

Highlights of the week



Election campaign: Tumultuous but not dangerous

The tumultuous and polarizing presidential campaign will officially begin on Sunday and end on April 17. Despite the delicate situation it may create, it will not be necessarily a dangerous time. Historical records showed that election campaigns in Indonesia have never been violent, albeit tensions arose.



Supreme court versus KPU: struggle continues

The General Elections Commission (KPU) proves to be tenacious in its fight against corruption. Amidst the Supreme Court's decision to annul the former's regulation that bans former graft, sexual assault and drug abuse convicts from contesting, the KPU continues formulating strategic maneuvers for anti-graft campaign.



Govt races to save universal coverage policy

With a projected Rp 11 trillion cashflow deficit, the Healthcare and Social Security Agency (BPJS) issue is becoming a national problem that should be handled with care, given its social, economical and political implications.



Jokowi's fuel subsidies reform is just an illusion

President Joko "Jokowi" Widodo's fuel subsidies reform is more likely about moving government's subsidy burden to state-owned energy company Pertamina' financial. At the same time, his persistence to maintain fuel prices for his reelection bid in 2019 faces growing opposition from technocrats and the business community.

POLITICS

Election campaign: Tumultuous and uncertain period, but not dangerous

The general election campaign period will officially begin on Sunday, more than six months before the April 17 election. This is always a tumultuous and polarizing period, creating uncertainties for people and business, but it is not necessarily a dangerous time. It will be brutal and divisive, and there will be mass mobilizations for political rallies in open fields, but historically, election campaigns in Indonesia have never been violent. With Indonesia going through economic difficulties, as with most other countries in the world, the state of the economy will be a major theme in the campaign.

Background: The period will see more than 200,000 people campaigning for 20,528 seats in the different national and local legislatures, and of course for the president and vice-presidential slots. Most of them run on tickets from the 16 national political parties and four local Aceh parties. Only candidates for the Regional Representatives Council run as independents.

Insight: Although this will be Indonesia's fifth general elections since the downfall of dictator Soeharto in 1998, it is the first time that the presidential and legislative elections will be held simultaneously. Indonesia introduced direct presidential elections, as against voting through an electoral college, in 2004. But the presidential election was always held three months after the legislative election. In the name of efficiency and expediency, Indonesia decided to hold both elections on the same day for 2019.

This may render invalid any reference to the 2004, 2009 and 2019 elections in predicting the outcome of 2019. It is still unclear how people will vote. In the past, many voted for a political party of their choice, but chose a presidential candidate from a different party. This time around, they have to make their decisions at the same time. The dynamics may have changed.

Most voters have to cast five ballot papers: one for president/vice president, as well as one each for their representative in the House of Representatives, the Regional Representatives Council and provincial legislative council and the regency/city legislative council. Voters in Jakarta will have four ballot papers, as there is only one local legislative council. Indonesian voters abroad have two ballot papers, for the president/vice president and the House.

The method of campaigning will have to be vastly different as voters will be more drawn to the presidential race. With only two candidate pairs running for the presidential election, most parties are bandwagoning themselves with either pair, hoping that voters will make the association when they cast their ballots.

THE CONTENDERS:

The campaign will still revolve around the two pairs of presidential and vice-presidential candidates: incumbent Joko “Jokowi” Widodo-Ma’ruf Amin and challenger Prabowo Subianto-Sandiaga Uno. Nine parties have thrown their support behind Jokowi-Ma’ruf, four parties for Prabowo-Sandiaga, while the remaining three parties are not supporting any candidate.

It is unclear how effective this bandwagoning will be. Some parties may find it detrimental to their electoral chances. Parties may be on the same side in the presidential race, but they may also be rivals in the legislative elections. As Jokowi is officially a card-carrying member of the Indonesian Democratic Party of Struggle (PDI-P), and Prabowo being the founder of Gerindra, their two parties may steal votes from their coalition partners.

For historical reasons, political parties follow a simple ideological divide: nationalist or Islamist, or a combination of the two. The competition for top slots will see intense fighting between the PDI-P, the Golkar Party and the Gerindra Party, with surveys predicting that Golkar will be demoted out of the top two for the first time in history. Other nationalist parties will be vying for the crumbs, including the Democratic Party, NasDem Party, Hanura Party, Indonesian Justice and Unity Party (PKPI) and newcomers the United Indonesia Party (Perindo), Garuda Party and Berkarya Party, as well as the Indonesian Solidarity Party (PSI), which projects itself as the party of millennials.

Meanwhile, there is a separate battle to win the votes of Muslims who feel obliged to vote for Islamist parties. Although 88 percent of Indonesians are Muslims, the size of “Muslim voters” has never exceeded 20 percent in the last four elections. Campaigning for their votes are the National Awakening Party (PKB), United Development Party (PPP), Prosperous Justice Party (PKS), National Mandate Party (PAN) and Crescent Star Party (PBB).

THE REGULATORS:

The General Elections Commission (KPU) has issued guidelines and regulations on campaigning.

Essentially, almost any methods of campaigning are permitted, from indoor meetings, political ads, the use of social media, to holding political rallies (which inevitably involves mass mobilization). But they will all be regulated, and the Elections Supervisory Body (Bawaslu) will monitor the campaigns and blow the whistle if there are any violations.

The KPU has also mandated five presidential debates: two pitting the presidential candidates, one between the vice-presidential candidates, and two involving both pairs. The debates, all televised, will be crucial in helping to make up the minds of undecided voters, usually quite sizable and crucial in determining election outcomes, especially in closely contested battles as in 2014.

