

## **CHAPTER II**

### **THE BACKGROUND OF THE JOKO WIDODO CHANGING POLICY**

In 2005 – 2013 before Joko Widodo Indonesia administration depended on subsidy for fuel oil price such as premium and solar policy, this policy resulted in the over load national state budget and caused deficit of national state budget issue. Therefor it will reflect on the background of Joko Widodo action in changing policy. The writer will give the information about the problem that consist of the income and outcome subsidies, national state budget, budget for fuel oil, the purpose of the policy.

From the Decision Making Process Model by David Easton 1957, input consists of demands and support. This input will become a source of information or issue which would be processed in political system, and support to keep a political system operating. Input emerged from among the public that cannot all be fully satisfied against things or objects which become rare and difficult to attain. This was mentioned in point demands, which arise from the demands of the person or group in the society, and this can be input in the political system.

Demand for prestige may find satisfaction through the status relation of society; claims for wealth are met in part through economic system; aspirations for power find expression in educational, fraternal, labor, and similar private organization.

Input of demands alone are not enough to keep a political system operating. With support, demands could be satisfied or conflict in goal composed. The points of support serves to keep the system running, because when the requirement would affect the process of the relevant, it needs support from other parties.<sup>32</sup>

#### **A. History of Fuel Oil Subsidies in Indonesia**

Changing price of fuel oil subsidies is a common thing to happen year to year. Even in the era of President Soeharto (1967 – 1998) the fuel oil subsidies had increased around 71.43%. It has changed nowadays in the era of President Joko Widodo. The main factors of changing fuel oil subsidies time to time are crude oil prices, rupiah exchange rate and the realization of fuel subsidies exceeded the realization of petroleum revenues.<sup>33</sup> In this session, the writer will only focus on the changing policy of President Joko Widodo. The discussion will only be in the era of President Joko Widodo administration and before President Joko Widodo as the object of comparison.

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<sup>32</sup> Easton, D. (1957). *An Approach to the Analysis of Political System*. In D. Easton, *World Politics* (pp. 383-400). Cambridge University Press.

<sup>33</sup>KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA. (2012, March 30). *Tinjauan Kebijakan Harga Bersubsidi Bahan Bakar Minyak dari Masa ke Masa*. Retrieved August 1, 2017, from [http://www.setneg.go.id/index.php?option=com\\_content&task=view&id=6245](http://www.setneg.go.id/index.php?option=com_content&task=view&id=6245)

## 1. Fuel Oil Price Before Joko Widodo Administration in 2005 – 2013

In the era of President Susilo Bambang Yudhoyono (2005 - 2013) or exactly before President Joko Widodo administration the subsidies fuel oil had fluctuations. It had experienced both increasing and decreasing the fuel oil price. The table Fuel Oil Price Before Joko Widodo Administration in 2005 – 2013 will show how the fluctuation that happened in the era before Mr. Joko Widodo administration.

*Table 2.1: Fuel Oil Price Before Joko Widodo Administration in 2005 – 2013*

Year	Fuel Oil Price From (IDR)	Fuel Oil Price Become (IDR)	World Oil Price (US\$/barrel)
2005	1.810	2.400	56.80
2005	2.400	4.500	69.91
2008	4.500	6.000	-
2008	6.000	5.500	-
2008	5.500	5.000	145.31
2009	5.000	4.500	113.39
2013	4.500	6.500	110.62

Source: Indonesia Ministry of Finance<sup>34</sup>

The increase in the price of fuel on March 01 2005 was due to the increase world oil prices. The Government raised fuel prices 32% for premium fuel from Rp 1.810 to Rp 2.400 per liter and diesel from 1.650 to Rp 2.100 per liter or 27%. still in the

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<sup>34</sup>BPS. (2015, September 9). Anggaran Pendapatan dan Belanja Negara. Retrieved Mei 2, 2017, from Badan Pusat Statistik Web site: <https://www.bps.go.id/linkTabelStatistik/view/id/1178>

same year, on October 1, 2005, the Government again raised the fuel prices significantly. Premium price went up from Rp2.400 to Rp4.500 per liter or 87% increased and the price of diesel fuel rose from Rp2.100 to Rp4.300 per liter or 105% increased.

On May 24, 2008, the Government again raised the price of premium to Rp6.000 per liter. The reason is the global economic crisis that is making the price of oil soared participated. then the Government lowered the price of premium fuel and diesel on January 29, 2009 to Rp4.500 per liter. And on 2013 the government increased again from Rp4.500 per liter to Rp6.000 per liter.

