

Energy Subsidy Policy and Government Fiscal Space

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Abstract— Policy can be viewed as the process of implementing one's own decisions, usually in the form of laws, government regulations, judicial decisions, executive orders, or presidential decrees. Public policy is the strategic use of existing resources to solve public problems. One of the important public policies is the subsidy policy because it has a close relationship with the government's fiscal space. One of the important public policies is the subsidy policy because it has a close relationship with the government's fiscal space. Subsidy policies can be in the form of energy subsidies and non-energy subsidies. In implementing the energy subsidy control program, the government faces various challenges, including the distribution system that is still open, not yet optimal in monitoring, and external and international geopolitical factors that affect production prices and the stability of the rupiah exchange rate. Subsidy policies, especially for energy subsidies, must be pursued efficiently, thereby creating price stability for goods and services, providing protection for low-income people, increasing production, and providing benefits for economic activities and society.

Keywords— Public policy, energy subsidy, government fiscal space.

I. INTRODUCTION

Fiscal policy is a government policy in the field of state revenues and expenditures to influence the course of the economy. Fiscal policy instruments can be in the form of collecting taxes, providing subsidies, influencing economic conditions, unemployment rates, inflation, economic growth, per capita income, and equitable distribution of education and health. Fiscal policy is the budget allocation for the implementation of government activities and programs to prosper the community [1].

State spending as an instrument of fiscal policy has a major role in accelerating economic recovery in the era of the Covid-19 pandemic [2]. The end of the pandemic, which cannot be predicted with certainty, is one of the factors of global uncertainty that the Government must continue to anticipate. Based on these considerations, state spending will be designed in an expansive or countercyclical nature to accommodate economic pressures in the midst of the ongoing pandemic. Through Law Number 2 of 2020, the deficit limit was relaxed above 3.0 percent of GDP to provide additional fiscal space for the State Budget in response to the economic contraction due to the Covid-19 pandemic since early 2020. Various programs that focus on socio-economic recovery have been rolled out by the Government throughout 2020 and 2021 to maintain the foundation of the Indonesian economy. This step can be seen in real terms through support for health care, including the implementation of accelerated vaccination programs and protection for the community, among others, through the provision of social assistance and incentives for

the business world, which are the Government's commitment to accelerate economic recovery in the pandemic era.

II. PUBLIC POLICY

The policy is a direction of action proposed by a person, group, or government in a certain environment that provides obstacles and opportunities for the proposed policy to use and overcome to achieve a goal or realize a certain goal or purpose. The policy can be viewed as the process of implementing one's own decisions, usually in the form of laws, government regulations, judicial decisions, executive orders, or presidential decrees. The policy is a process that includes the implementation and evaluation stages and includes the direction of action or what is being done and is not solely related to action.

Public policy is the strategic use of existing resources to solve public problems. Broadly speaking, public policy can be defined as the relationship between a government unit and its environment [3]. Public policy is something the government does and does not do. Public policy is a strategy to lead the community at the beginning, to enter society during the transition period to get to the society that they aspire to [4]. Carl Frederick stated that public policy is a direction of action proposed by a group or government in a certain environment, which provides obstacles and opportunities for the proposed policy to use to achieve a goal or realize a certain purpose [3].

Public policy can be seen based on three levels, namely general policy, managerial policy, and operational policy. If viewed from the management aspect, the work process of public policy can be seen as a series of activities that include policy making, implementation and control, and policy evaluation. The policy analysis process is a series of activities in the process of political activities. Political activity can be interpreted as a policy-making process and then visualized through mutually continuous stages, namely agenda setting, policy formulation, policy adoption, policy implementation, and policy assessment [5].

Policy implementation in principle is a way so that a policy can achieve its objectives as it was announced after the program was formed. Nothing more and nothing less, and to implement public policy, there are two options, namely the first is to directly implement it in the form of a program and the second is through policy formulation derived from the public policy [4].

III. ENERGY SUBSIDY POLICY

Subsidies are payments made by the government to companies or households to achieve certain goals that enable

them to produce or consume a product in larger quantities or at a lower price [6]. Subsidies can also be interpreted as a form of government spending (defined as a negative tax) which will increase the income of those who receive subsidies or experience an increase in real income if they consume goods subsidized by the government at low selling prices.

Understanding subsidies in terms of economics there are two different approaches. The first approach says that the subsidy does not need to cost money or is called the profit loss approach. Meanwhile, the second approach says that subsidies need to incur costs or use a cost-loss approach. The profit loss approach is applied in a microeconomic environment. The meeting point between the two approaches only lies in the target (price equilibrium) [7].

