with price increases scheduled to take place every six months from September 2014 (GSI, 2015). PT Pertamina has since then moved to adjust prices for LPG on several occasions. In early January, prices were increased to IDR134.000 (US$9.4). On January 19 prices were adjusted downwards to IDR129,000 (US$9.1). In March, prices were increased to IDR134,000 (US$9.4) and finally in April, the price for 12kg LPG canisters were reported at IDR142,000 (US$10.3) (KOMPAS, 2015; JPNN, 2015; Tempo, 2015; CNN Indonesia, 2015).

Backsliding Risk Increases on Fuel Subsidy Reform

Despite clear signals from the government in early 2015 to pass through international prices to domestic pump prices, the government’s policy towards actually increasing fuel prices has been less consistent.

In the immediate aftermath of the fuel sector reform in

---

Table 1. Indonesia Draft State Budget 2016 and Energy Subsidy Allocation

<table>
<thead>
<tr>
<th>Indicators</th>
<th>FY 2014 Audited Budget</th>
<th>FY 2015 Revised Budget</th>
<th>FY 2016 Proposed Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic Indicators</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>8.36%</td>
<td>5.00%</td>
<td>4.70%</td>
</tr>
<tr>
<td>Growth</td>
<td>5.06%</td>
<td>5.70%</td>
<td>5.50%</td>
</tr>
<tr>
<td>Crude Oil Production</td>
<td>0.79 mbd</td>
<td>0.82 mbd</td>
<td>0.80 - 0.83 mbd</td>
</tr>
<tr>
<td>Natural Gas Production</td>
<td>1.22 mboed</td>
<td>1.22 mboed</td>
<td>1.10 - 1.30 mboed</td>
</tr>
<tr>
<td>Exchange Rate (IDR/US$)</td>
<td>11,878</td>
<td>12,500</td>
<td>13,400</td>
</tr>
<tr>
<td>Indonesian Crude Oil Price</td>
<td>US$97/ bbl</td>
<td>US$60/ bbl</td>
<td>US$60/ bbl</td>
</tr>
<tr>
<td>Fuel Subsidy Expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel Subsidy Expenditure (Gasoline + Automotive Diesel + Kerosene + LPG)</td>
<td>IDR239.9 trillion (US$16.9 billion)</td>
<td>IDR64.67 trillion (US$4.5 billion)</td>
<td>IDR70.96 trillion (US$5 billion)</td>
</tr>
<tr>
<td>Subsidized Fuel Volume</td>
<td>46 mkl</td>
<td>17.9 mkl</td>
<td>16.7 - 18.7 mkl</td>
</tr>
<tr>
<td>Subsidized LPG Volume</td>
<td>5.1 mton</td>
<td>5.8 mton</td>
<td>6.5 - 6.65 mton</td>
</tr>
<tr>
<td>Electricity Subsidy Expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity Subsidy</td>
<td>IDR101.8 trillion (US$7.19 billion)</td>
<td>IDR73.15 trillion (US$5.16 billion)</td>
<td>IDR50 trillion (US$3.52 billion)</td>
</tr>
<tr>
<td>Fiscal Balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Revenue</td>
<td>IDR 1,550.49 trillion (US$109.53 billion)</td>
<td>IDR 1,761.64 trillion (US$124.45 billion)</td>
<td>IDR 1,848.11 trillion (US$130.5 billion)</td>
</tr>
<tr>
<td>State Expenditure</td>
<td>IDR 1,777.18 trillion (US$125.5 billion)</td>
<td>IDR 1,984.15 trillion (US$158.73 billion)</td>
<td>IDR 2,121.29 trillion (US$140.172 billion)</td>
</tr>
<tr>
<td>Budget Deficit Ratio to GDP</td>
<td>1.91%</td>
<td>1.90%</td>
<td>2.10%</td>
</tr>
</tbody>
</table>

early 2015, the government acted swiftly to reduce fuel prices on two occasions in January, in accordance with falling international oil prices. At the same time, then Coordinating Minister of Economic Affairs, Sofyan Djalil, stated that the government was likely to adjust prices on a bi-weekly basis (CNN Indonesia, 2015). However, in February, the government refrained from this practice, announcing that it would change prices on a monthly basis instead (Republika, 2015). On 1 March, the price of gasoline was increased by IDR200 (US$ 0.01) per liter and further, on 28 March, the price for both gasoline and diesel was increased by IDR500 (US$ 0.03) per liter.