In 2005 until 2013 before President Joko Widodo administration, fuel oil price increased as much as 4 times and decreased down as much as 2 times. The era before President Joko Widodo was very depending on fuel oil subsidy policy because the policy was very popular among the people to control the price of goods in the market. The fund issued for subsidies is increasing year by year extremely large.

The fund issued for subsidies is extremely large but in the realization of the fuel oil subsidies policy is not efficient to solve the problem. Decreasing fuel oil subsidies policy of raising the price of fuel oil has always been avoided. These policies are politically very unpopular in the eyes of the people. But on the other

hand the overload fuel oil subsidies could be mess the state budget up and distort the economy of the nation.

## 2. Fuel Oil Price Under Joko Widodo Administration 2014 – 2016

In the era of President Joko Widodo administration, President Joko Widodo decides to apply his own policy about the fuel oil price. To minimize the deficit of national state budget and to follow up the world oil price fluctuation. Therefore, the price of fuel oil in Indonesia will adapt to the world oil price. Below is the changing fuel oil price in the era of President Joko Widodo.

Table 2.2: Fuel Oil Price Under Joko Widodo Administration 2014 – 2016

Date	From (IDR)	Become (IDR)
17 November 2014	6.500	8.500
1 January 2015	8.500	7.600
17 January 2015	7.600	6.600
1 March 2015	6.600	6.800
28 March 2015	6.800	7.300
5 January 2016	7.300	6.950
30 March 2016	6.950	6.450

Source: Ekonomi Okezone<sup>35</sup>, Ministry of Energy & Mineral Resources<sup>36</sup>

<sup>35</sup> OKEZONE. (2016, January 5). *Daftar Harga BBM di Tangan Jokowi*. Retrieved August 1, 2017, from OKEZONE FINANCE: <http://economy.okezone.com/read/2016/01/04/320/1280660/daftar-harga-bbm-di-tangan-jokowi?page=2>

<sup>36</sup> Kementerian Energi & Sumber Daya Mineral. (2016). *PENETAPAN HARGA BBM BERLAKU MULAI 5 JANUARI 2016*. Jakarta: Direktorat Jenderal Minyak & Gas Bumi.

On January 1<sup>st</sup>, 2015, President Joko Widodo officially removed fuel oil subsidies for this type of premium, and the diesel fuel was set a fixed subsidy of Rp1.000. The price of Premium and diesel will be announced by the Government each month. Price calculation will use a formula that has been set by the Government and refers to world oil prices, the exchange rate of the Rupiah against the U.S. dollar, as well as the factor of inflation. On January 2015, Premium price down from Rp8.500 to Rp7.600 while solar from Rp7.500 to Rp7.250 per liter.<sup>37</sup>

Oil and gas consumption in the country is rising up from time to time. This increase could not be fulfilled from domestic oil and gas production results. As a result, Indonesia that was once known as an oil-rich country must now be regularly importing oil from abroad. The price of fuel oil has made the national problem in Indonesia. The problem of fuel oil in Indonesia is a big issue, because of the demand of fuel oil itself is high but the supply is not enough. Therefore, the price of fuel oil is increasing.

According to PT. PERTAMINA, the total consumption of fuel oil in the Indonesia has been as much as 1.6 million barrels per day (bpd), only 850 thousand bpd which can be produced domestically, the rest is imported. Of 850 thousand bpd fuel oil produced at PT. PERTAMINA's refinery, only 60 percent of raw materials

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<sup>37</sup>Michael, A. (2016, October 19). *2 Tahun Memimpin, Jokowi-JK Hapus Subsidi BBM Hingga Pangkas Izin Migas*. Retrieved from detikFinance: <http://finance.detik.com/energi/d-3324663/2-tahun-memimpin-jokowi-jk-hapus-subsidi-bbm-hingga-pangkas-izin-migas>

in the form of crude oil comes from oil field in the country. The rest, about 40 percent of the crude oil has been imported.<sup>38</sup> Indonesia imported crude oil from Saudi Arabia as the biggest importer, not only from Saudi Arabia Indonesia also import crude oil from another country such as Brunei Darussalam, Nigeria, South Korea, Russia, Libya, Qatar, Liberia, Aljazeera, Turkey and Angola.<sup>39</sup>

According to President Joko Widodo about 71% fuel oil consumer are mostly from the rich people which makes the purpose of subsidy itself become wrong target.<sup>40</sup> It makes the policy not efficient anymore. Subsidy is the aid addressed for the people who are proper in need. Fuel oil and gas consumption in the country is rising up from time to time, this demand could not be filled from domestic oil and gas production results. Therefore, Indonesia once known as the oil-rich country must now be routine to import from abroad.