The definition of subsidies in the government’s policy approach has a different perspective from the definition according to economics. The target is still the same, price. In this case, the subsidy policy aims to push the selling price below the generally prevailing price. The selling price can have two meanings, the selling price set by the producer or the selling price following the market price. The selling price in the sense that it is determined or determined by the producer is the cost price added to the desired profit. The amount of the subsidy may replace the additional profit or the additional profit plus some of the costs of production calculated on the cost of goods [8].

Energy is one of the natural resources found in Indonesia. In accordance with Article 33 paragraph (2) of the 1945 Constitution [9], the processing and distribution of energy are controlled by the state because it involves the livelihood of many people. Government subsidies for energy (and non-energy), are assistance provided by the government to producers or consumers so that the goods or services produced are priced lower with more people being able to buy them. The amount of subsidy given is usually fixed for each unit of goods. With the subsidies, the government hopes that the prices of goods will be lower. The government here bears some of the costs of production and marketing. In essence, subsidies are given to help groups of people who have weak abilities, not to groups of people who have higher economic abilities. The energy subsidies developed by the government have been reduced in accounting calculations whose figures then become the basis for government programs to reduce or eliminate energy subsidies, including the design of programs to reduce the impact of price increases.

Energy subsidies in Indonesia from 2004 to 2021 are presented in Figure 1 [10].

Based on the graph in Figure 1, the number of subsidies in 2015 decreased because the government determined the transfer of premium fuel subsidies which were deemed not right on target. Should the transfer of premium subsidies be diverted to renewable energy subsidies. The rise and fall in the number of subsidies are due to the Indonesia Crude Price (ICP) which is influenced by the weakening of the rupiah exchange rate and the increase in world crude oil prices, causing the government to increase the number of subsidies from the previous budget. In 2020, there was a decrease in the

number of realized subsidies from the budgeted amount due to the Covid-19 pandemic.

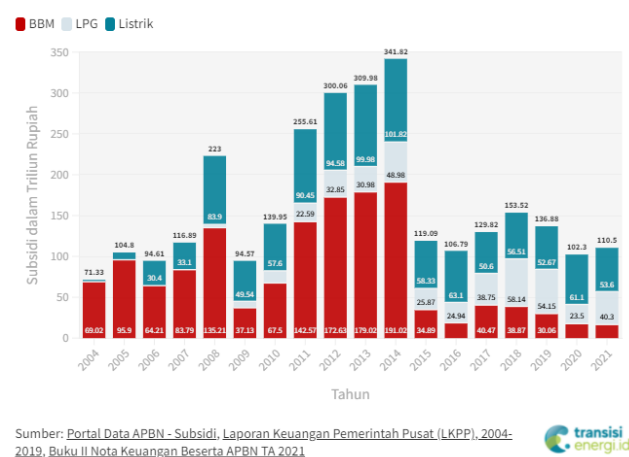


Fig. 1. Energy Subsidy Graph

Energy subsidies consist of subsidies for fuel and 3 kg LPG cylinders, as well as electricity subsidies. In the 2017–2020 period, the realization of energy subsidies experienced a trend that tends to fluctuate, mainly influenced by the development of basic macroeconomic assumptions and the policy on the number of fixed subsidies for diesel oil. During the period 2017–2020, energy subsidies showed an average growth of 3.7 percent, from IDR 97,642.1 billion in 2017 to IDR 108,840.5 billion in 2020. In the 2021 outlook, energy subsidies are estimated to experience an increase to IDR 128,466.3 billion. In the realization of 2020 and the outlook for 2021, the electricity discount policy has been accommodated which is intended to help people's purchasing power during the Covid-19 pandemic.

In implementing the energy subsidy management program, the Government faces various challenges, including (1) the distribution of subsidized fuel and 3 kg LPG cylinders is still open; (2) not optimal supervision of the sale of subsidized goods; and (3) external factors and the international geopolitical situation that may affect fluctuations in ICP, fuel product prices (MOPS), LPG product prices (CP Aramco), and the stability of the rupiah exchange rate.

To overcome these challenges, the Government will strive to continue a policy of gradual transformation from commodity-based subsidies to people/beneficiary-based subsidies [2]. This energy subsidy transformation policy is implemented in the context of a comprehensive social protection scheme. With a targeted target-based subsidy/assistance policy, it is hoped that the management of energy subsidies can be more targeted and more effective in achieving the targets for reducing poverty and inequality.

The subsidy management program is allocated to ease the burden on the community and at the same time to ensure that producers can produce goods and services, especially those which are the basic needs of the community [2]. In addition, the provision of subsidies is also aimed at increasing agricultural production, improving the quality of public services, especially in the transportation and information

sector, as well as providing incentives for the business world and society.

