

Structural breaks and fiscal sustainability of the Indonesian government budget

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Article Info

Article history:

 Received : 5 January 2015
 Accepted : 2 March 2015
 Published : 1 April 2015

Keywords:

fiscal, debt, portfolio, consolidation, government

JEL Classification:

E62, H1, H2, H3

DOI:

<http://dx.doi.org/10.20885/ejem.vol7.iss1.art4>

Abstract

The purpose of this study is to identify government policy regimes or structural breaks as indicated by significant changes in debt to GDP ratio and to identify fiscal sustainability in Indonesia from 2000 to 2013. Using Fiscal Reaction Functions framework and Smooth Transition Regression, the study found two structural breaks following the three regimes. Foreign debt repayment dominates the government policy during Regime I. Fiscal consolidations and discipline such as reducing energy subsidies in 2002 and 2005, managing debt portfolio and increasing government revenues were dominant during Regime II. In Regime III, the government increases domestic debt, particularly to finance stimulus package. This study also found that the fiscal is unsustainable during the period of study. Overall, the findings seem to suggest that managing government debt through fiscal consolidations, foreign debt repayment and debt portfolio management is not sufficient to achieve long-term fiscal sustainability.

Abstrak

Tujuan penelitian ini adalah mengidentifikasi perubahan struktural pengelolaan anggaran pada saat terjadi perubahan atas rasio utang terhadap PDB dan menguji adanya keberlanjutan fiskal Indonesia selama periode analisis 2000–2013. Dengan menggunakan kerangka Fiscal Reaction Functions dan teknik pengelolaan data Smooth Transition Regression penelitian ini menyimpulkan terjadi dua kali perubahan struktural. Selama Regime I, pemerintah berupaya untuk melunasi hutang luar negeri, sementara selama Regime II, pemerintah lebih berfokus pada konsolidasi dan disiplin fiskal seperti pengurangan subsidi BBM tahun 2002 dan 2005, mengelola portofolio utang negara dan meningkatkan sumber penerimaan pemerintah. Selama Regime III, pemerintah berupaya untuk membiayai paket stimulus fiskal melalui penambahan utang dalam negeri. Selain itu, penelitian ini menyimpulkan, bahwa keberlanjutan fiskal jangka pendek cenderung rentan. Temuan ini menunjukkan, bahwa strategi fiskal pemerintah yang telah dilaksanakan belum dapat mencapai keberlanjutan fiskal.

Introduction

Recent development of global economic has put Asian countries, including Indonesia, under pressure. This situation is demonstrated by the slowing down of economic growth. Since 2008, the growth of Indonesian economy has been fluctuated. The global economic crisis in 2008-2009 pulled down the growth to only 4.6 percent in 2009 as op-

Sources: International Monetary Fund (2010, 2011, 2012); Ministry of Finance (2013).

posed to 6.0 percent in 2008. Likewise, the slowing down of economic recovery in Europe and the United States and the economic slows down in both China and India reduced the growth in Indonesia to 6.2 percent in 2012 and 5,8 percent in 2013 (see Figure 1). This situation has put challenged for the Indonesian government to moderate the impact of the distress on domestic economy.