



RESEARCH ARTICLE

OPEN ACCESS

QUALITATIVE ANALYSIS AGAINST POLITICAL PROCESS IN POLICY MAKING CONCERNING NATIONAL BUDGET OF INDONESIAN REPUBLIC

*¹Safri, ²Abdul Hakim, ³Mardiono and ³Bambang Santoso Haryono

¹Student of Doctoral Program in Public Administration Science, Malang Brawijaya University

²Professor of Doctoral Program in Public Administration Science, Malang Brawijaya University

³Lecturer of Doctoral Program in Public Administration Science, Malang Brawijaya University

ARTICLE INFO

Article History:

Received 17th February, 2019

Received in revised form

26th March, 2019

Accepted 02nd April, 2019

Published online 29th May, 2019

Key Words:

Political, Process, Making, Policy, Budget, Income, Expense and National.

ABSTRACT

The objective of research is to carry out qualitative analysis against political process in policy making concerning National Budget of Indonesian Republic. Method of this research is qualitative approach. Result of this research indicates that political process in budgeting policy making begins with planning, continues toward discussion, and ends at pro-people budget realization. Every member of People's Representative Council, either personally or Fractions, must improve their competency and commitment to the actualization of pro-people budget shaped by political process.

Copyright © 2019, Safri et al. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Citation: Safri, Abdul Hakim, Mardiono and Bambang Santoso Haryono. 2019. "Qualitative analysis against political process in policy making concerning national budget of Indonesian republic", *International Journal of Development Research*, 09, (04), 27579-27616.

INTRODUCTION

People's Representative Council (or People's Council) is a manifestation of people sovereignty principle. People do assign their representatives in People's Council to create laws and policies to be carried out by the government as the holder of executive power. People's Council is the equal partner to the government, and this position is upheld by Law No.27/2009 and Law No.17/2014, which both explain about People's Consultative Assembly, People's Representative Council, Regional Representative Council, and Regional People's Representative Council. Three functions have been assigned to People's Council, which include legislating, budgeting, and supervising. The implementation of all these functions is a political process. For example, in budgeting process, political nuances do always exist in formulation of numbers, determination of legal base, and actualization of budget. Bureaucrats and Fractions in People's Council are often in "dispute" or "competing for votes" on several items. Coulson (2003) did examine the process of budget policy making and found that there is always a violent quarrel

between legislative members and bureaucrats during budget policy making. They compete one another in proposing what they perceive as *ideal policy*, or policy with the greatest possibility to deliver public goods. Public market mechanism has very huge power to judge whether certain institution is successful or failed in serving public demand. In other words, every policy product released by any government levels, in the end, must be assessed by the public to ensure whether it serves their demand or not. Among policy products is budget policy. Indeed, budget policy is widely highlighted by the public because they need to scrutinize both formulation and exercise (use) of the budget. If divergence shall occur with the budget, the public will demand for the accountability of government or legislative. Wildavsky and Caiden (2004) asserted that political dimension always accompanies budgeting process. They found that many interests around the budgeting are mostly touched with political dimension. Each of stakeholders in budgeting process tries to use their power to enlist their interest into the budget. Alt and Lassen (2005) revealed that People's Representative Council and government bureaucrats are inclined to win their interest over the others. The worse is that budget is often created based on political promises made by political parties, which use budget as instrument to win the election.

*Corresponding author: Safri,

Student of Doctoral Program in Public Administration Science, Malang Brawijaya University

If they win the election contest, they usually arrange the bureaucracy in a way to maximize their interest. Bureaucrats and politicians do indeed control the bureaucracy but only in a matter of allocating development funds and it is done always in the frame of political contest. Bureaucrats are too busy to mark up the funds that should be allocated to their department, and refraining from taking serious action to serve public trust. It seems that bureaucrats and other elites only work for their own material benefits. Their political jobs are failed to create the budget as the public expect. Their decisions concerning budget are always temporary. It is the irony to the noble task that requires them to formulate and defend budget policy to be always pro to the public interest. Anyhow, the public have a right on some proportions of the budget. National Budget in 2017 was referred to Financial Plan made by the Government of Indonesian Republic and approved by People's Representative Council in Year of 2017. The Draft of the 2017 National Budget was announced by President Joko Widodo during Plenary Session of People's Representative Council on August 14, 2017.

In a budget cycle, the discussion of National Budget involves several stages such as:

- a) Preliminary Discussion about Government's Work Plan for National Budget Plan for the next fiscal year. Discussion is usually done from the middle of May to the middle of July. Documents that Government must prepare are Fiscal Policy Principals, Macroeconomic Frames, and Government Work Plan containing budget priority policy.
- b) Discussion about National Budget Draft for the next fiscal year. Discussion is always done from the middle of August to the end of October.
- c) Discussion about First Semester Realization Report and Second Semester Prognosis of the National Budget in the current year. Discussion is mostly done in month of July.
- d) Discussion about Revision of National Budget in the current year. The schedule of Discussion is adjusted with the date of budget submission.
- e) Discussion and Approval of the Draft of the Accountability for National Budget Exercise in previous year. Documents relating with this Accountability, which Government must prepare, are Financial Statement, Balance Sheet, Cash Flow Statement, Notes on Financial Statement, and Profit & Loss Statement. The Draft must be submitted to People's Representative Council in six months after the end of the intended fiscal year and after the audit by Financial Examiner Agency. Parliamentary approval is usually granted in maximally three months since the Agency hands over the result of audit to People's Representative Council.

Based on the items above, documents that Government must prepare during a budget cycle might include: (a) *Pre Budget Document* (Principals of Fiscal Policy); (b) *Executive Budget* (the Plan of National Budget); (c) *Enacted Budget* (Financial Notes and National Budget Act); (d) *Citizen Budget* (budget summary in mass media and website); (e) *In Year Report* (periodical reports of realized budget); (f) *Mid Year Review* (mid semester report); (g) *End Year Report* (Financial Statement made by Central Government); and (h) *Audit Report* (Audit by Financial Examiner Agency).

As a political process, the discussion about the 2017 National Budget in Parliament was attended by Fractions, Commissions, and Budget Agency. Before this discussion was held in Commission I to XI and also at Budget Agency, Fractions were invited to present their conspectus about National Budget Plan proposed by President. The reply to this conspectus was given by Finance Minister who represents Government. These two activities were done in different time during Plenary Session. After this, Commission I to XI, together with work associates, were then discussing the detail of budget in each Ministry/Agency. Meanwhile, Budget Agency discussed the items in National Budget Plan, such as: Macroeconomic Assumptions, National Revenues, National Expenses, Deficit Policy, and Financing to Cover Deficit. Any revisions on macroeconomic assumptions can trigger revisions on national revenues, national expenses, and deficit financing. Budget revision process was initiated through deliberative mechanism between Parliament and Government either through Commissions or Budget Agency. Final approval to National Budget was given through Plenary Session of People's Representative Council, which is attended by government representatives. Decision making process began with perusal of Discussion Report by the Chair of Budget Agency, which informs that budget discussion already ends and waits for follow-up. In this Report, the Chair of Budget Agency must enclose opinions and notes of each Fraction. Then, the Chair of Plenary Session questions all Parliament members whether they approve or reject the result of discussion. Historically, the decision was made through deliberation for consensus, but when decision still cannot be achieved, then it was determined through majority voting (Nugraha, 2016).