CAMPAIGN THEMES:

Campaign issues can be divisive and some can even lead to the polarization of the nation. In 2014, candidate Jokowi was hit by vicious fake news and hate speech campaigns waged through social media, portraying him as a Christian (he’s Muslim), Chinese (he’s Javanese) and a communist (he was too young to understand communism when the Indonesian Communist Party (PKI) was banned in 1966). The campaign had some effect on voters as Jokowi saw his huge lead at the start of the campaign dramatically cut, almost leading him to lose the election.

Islam will likely be used again in this election campaign, but its impact will be limited. Jokowi's choice of Indonesia's top cleric (Ma'ruf is the nonactive chair of the Indonesian Ulema Council) as running mate has defused the danger of Islam being used against him. Prabowo has also enlisted the support of conservative ulema, but they will have to confront Jokowi's ulema in the election campaign.

With religion no longer a divisive issue, the state of the economy is taking center stage. The campaign is boiling down to Jokowi's economic performance. Jokowi and his supporters will be listing the achievements since he took the helm in 2014, of which there are plenty. Prabowo and his supporters for their part will expose the failures and shortcomings, again there is no shortage there. Besides the weakening currency and huge trade deficit, other issues that will be widely debated include poverty, the gap between the rich and the poor and also foreign investment.

But the economy is not such a divisive issue, and if this is the main issue that decides the election, it will be a sign of a maturing democracy with Indonesia moving away from divisive sectarian issues that have dominated elections in the recent past.

NO HISTORY OF VIOLENCE:

Going by the fierce way election campaigns have been waged, there are always concerns about the possibility of violence erupting, especially over divisive and polarizing issues. But one comforting fact is that Indonesia does not have a history of election violence, certainly not going by the four free and fair elections held in post-Soeharto era. There were some skirmishes in local elections in one or two areas or provinces, but never at the national level.

There were certainly moments when the situation would erupt, like the times when the losers refused to accept the election result. In 2014, Prabowo refused to accept the election result, claiming he had been cheated. But when the Supreme Court ruled and validated Jokowi as the winner, he relented, even as his die-hard supporters were ready to resort to the use of violence at the word go from him.

In 1999, Megawati Soekarnoputri lost her presidential bid despite her party emerging as the winner. Her opponents conspired at the People's Consultative Assembly, the electoral college at the time, to deny her the presidency. Tens of thousands of her supporters had gathered on Jl. Thamrin, Jakarta's main thoroughfare, originally to celebrate. They were angered at the news and ready to run riot. Megawati addressed them and told them to go home.

Statesmanship among the national political elite has helped prevent elections from turning violent. At any event, the police have deployed up to 300,000 personnel to ensure peace and order during an election campaign, all the way to election day and inauguration. The military is also on standby.

Election Dates	
Campaign period	September 23, 2018 – April 13, 2019
Silent period	April 14, 2019 – April 16, 2019
Voting day	April 17, 2019

Election in Numbers	
Voters	152,607,615
Candidates	1. Presidential election: 2 2. Legislative election (House of Representative): 7,968 3. Legislative election (Regional Representative Council): 807
Political parties	20

Bandwagoning the Presidential Candidates	
Joko “Jokowi” Widodo	PDI-P, Golkar, PKB, PPP, NasDem Party, Hanura Party, PKPI, Perindo and PSI
Prabowo Subianto	PKS, PAN and Democratic Party

The Political Parties		
1.	The National Awakening Party (PKB)	Islamist
2.	Gerindra Party	Nationalist
3.	The Indonesian Democratic Party of Struggle (PDI-P)	Nationalist
4.	Golkar Party	Nationalist
5.	NasDem Party	Nationalist
6.	Garuda Party	Nationalist
7.	Berkarya Party	Nationalist
8.	The Prosperous Justice Party (PKS)	Islamist
9.	The United Indonesia Party (Perindo)	Nationalist
10.	The United Development Party (PPP)	Islamist
11.	The Indonesian Solidarity Party (PSI)	Nationalist
12.	The National Mandate Party (PAN)	Islamist
13.	Hanura Party	Nationalist
14.	Democratic Party	Nationalist
15.	Aceh Party	Nationalist-Islamist
16.	Sira Party	Nationalist-Islamist
17.	Aceh Regional Party	Islamist
18.	Aceh Nanggroe Party	Nationalist
19.	The Crescent Star Party (PBB)	Islamist
20.	The Indonesian Justice and Unity Party (PKPI)	Nationalist

Supreme Court versus KPU: The struggle continues

The Supreme Court's decision to annul the General Elections Commission (KPU) regulation banning former graft, sexual assault and drug abuse convicts from contesting the elections has evoked strong responses. Amid the uproar, the KPU now has to formulate and execute strategic maneuvers ahead of the legislative elections next year.

Background: In late December 2017, the KPU unveiled a draft of Regulation No. 20/2018 that banned former graft, sexual assault and drug abuse convicts from competing in the legislative elections. The regulation was deemed crucial in addressing corruption that was rife among public officials. The policy, however, encountered stiff opposition from many, ranging from politicians to the home minister. Despite the opposition, the KPU was adamant.

Most parties, however, defied the regulation and included former graft convicts on their legislative candidate lists, forcing the KPU to disqualify the names. The candidates sought help from the Elections Supervisory Agency (Bawaslu), triggering a lengthy dispute between the KPU and Bawaslu, which deemed the KPU regulation as violating the former convicts' electoral rights.