The price increases in March were not unilaterally well received by the public and the parliament and in April, Minister of Energy and Mineral Resources, Sudirman Said, revealed that the government planned even longer intervals for fuel price adjustments (Sindonews, 2015). By the end of May, Minister Said announced that the fuel price adjustments would be conducted once every three months (Antara, 2015) (CNN Indonesia, 2015). Finally, on 1 June, the government announced that heading into the holy Ramadan month, there would be no price adjustments, despite the fact that Indonesian fuel prices had remained fixed for three months since the latest adjustment in March (Jawa Pos, 2015).

The tale of changing policies towards the implementation of the new fuel pricing regime, has led to concerns that subsidies could be reintroduced. Indeed, in March, PT Pertamina publicly signaled to the government that they were incurring losses due to the fact that the pricing formula had not been properly applied to adjust fuel prices upward. In July, Minister Said confirmed this by stating that the government would not reduce fuel prices downwards despite a drop in international oil prices in order to cover PT Pertamina’s losses during the previous months. Minister Said further added that PT Pertamina’s losses reportedly amounted to IDR12 trillion (US$847 million) (The Jakarta Post, 2015; Reuters, 2015).

As a curiosity, it should also be mentioned that PT Pertamina in early August moved to increase the price of the non-subsidized gasoline product Pertamax to help recoup losses on subsidized fuels – just as private fuel distributors (Shell and Total) started to reduce prices to reflect the fall in international oil prices (Jakarta Post, 2015).

While the large majority of fuel subsidies may have been removed from the state budget, PT Pertamina has in practice been shouldering losses for the government’s decision not to pass through international prices and as a result subsidies have started to creep back. In the words of an Indonesian blogger, the government has “been robbing Joe to pay Jill” (The Jakarta Post, 2015). The current situation underlines the need for the Indonesian government to continue to strengthen its fuel pricing policy by, among other things, improving transparency, monitoring and enforcement. Implementing an ad-hoc approach to applying the new price formula will only serve to further politicize the price setting of diesel and gasoline, thus making it harder for the government to pass on international price increases to consumers. This will increase the likelihood of the reintroduction of subsidies.

**Indonesian Petroleum Fund**

In July, Minister Said announced that the government was aiming to establish an oil fund as an instrument to manage fluctuations in international oil prices as well as to support PT Pertamina’s upstream activities. The modalities are not quite clear yet, but according to Minister Said, the oil fund would be designed to collect revenues when international oil prices are lower than domestic prices and, vice-versa, to support PT Pertamina in keeping domestic prices stable when international prices are high (Deal Street Asia, 2015). The oil fund does not feature in the 2016 budget proposal, but will be discussed as part of the revision of the Indonesian Oil and Gas Act to be revised in 2016 (CNN Indonesia, 2015). The government is considering a range of additional sources of funding for the fund, including the state budget pool and the government’s revenue from oil and gas production activities (Deal Street Asia, 2015).

**Electricity Subsidy Reform in 2016**

Finally, the 2016 state budget proposes to cut electricity subsidies by 41 per cent compared to 2015, estimating total expenditure for electricity subsidies at IDR50 trillion in 2016 (US$3.52 billion). Electricity has long been provided at subsidized rates for the two lowest consumption groups in Indonesia with a capacity of 450 and 900 volt ampere respectively. The long-standing electricity subsidy has been provided via the state power company PT Perusahaan Listrik Negara. However, the number of current recipients of this tariff rate listed at around 44 million households, which is much larger than the number of households estimated to be living in poverty, around 15.5 million (TNP2K, 2014). According to Indonesian President, Joko Widodo, the aim is to provide electricity subsidies directly to vulnerable households going forward (Bloomberg, 2015). This begs the question of how vulnerable households are to be defined—only those living beneath the poverty line, or also those living close to the poverty line, and if so, at what cut-off rate? The details around the compensation mechanism are still to be revealed and early statements from the government further suggest that savings from electricity reform will be invested in improving infrastructure and welfare programmes (Rambu Energy, 2015).
References


read/2015/04/02/295677/Diam-Diam,-Pertamina-Resmi-Naikkan-Harga-Elpiji-12-Kg


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

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 Canadian International Development Agency (CIDA), the International Development Research Centre (IDRC), 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.