Budgeting function is one of three strategic roles of People's Representative Council besides legislating and supervising. Budgeting might be the most important function because the other functions can only be made operational through budget. Therefore, budgeting function must be highly influential to the performance of People's Council (Wasistiono, 2009). Legislative institution (including People's Council) is daily covered by both mass and social media but their news mostly tell about poor performance, corrupt behavior, and legal abuse by members of People's Council, which then lead this institution to be patched with negative image. Corrupt behavior is very apparent in budgeting process, and mostly, it takes a form as a bribe to enlist certain items into National Budget. Since 2012, there are legislative members who are already convicted for corruption. They come from many political parties, such as: Golkar with 14 persons; Democrat Party with 10 persons; PDIP with 8 persons; PAN with 8 persons; PKB with 4 persons; Gerindra with 3 persons; and 2 persons, either from PKS or PPP (*Jawa Pos*, January 1, 2013, p.2. "Corrupt Politicians in 2012", Source: ICWIP). Budgeting function of People's Representative Council, which is materialized as the 2017 National Budget, involves a cooperation between People's Council and Government to formulate and establish National Budget. Budgeting function has a very important role in delivering people's welfare and prosperity and improving people's competing ability. Moreover, budgeting function is also a supervision against political and policy making affairs in order to maintain public accountability for agencies with direct engagement to policy implementation concerning government program and national development. The discussion of the 2017 National Budget involves the presence of Fractions, Commissions, and

Government. Their presence indeed has strategic role in this discussion. However, People's Representative Council still has broad authority to affect the budget. Besides having great stake in budget discussion, People's Council is also influential in inventorization and approval of budget. However, such model has negative impact because the attitude of political party and its members is never be known by the constituents. Knowledge about this attitude is needed by the constituents to develop democratic culture among them.

Members of political party can educate their constituents to make rational choice during the election by maintaining consistency between their attitude and their campaign promises. However, it is not easy to do. Even, democracy has been castrated because the right to make decision on democracy is owned and acknowledged only by People's Council. Therefore, it is not surprising if budget policy is not fluently managed as expected, and strategic efforts are needed to review political process in policy making concerning National Budget. These efforts might be meaningful because it helps one to understand not only political relations existing in the process but also the policy formulation model. Given this background, problem formulated in this research is "How is the political proces in National Budget policy making?" The objective of this research is to describe, analyze, and interpret political process involved in National Budget policy making.

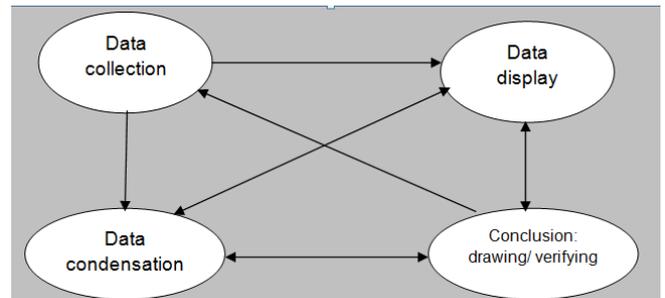
RESEARCH METHODS

Research type is interpretative analysis. In such analysis, the researcher must interpret information obtained from data sources, and then arrange the result comprehensively in a form of research report. Focus of research is political process in budget policy making. The case is National Budget. Some aspects of National Budget are reviewed, and these include: (a) preliminary discussion about government's work plan for National Budget; (b) discussion about National Budget Draft; (c) discussion about first semester realization report and second semester prognosis of the current-year National Budget; (d) discussion about revision of the current-year National Budget; and (e) discussion and approval of the Draft of the Accountability for National Budget Exercise in previous budget year. The source of this research includes informant, event and document.

Data collection technique involves observation, interview, and documentation. Research location is oriented at People's Representative Council of Indonesian Republic. Site of research includes the operational room of the Chair of each Commission, the operational room of the Chair of each Fraction, the operational room of the Expert Staff for Financial Minister, the secretariat room of each Commission in People's Council, the operational room of each member of People's Council, and the data room in People's Council. Data trustworthiness test is conducted with some criteria such as credibility, transferability, dependability, and confirmability.

Data analysis method is using analysis model suggested by Miles et al.,(2014), which is called Interactive Data Analysis, consisting of some elements such as: data condensation, data display, and conclusion: drawing/verifying.

The detail of interactive analysis model is shown in the following Figure:



Source: Matthew B. Miles, et al., *Methods of Qualitative Data Analysis*. Singapore: SAGE Publications Inc., 2014:33.

Component of Interactive Analysis Model

RESULT OF RESEARCH

Political Process in Budget Policy Making (National Budget)Preliminary Discussion about Government's Work Plan for National Budget: Policy making concerning budget, especially for National Budget, is a long political process. It begins with preliminary discussion about government's work plan for National Budget. The Chair of Fraction, who is also member of People's Representative Council, BW, explained this position as follows: " *policy making concerning budget or National Budget in the realm of People's Representative Council is a political process because it must involve government and fractions that represent people. The process must accommodate multi-interpretation and variety of interests and aspirations to deliver people's welfare and prosperity. Concerning with National Budget political process, several commitments are considered: First is to prepare short-term, middle-term and long-term development plans. Second is to deal with issues of social and economical gaps in the next five year and to invite people to think forward about how to develop Indonesia in the future. Third is to design National Budget posture that cares about domestic savings and helps real sectors to move and improving. Until now, it seems that macro policy is given more emphases than policy for real sector, and that eventually government disregards real sector development. Government also plans to reinforce food security because the current import is still high and not well regulated. Indonesia must keep its economic growth in a balance with East Asia's because this part of Asia is the center of world's attention, and Indonesia stands in a strategic position in Pacific Asia. All these points should be the base of political process in National Budget policy making at People's Representative Council, and the budget must be pro to people interests.*" (Interview, April 2017)

This informant, BW, also adds about government's preliminary discussion and work mechanism toward National Budget Plan, which is described as follows: "... National Budget Plan for 2018 and Government's Work Plan for 2018 are the targets. The 2018 Work Plan is made to accelerate investment and infrastructures to produce growth and evenly distribution from sectors of education, health, settlement, tourism, energy security, and poverty eradication initiative. The Chair of Budget Agency in People's Representative Council, Azis Syamsuddin, has said that some base assumptions for the development of macroeconomic sector have been agreed in the 2018 National Budget Plan, such as: economic growth at 5.2%-5.6%, inflation rate at 2.5%-4.5%, IDR (Indonesian rupiah) to USD (United States dollar) exchange rate at 13,300-13,500, 3-month National Treasury Note's interest rate at 4.8%-5.6%, crude oil price at US\$45-

US\$55 per barrel, oil lifting rate at 771-815 thousands barrels per day, gas lifting rate at 1,194-1,235 thousands per barrel. All reports were submitted by Work Committees to and agreed by Budget Agency and Government during Preliminary Discussion about the 2018 National Budget Plan and the 2018 Government's Work Plan. The Discussion was conducted during Work Deliberation on July 5, 2017 in Plenary Session held at Second Building of Nusantara, Senayan Office Complex of Jakarta. Development targets in 2018 are estimated as follows: unemployment rate of 5.0-5.3, poverty rate of 9.5-10.0, gini index at 0.38, and human development index of 71.50. Fraction PKS has urged Government to provide electric subsidy to the poor and never withdrew the subsidy. Government is also urged to give subsidy to 3-kg LPG tube." (Interview, April 2017).