The Supreme Court finally settled the row, allowing the former convicts to run in elections as long as they informed the public about their criminal records. The court ruling follows an article in Election Law No. 7/2017 that conveys the same message.

As the ruling is final and binding, the KPU has to devise strategies to pursue its anticorruption objectives without disregarding the ruling.

According to Election Law 2017-chapter 240 article 1(g), former convicts with 5 years or more imprisonment sentence cannot run in the election without publicly declaring their criminal records.



General Elections Committee (KPU) Regulation No.20/2018-chapter 7 article 1(g) also stipulates similar obligation to former convicts with 5 years or more sentence. However, there several exceptions according to the article 4:

- Former convicts who have completed their sentences and agree to publicly declare their status as convicts, and include their criminal history into their curriculum vitae

- Former convicts who were sentenced due to culpa levis and political reasons, where he/she was not incarcerated and have agreed to publicly declare their criminal history

The regulation also obliges political parties not to nominate candidates who have been formerly convicted of sexual assault, drug abuse or corruption to compete in election.

The Supreme Court (MA) ruling eliminated KPU Regulation chapter 4 article 3 legal binding as it was against the Election Law. According to the ruling, thus, a former convict whose sentence was five years or more must publicly announce/declare their status in accordance to the KPU Regulation chapter 7 and Election Law chapter 240.

Insight: The controversy over the legitimacy of former graft convicts' candidacy in elections centers on two legal discourses, namely KPU Regulation No. 20/2018 and its supersede Law No.7/2017 on general elections. These contradicting regulations hold the political fate of legislative candidates who were involved in corruption.

The Supreme Court, in issuing its rulings, argues that it considers Election Law No. 7/2017 as its legal basis. The court argues that as the KPU regulation contravenes the 2017 Election Law,

the former is not legally binding. Following the court's rulings, the KPU now has to maneuver strategically in continuing its crusade against corrupt governance.

On Thursday, Sept. 20, the commission, after thoroughly studying the Court's rulings, announced that it would continue enforcing the disputed regulation, though a revision would be made. The KPU argued that the rulings only problematized the words "former graft convicts"; hence, the commission will still enforce the prohibition against former sexual assault and drug abuse convicts from competing in elections.

Nevertheless, this decision, although helping the realization of more ethical and law-abiding candidates, cannot address ubiquitous corruption in the country.

In overcoming the legal barrier, the KPU's campaign against corruption may adopt a different approach. The commission now shifts its focus to voters and political parties. In regard to voters, the KPU has announced two possible strategies. First, the KPU, in ensuring that the public is well-informed of the former convicts' criminal background, plans to disclose the former convicts' criminal records on its website. According to Election Law No. 7/2017, former convicts who are registered as legislative candidates must advise the general public on their criminal records. Although the law already offers a reliable guarantee that the public will be abreast of candidates' past crimes, the KPU aims at taking further action by disseminating its own information.

Another option is to mark the former convicts' names that appear on the ballot papers. Such a measure is deemed necessary to inform voters and assist them in easily pinpointing former graft convicts among the thousands of legislative candidates.

The public, election and corruption watchdogs enthusiastically welcomed the KPU's plans. Considering that there are no more legal barriers standing in between former convicts and the elections, the ball is now in the voters' court.

In its bid for credible elections, the KPU also targets political parties. Now that there is no more legal basis for the KPU to disqualify former graft, sexual assault and drug abuse convicts from candidacy, the commission hopes the political parties adhere to the integrity pact that requires them to refrain from nominating former convicts.

According to the latest report, 10 out of 16 parties contesting the elections give no room to former corruption convicts. They include the NasDem Party, the National Awakening Party (PKB), the Prosperous Justice Party (PKS), the United Development Party (PPP) and the Indonesian Democratic Party of Struggle (PDI-P). Other parties, namely the Gerindra Party, Hanura Party, Democratic Party, National Mandate Party (PAN) and Golkar Party, remain murky. Gerindra, for instance, will reportedly proceed with its nomination of Jakarta City Council deputy speaker Muhammad Taufik, who was convicted of graft in 2004. Meanwhile, the Democratic Party and PAN, which have reaffirmed their commitment not to support former graft convicts following the court's ruling, keep ex-graft convicts on their respective legislative candidate lists.

However, promises remain unfulfilled. According to the latest final candidates list (DCT) released by the KPU, only three parties refrain from nominating former graft convicts. These parties are the PKB, PPP and PSI. Meanwhile, the remaining parties nominate several former convicts to run in the legislative elections. Among them, those which nominate the most former graft convicts are Gerindra Party (6), Hanura Party (5), Golkar Party (4), Democratic Party (4) and PAN (4).

Corruption is particularly rampant among the legislature. Between 2004 and 2017, 144 members of the House of Representatives and Regional Legislative Councils were found guilty of corruption. Coupled with the latest collective corruption scandals involving Malang, Jambi and North Sumatra councillors, it is understandable that the KPU is demanding more stringent regulations to prevent corruption in the legislature.

A survey conducted by *Kompas* last July found that 75.7 percent of respondents agreed that former graft convicts should be prohibited from contesting elections. Additionally, 76.9 percent stated they would not vote for the former graft convicts.

Despite the disappointing Supreme Court decision, a graft-free election remains possible. The KPU's persistence in informing and educating voters about candidates' criminal background, coupled with the general public's enthusiasm to reject graft-tainted candidates, indicates there is nothing to worry about on the prospects of the country's democracy.

