

ANALYSIS OF THE EFFECT OF FUEL SUBSIDY POLICY ON ECONOMIC GROWTH IN INDONESIA

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ABSTRACT

This study aims to determine the effect of fuel subsidy policy on economic growth in Indonesia. Fuel oil (BBM) is one of the energy needed by the community as fuel for vehicles, both private and for public vehicles. In Indonesia, the fuel price increased in September 2022, where one example is the price of pertalite fuel, which was originally IDR 7,650 per liter to IDR 10,000 per liter. One of the factors causing this is the conflict between Russia-Ukraine which affects world oil prices to increase. To overcome this, the government made several policies including providing fuel subsidies to the community to launch their activities to increase economic growth in Indonesia.

Keywords: Fuel, Subsidy Policy, Economic Growth

INTRODUCTION

Fuel Oil or what we know as BBM is an important need for people in cities and villages both for the needs of a company and family, and BBM is also very important for the industrial sector to transportation. Oil has an important role in the life of the Indonesian people, this can be seen from the source of oil in Indonesia itself is still being sought and pursued with various scientific research. However, these various efforts did not get satisfactory results.

Given the important role of fuel in people's lives, the government has implemented various policies, namely the government intervenes in prices and ensures its availability in the domestic market. This government policy is implemented by providing price subsidies to reduce fuel prices to be affordable to the public while maintaining price stability.

According to the Ministry of Finance, subsidies are budget allocations that are channeled through many companies or institutions that produce and sell goods and services that meet the needs of the community, so that the selling price is profitable. The subsidy budget consists of energy subsidies (fuel, biofuel, 3 kg liquefied gas cylinders, LGV and electricity subsidies) and non-energy subsidies (food subsidies, fertilizer subsidies, seed subsidies, program loan interest subsidies, public service bond subsidies, and tax subsidies).

LKPP 2021 explained that the realization of supporting costs in 2021 reached IDR 242.09 trillion or 138.06 percent of the budget ceiling. The implementation of these subsidy costs includes energy subsidies of IDR 140.41 trillion, an increase of 28.95 percent, and the implementation of non-energy subsidies of IDR 101.67 trillion or 16.41 percent compared to the same period last year. The main source of energy subsidy implementation, as explained earlier, comes from fuel subsidy.

The realization of JBT fuel subsidy costs in fiscal year 2021 is higher than the realization of costs in fiscal year 2020. The high demand for fuel subsidy budget comes from the total volume of JBT distributed in 2021 of 16,084 thousand kiloliters. quota of 16,296 thousand kiloliters (99 percent), consisting of a plan of 496 thousand kiloliters of kerosene as much as 489 thousand kiloliters and a diesel fuel plan of 15,800 thousand kiloliters of 15,596 thousand kiloliters. The allocation of JBT can certainly be implemented optimally so that poor households, micro businesses, small farmers and fishermen get the fuel needed at a reasonable price so that it can support national economic recovery by maintaining sustainable small economic activities and can increase Indonesia's economic growth.

Based on the explanation above, the following problem formulations can be taken:

1. How is the consideration of the Indonesian government in issuing a fuel subsidy policy for the community?
2. How does the fuel subsidy policy affect economic growth in Indonesia?

RESEARCH METHOD

This research is a library research that focuses on qualitative data management with data analysis methods that use description-analysis

methods. This research discusses what is the fuel subsidy policy? How are the considerations of the Indonesian government in issuing fuel subsidy policies to the public? How does the fuel subsidy policy affect economic growth in Indonesia?

RESULTS AND DISCUSSION

Fuel oil (BBM) is one of the energies needed by the community as fuel for both private and public vehicles. The growing population of Indonesia increases the need for fuel every year. According to (Aslami, 2022), in addition, the price of fuel itself has also increased, for example, the price of Pertamina fuel rose from Rp 9,000-9,400/liter to Rp 12,500/liter since April 1, 2022 and established Pertalite fuel as a subsidized fuel oil. Conversely, on October 1, 2022, the price of Pertamina fuel will be IDR 13,900. In the last six months, Pertamina fuel has increased by Rp 1,400. And it does not rule out the possibility of other types of fuel also increasing.

The Ministry of Energy and Mineral Resources stated that Pertalite fuel is one of the subsidized fuels because it is most widely used by motorists. In 2021, Pertalite users reached 23 million kilo liters or 79 percent more than other fuels such as Pertamina, Pertamina Turbo and Premium, where the use of these fuels was 21 percent.