Similar opinion is also expressed by a member of Commission I in People's Representative Council, ST, which is described as follows: "... National Budget policy making is a long political process, and it cannot be denied that conflict of interests occurs during the process. The mechanism begins with preliminary discussion about government's work plan for National Budget. In this discussion, People's Council determines government programs considered as important and desirable to be funded by National Budget." (Interview, March 2017).

Difficult and long path to be passed by preliminary discussion about government's work plan for National Budget is mostly caused by the involvement of political and economical considerations. Economical considerations always affect political decisions made by People's Representative Council.

Economic principal items in preliminary discussion of National Budget are: (a) microeconomic indicators; (b) the revision of macroeconomic base assumptions for the 2017 National Budget; (c) the revision of fiscal policy in the 2017 Revised National Budget Plan; (d) the revision of fiscal policy principals in the 2017 Revised National Budget Plan; and (e) the impact of the revision of macroeconomic base assumptions on the posture of the 2017 Revised National Budget Plan.

As explained by ST that: "... preliminary discussion about government's work plan for National Budget is mostly discussing about microeconomic and macroeconomic matters, which include microeconomic indicators; the revision of macroeconomic base assumptions for the fiscal year of 2017; the revision of fiscal policy in the 2017 Revised National Budget Plan; and the revision of fiscal policy principals in the 2017 Revised National BudgetPlan....." (Interview, March 2017).

Microeconomic Indicators: Since the enactment of Law No.18/2016 concerning National Budget for Fiscal Year of 2017, the development of macroeconomic indicators has indicated the need for revision of macroeconomic base assumptions, among others for Indonesian crude oil price (ICP) and exchange rate of IDR (Indonesian rupiah) to USD (United States dollar). Economic growth target was also subjected to revision and estimated to be higher than the previous. The revision of macroeconomic base assumptions is followed by adjustment and revision of fiscal policy principals, which then impact on the revision of posture of the 2017 National Budget.

With the interest to use the 2017 National Budget as instrument to achieve development targets, then the size of the Budget needs to be adjusted through a combination of fiscal policies, such as reducing budget deficit gap, increasing budget efficiency, and optimizing targets of national revenues to be more realistic. This adjustment is needed because it helps to keep the balance across the efforts to achieve development priorities by maintaining fiscal sustainability among these efforts. As told by the informant ST:

".... discussion materials are considered by intention to use the 2017 National Budget as instrument to achieve various development targets. Therefore, the size of the Budget must be adjusted through a combination of fiscal policies, such as reducing budget deficit gap, increasing budget efficiency, and optimizing targets of national revenues to be more realistic. This adjustment should be helpful in creating balance across the efforts to achieve development priorities by keeping fiscal sustainability among these efforts." (Interview, March 2017)

Preliminary discussion about government's work plan for the 2017 National Budget is summarized as follows. Global economic issues are still persistent. Economic growth remains uncertain, and it is caused by few factors such as: United States' monetary policy that increases interest rate of *Fed Fund Rate* (FFR), new trading policy under new administration, and the sustainability of Chinese economic rebalancing policy. In the beginning of 2017, Indonesian economic grew well with a stable macroeconomic condition. At first semester, economic growth rate was 5.0 percents and better than the 2016 rate. This improvement is supported by good export performance, increased consumption and stable investment. The end of 2017 was marked by lucrative momentum of export performance and investment at the key sectors of economic, which then give positive impact on household consumption. Therefore, it can be said that economic growth rate can be higher than the planned.

Other informant, a member of Commission in People's Representative Council, BS, said that:

"..... considering what has been achieved with the 2016 National Budget and after following up the course of macroeconomic indicators toward the middle of 2017, Government needs to adjust some components of macroeconomic base assumptions in the 2017 National Budget, and it includes: economic growth rate increasing from 5.1 percents to 5.2 percents; inflation rate increasing from 4.0 percents to 4.3 percents; 3-month National Treasury Note's interest rate decreasing from 5.3 percents to 5.2 percents; IRD to USD exchange rate attenuating from IDR 13,300 per USD to IDR 13,400 per USD; crude oil price climbing from USD 45 per barrel to USD 50 per barrel. The adjustment of macroeconomic base assumptions impacts on revision of the components of the 2017 National Budget. These components include tax and non-tax national revenues of oil & gas natural resources, energy subsidy (3-kg LPG tube and electricity), interest rate, and production sharing fund. All these components are set at higher rate than the previous due to the revision of oil & gas revenue bases. Things like this should be deliberated in preliminary discussion about government's work plan for National Budget." (Interview, March 2017).

The excerpt above gives a clarification that preliminary discussion about government's work plan for National Budget

not only touches with political issues but also economic considerations. For example, when discussion deliberated about national revenues, the adjustment was made for the component of non-oil & gas tax revenue by referring to the 2016 realization report to obtain more realistic and optimistic targets. Nominally, non-oil & gas tax revenue targets are lower than the previous but the revenue grows better (14.2 percents) than the previous (5.8 percents) because it has been supported by the better development of tax data base provided by tax amnesty policy and tax reformation.

In addition to above statement, national expenses were also discussed. Expense targets are adjusted in order to improve the quality of national expenses to support the achievement of various development goals, the availability of development fundings, and the fulfillment of immediate necessities. The detail of the adjustment is provided as follows.

First, expense efficiency policy is made by referring to the 2016 realization report. Priorities in this report are allocated to the more urgent posts of expense or activity. Second, other posts with high level of urgency, or those that have been national priority, will be accommodated in the current-year budget. The example of these posts include: natural disaster anticipation, the 2018 Asian Games, preparation of the 2018 Local General Elections and the 2019 General Election, the acceleration of land certification, and the agricultural development. Third, expense standard is subjected to revision due to the revision of standard mechanism in using non-tax national revenues, loan acceptance, and foreign bequest. Fourth, energy subsidy is set to adjustment as the impact of not-yet-implementation of limitation policies planned in the 2017 National Budget. Fifth, general allocation fund (GAF) must be adjusted as the follow-up against the decrease of net domestic income in pursuance of GAF policy in the 2017 National Budget but it is not yet final.

A member of Commission in People's Representative Council, MD, gave elaboration about the detail above by saying that:

".... besides revenue, other constituent of National Budget is expenses. Based on the 2016 realization report, People's Council determined to make policies that make expenses to be more efficient. These policies reallocated previous priorities to the expense or activity posts that have higher urgency level. Also, several posts have high level of urgency, or have been set as national priority, such as natural disaster anticipation, the 2018 Asian Games, preparation of the 2018 Local General Elections and the 2019 General Election, acceleration of land certification, and agricultural development. Revision of expense standard might happen due to revision of standard mechanism to use non-tax national revenues, loan acceptance, and foreign bequest. Energy subsidy is subjected to adjustment because limitation policies are not yet implemented although it is already planned in the 2017 National Budget. General Allocation Fund (GAF) is also subjected to adjustment as follow-up to the decrease of net domestic income, pursuant to GAF policy in the 2017 National Budget, but it is not yet considered as final" (Interview, April 2017).