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BUSINESS & ECONOMIC POLICY

Govt. races to rescue universal health coverage policy

On Sept. 19, President Joko “Jokowi” Widodo announced a series of measures to rescue the Social Security Fund for healthcare services (DJS Kesehatan) from an imminent cash flow crisis.

Takeaway: There is no easy solution to solve DJS Kesehatan’s cash flow problem. Raising the premium is preferred, but doing so would invite popular backlash. On the other hand, using tobacco excise as a source of funding is politically more feasible, albeit the fact that this solution is inconsistent with the government’s efforts to push antitobacco and antismoking regulations.

Background: The Healthcare and Social Security Agency (BPJS Kesehatan), which manages the Social Security Fund for healthcare services (DJS Kesehatan), has been suffering cash-flow deficits since its inception in 2014.

During Sept. 17’s House of Representatives (DPR) hearing, BPJS president director Fachmi Idris stated that DJS Kesehatan would face a Rp16.42 trillion deficit by the end of the year. Later this figure was revised down by the Development Finance Comptroller (BPKP) to Rp 10.98 trillion and the government has stuck to this figure.

DJS Kesehatan’s Cash and its equivalent in trillion Rupiah, Jan-Dec 2018



Source: BPJS Kesehatan

Because of the deficit, BPJS Kesehatan has been withholding payments for participating hospitals and even medical suppliers. Some hospitals have gone public in expressing their grievances. This prompted the government to act to avoid the crisis.

The government has allocated a bail-out fund of Rp 4.99 trillion and prepared various policy measures that will take effect in October, such as putting a ceiling on BPJS Kesehatan’s operational cost and using tobacco excise as an additional source of funding. The government expects these regulations to increase BPJS Kesehatan’s revenue by Rp 2.69 trillion to 3.07 trillion.¹

Insight: DJS Kesehatan, as part of the National Health Insurance (JKN) system, provides an opportunity for the poor to access expensive health care treatment, mainly for catastrophic illnesses such as heart disease, stroke, cancer, thalassemia, leukemia, etc. However, spending for such catastrophic illnesses has proven exceedingly expensive for DJS Kesehatan. This expenditure accounted for one-fifth of DJS Kesehatan’s total expenditure in 2017 and 2018. Nevertheless, the current funding scheme is inadequate to finance the entire expenditure. Consequently, DJS Kesehatan has faced a growing funding gap every year.

¹ TheJakartaPost.com, “Government steps in to bail out BPJS.” 18 September 2018 <https://tinyurl.com/y9xnhgse>

DJS Kesehatan's Average Funding Gap

Year	Premium per person per month	Costs per person per month	Average funding gap
2016	Rp 33,776	Rp 35,802	Rp 2,026
2017	Rp 34,119	Rp 39,744	Rp 5,625

Source: BPJS Kesehatan

Composition of DJS Kesehatan's Expenditure, in trillion Rupiah

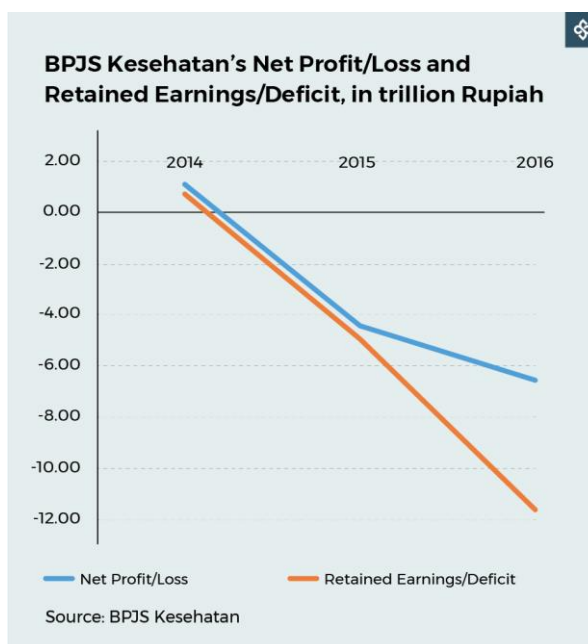
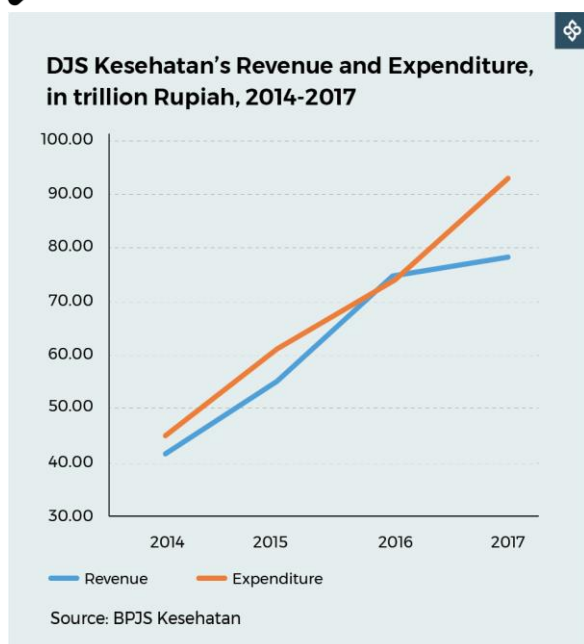
	2017			August, 2018		
	Expenditure	% of total CIT	% of total expenditure	Expenditure	% of total CIT	% of total expenditure
Heart/cardiovascular disease	9.43	51.1%	11.2%	6.67	52.0%	11.0%
Chronic kidney disease	2.26	12.2%	2.7%	1.50	11.7%	2.5%
Cancer	3.11	16.8%	3.7%	2.11	16.5%	3.5%
Cerebrovascular accident (stroke)	2.25	12.2%	2.7%	1.62	12.7%	2.7%
Thalassemia	0.50	2.7%	0.6%	0.30	2.3%	0.5%
Hepatic cirrhosis	0.32	1.7%	0.4%	0.21	1.6%	0.3%
Leukemia	0.32	1.7%	0.4%	0.20	1.6%	0.3%
Hemophilia	0.27	1.5%	0.3%	0.21	1.7%	0.3%
Total catastrophic illness treatment (CIT)	18.44		21.8%	12.83		21.1%
Total expenditure	84.44			60.89		