In 2014 according to the Directorate General of oil and gas of the Ministry of Mineral Resources, IGN Wiratmaja Puja revealed the most prominent reform of subsidies on fuel oil. Premium subsidies was removed, then the solar subsidies

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<sup>38</sup>Wahyuni, N. D. (2015, July 9). *Kenapa Indonesia Harus Impor dan Cari Migas ke Luar Negeri?* Retrieved from LIPUTAN6: <http://bisnis.liputan6.com/read/2269013/kenapa-indonesia-harus-impor-dan-cari-migas-ke-luar-negeri>

<sup>39</sup>Indonesia Ministry of Mineral Resources. (2012). *Impor Minyak Mentah & Kondesat*. Retrieved from Direktorat Jenderal Minyak dan Gas Bumi: <http://statistik.migas.esdm.go.id/index.php?r=rekapImporMinyakMentah/index>

<sup>40</sup>Prihandoko. (2014, November 4). *Jokowi: Subsidi BBM bebani Anggaran Negara*. Retrieved from TEMPO.CO: <https://m.tempo.co/read/news/2014/11/04/090619476/jokowi-subsidi-bbm-bebani-anggaran-negara>

made into a permanent subsidy of Rp1.000 per liter.<sup>41</sup> Pruning makes a Healthier state finances. There are Hundreds of Trillions of dollars that could be saved and can be allocated to expenditures spending which is more productive.

## **B. National State Budget of Indonesia**

National state budget is the Government's annual financial plan containing the details of the source of the State's revenue sources and the types of expenditure of the country within a period of one year, which is set by law and carried out in an open and responsible for most of the prosperity of the people. To regulate the activities of the national economy, a country must make the budget of income and expenditure.<sup>42</sup>

Every year the government arranges a State budget. Legal basis and procedures for the preparation of the budget contained in the Constitution article 23 paragraph 1 mentioned that *the budget of income and expenditure of the State (State budget) as a manifestation of the financial management of the State are set each year by law and carried out in an open and responsible for most of the prosperity of the people.*

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<sup>41</sup>Michael, A, op. cit.

<sup>42</sup>ID, I. E. (2016, September). PENGERTIAN APBN & APBD, FUNGSI, TUJUAN DAN PROSES PENYUSUNANNYA. Retrieved from ILMU EKONOMI ID: <http://www.ilmu-ekonomi-id.com/2016/09/pengertian-apbn-apbd-fungsi-tujuan-dan-proses-penyusunan.html>



The preparation of the national budget was devoted to organize receipts and expenditure of the State so that the country can achieve the financial utilization target, which is improving the people's welfare. With the state budget, improvidence, misappropriation, and mistakes can be avoided.

Income and expenditure budget of the State (national budget) is the main tool of the government to prosper his people and at the same time as the government's tool to manage the economy of the country. As a tool of government, state budget does not only concern economic decisions, but also concerns the political decision. In this context, the house of representative with the right legislation, budgeting, and monitoring need to be more instrumental in escorting the state budget. Therefore, the budget can really effectively become the instrument for managing the economy and welfare state well.

There are 3 functions of state budget:<sup>43</sup>Allocation, Allocates funds from across the State revenue for State spending, construction of public facilities, subsidies and etc. appropriately. Distribution, equalization of the distribution of the state revenue into any sectors that are funded, especially distribution to the society in the form of subsidies and so on. Stabilization, state budget control of the state economic stability in the fiscal, to maintain the stability of the national economy.

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<sup>43</sup> ibid

## 1. Before Joko Widodo Administration 2005 – 2013

In 2007 until 2013 or the era before President Joko Widodo administration, subsidies for fuel oil is very popular among the Indonesian people which is reflect to more spending in National State Budget even this subsidies policy become dependence.

