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# RSIS COMMENTARIES

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No. 147/2013 dated 6 August 2013

## Indonesia's Subsidies for Cash: Economics over Politics?

By Jonathan Chen and Adhi Priamarizki

### Synopsis

*For the third time since 2005, the Indonesian House of Representatives (DPR) managed to vote in favour of cutting fuel price subsidies in response to rising crude oil prices worldwide. The expediency of rebalancing the country's deficits masks political bickering, bargaining and bandwagoning.*

### Commentary

WHILE FINANCIAL pundits lauded recent moves by the Indonesian parliament in paving the way for the removal of fuel subsidies, tensions soared as thousands staged protests and rallies to demonstrate against the price hikes. Based on a dual-pricing model, prices are expected to increase by 44 per cent for a litre of subsidised petrol (from 4,500 rupiah to 6,500 rupiah/S\$0.57 to S\$0.83) and 22 per cent for a litre of subsidised diesel (from 4,500 rupiah to 5,500 rupiah/S\$.57 to S\$.70).

Dipping into Indonesia's reserves was ruled out in favour of the more austere fiscal policy of subsidy cuts. Anticipating inflation to hit poor households the hardest, the parliament dished out a revised budget scheme that comprised Temporary Direct Cash Assistance (*Bantuan Langsung Sementara Masyarakat* or BLSM) amounting to 150,000 rupiah (S\$19.50) for a period of four months. This is the latest subsidy cut in a series of price hikes and reversals passed by the parliament that saw current subsidised fuel prices settle to its initial 2005 figure.

### Cash as carrots, subsidies as sticks

The recent brouhaha over subsidy cuts has in turn led to a potential split in the six-party Yudhoyono coalition government with the Democrat Party (PD) and Golkar in the pro-government camp and the Indonesian Democratic Party – Struggle (PDI-P) and Prosperous Justice Party (PKS) in the opposition camp.

Cash transfers were first introduced under President Susilo Bambang Yudhoyono's (SBY) first term in October 2005 as a compensatory measure to counter the exorbitant fuel price increment of a whopping 88 per cent then. A similar programme was implemented again in May 2008 when the fuel price hike reached 33 per cent. With general elections due in 2014, the recent direct cash transfer seemed to follow the same pattern as its predecessor in 2008, just a year before the 2009 elections.

In its latest manifestation, the controversially named Direct Cash Transfers scheme (*Bantuan Langsung Tunai*

or BLT) was tactfully renamed BLSM, the Temporary Direct Cash Assistance scheme, although it serves a similar purpose of cushioning the direct impacts of a price hike. Nevertheless, a tangible cash pay-out is always psychologically more favourable than an invisible deduction in the form of subsidies. It is particularly effective as a political chip when it can be subtly masqueraded as poverty alleviation.

The incumbent PD has utilised the “felt” effects of visceral cash to their advantage during the BLT hand-outs in 2008 particularly among the rural poor. Surveys have shown quite substantially that the BLT scheme in 2008 was one of the factors that noticeably swung votes and had led to SBY’s buoyant popularity and re-election in the 2009 presidential election. According to *Lembaga Survei Indonesia* (LSI), there was an awareness rate of 95 per cent, a positive acknowledgement rate of 85 per cent and a 34 per cent recipient rate in the lower one-third of Indonesian society for the 2008 BLT scheme.

### **Cash losing its charm?**

In a bid to replicate the rousing appeal of the BLT scheme in 2008, incumbents have tried to refashion a similar programme in 2013 but until now with mixed results. The reasons are self-evident.

Firstly, it was a case of merely changing names. BLT’s novelty as a vote-courting mechanism had run its course after two analogous implementations in 2005 and 2008. The subtle change in its terminology to reflect its temporary nature under the new acronym BLSM (note the Indonesian equivalent: sementara) was in fact not by chance and could be indicative of an implicit move in the direction of economics rather than politics.

Secondly, and a bigger factor is that rival political parties are playing catch-up in this game of cash and subsidies. The new BLSM programme is no longer conspicuously perceived to be under the auspices of the incumbents. What was once purportedly implemented as a government initiative has become a level playing field for members of parliament (MPs) intent on gaining leverage whereby the lines representing party interest veritably outweigh(s) that of the state.

A recent tweet by PKS representative and Minister for Communication and Information Tifatul Sembiring showing him presenting the BLSM cash give-outs added to the already fuzzy neutrality of the programme.

Thirdly, scandals have plagued both the incumbent PD and Golkar in recent years. Golkar have been implicated in the Lapindo controversy since late 2008. PD has scandals of its own too. Graft allegations made against former party chairman of PD Anas Urbaningrum has seen party loyalties plummeting. The general election of 2014 would not include SBY in the running as he would have exceeded his two terms as president.

### **Bickering, bargaining and band-wagoning**

The recent subsidy cuts are not without their share of drama. The issue of subsidy cuts was raised in 2012 but successfully thwarted by the opposition camp on account of Article 8 in the constitution stipulating heavy requirements to be met before prices could be raised. The pro-government camp however had the upper-hand in 2013 following amendments made to the Article.

Golkar and the incumbent PD seemed have reinstated their partnership through this subsidy-cut episode. In lieu of the amendments, the opposition camp of PDI-P proposed an alternative budget but was rebuffed. They accepted defeat but not without a fight. While PDI-P stands firm in its opposition towards the fuel price hike, PKS was especially vocal and provocative.

Adding fuel to fire, allegations of a political deal between Golkar and PD have been circulating due to a new clause in the amended state budget of 2013 stipulating that the central government will provide a maximum 155 billion rupiah in aid of the Sidoarjo mud disaster (the Lapindo fiasco). PD and Golkar have dismissed these allegations.

The people’s main grievance especially during the Ramadan has been over the price hike. While PKS attempts to gain sympathy from their fervent opposition, PD aims to salvage its battered image via the BLSM programme. Nonetheless, in the game of politics, even PKS stands to gain with the Family of Hope (*Program Keluarga Harapan* or PKH) scheme managed by the Ministry of Social Affairs under PKS politician Salim Segaf Al-Jufri – a similar offshoot to the BLSM Programme stemming from subsidy cuts. It seems opposing parties are united in seeking credit from the cash handouts in lieu of subsidy cuts.

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