Source: BPJS Kesehatan

BPJS Kesehatan's Monthly Premium

	Break-even estimate	Current rate	Rate deficit
Subsidized rate	36,000	23,000	13,000
Unsubsidized, unemployed or unpaid employment			
First class services	80,000	80,000	-
Second class services	63,000	51,000	12,000
Third class services	53,000	25,500	27,500
Unsubsidized, paid employment			
Rate	6%	5%	1%
Rate ceiling	378,000,000	8,000,000	
Rate floor	Minimum Regional Wage	Unregulated	

Source: BPJS Kesehatan



To close the gap, the government needs to adjust the existing premium paid by members. However, such an adjustment is extremely unpopular. Since its inception in 2016, the government has managed to increase the premium only once, in 2016.

At the time, the increase faced strong protests from various interests groups like labor unions,² the business community³ and local governments,⁴ even ordinary citizens⁵ and the lawmakers⁶.

If this problem is left unsolved, BPJS Kesehatan, as the institution that manage DJS Kesehatan, will need to seek government assistance every now and then for its growing retained deficit.

The government has pursued all alternatives to solve this problem but one – increasing the premium to the economic value. The government even went so far to use the tobacco excise to help plug the deficit.

This tobacco policy may work as a band-aid solution. Nevertheless, this is inconsistent with the government's efforts to push antitobacco and antismoking regulations over a number of years.

Everyone knows that there is only one solution to the current debacle: increase the premium rate. But increasing the premium a few months before the presidential elections could pose a problem for the incumbent. Therefore, understandably, President Jokowi has promised to increase the premium only after the election.

² Tribunnews.com, "Buruh tolak kenaikan iuran BPJS Kesehatan.", 14 March 2016 <https://tinyurl.com/y79bdhlt>

³ CNNIndonesia.com, "Apindo tolak kenaikan iuran BPJS Kesehatan." 25 March 2016 <https://tinyurl.com/ya66jeqq>

⁴ Republika.co.id, "Asosiasi Bupati tolak kenaikan iuran BPJS Kesehatan." 28 March 2016 <https://tinyurl.com/y78cojkh>

⁵ Republika.co.id, "Masyarakat Palu protes kenaikan iuran BPJS Kesehatan." 19 March 2016 <https://tinyurl.com/yapzbs78>

⁶ Kompas.com, "DPR tolak kenaikan iuran BPJS Kesehatan dan beri 4 catatan." 17 March 2016 <https://tinyurl.com/yaz27zb9>

What we've heard: Presidential Chief of Staff Moeldoko has several times suggested during Cabinet meetings that the Finance Ministry bail out the Healthcare and Social Security Agency (BPJS Kesehatan). But the finance minister refused to do so without a presidential regulation.

BPJS' losses have become more apparent since the beginning of the year following news that several hospitals had publicly disclosed that they had not received compensation from BPJS Kesehatan for services they had rendered. That irked Moeldoko, who raised the issue several times.

During one Cabinet meeting, Vice President Jusuf Kalla argued that BPJS would continue to suffer losses unless the government increased premiums.

Kalla suggested a small increase of say Rp 1,000 per member. Currently, BPJS has more than 200 million members, and an extra Rp 1,000 per member every month would generate Rp 2.4 trillion a year, a big amount to patch the shortfall between expenses and revenue. Kalla suggested that premiums should eventually be increased to a level that would make healthcare services more sustainable.

President Joko "Jokowi" Widodo, however, objected to the idea. During a meeting at Bogor Palace earlier this month, BPJS Kesehatan president director Fachmi Idris asked the President when premiums would be increased. One attendee said Jokowi vowed to raise premiums next year if he was reelected.

Jokowi's fuel subsidies reform is just an illusion

President Joko "Jokowi" Widodo's decision to maintain fuel prices despite rising international crude oil prices for his re-election bid in 2019 faces growing opposition from technocrats⁷ and the business community⁸. This policy results in an increase of fuel subsidies by Rp42 trillion for 2018.

Takeaway: President Jokowi's fuel subsidies reform is just an illusion. Rather than eliminating Premium fuel subsidy, he uses statistical and accounting tricks to shift the financial responsibility of subsidizing RON 88 Premium fuel from the state budget to Pertamina's financial account. This façade has been losing its power in the face of rising global oil price, and the President needs to deal with this issue sooner or later.