The increase in fuel prices is certainly caused by several factors, the following factors increase in fuel prices.

1. Factors causing the price increase of fuel oil (BBM)

The price of fuel oil (BBM) in Indonesia is currently increasing significantly. The increase in fuel prices is certainly caused by several factors, the following factors cause the increase in fuel prices, among others:

a. Political tensions between Russia and Ukraine.

The political war between the two countries resulted in the world's oil rising. This conflict caused disruptions in oil supply and may have reduced oil supply by 10%. In addition, if oil continues to fall, there will be an oil crisis that will affect prices.

b. Population growth.

Indonesia's population continues to grow every year, therefore the need for energy is also increasing. Fuel (BBM) is one of the energy needed by humans and others.

c. Increased fuel consumption.

Fuel demand is increasing year by year due to population growth. Increased fuel demand with limited resources affects fuel.

d. High world market oil prices.

The price of oil on the world market has risen to 120 dollars/barrel, and according to the government this adds to the burden on the state budget, especially regarding the amount of fuel subsidies.

2. Government policy on fuel price increases

Based on the explanation above, it can be concluded that the causes of fuel price increases are population growth, the conflict between Russia and Ukraine, the increase in oil prices on the world market, etc. So it is necessary to achieve government policies to overcome the increase in fuel prices. The following policies have been identified by the government to overcome the problem, among others:

a. Short-term strategy:

- 1) Maintain the availability and distribution of fuel, especially during Ramadan and Eid al-Fitr.
- 2) The government cooperates with PT Pertamina (Persero) to maximize the digital function of Public Fuel Filling Stations (SPBU).
- 3) Activities that affect production growth are strengthened.
- 4) Adjustment of non-subsidized fuel in accordance with the economy of the middle class and above.
- 5) Improve supervision and prosecution of fuel abuse.
- 6) Addition of subsidized fuel quota.
- 7) On the upstream oil and gas side, the drilling program is on time and within budget (790 development wells, 581 re-workings and 29,582 maintenance wells).
- 8) Propose quotas for certain fuels such as JBT diesel, JBT kerosene and pertalite types.

b. Medium and long-term strategies:

- 1) On the upstream side, the strategy is to optimize existing production/assets.
- 2) New Joint Operation (KSO) offer.

- 3) Refinement of work contract clauses between the Government and the private sector.
- 4) Accelerate the conversion of conditional resources into production.
- 5) Encourage aggressive research for great discoveries.
- 6) Job offer promotion.
- 7) Accelerate project implementation *Chemical Enhanced Oil Recovery* (EOR).

The government plans to launch the BLT Plus program. BLT Plus is a government program to offset fuel prices. The program is given to the lower middle class, especially people outside Java, and will be implemented no later than the beginning of June 2008. The form of the program is to provide cash of Rp 100,000 per month, at least for one period, and to provide basic necessities such as rice, oil and sugar.

Meanwhile (Aslami, 2022) said that the policy of increasing fuel prices should make the government create an assistance program for underprivileged people, because the provision of this assistance is very meaningful for the survival of the community, the increase in fuel prices will definitely affect the rising prices of basic necessities, so the government must stabilize the prices of basic goods so that they can be reached by the community. Vehicle ownership is limited so that fuel is reduced. For example, each family only has one car and two motorcycles.

Fuel oil has become one of the basic needs of society and is often used as fuel for cars and motorbikes. Fuel oil is a liquid fuel that is used as a source of vehicle energy.

According to Nugroho (2005: 2) BBM is a type of fuel produced from refining crude oil. Crude oil from the bowels of the earth is refined in refineries to produce petroleum products, including fuel. In addition to producing fuel, oil refining produces many other products, ranging from gas to products such as naphtha, light sulfur wax and asphalt.

Minister of Energy and Mineral Resources (ESDM) Arifin Tasrif said Indonesia's oil reserves will be available for the next 9,5 years. The continuous use of fossil fuels has led to the depletion of fuel oil availability. According to Integrated Green Business (IEC) data, Indonesia is one of the countries with the fastest growing energy consumption in the world. The increase in energy consumption is 7% per year. Indonesia's energy

consumption is divided into 50% industry, 34% transportation, 12% household, and 4% business.

