

Do Not Waste Our Expanding Fiscal Room

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The increasing international energy supply thanks to technological breakthrough in shale gas mining has created an unprecedented slump of crude oil price. Until October 2014, the crude oil price was lingered around 90 USD per barrel and yet in January 2015 it is plummeted to less than 45 USD. As one of oil-importing countries, Indonesia certainly gets an advantage from this. The government fiscal room is expanded and Jokowi's new administration is blessed with this fortune.

Scrapping out the unproductive subsidy on fuel while the international price of crude oil has substantially expanded the government's fiscal room to manoeuvre. In the 2015 budget revision proposed by the government, the subsidy allotment for domestic fuel is substantially reduced from Rp 276 trillion to only Rp 81 trillion, including the payment of subsidy liability in the previous year. According to the Ministry of Finance, the additional expenditures that was initially accounted to only Rp 120 trillion has drastically increased to Rp 230 trillion.

Having been calculating that there would be more resources to finance development programs, the government has cut domestic prices and in effect turned back to oil subsidy policy. For the premium fuel (RON 88), after the price was increased to Rp 8,500 per liter, it has been decreased again to 7,600 and then to Rp 6,600 within two months.

Although economic price might have lower than the existing price, the government policy to reduce domestic price is incorrect for some reasons. First, decreasing domestic fuel price would not automatically reduce inflation rate. Transportation costs for distributing goods and services, the components that are presumably most sensitive to domestic fuel prices, are not changed although the fuel prices have been significantly decreased. The economic adage of "price rigidity" seems to be applied so that the policy goal to reduce inflation rate does not always be successful.

Meanwhile, reducing domestic fuel price might be perceived as a political move to seek popularity. Experience from the two periods of SBY administration who took decisions to cut the fuel prices to gain popularity should have not been repeated by president Jokowi. To raise and then cut prices within a very short time would also create an impression that the government is playing with this fundamental public needs. Jokowi's bold move to take unpopular policy on scrapping fuel subsidy was appreciated by most economists. With the current flip-flop policy, however, many start to question his commitment for structural reform.

Second, the decreasing trend of international energy price may discontinue for various factors. Aside from the booming of energy supply from the shale gas produces by the US, there are three factors explaining why international crude oil price is slumped: agreement among the OPEC countries to retain their production at a high level, increasing production volume in Russia to the extent of more than the market needs, and an economic slow down in China and most European countries. All these factors can eventually change.

A report from the Energy and Capital (2015) stated that it is a matter of time that OPEC as the biggest oil cartel cut oil production so that the price would not decrease further. Russia might remain supplying the world with a high volume of oil production. But Vladimir Putin would not let oil price to the lowest level since this commodity is very strategic for his country's economy. At the same time, when economic growth in China, Europe and the emerging markets is back on track, the need for crude oil would eventually increase and the international price would follow suite.

The third argument to scrap fuel subsidy for Indonesia is fundamental, that cheap fuel price will only create a dependency on this non-renewable energy source. Since 2003, Indonesia has become an oil importing country, and the fact is that cheap oil price would give additional impetus to own private cars and motor-cycles that already created so much air pollution and traffic jams in most cities.

Indonesian policy makers should be smarter to deal with non-renewable resources. The country has abundant energy sources from the LPG, bio-fuel, geothermal, solar cells, winds, ocean streams, to nuclear reactors. Unfortunately, as most of the people have been accustomed to use hydro-carbons, the alternative non-polluting energy is not used appropriately. The government tends to take easy step by importing oil to meet domestic demands while providing infrastructures for public transports that can reduce demands are not adequately implemented.

A comprehensive energy policy should not only refer to the economic prices. There are more than enough facts that fuel subsidy is miss-targeted. The Economist magazine frequently dubbed the policy of subsidizing fuel as "*subsidizing cars and pollution*". We could actually learn from countries that give substantial disincentive for using oil. In China, amid the amazing economic growth that needs more energy, the domestic oil price is higher than in Indonesia at about 1.15 USD. In Turkey, the current price is 2.06 USD. Norway is an extreme example; although they have abundant oil deposit and its population is only 5.2 million, the fuel price is pinned at nearly 2.5 USD in order to reduce the use of private cars, reduce pollution and mitigate global warming.

The biggest challenge of widening fiscal room is how to direct government expenditures to strategic development programs. We might enjoy fiscal advantage from the decreasing international oil price only for a short time, and it is important not to waste this tail wind. Jokowi vision that has been laid out in his *Nawa Cita* basically implies expansionary spending. The additional Rp 230 trillion in the revised 2015 budget may not enough to finance all the ambitious programs.

To build road infrastructures, for example, the government has a plan for new constructions of 258.9 km and renovations of 1,237 km. Marine transport in Eastern Indonesia needs at least 13 new vessels while electrification are required for 616 km railways. The policy for food security needs three big dams in West Nusatenggara, two in East Nusatenggara, two in Central Java and one each in North Sulawesi, Aceh, South Sulawesi, Banten, South Kalimantan and Bali.

Three ministries are designated to get the largest additional allocations; Ministry of Public Works and Housing with an extra of Rp 33 trillion, Ministry of Transport with Rp 20 trillion, and Ministry of Agriculture with Rp 16 trillion. Officials and public servants in these three ought to work harder to ensure that

the long neglected infrastructure, housing and public transports can be developed. So much fund can be easily evaporated if the projects are not appropriately undertaken. Therefore, professionalism, strong commitment and financial accountability have to be maintained to ensure that all the projects are benefited the public.

Moreover, around Rp 20 trillion are to be added to the DAK (Special Allotment Fund) schemes and transferred to the regions. Local projects under these schemes have to be equally supervised. People are concerned that decentralized funds flowed to local budgets (APBD) did not give optimal benefit due to corruption and are not adequately allocated. It is the time for local public officials to work more seriously for the people.

The subsidy transfer to eradicate poverty is one of the biggest challenges for Jokowi administration. There is a high expectation that the KIS (Health Cards), KIP (Smart Cards) and KSS (Family Welfare Funds) would not repeat mistakes from the BLT and BLSM, the similar programs previously implemented under SBY administration. The 86.4 millions of people in 15.5 million households are desperately waiting that the government would make policy breakthroughs so that miss-targeting and miss-appropriation can be prevented.

In the short term, it is essential to ensure that the KIS, KIP and KSS schemes are not duplicated with social security schemes under the BPJS (Social Security Implementing Body). President Jokowi has initiated cash transfers under these three schemes to be given using cellular phone numbers as beneficiary identities and can be cashed out through BRI rural banking and convenient post offices. The new system is aimed at ensuring accuracy and avoiding miss-appropriation.

Still, officials have to note that many poor families are resided in remote areas that are far from any banking and post facilities. Practical experience also suggests that most of the poor obtain the Rp 200 thousand monthly cash transfers through agents or asking bank officials to help them cash out the subsidy. This makes beneficiaries vulnerable to crime while the system is open to fraud and corruption. There are also cases of losing SIM-cards, forgetting the PIN numbers, or double registration. Loopholes and possible miss-appropriation under the new system need to be seriously tackled by the government officials.

Public bureaucracy has to ensure that scrapping the fuel subsidy and reallocating them into more productive programs are not just empty political jargons. The Jokowi administration head-start gets an advantage from the presently expanding fiscal room. The government should not fall back into popular yet unproductive fuel subsidy. Instead, the government should be focused on using the fiscal room to finance strategic agendas of developing infrastructures, public transports, and agricultures while ensuring that social security programs are properly undertaken. The Indonesian people cannot afford to other policy mistakes.

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