Background: President Jokowi's reputation as an economic reformer was tarnished by his populist decision. In pursuit for reelection next year, President Jokowi decision to keep the prices of subsidized fuels has resulted in the ballooning fuel subsidies for 2018, from the initial plan of Rp46.9 trillion to Rp88.9 trillion, which marks a reversal to his previous fuel subsidies reform.⁹

⁷ CNNIndonesia.com, "Mendag era SBY usul ke Sri Mulyani naikan harga BBM." 15 September 2018
<https://tinyurl.com/yb6nvy9o>

⁸ Bisnis.com, "Pengusaha sarankan pemerintah cabut subsidi BBM" 16 September 2018
<https://tinyurl.com/y7ah9vgh>

⁹ Kompas.com, "3 tahun Jokowi-JK, pemerintah terus pangkas subsidi BBM dan listrik" 23 October 2017
<https://tinyurl.com/yctxmgee>

Worse, President Jokowi's 2018 fuel subsidies hike has become the main source of trade account deficit this year. Indonesia has suffered a trade deficit of US\$4.08 billion in the January-August period, putting more pressures on the rupiah exchange rate. Despite its adverse consequences on economic stability, there is no sign that the government will either cut fuel subsidies or increase fuel prices, including RON 88 premium fuel price, soon.¹⁰

National Fuel subsidy (in trillion Rupiah)

Type of subsidy	2018 State Budget Assumption	2018 State Budget Outlook	2017 realized energy subsidy
Diesel Fuel	2.2	3.6	1.72
Kerosene	7.1	29	6.58
Liquefied Petroleum Gas	37.6	56.3	38.75
Total	46.9	88.9	47.05

Source: Energy and Mineral Resources Ministry (EMRM) and Supreme Audit Agency (BPK)

Fuel Subsidies (JBT) Quota and Realization, 2013-2017

Type of fuel (million liters)		2013	2014	2015	2016	2017
Premium (RON 88)	Quota	30.77	29.43	0	0	0
	Realization	29.26	29.62	0	0	0
Kerosene	Quota	1.2	0.9	0.85	0.68	0.61
	Realization	1.1	0.91	0.73	0.53	0.52
Diesel Fuel (Solar)	Quota	16.03	15.67	17.05	16	15.5
	Realization	15.00	16.245	14.15	13.74	14.51
Total	Quota	48	46	17.9	16.68	16.11
	Realization	46.36	46.78	14.89	14.28	15.03

Source: BPH Migas

Insight: President Jokowi's image as an economic reformer and his previous fuel subsidies reform are just mirage. Rather than eliminating RON 88 Premium fuel subsidy, President Jokowi uses accounting and statistical tricks to move the burden from state budget to Pertamina's financial account.

The foundation of the tricks is Presidential Regulation (PP) No. 191/2014 that changes premium fuel from subsidized fuel category (JBT) to two non-subsidized fuel categories (JBKP and JBU). The non-subsidized JBKP category is used to regulate price and distribution of Premium fuel in Java, Madura, and Bali (Jamali) regions. On the other hand, non-subsidized JBU category is used to regulate price and distribution of Premium fuel outside Jamali regions, alongside with Pertamina and DEX diesel fuels.

Because of this regulation, the composition of subsidized and non-subsidized fuel consumption changed drastically, in which the national fuel consumption is dominated by non-subsidized fuels rather than subsidized fuels after 2014.

¹⁰ Tempo.co, "Rupiah jeblok, Menteri Jonan pastikan harga BBM tak naik." 5 September 2018
<https://tinyurl.com/yadwb5pb>

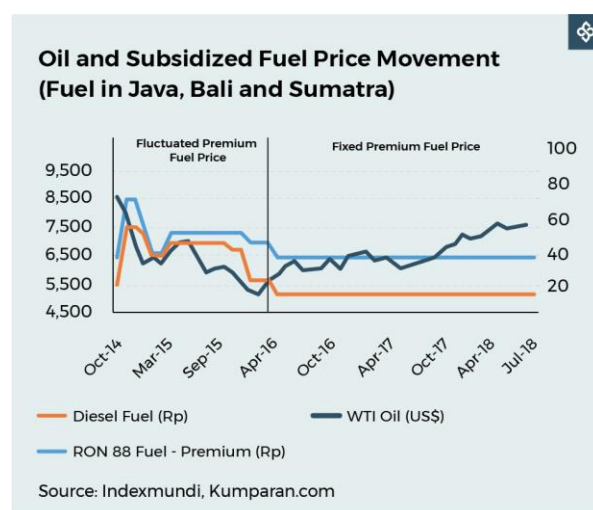
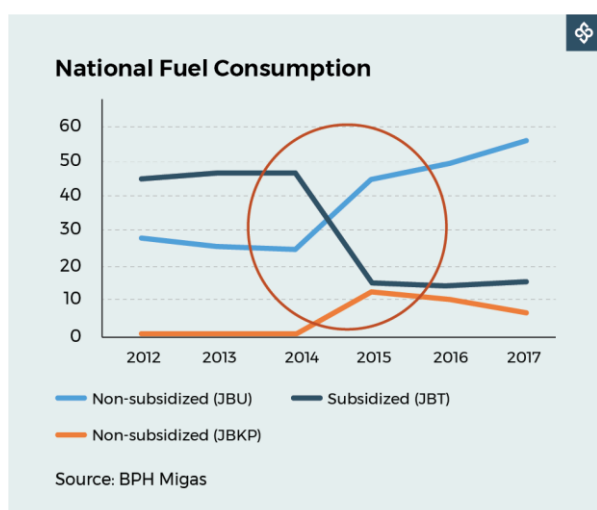
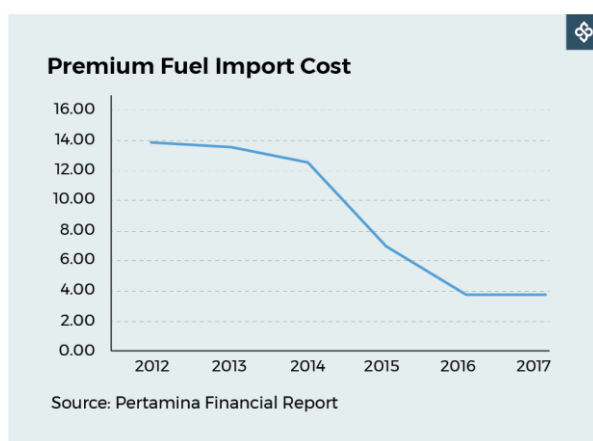
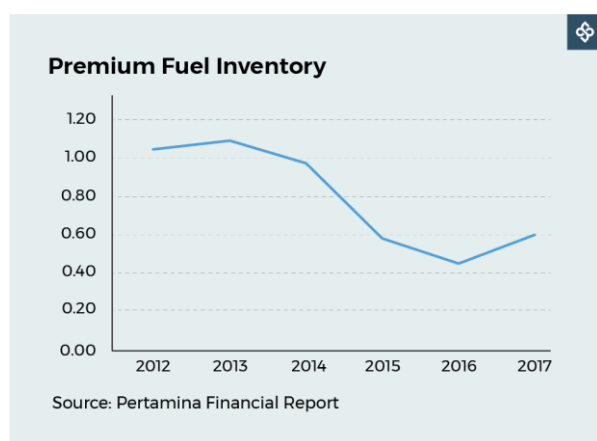
To make the tricks work, the change in Premium fuel category from subsidized to non-subsidized needs to be accompanied by the right fuel price movement. Between October 2014 and April 2016, when global oil price dropped from the level of US\$84 per barrel to \$40 per barrel, premium fuel price fell from Rp8,500 per liter to Rp6,450 per liter, giving the impression that premium fuel was not subsidized.