Either interview excerpt above and field data show that the adjustment is done in a condition where the actual deficit is higher than the expectation of the 2017 National Budget. The realization of national expenses in the last few years was 96 percents for Ministry/Agency, 95 percents for Special

Allocation Fund, and 97 percents for Rural Fund. Deficit outlook to the end of 2017 was kept at 2.67 percents of Gross Domestic Income (GDI). This level was still lower than cumulative deficits from National and Regional Budgets or than the expected deficit rate stated in Law No.17/2003 concerning National Finance. This gap was reason why National Budget process becomes so long and complex. Preliminary discussion also talked about how to accommodate all desired revisions. This issue has been arranged by Article 36 paragraph (1) of Law No.18/2016 concerning National Budget in Fiscal Year of 2017. If some of these conditions prevail, such as, significant deviation between realization and assumption of macroeconomic indicators, revision of fiscal policy principals, displacement of budget across organization units or programs, or the availability of Surplus Budget Balance (SBB), then Government can propose the Draft of the 2017 Revised National Budget. This Draft is aimed to ensure that the 2017 National Budget will accommodate the revision of fiscal policy principals and the Budget can undergo this accommodation effectively, which then lead to what so called *fiscal sustainability*. Draft proposal was discussed by Government and People's Representative Council to ensure that the 2017 National Budget will serve the criteria of credibility, best quality, and sustainability.

In this context, MD gave further description by saying that:

"....preliminary discussion also attempts to accommodate the proposed revisions. This attempt has been actualized through Article 36 paragraph (1) of Law No.18/2016 concerning National Budget in Fiscal Year of 2017. If these conditions are indicated to happen, such as significant deviation between realization and assumption of macroeconomic indicators, revision of fiscal policy principals, displacement of budget across organization units or programs, or the availability of Surplus Budget Balance (SBB), therefore....." (Interview, April 2017).

Revision of Macroeconomic Base Assumptions in the 2017 Revised National Budget Plan

Besides elaborating government's work plan in 2017, preliminary discussion also scrutinizes the revision of macroeconomic base assumptions in the 2017 Revised National Budget Plan. It must be noted that government's work plan is closely related with the funding for Revised National Budget. As told by the informant, MD, who said that:

" preliminary discussion is not only examining government's work plan, but also chatting up about the revision of macroeconomic base assumptions in the 2017 Revised National Budget Plan. The discussion is important because government's work plan is closely related with the funding for Revised National Budget" (Interview, April 2017)

With respect to the realization and prospects of global and domestic economics, there are suggestions that macroeconomic base assumptions for fiscal year of 2017 need to be adjusted. Seeing the potentially strong household consumption and the improving export performance in the end of the year, economic growth outlook in 2017 is estimated to be 5.2 percents, or higher than its assumption in the 2017 National Budget, which is 5.1 percents. Economic growth source in 2017 is mainly supported by the sustainability of

infrastructure projects and the entry of capital inflow, especially after Standard & Poor's (S&P), an international rating agency, gives Indonesia a rank of *investment grade*, which might boost performance of investment. Inflation rate in 2017 is estimated to be 4.3 percents or higher than the assumed inflation in the 2017 National Budget, which is 4.0 percents. Inflation pressure in the end of 2017 is presumed to be in line with the rise of worldwide oil price. Government controls price movement by maintaining public commodity stock and coordinating with Bank of Indonesia at central and local levels to keep inflation rate at the target of 4±1 percents. Rupiah Exchange Rate in the 2017 Revised National Budget Plan is proposed to be IDR 13,400 per USD, or lower than the assumed value of IDR 13,300 per USD in the 2017 National Budget. The outlook of this exchange rate has taken into account the potential risks of United States' monetary policy plan that aims to reactivate its reference interest rate and trade protection policy. In the other hand, *investment grade* given by international rating agency and macroeconomic stability, possibly, bring some positive impacts, among others include increasing capital inflow, helping the nation to hold up from the risk of exchange rate dilution, and improving the yield of government securities. The interest rate of 3-month National Treasury Note has been forecasted as 5.2 percents or lower than the assumed rate in the 2017 National Budget, which is 5.3 percents. In pursuance of oil price rise trend, the average rate of Indonesian Crude Oil Price (ICP) in the end of 2017 is estimated to be 50 USD per barrel, or higher than its assumption in the 2017 National Budget, which is 45 USD per barrel. Oil & gas lifting rate in the end of 2017 is not different from its assumption in the 2017 National Budget, averagely, 815 thousands barrels per day for oil and 1.150 thousands barrels per day of oil equivalent for gas. These predictions were conveyed already by MD such as:

".... pursuant to both realization and prospect of global and domestic economics, it is suggested that macroeconomic base assumptions in 2017 need to be adjusted. Of course, this adjustment might affect the level of macroeconomic base assumptions in 2017 ... including those of household consumption, expert performance, inflation rate, outlook of rupiah exchange rate, investment grade, interest rate, and oil & gas lifting rate." (Interview, April 2017)

Revision of Fiscal Policy in the 2017 Revised National Budget Plan

Other than the adjustment of macroeconomic base assumptions, government's preliminary discussion about the 2017 Revised National Budget Plan also converses about revision of fiscal policy, especially the policy concerning expense components. To obtain the 2017 National Budget that is secured and in high quality, it must be ensured that the Budget helps the nation to achieve its development goals. As described by MD that: *".... preliminary discussion about government's work plan for National Budget also spoke about some revisions in the 2017 Revised National Budget Plan. Government's work plan is related with the financing to this revision...."* (Interview, April 2017)

Field data show that Government finds as necessary to secure national income and it is done by making policies to secure tax and non-tax revenues. These policies include (1) tax optimization to increase tax ratio by improving tax database based on the result of *tax amnesty program*; (2) maintaining

the stability of economic growth and people purchasing power; (3) improving productivity and competing ability of domestic industries; (4) supporting the age of transparency on information about tax; (5) substantiating custom & excise tariff through quota surplus tariff; and (6) contraband eradication. A member of Commission in People's Representative Council, HD, explained this as follows: *".... some policies were made for securing tax or non-tax revenues these policies include (1) optimizing tax base to increase tax ratio, which is done by improving tax database based on the result of tax amnesty program; (2) maintaining the stability of economic growth and people purchasing power; (3) improving productivity and competing ability of domestic industries and many others of government policy strategies in the 2017 National Budget Plan." (Interview, April 2017).*

Among the policies considered above are those aimed to improve tax database based on the result of *tax amnesty* and those made as *extra effort* to increase tax revenue through custom and excise. Also, there are fiscal incentive policies such as *tax allowance*, *tax holiday*, and exemption of industrial income tax. These are strategies that have been set to maintain competing ability and productivity of domestic industries. Also told by HD that: *"..... tax policies are implemented among others by improving tax database based on the result of tax amnesty and giving extra effort to increase tax revenue from custom and excise. Moreover, fiscal incentives such as tax allowance, tax holiday, and exemption of industrial income tax, can be given to maintain competing ability and productivity of domestic industries." (Interview, April 2017)*