*Table 2.3: Indonesia National State Budget 2007 - 2013*

Year	State Income (Billion IDR)	Spending (Billion IDR)	Subsidies (Billion IDR)
2007	723.058	763.571	102.924
2008	781.354	854.660	97.875
2009	985.725	1.037.067	166.701
2010	949.656	1.047.666	157.820
2011	1.104.902	1.229.558	187.624
2012	1.311.387	1.435.407	208.850
2013	1.529.673	1.683.011	317.219

Source: Indonesia Ministry of Finance<sup>44</sup>

The budget tend to deficit because of the expenditure was higher than the state income. Allocation of Energy Subsidies took 25.05 percent of the government spending each year. In the period of 2009-2013, the proportion of energy subsidies

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<sup>44</sup>BPS. (2015, September 9). Anggaran Pendapatan dan Belanja Negara. Retrieved Mei 2, 2017, from Badan Pusat Statistik Web site: <https://www.bps.go.id/linkTabelStatistik/view/id/1178>

in central government expenditures reached 25.05 percent annually and fuel oil subsidies portion is 16.78 percent.<sup>45</sup>

The proportion of subsidies on fuel oil tend to increase year by year, in 2009-2013, fuel subsidies spent 24.8 percent allocation of the total State expenditures of 43.7 percent. Compared to the year 2009, the proportion of fuel subsidies against budget by 2014 rise sharply of 169 percent. From 11.5 percent to 31 percent. Tend to increase from Rp166.701 Billion to Rp317.219 Billion in 2013.

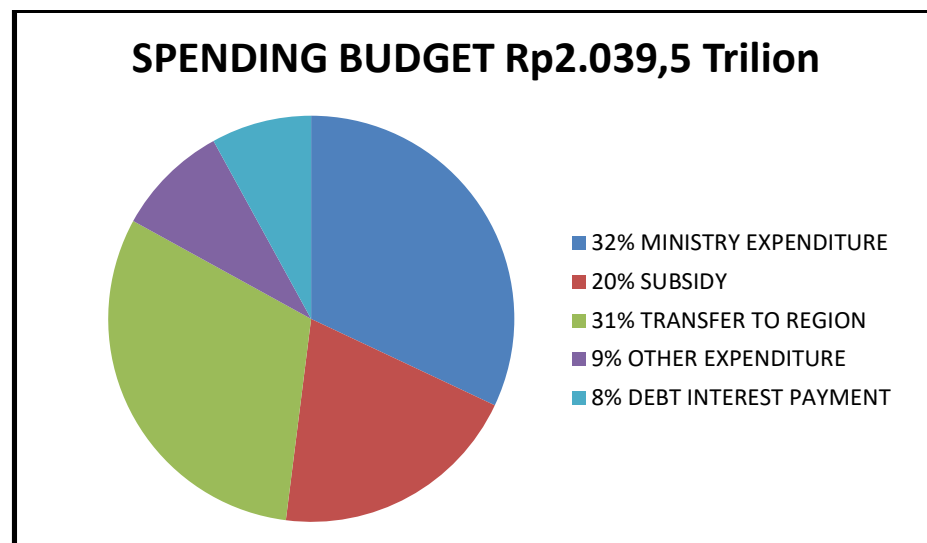
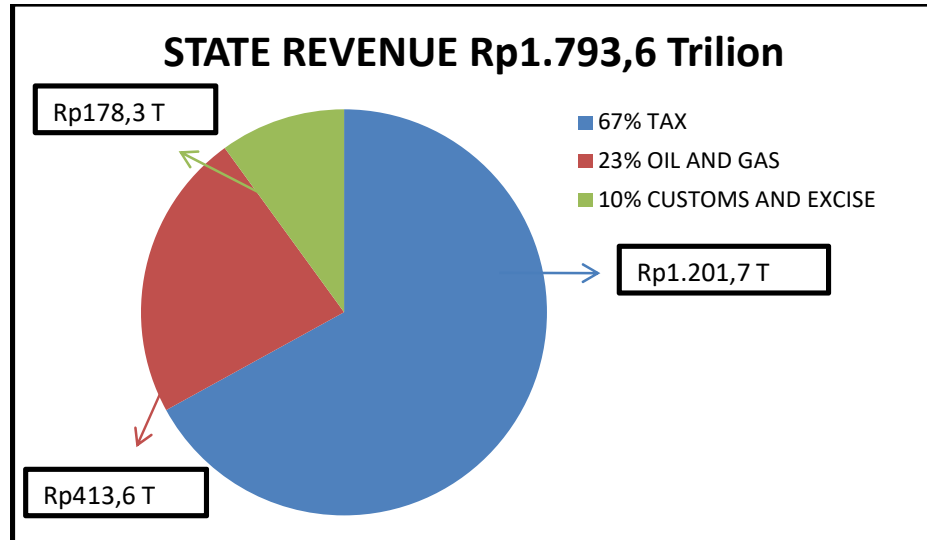
## **2. Under Joko Widodo Administration 2014 – 2016**

Fuel oil price and subsidies change time to time before President Joko Widodo administration (2007 – 2013) but the problem such as deficit cannot be done or solve. In the era of President Joko Widodo administration Indonesia want to save its economy by changing policy because of deficit budget is very burden financial budget and potentially continue to give heavier burden to country finance in the future.