After April 2016, however, Premium fuel has become subsidized fuel again. When global oil price ticks up, the government keeps Premium fuel price at the level of Rp6,450 per liter. Because of PP No. 191/2014, the financial responsibility of subsidizing premium fuel has become Pertamina's responsibility.

In response to its new responsibility, Pertamina cut its Premium fuel inventory and import, and effectively Pertamina removed Premium fuel from many gas stations in big cities until the public protested the decision and the government told Pertamina to supply Premium to all gas stations again. The new responsibility affects Pertamina's revenue and overall finance.

The financial responsibility is likely to hurt Pertamina this year, as the gap between administered premium fuel price and global oil price widened.¹¹

However, it is unlikely to expect President Jokowi to take a drastic decision and increase subsidized fuel prices this year, just months away from presidential elections in April next year.



¹¹ CNBCIndonesia.com, "Keuangan Pertamina seret, sampai rugi atau hanya turun laba?" 23 July 2018 <https://tinyurl.com/yapnlwgc>

Pertamina's revenue composition, 2012-2017

	2012	2013	2014	2015	2016	2017
Revenue from Premium Fuel	11.42	13.11	14.22	13.02	11.49	5.43
Revenue from Oil and Fuel Sales	43.76	44.74	44.59	36.56	32.53	36.78
Subsidy Reimbursement for JBT fuel category	18.76	16.80	14.16	1.12	0.75	0.60
Revenue from Operations	70.92	71.10	70.00	41.76	36.49	42.96

Source: Pertamina Financial Report

Three types of fuel based on regulation no. 191/2014

- **Special fuel (JBT):** Subsidized and nationally distributed. Type of product: diesel fuel
- **Specially assigned fuel (JBKP):** Non-subsidized and distributed only in areas outside Java, Madura and Bali. Type of product: RON 88 (fuel Premium)
- **Common fuel (JBU):** Non-subsidized and nationally distributed (except RON 88 Jamali). Types of Product: RON 88 for Jamali, Perta series (Pertalite, Pertamina, Pertamina Turbo), DEX diesel fuel series (Dexlite and Pertamina Dex).



Non-commercial price for kerosene, diesel fuel and RON 88 are determined by the government during distribution



RON 88 fuel price for Java, Madura and Bali; Perta series and DEX series are determined by vendors

What we've heard: Vice President Jusuf Kalla suggested fuel prices be increased during a recent Cabinet meeting to help reduce the current account deficit and improve oil and gas company Pertamina's finances. His proposal was met with deaf ears.

According to a source at the vice-presidential office, Kalla first made the proposal during a meeting late last month at his office with a number of ministers, including Finance Minister Sri Mulyani Indrawati and Energy and Mineral Resources Minister Ignasius Jonan. Sri Mulyani approved of Kalla's proposal, but Jonan did not. Jonan argued that Pertamina's cash flow was fine. He reasoned that Pertamina's finances would improve after the government awarded it the lucrative Rokan block in Riau. Jonan also argued that the price of Pertalite was above its production cost.

According to one of the meeting's participants, Kalla questioned the data cited by Jonan, especially regarding Pertamina's finances and the cost of Pertalite. Kalla even questioned Jonan's argument about Pertamina's takeover of the Rokan block from Chevron. First, Pertamina would only take over Rokan in 2021, and the block under Pertamina could suffer more decreases in production just like the Mahakam block in East Kalimantan, the production of which dropped after it was taken over by Pertamina from Total.

The next morning, Jonan summoned Pertamina president director Nicke Widyawati and finance director Arief Budiman, and claimed their data was wrong. Nicke said that Arief was the one responsible for the data.

When Deputy Energy and Mineral Resources Minister Archandra Tahar took an investor from Africa to meet Kalla, Jonan asked Archandra to report to Kalla about the reportedly incorrect data.