Policies concerning non-tax national revenues have been set with several goals, such as: (1) to prevent the decline of oil & gas lifting rate in order to make *cost recovery* more efficient; (2) to promote the use of *production sharing contract (PSC)* of *gross split* among the cooperation contract contractors who are about to be terminated or about to extend the contract; (3) to optimize the revenue of royalty (production contribution) for mineral and coal minings; (4) to make perfection on various rules concerning non-tax national revenues, which is done among others by making revision on Non-Tax National Revenues Act and/or revision on Government Regulation concerning Non-Tax National Revenues Tariff; and (5) to solicit the use of proper payout ratio policy to reinforce the capitalization of State-Owned Enterprises. The informant, HD, has informed that:

".... Non-Tax National Revenues policy has been directed toward several targets, such as (1) preventing oil & gas lifting rate from decline to produce more efficient cost recovery; (2) promoting production sharing contract (PSC) of gross split to be used by the cooperation contract contractors, especially who are about to be terminated and/or who are extending the contract; (3) optimizing royalty revenues (production contribution) for mineral and coal minings; (4) making perfection on various rules concerning non-tax national revenues, which is done among others by making revision on Non-Tax National Revenues Act and/or revision on Government Regulation concerning Non-Tax National Revenues Tariff; and (5) inviting the use of proper payout ratio policy to reinforce the capitalization of State-Owned Enterprises." (Interview, April 2017)

Moreover, central government's expenses have been subjected to revisions in the 2017 Revised National Budget Plan, and these revisions are explained as follows: (1) the revision of

expenses is given due to the revision of macroeconomic base assumptions, which among them includes the revision of debt interest payment and subsidy; (2) the expenses for Ministry/Agency's necessities are made to be efficient by reallocating them to the more productive or more priority posts in order to improve expense quality; and (3) the allocation for expenses in the budget is increased, especially for urgent necessity, incomplete priority, and government's duty accomplishment. Also informed by HD that: "... the revisions in the 2017 Revised National Budget Plan include: (1) the revision of expenses due to the revision of macroeconomic base assumptions, such as the revision of debt interest payment and subsidy; (2) the expenses for Ministry/Agency's necessities have been made more efficient by reallocating them to the more productive or more priority posts of expense or activity in order to improve expense quality; and (3) the increase of expense allocation in the budget, especially for urgent necessity, incomplete priority, and government's duty accomplishment." (Interview, April 2017).

Transfer-to-Region and Rural Fund are policies subjected to adjustment in the 2017 Revised National Budget Plan although the 2017 National Budget is still used as reference. The adjustment involves few actions such as: (1) revising General Allocation Fund (GAF) in pursuance of the revision of Net Domestic Income or of National GAF standard policy, although this revision is not yet final; (2) funneling the budget based on the realized performance in the local; (3) allocating Physical Special Allocation Fund (SAF) based on local and national priorities, but it must be emphasized on non-privileged area, borders, remote islands, and transmigration area; and (4) increasing the proportions of allocation for the duties or the incomplete transfer to the region (Profit Sharing Fund (PSF) and Physical SAF). Member of Commission II in People's Representative Council described this situation as follows:

"... the adjustment made in the allocation of budget for Transfer-to-Region and Rural Fund in the 2017 Revised National Budget Plan is basically still referring to the policies in the 2017 National Budget. These policies are (1) revising GAF in accord with the revision of Net Domestic Income or of National GAF standard policy although it is not yet final; (2) funneling the budget based on the realized performance to the locals; (3) allocating Physical SAF based on local and national priorities, but the emphasis is given on non-privileged area, borders, remote islands, and transmigration area; and (4) increasing the proportions of allocation for duties or yet incomplete transfer to the locals (Profit Sharing Fund (PSF) and Physical SAF)." (Interview, April 2017)

Financing policy is also subjected to revision in the 2017 Revised National Budget Plan, and the most apparent revision among the financing posts is investment financing. The revision on investment financing is related with the usage, such as: (1) to support Indonesian Railroad Company (Limited) in operating structures and infrastructures of Light Rail Transit (LRT) for the route of Jakarta, Bogor, Depok, and Bekasi (Jabodebek) through allocation of National Capital Investment (NCI); (2) to sustain infrastructure development by allocating investment financing to Public Service Agency (PSA) for National Asset Management Institution (NAMI) to help procuring land for National Strategic Projects; (3) to substantiate organizational structure of Education Fund Managing Institution (EFMI) through *sovereign wealth*

fund(SWF) scheme to ensure the sustainability of education funding for the next generation; and (4) to accelerate house financing program through synchronization between Housing Financing Liquidity Facility (HFLF) and Interest Differential Subsidy (IDS).

Revisions in policies concerning national revenues, national expenses, and investment financing, have increased debt financing, which is then helpful to cover deficit. Besides, the 2017 Revised National Budget Plan accommodates revisions in education and health budgets, and these are consistent with effort to modify the volume of national expenses, which is done by aims to fulfill the mandates of laws and to maintain fiscal sustainability.

Revision of Fiscal Policy Principals in the 2017 Revised National Budget Plan

Preliminary discussion about government's work plan for the next National Budget also elaborates fiscal policy principals in the 2017 Revised National Budget Plan. The principals must be explained because the revision of these principals, along with macroeconomic base assumptions, will affect the posture of the 2017 National Budget. The revision of fiscal policy principals in the 2017 Revised National Budget Plan is described as follows: *First*, national revenues are estimated to decline by IDR 36,155.3 billions compared to the estimation in the 2017 National Budget. The decline is caused by the decrease of tax revenue by IDR 47,932.7 billions due to the use of the 2016 realization report as the base to forecast tax revenue. Despite this decline, economic growth rate is better than the rate in previous year. *Second*, Non-Tax National Revenues are forecasted to increase by IDR 10,041.9 billions, which is contributed by oil & gas sector through the increase of crude oil and coal prices. Bequest grant is also estimated to increase by IDR 1,735.5 billions. The informant HD gave elaboration about this situation as follows: "... national revenues are estimated to decrease by IDR 36,155.3 billions. It happens because tax revenues decrease by IDR 47,932.7 billions due to the use of the 2016 realization report as the base to forecast tax revenues....." (Interview, May 2017).

With interest to secure national revenues through tax sector, Government takes several improvement steps, such as: (1) supervising taxpayers based on obedience mapping; (2) enhancing tax base based on declaration wealth of tax amnesty; (3) conducting extra effort involving collecting tax, inspecting tax term, and enforcing tax law; and (4) substantiating law enforcement after tax amnesty program through cooperation with third party. Moreover, tax ratio at the 2017 Revised National Budget Plan is 10.7 percents, but tax ratio in wider sense (including Non-Tax National Revenues of oil & gas natural resources and other minings) is 11.3 percents. As conveyed by HD that: "... several steps are taken to improve tax sector, and these involve (1) supervising taxpayers based on obedience mapping, (2) enhancing tax base based on the declared wealth from tax amnesty program, (3) conducting extra effort involving collecting tax, inspecting tax term, and enforcing tax law, and (4) substantiating law enforcement after tax amnesty program through cooperation with third party" (Interview, May 2017)