Indonesia's energy consumption is quite high, with almost 95% being fuel oil. Almost 50% of it is fuel oil (BBM). So it's good to save fuel oil. Peralite is the type of fuel oil (BBM) most consumed by Indonesians in 2021. The consumption figure increased compared to last year's 18.14 million kiloliters. In 2020, pertalite consumption decreased due to the covid-19 pandemic. However, consumption will increase again in 2021, while Pertamina (RON 92) fuel consumption was recorded at 5.71 million kiloliters in 2021, up from last year's 4.05 million kiloliters. Then the consumption of high quality fuel (RON 88) amounted to 3.35 million kiloliters. after that the consumption of diesel (CN51) 701 thousand kiloliters and Pertamina turbo or equivalent (RON 95 98 100) 481.18 thousand kiloliters.

Indonesia's fuel consumption is affected by the price of crude oil. Crude oil prices fluctuate in different parts of the world due to reduced demand for goods, causing the global economy to decline. According to Santoso (2014:46): The increase in oil prices can affect the decline in oil energy consumption, the increase in oil prices from 40 dollars to 60 dollars per barrel led to a decrease in oil consumption of oil energy sources. such as diesel and high quality petroleum as a source of energy in the transportation sector. The decrease in fuel consumption due to the increase in oil prices causes a change in the use or use of oil to other energy sources. Judging from the level of economic prosperity of non-oil energy sources, the non-oil energy sources in the transportation sector are natural gas which is expected to be used since 2005, then ethanol or bioethanol as an alternative fuel to replace the existing premium. Starting to become economically attractive in 2013, biodiesel will become an economically profitable alternative to diesel from 2017.

Today, countries in some parts of the world are often associated with the presence or availability of oil, because oil is one of the most important factors in the production process. The availability of oil to support economic growth and activities is a measure of a country's success in achieving its goals. The need for oil greatly affects economic activities both on a micro and macro scale. Economic activities supported by good contributions will result in relatively better economic growth. Crude oil plays an important role in the country's economy. The development of the world market price of oil is a

measure of the world economy, as it plays an important role in production. This is because oil is the most traded commodity. Indonesia is a small open economy and an oil importer. According to the Central Bureau of Statistics, Indonesia's imports of crude oil products in January-July 2022 were 14.37 billion dollars, an increase of 97.71 percent compared to the same time last year. The high import value is driven by high world oil prices, while domestic demand has so far grown significantly. This has led to the impact of oil price shocks on economic activity.

The state also subsidizes fuel distributed by Pertamina, which is still limited to kerosene, diesel and added energy for general consumption. Although the government raised the price of subsidized fuel, the budget allocation for fuel subsidies continued to increase. With deficits and expenditures increasing, subsidies are inevitable, even if fuel prices rise. This is because a suitable solution to the support problem was not found earlier. According to Suryad (2015:96): the higher the consumption of subsidized fuel, the smaller the government budget. The realization of fuel subsidy costs on 30 September 2014 was Rp. 183.40 trillion or 74.4% of the maximum amount of Rp. 246.50 crowns. The implementation of fuel subsidies continues to increase along with the increase in the total use of subsidized fuel.

According to the Ministry of Finance, the share of fuel subsidies to total government expenditure is usually higher than the share of infrastructure expenditure to total government expenditure. It found that in 2012, the cost of fuel subsidies reached 14.2 percent of total government expenditure, higher than the share of infrastructure expenditure of total government expenditure, which was 11.7 percent. It is a shame that more of the state budget is spent on fuel subsidies than on infrastructure development.

With the help of subsidies, domestic oil consumers are protected from fluctuating oil prices on the international market. However, the result is an increase in the government's fuel subsidy budget, which then squeezes tax resources for other priority needs. Fluctuations in international oil prices have a major impact on the fuel subsidy allocation in the state budget. Fluctuations in WTI and Brent oil prices follow the same pattern as fluctuations in the amount of the state budget's fuel subsidy.

Subsidized fuel prices can also affect fuel consumption, the detik.com Rosa website (2022: 1) states that: The increase in fuel prices by about 2,500 rubles will be felt by the middle and lower classes. This is because the increase in fuel prices causes many things. One of them is a decrease in purchasing power (fuel consumption), immediately there is a decrease in purchasing power due to the effect of decreased income. However, the cost varies by household income category. Especially the smallest or poorest group of households do not have enough room to deal with short-term cash flow problems.