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<sup>45</sup>Alexander, R. (2014, 09 22). *tujuh fakta menarik subsidi energi*. Retrieved from Ekonomi Kebijakan Publik: <https://jalimerah.wordpress.com/2014/09/22/tujuh-fakta-menarik-subsidi-energi/>

Figure 2.1: Indonesia National State Budget 2015



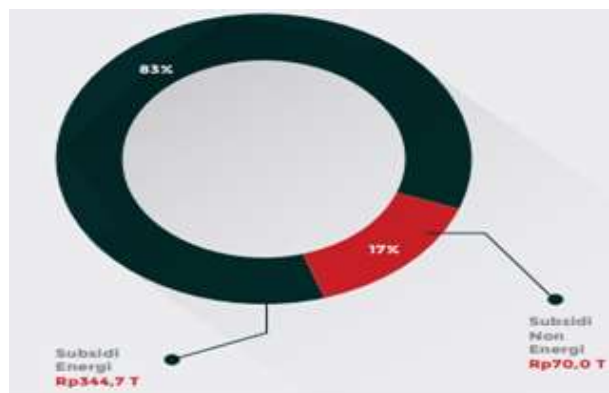
Source: Indonesia Ministry of Finance<sup>46</sup>

<sup>46</sup>Indonesia Ministry of Finance. (2015). *Anggaran Pendapatan dan Belanja Negara Tahun 2015*. Retrieved from infografis APBN 2015: <http://www.kemenkeu.go.id/wide/apbn2015>

The budget deficit occurs due to the State spending is high than the state income by Rp245.9 trillion, these conditions result in the debt to replace the budget shortfall.

In 2015 according to Minister of finance Bambang Brodjonegoro, State revenue conditions caused by the global economic decline. World oil prices plunged from the assumption of US \$60 a barrel to US \$50 per barrel, in another place of the rupiah exchange rate pressure experienced by external factors such as US interest rates and depreciation of the Yuan and from internal, depreciation occurred because the demand for foreign currency debt and pay dividends.<sup>47</sup>

Figure 2.2: Subsidies budget 2015



Source: Indonesia Ministry of Finance<sup>48</sup>

<sup>47</sup>Indonesia Ministry of Finance. (2015, February 16). Defisit Anggaran Jadi 1.9 persen Pada APBN-P 2015. Retrieved from Kementerian Keuangan Republik Indonesia: <http://www.kemenkeu.go.id/Berita/defisit-anggaran-jadi-19-persen-pada-apbn-p-2015>

<sup>48</sup>Ministry of Finance, op.cit

The allocation of funds to fuel subsidies is high among the other subsidy funds or about 83% of the total subsidy spending itself and spending budget of Rp270 trillion, or about 13% of State spending.

Subsidy in 2005 – 2013 before President Joko Widodo Administration tends to increase year by year, fuel oil price increase 4 times as well as the increasing of world oil price. Therefore, the fund for subsidies is also increasing year by year and become over load subsidies in fuel oil, this issue could be mess state budget up and distort the economy of the nation.

Indonesia national state budget 2007 – 2013 before President Joko Widodo administration tend to be deficit because of spending is more high then state income. And in 2015 under President Joko Widodo administration there was a lot of gap between spending and income.

These inputs have burdened the Indonesia state budget, the fund issued for subsidies is extremely large but in the realization of the fuel oil subsidies policy is not efficient to solve the problem. Decreasing fuel oil subsidies policy of raising the price of fuel oil has always been avoided. These policies are politically unpopular for the society. But on the other hand the overload fuel oil subsidies could be mess state budget and distort the economy of the nation.

Because of this phenomena, the reduction and removal of fuel oil subsidies should be done by government because it has been a financial burden and

potentially continue to giving heavier burden to country finance in the future. Moreover, subsidies on fuel oil right now is not effective. The fund issued for subsidies is extremely large but in the realization of the fuel oil subsidies policy is not efficient to solving the problem. This inputs are more than enough towards why Joko Widodo should changing policy.