Research documents show that national expenses in the 2017 Revised National Budget Plan are forecasted to be IDR 2,111,363.8 billions, which increases by IDR 30,912.7 billions

or 1.5 percents of the standard in the 2017 National Budget. The increase of national expenses is contributed by the increase of central government's expenses by IDR 36,037.9 billions, while Transfer-to-Region and Rural Fund decrease by IDR 5,125.3 billions. Revision in central government's expenses is mainly caused by (1) the policy aimed to make Ministry/Agency's expenses for necessities to be more efficient; (2) the increase of expense allocation for priority activities, urgent interests, and incomplete duties; (3) the revision of expenses due to the revision of standards for Non-Tax National Revenues or Public Service Agency, and also due to the plan to draw foreign bequest loan; (4) the revision of debt interest, subsidy, and profit sharing fund due to the revision of macroeconomic base assumptions; and (5) the decline of General Allocation Fund (GAF) following the decrease of net domestic income. By taking into account the revision of national revenues and national expenses, then budget deficit in the 2017 Revised National Budget Plan is estimated to increase by IDR 397,235.8 billions or 2.92 percents of Gross Domestic Income. This deficit rate is increasing by IDR 67,068.0 billions compared to that in the 2017 National Budget. This deficit can be capped through budget financing. Investment financing has been increasing around IDR 12,244.8 billions. Some proportions, named as National Capital Investment, go to Indonesian Railroad Company. Other proportions are allocated to National Asset Management Institution (NAMI). The organizational structure of Education Fund Managing Institution (EFMI) is empowered through *sovereign wealth fund* (SWF) scheme. The informant HD described this situation as follows:

".... revision of expenses from central government is caused by (1) the policy designed to make more efficient of Ministry/Agency's expenses for necessities; (2) the increase of expense allocation for priority activities, urgent interests, and incomplete duties; (3) the revision of expenses due to the revision of standard for Non-Tax National Revenues or Public Service Agency, and also because there is a plan to draw foreign bequest loan; (4) the revision of debt interest, subsidy, and profit sharing fund due to the revision of macroeconomic base assumptions; and (5) the decline of General Allocation Fund (GAF) following the decrease of net domestic income" (Interview, May 2017)

Based on National Budget performance in the last few years, the deficit rate in the 2017 Revised National Budget Plan is estimated to be lower than the previous. The outlook of national expenses until the end of the year is estimated to absorb 98.0 – 99.8 percents of the standards. The absorption of national expenses is greatly relying on budget performance. Expense absorption rates for Ministry/Agency, Special Allocation Fund, and Rural Fund in the last few years do exist around 96 percents, 95 percents, and 97 percents of National Budget standards. All these estimations have taken into account the efficiency potentials such as savings on auction residuals and also sustainability.

Given the estimated outlook of national expenses and the realized national revenues on predetermined targets, therefore, National Budget deficit outlook in the end of 2017 is presumed to reach IDR 362,880.5 billions or 2.67 percents of Gross Domestic Income. This estimated deficit rate is lower than the estimation in the 2017 Revised National Budget Plan. As a consequence, this lowering is followed by adjustment in debt-based financing. Expansive fiscal policy is the actualization of

government commitment to improve the quality of economic growth, and it is done by eradicating poverty and social gap. It is elaborated by HD as follows: *".... On the intention of achieving the desirable outlook of national expenses and maintaining national revenues based on targets, it must be noted that National Budget deficit outlook in the end of 2017 is presumed as IDR 362,880.5 billions or 2.67 percents of GDI. This deficit rate is lower than the estimated rate in the 2017 Revised National Budget Plan. This gap causes an adjustment in debt-based financing. Therefore, Government's commitment to improve economic growth quality is actualized through expansive fiscal policy to eradicate poverty and social gap." (Interview, May 2017).*

The Impact of the Revision of Macroeconomic Base Assumptions on the Posture of the 2017 Revised National Budget Plan

Preliminary discussion about government's work plan for the next year National Budget is also investigating the impact of the revision of macroeconomic base assumptions on the posture of the 2017 Revised National Budget Plan. It must be noted that macroeconomic base assumptions are used as the base to reckon National Budget posture. Therefore, it can be said that the revision of these assumptions will affect the components that constitute budget posture, such as national revenues, national expenses, and budget deficit, and this effect will trigger the revision of budget financing. The impact of the revision of macroeconomic base assumption on the posture of the 2017 Revised National Budget Plan, can also be understood further through sensitivity analysis. It is what has been told by HD that: *".... the impact of the revision of macroeconomic base assumptions on the posture of the 2017 Revised National Budget Plan was also conversed during preliminary discussion about government's work plan for the next year National Budget. Macroeconomic base assumptions are used as the base to understand National Budget posture, and therefore, if the assumptions are modified, it might change the components of the budget, such as national revenues, national expenses, and budget deficit that further results in the revision of budget financing" (Interview, May 2017)*

Sensitivity number is used to do fast reckoning on the posture of the 2017 Revised National Budget Plan following the revision of macroeconomic base assumptions due to the sustainable economic progress. Fast reckoning is conducted to develop general description about the change of budget deficit due to the revision of macroeconomic base assumptions. Besides using sensitivity analysis to capture this revision, the posture of the 2017 Revised National Budget Plan is also arranged using government policy as consideration base. Another informant, KJ, a member of Commission in People's Representative Council, explained this position as follows:

".... fast reckoning is a method to provide brief description about the revision of deficit rate in the 2017 Revised National Budget Plan. This revision is caused by the revision of macroeconomic base assumptions. Although sensitivity analysis is already useful to track backward the revision of macroeconomic base assumptions, the posture of the 2017 Revised National Budget Plan must still be designed with the understandings about government policy". (Interview, May 2017)

The revision of macroeconomic base assumptions might have positive impact (decreasing deficit) or negative impact

(increasing deficit) on the posture of the 2017 Revised National Budget Plan. Some variables of macroeconomic base assumptions impact on decreasing deficit or increasing surplus to the posture of the Plan. These variables are economic growth improvement, inflation upsurge, exchange rate depreciation of IDR to USD, ICP rise, and oil & gas lifting rate ascension. Any increases in these variables affect directly toward the increase of national revenues, such as tax and non-tax revenues, and impact indirectly toward the increase of budget allocation for Transfer-to-Region and Rural Fund, such as Bequest Grant Fund and Special Allocation Fund. This increasing budget allocation for these funds will increase the proportions of national budget allocated for education and health sectors.

This allocation is serving the constitutional mandates, which require minimum allocation of 20.0 percents and 5.0 percents of total national budget for education and health. Result of sensitivity analysis shows that national revenues are increasing as the impact of the increase of macroeconomic base assumptions. The increase level of national revenues is higher than that of national expenses, and this difference impacts on the decline of budget deficit. As also informed by KJ that:

“... the increase of macroeconomic base assumptions directly impacts on the increase of national revenues, especially that deriving from tax and non-tax sources, and indirectly impacts on the increase of budget allocation for Transfer-to-Region and Rural Fund. All these increases bulge up the size of national budget. ... as shown by sensitivity analysis, national revenues are increasing because the increase of macroeconomic base assumptions is higher than that of national expenses. This difference leads to the decreasing budget deficit.” (Interview, May 2017)

Among variables of macroeconomic base assumptions, one that increases budget deficit is the increase of 3-month National Treasury Note's interest rate. This increase affects only side of national expenses, especially for debt interest payment, and does not affect side of national revenues. Therefore, budget deficit is certainly occurring.