Currently, Indonesia is experiencing an increase in fuel prices. This is due to the high public demand for fuel, while the supply is less so that the price of fuel rises. The increase in fuel prices makes it difficult for people, especially the lower classes, and also entrepreneurs to make ends meet, because the increase in fuel prices weakens people's purchasing power, and this leads to the fact that the total production of many companies is not absorbed. reduce sales, which ultimately reduces profits.

Fuel consumption is also influenced by population. According to Kebede et al, Rezki (2011: 36) states that "the larger the population of a country, the greater the energy needs of the region". This means that population is an important factor in determining energy demand. Continued population growth has various impacts on people's lives. One aspect that is quite impressive is the use of energy to meet the needs of life, including industry, transportation, households, etc. Population growth increases people's demand for energy and increases fuel prices. The increase in fuel prices makes it difficult for people, especially the lower classes, as well as entrepreneurs to cover the cost of living, because the increase in fuel prices weakens people's purchasing power and this leads to the fact that the total production of many people, companies are not absorbed. reducing sales, which in turn reduces profits.

CONCLUSION

Fuel oil (BBM) is one of the energies needed by the community as fuel for both private and public vehicles. Indonesia's growing population increases the need for fuel every year. In contrast, on October 1, 2022, the price of Pertamina fuel will be Rp13,900. In the last six months, Pertamina fuel has

increased by IDR 1,400. The Ministry of Energy and Mineral Resources states that Peralite is one of the subsidized fuels because it is most widely used by motorists. Fuel prices in Indonesia are currently increasing significantly. a) Political tensions between Russia and Ukraine. The political war between the two countries has caused the world's oil prices to rise. This conflict caused disruptions in oil supply and may have reduced oil supply by 10%. b) High world market oil prices.

Oil prices on the world market have risen to 120 dollars per barrel, and according to the government this has increased the burden on the state budget, especially regarding the amount of fuel subsidies. Fuel demand is increasing year on year due to population growth. Increased fuel demand with limited resources affects fuel. Indonesia's population growth continues to increase every year, therefore the need for energy is also increasing. Fuel (BBM) is one of the energy needed by humans and others. So it is necessary to achieve government policies to overcome rising fuel prices. The following are policies that have been identified by the government to overcome this problem, among others. The government plans to launch the BLT Plus program. BLT Plus is a government program to offset the price of fuel. Vehicle ownership is limited so that fuel is reduced. For example, each family only has, for example, one car and two motorcycles. Fuel oil has become one of the basic needs of society and is often used as fuel for cars and motorcycles. Fuel is a liquid fuel that is used as a source of vehicle energy.

BBM is a type of fuel produced from refining crude oil. Crude oil from the bowels of the earth is refined in refineries to produce petroleum products, including fuel. Minister of Energy and Mineral Resources Arifin Tasrif said Indonesia's oil reserves will be available for the next 9.5 years. The continuous use of fossil fuels has led to the depletion of fuel oil availability. Indonesia's energy consumption is quite high, with almost 95% of it being fueled by oil. Indonesia's fuel consumption is affected by crude oil prices, such as diesel and high-quality petroleum as energy sources in the transportation sector. Economic activities supported by good contributions will result in relatively better economic growth. Indonesia is a small country with an open economy and an oil importer. The state also subsidizes fuel distributed by Pertamina, which is still limited to kerosene, diesel and energy added for general consumption.

Despite the government raising the price of subsidized fuel, the budget allocation for fuel subsidies continues to increase. According to the Ministry of Finance, the share of fuel subsidies in total state spending is usually higher than the share of infrastructure spending in total government spending. It is a shame that more of the state budget is spent on fuel subsidies than on infrastructure development. With the help of subsidies, domestic oil consumers are protected from oil price fluctuations in the international market. Fluctuations in international oil prices have a major impact on the fuel subsidy allocation in the state budget. This is because an increase in fuel prices causes many things. One of them is a decrease in purchasing power (fuel consumption), immediately there is a decrease in purchasing power due to the effect of decreased income. Currently, Indonesia is experiencing an increase in fuel prices. This is due to the high public demand for fuel, while the supply is less so that the price of fuel rises. Continued population growth has various impacts on people's lives. Population growth increases people's demand for energy and increases fuel prices.

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