The policy for the medium-term subsidy management program will be directed at: (1) implementing a more targeted transformation of energy subsidies from commodity-based subsidies to beneficiary-based subsidies; (2) more efficient management of subsidy spending (energy and non-energy) by taking into account the accuracy of the target recipients; (3) controlling the subsidy budget; (4) the use of the subsidy calculation method supported by improvements to a transparent database; and (5) restructuring the subsidy distribution system to make it more accountable.

In implementing the subsidy management program, the Government faces various challenges, including (1) the occurrence of inaccuracy in the target of subsidy recipients (inclusion and exclusion error); (2) not yet optimal supervision of the implementation of the policy of subsidies given to goods/commodities; (3) fluctuations in world crude oil prices and the rupiah exchange rate; and (4) potential fiscal risks arising from the non-implementation of price adjustment policies.

IV. INDONESIAN GOVERNMENT FISCAL SPACE

The State Revenue and Expenditure Budget (APBN) is a tool that can be used by the government to realize national development goals. The APBN is expected to be able to carry out an expansion that can stimulate more productive economic activities and encourage economic growth to bring prosperity to the community. The ability of the State Budget to expand through the provision of fiscal space by taking into account the state's financial capacity and economic conditions. Fiscal space will affect fiscal sustainability in the future. This becomes a logical thing because fiscal sustainability depends on the government's ability to mobilize revenues, deficit financing as well as the effectiveness and efficiency of spending which means efforts to foster fiscal space.

Fiscal space is space for the government to allocate funds for investment and development, the space for movement will be increasingly limited if the proportion of the state budget that is binding, such as mandatory spending, is greater than that which is not binding [11]. Fiscal space is the total expenditure minus the unrestricted expenditure such as personnel expenditure, payment of principal and interest on debt, subsidies, and expenditures allocated to regions.

Fiscal space is the availability of space that allows the government to provide certain resources to achieve certain goals without threatening the sustainability of the government's financial position [12]. Fiscal space is also defined as the availability of financial resources for the government to finance the desired policies through the budget [13]. The government through the 2014 APBN financial note defines fiscal space as the availability of financial resources for the government to finance the desired policies through the budget.

In 2022, it is estimated that the Government will still face various challenges, both in terms of development and in terms of fiscal [2]. Development challenges that are still being faced include uncertainty over the end of the Covid-19 pandemic,

acceleration of economic recovery, structural challenges, uncertainty in the global economy, and disruption of the digital economy. Meanwhile, from the fiscal side, challenges that are still being faced include limited fiscal space and not yet optimal economic activity. Given these challenges, Government spending in 2022 is directed to support Economic Recovery and Structural Reform.

The government estimates that handling various problems that arise due to the Covid-19 pandemic as well as mitigation measures for potential economic instability as a result of global economic uncertainty still needs to be carried out in the medium term. Development and fiscal challenges that need to be anticipated and responded to are: (1) handling the Covid-19 pandemic and the recovery process needs to be accelerated; (2) global and domestic economic uncertainty; (3) structural reform and economic transformation; (4) environmental issues and shifts in ICT-based economic activity; and (5) limited fiscal space.

The government is still faced with the challenge of limited fiscal space. Limited fiscal space can reduce the flexibility of the government in allocating the budget to priority programs. Therefore, the Government has taken various policy strategies aimed at fiscal restructuring. Efforts are being made to continue to strengthen the quality of spending and also to reform budgeting, among others, through the implementation of a new baseline in the allocation of budgets for ministries/agencies.

To respond to these challenges, spending policies of ministries/agencies in the period 2023–2025 will be directed primarily to support: (1) strengthening the quality of human resources to improve quality and competitiveness as well as productivity; (2) increasing the effectiveness of social protection; (3) acceleration of infrastructure development for basic services, connectivity, food, energy, information, and communication technology; (4) budgeting reform; and (5) strengthening bureaucratic reform.

V. CONCLUSION

The objectives of the subsidy policy are to maintain price stability for goods and services, provide protection for low-income people, increase agricultural production, and provide incentives for businesses and the public. Efficient subsidy policies with targeted subsidy recipients can be implemented through controlling the number of energy subsidies and non-energy subsidies.

Subsidy policies can have both positive and negative impacts in the political, social, and economic fields. The political impact of the subsidy policy can be related to the pros and cons that occur at all levels of society, including the support of political parties in parliament, community groups, as well as organizations, and observers who understand related energy policies.

The negative effects of subsidy policies in the economic sector are the prices of commodities, both traded and classified as basic needs, the decline in people's purchasing power, the potential for producer losses due to increased production costs, as well as rising inflation rates. Meanwhile, the positive effect is that if the subsidy policy runs efficiently,

savings can occur in government finances so that it can be diverted to fund other more effective programs and on target.

The social impact of the subsidy policy can be directed to social services such as health, education, and infrastructure which also benefit the community directly. The construction of infrastructure will facilitate public access to develop the economy, get a good education, and good health services.

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