Furthermore, it has been stated previously that macroeconomic base assumptions are used by Government as the references to determine fiscal capacity. The assumptions are prepared by Government, along with Central Bureau of Statistic and Bank of Indonesia. Planning and budgeting are done by Ministry/Agency, which the product of these activities includes Government's Work Plan (GWP) and Ministry/Agency's Work Plan and Budgeting (M/A WPB). Both are the reflection of development priority decided by President with approval of People's Representative Council. Either GWP or M/A WPB might pass through discussion across ministries or agencies. During the discussion, the Director of the related Agency is acting as chief of operation officer (COO) who must face with Finance Minister who act as chief financial officer (CFO) and also with Planning Minister. The resulted National Budget Draft is submitted along with Financial Notes to People's Representative Council. In case of GWP, it is prepared based on Government Regulation No.20/2004 concerning Government's Work Plan while Government Regulation No.21/2004 concerning Ministry/Agency's Work Plan and Budgeting is the base to prepare M/A WPB.

Ministry/Agency's Work Plan and Budgeting (M/A WPB) are prepared periodically every year. Technical guidance for M/A WPB is given annually through Finance Minister's Decree. Reformation in budgeting has actually been required by Law No.17/2003 concerning National Finance. This Law explains many fundamental revisions imposed on budgeting approach. The available options are budgeting with middle term perspective (*medium term expenditure framework*), integrated budgeting (*unified budget*), and budgeting based on performance (*performance budget*). By understanding this matter, the presence of work plan and budgeting should then provide warranty that there is a link between planning and budgeting.

The discussion involving the Director of the related Agency as Chief of Operation Officer (COO), Finance Minister as Chief Financial Officer (CFO), and Planning Minister, will produce National Budget Draft and Financial Notes. These two products are then discussed by People's Representative Council and Government with inputs from Regional Representative Council. The discussion is opened by presidential speech about National Budget Draft at the planned fiscal year and also about Financial Notes. This speech was usually scheduled on the third week of August in Plenary Session of People's Representative Council. In the process, People's Council proposes ideas that might change the level of revenues and expenses stated already in the Draft. Also, People's Council should make decisions concerning the Draft at least in two months before budget year begins. The approved National Budget must contain the detail of organization units, their functions, sub-functions, programs, activities, and expense types. If the Draft is rejected, Government can still use the expenses at limit of previous-year budget.

During the exercise of National Budget, the related Ministry/Agency and National Treasurer do make reportings and recordings based on National Accounting Standard (NAS). The main product is Central Government Financial Report (CGFR), which consists of Budget Realization Report (BRR), Balance Sheet, Cash Flow Report (CFR), and Notes in Financial Report (NiFR). All these financial statements are made by the related Ministry/Agency to be submitted to Finance Minister at least in two months after budget year ends. Then, Finance Minister recaps all these financial statements. When acting as National Treasurer, Finance Minister makes Cash Flow Report, while when acting as fiscal manager, the Minister facilitates the submission of central government's financial reports to President who then uses it to serve presidential accountability for National Budget exercise. President hands over central government's financial reports to the Financial Examiner Agency (FEA) at least in three months after budget year ends. The audit by FEA must be completed at least in two months after financial reports are received. Law No.17/2003 concerning National Finance, in Article 30, has stated that it is President who must deliver to People's Representative Council of the Draft concerning the Accountability for National Budget Exercise. Along with financial statements audited by FEA, this Accountability Draft should be on the desk of People's Council at least in six months after the end of budget year. Financial reports submitted by Central Government include Budget Realization Report, Balance Sheet, Cash Flow Report, and Notes in Financial Report. The reports often involve appendixes of the display of financial reports of State-Owned Enterprises and

other agencies. Meanwhile, format and content of National Budget Accountability Report are arranged and presented pursuant to National Accounting Standard.

The description above is explained by Head of Fraction, DU, into several words such as: *“Budgeting is always preceded by preparing macroeconomic assumptions to be the principals of fiscal policy. Macroeconomic base assumptions are prepared by Government, Central Bureau of Statistic, and Bank of Indonesia, and then used by Government as the references to determine fiscal capacity. Planning and budgeting are activities done by Ministry/Agency, which then produce Government’s Work Plan (GWP) and Ministry/Agency’s Work Plan and Budgeting (M/A WPB). Both are the reflection of development priority decided by President and approved by People’s Representative Council. Also, these products might have been discussed across ministries or agencies. At this level of discussion, the Director of the related Agency is acting as chief of operation officer (COO) who must discuss the materials with Finance Minister who act as chief financial officer (CFO) and with acknowledgment of Planning Minister. The resulted National Budget Draft is submitted along with Financial Notes to People’s Representative Council. Regarding to the work plans, the references include Government Regulation No.20/2004 concerning Government’s Work Plan and Government Regulation No.21/2004 concerning Ministry/Agency’s Work Plan and Budgeting. Ministry/Agency’s Work Plan and Budgeting (M/A WPB) are prepared annually. Technical guidance for M/A WPB is annually given through Decree of Finance Minister. Budgeting reformation is required by Law No.17/2003 concerning National Finance. This Law explains about possible revisions on budgeting approach. The revisions are imposed against the aspects of budgeting, which based on it, the available options are budgeting with middle term perspective (medium term expenditure framework), integrated budgeting (unified budget), and budgeting based on performance (performance budget). The understanding of the revised budgeting aspects might help giving warranty that there is a link between planning and budgeting. the discussion between the Director of the related Agency as Chief of Operation Officer (COO), Finance Minister as Chief Financial Officer (CFO), and Planning Minister, will produce National Budget Draft and Financial Notes.*

Then, both these products are discussed by People’s Representative Council and Government by taking inputs from Regional Representative Council. The discussion is opened by presidential speech about the Draft at the planned fiscal year and also about Financial Notes. President was usually scheduled to make a speech on the third week of August in Plenary Session of People’s Representative Council. After the speech, People’s Council might propose some ideas that possibly change the level of revenues and expenses stated already in the Draft. People’s Council is required to make decisions concerning the Draft at least in two months before budget year begins. The approved National Budget must contain the detail of organization units, their functions, sub-functions, programs, activities, and expense types. If the Draft is rejected, Government can use the expenses at the limit of the previous year budget. In the process of exercising National Budget, the related Ministry/Agency and National Treasurer prepare the reportings and recordings based on National Accounting Standard (NAS). The main product is Central Government Financial Report (CGFR), which consists of

Budget Realization Report (BRR), Balance Sheet, Cash Flow Report (CFR), and Notes in Financial Report (NiFR). All these financial statements are made by the related Ministry/Agency to be submitted to Finance Minister at least in two months after the end of budget year. Then, Finance Minister recaps all these financial statements. Finance Minister is acting as National Treasurer when making Cash Flow Report, and acting as fiscal manager when facilitating the submission of central government’s financial reports to President who will use it to serve presidential accountability for National Budget. President forwards central government’s financial reports to the Financial Examiner Agency (FEA) at least in three months after budget year ends. The audit by FEA must be completed at least in two months after the receiving of financial reports. Law No.17/2003 concerning National Finance, in Article 30, declared that President must deliver to People’s Representative Council of the Draft concerning Accountability for National Budget Exercise. This Accountability Draft and also financial statements audited by FEA must be received by People’s Council at least in six months after the end of budget year. Financial reports submitted by Central Government include Budget Realization Report, Balance Sheet, Cash Flow Report, and Notes in Financial Report. Appendixes in each report indicate financial statements of State-Owned Enterprises and other agencies. Format and content of the Accountability Report are arranged and presented based on National Accounting Standard.” (Interview, May 2017)

Given all elaborations provided already, initial reference can be made that preliminary discussion about government’s work plan for National Budget gives great concern on several items, such as: (a) microeconomic indicators; (b) the revision of macroeconomic base assumptions; (c) the revision of fiscal policy in the 2017 Revised National Budget Plan; (d) the revision of fiscal policy principals in the 2017 Revised National Budget Plan; and (e) the impact of the revision of macroeconomic base assumptions on the posture of the 2017 Revised National Budget Plan.