This is said to have prompted Rini to remove Arief from Pertamina and assign him as the head of Danareksa financial institution, replacing Hery D. Adhiningrat, who had served as Danareksa president director for nine years.

After the meeting at his office, Kalla brought up the proposal at a Cabinet meeting. But no minister dared respond to Kalla's proposal. Silence reigned in the meeting room. President Joko Widodo then shifted the discussion to another topic.

The government has promised not to raise fuel prices, at least until after next year's election.

MACROECONOMIC UPDATE

Trade balance shows improvement but still in deficit

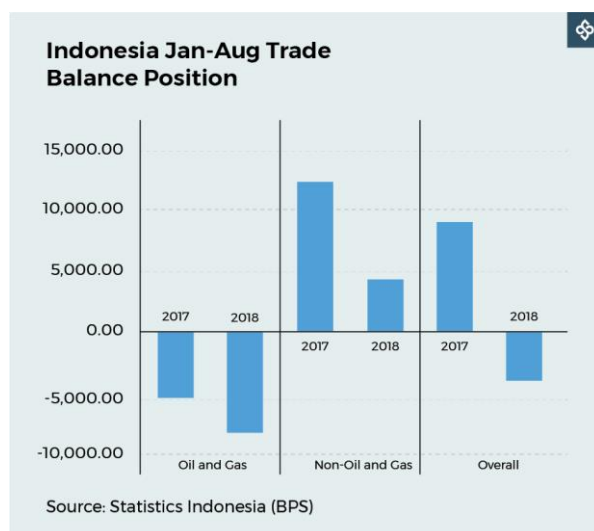
Indonesia's trade deficit narrowed to \$1.02 billion in August from \$2.01 billion in July, but that will hardly prevent an expected large deficit for the full year, putting pressure on the rupiah and local stocks.

Takeaway: Indonesia will remain under pressure from emerging market crisis despite a promising market resiliency. Current account deficit and depleting foreign exchange reserves are likely to affect the situation.

Background: Trade figures for August published by Statistics Indonesia (BPS) on Monday (Sept. 17) show that exports have fallen 4.2 percent from a year earlier to \$15.8 billion, while imports have soared 25 percent to \$16.8 billion.

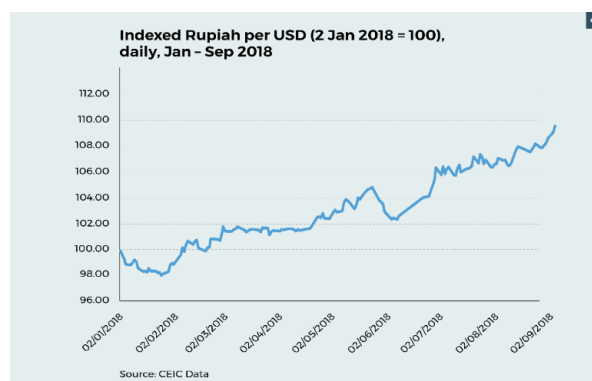
Imports of consumer goods posted the biggest annual growth in August, while exports of agriculture products – including crude palm oil – fell by more than 20 percent from a year earlier, contributing to the deficit. However, overall non-oil and gas trade recorded a surplus of \$639 million in August, lower than the \$778 million recorded in July.

Higher oil and gas imports added to the burden on the trade balance. BPS also noted that the value of oil and gas imports rose 14.5 percent month on month in August and 67.5 percent year on year. The oil and gas trade deficit increased to \$1.6 billion in August from \$1.2 billion in July. The overall August trade deficit of \$1.02 billion brings the country's cumulative deficit from January to August to \$4.08 billion.



Insight: The continued high trade deficit in August – albeit much lower than that of July – still puts pressure on the rupiah exchange rate, in addition to external pressure. The rupiah fell to Rp 14,900 per US dollar at the beginning of September 2018.

External factors continue to weigh on the rupiah, especially following the free fall of the Turkish lira and later the Argentinian peso. While the Turkey crisis was triggered by the clash between the Turkish strongman and a stronger US leader, Argentina's currency crisis has been brewing for some time and eventually forced the government to request a bailout from the International Monetary Fund.



Argentina suffers from wide a current account deficit exceeding 5 percent of the gross domestic product and 40 percent of the country's total exports. Inflation is also a chronic problem in Argentina, exceeding 30 percent year on year in July. Also, Argentina is borrowing big in foreign exchange-denominated debt to finance its fiscal deficit¹². With economic characteristics that are relatively similar to other emerging markets, the crisis in Argentina has quickly spread to similar countries, including Indonesia, through exchange rate pressure. Indonesia's macroeconomic situation, however, is much better than Argentina's, but with a current account deficit now at 3 percent of GDP and depleting foreign exchange reserves, Indonesia is also subject to spillover effects of emerging market jittery.

Nonetheless, the government should respond to this situation wisely, as Indonesia currently faces economic pressure mainly from the outside, rather than domestically, especially because of the spike in global oil prices and the increase in interest rates by the US Federal Reserve.

Some of the measures taken by the government to control the current account deficit are laudable. They include policies to boost foreign exchange reserves, such as import limitations, B20 conversions,

postponing some infrastructure projects with high import content and boosting exports.

Those efforts to improve the trade balance are expected to reduce the current account deficit so that it can provide a positive signal for businesses and global investors. However, the effects of those policies will not be immediate. So, we expect pressure on the rupiah to continue for some time.

¹² <https://www.bbc.com/news/business-45451208>

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