Discussion about National Budget Draft

Budgeting is always political process and therefore, it is not surprising if it takes very long times to make policy concerning National Budget. The process begins with preliminary discussion about government’s work plan for National Budget and continues with discussion about National Budget Draft. The informant ST explains this matter as follows: *“.... it needs a very long political process before Government arrives at National Budget. Many competing interests must cope one another in the process the starter mechanism is preliminary discussion about government’s work plan for National Budget, which is continued with discussion about National Budget Draft. Preliminary discussion is where People’s Representative Council discusses about which government program is reasonable to be funded through National Budget.” (Interview, March 2017)*

On July 3, 2017, President proposed the Draft of the 2017 Revised National Budget, along with Financial Notes and the supporting documents. Then, on July 6, 2017, Plenary Session of People’s Representative Council announced that President has proposed the Draft of Revised National Budget. Pursuant to Article 174 paragraphs (2) and (4) of Law No.17/2014 concerning People’s Consultative Assembly, People’s Representative Council, Regional Representative Council, and

Regional People's Representative Council, thus Budget Agency is assigned to discuss and optimize the Draft of the Revised National Budget at least in a month during session period. The decision made in Plenary Session is followed-up by Budget Agency's Work Meeting held in July 6, 2017 attended by Government and Bank of Indonesia. In this meeting, Government gave explanations about principals behind the Draft of the 2017 Revised National Budget. Work Committee was established specifically to discuss the Draft of the 2017 Revised National Budget. On July 6-10, 2017, Commission VII and XI, together with their associates, held Work Meeting to discuss Macroeconomic Base Assumptions for the Draft of the 2017 Revised National Budget. Meanwhile, Commission I to Commission XI conducted Work Meeting on July 6-13, 2017, to discuss Ministry/Agency's Work Plan and Budgeting (M/A WPB) that later constitute the Draft of the 2017 Revised National Budget. During this Work Meeting, on July 10, 2017, Budget Agency also held other work meeting with the Coordinator Minister to discuss M/A WPB. A member of Budget Agency, BG, gave a clarification of this matter as follows: *".... discussion mechanism for National Budget Draft was initiated in Plenary Session of People's Council where President proposed the Draft of the 2017 Revised National Budget. Regarding to Article 174 paragraphs (2) and (4) of Law No.17/2014 concerning People's Consultative Assembly, People's Representative Council, Regional Representative Council, and Regional People's Representative Council, then Budget Agency was assigned to discuss and optimize the Draft of the Revised National Budget at least in a month during session period. Plenary Session's decisions were then followed-up by Budget Agency's Work Meeting held in July 6, 2017 attended by Government and Bank of Indonesia. In this Follow-Up Work Meeting, Government spoke about principals underlying the Draft of the 2017 Revised National Budget. Government also established Work Committee with specific assignment to discuss this Draft."* (Interview, May 2017)

When Commission I to Commission XI did meetings with their associates, Work Committee held its own on July 11-13, 2017, talking about the possible revision of Base Assumptions, Revenue, Deficit, and Financing in the Draft of the 2017 Revised National Budget. The result of Work Committee's Meeting, precisely temporary budget posture, was sent on July 14, 2017, to the discussion at Budget Agency's Work Meeting attended by Government and Bank of Indonesia. As notified by BG that: *".... Work Committee's Meeting about the possible revision of Base Assumptions, Revenue, Deficit, and Financing in The Draft of the 2017 Revised National Budget was held on July 11-13, 2017. Result of this Meeting is temporary posture of the budget, and then prepared to be discussed at Budget Agency's Work Meeting on July 14, 2017, attended by Government and Bank of Indonesia."* (Interview, May 2017)

Given the result of Budget Agency's Work Meeting on July 14, 2017, Work Committee held its own meeting talking about Central Government's Expenses, Transfer-to-Region, and Rural Fund, which are planned to exist in the Draft of the 2017 Revised National Budget. Central Government's Expenses were discussed on July 17-18, 2017, while Transfer-to-Region and Rural Fund were conversed on July 18-19, 2017. Discussion about Central Government's Expenses were brought to the Work Meeting of Commission I to Commission XI on July 19-21, 2017, to be examined with their associates to

look for the possible revision, and the results were returned to Budget Agency for approval.

After approval, the results of Work Committee's Meeting about Base Assumptions, Revenue, Deficit, and Financing, including also Central Government's Expenses, Transfer-to-Region and Rural Fund, were then embedded into in the Draft of the 2017 Revised National Budget. On July 21, 2017, the Draft was elaborated in Work Committee's Meeting that was held specifically to talk about the Draft. In the process, there were several Work Committees involved. After all meetings were completed, Work Committee Coordinator Team held meetings about the report of each Work Committee concerning the Draft of the 2017 Revised National Budget. The informant BG described this situation as follows: *".... the results of Work Committee's Meeting about Base Assumptions, Revenue, Deficit, and Financing, including also Central Government's Expenses, Transfer-to-Region and Rural Fund, were indeed embedded into in The Draft of the 2017 Revised National Budget. This Draft was discussed in Work Committee's Meeting On July 21, 2017, that was held specifically to elaborate the Draft. After Work Committee's Meetings were completed, Work Committee Coordinator Team held meetings to discuss Work Committee's reports concerning the Draft of the 2017 Revised National Budget."* (Interview, May 2017)

Budget Agency's Work Meeting was held on July 26, 2017, and it was also attended by Government and Bank of Indonesia. This Meeting served some agendas, such as: (a) Work Committee's Reports and its Approval; (b) Mini-Opinions as Final Posture of Fractions on the Draft of the 2017 Revised National Budget; (c) Government's Opinion concerning Mini-Opinions; (d) Signature by Budget Agency and Government on the Draft of the 2017 Revised National Budget; and (e) Decision making concerning whether second-level discussion is needed or not.

Result of Budget Agency's Work Meeting, after receiving common consents, was presented in Plenary Session on July 27, 2017. It was decided in this Session that the Draft of the 2017 Revised National Budget was accepted and approved. During the speech in this Session, Finance Minister bestowed a great gratitude to the members of People's Representative Council for their discussion to perfect the Draft. The Minister also described the background of why the 2017 Revised National Budget is needed. As told by BG that: *".... Plenary Session announced that the Draft of the 2017 Revised National Budget was accepted and approved. Finance Minister delivered speech in this Session to appreciate the role of People's Council members for their work to perfect the Draft. Also in this speech, the Minister explained the background of budget revision."* (Interview, May 2017)

Regarding to Law No.18/2016 concerning the 2017 National Budget, the implementation of the 2017 National Budget needs to be submissive to the provisions stated in Law No.17/2003 concerning National Finance, and also be consistent with Government's Work Plan, Macroeconomic Frame and Fiscal Policy Principals for the Budget Year of 2017.

Since the enactment of Law No.18/2016 concerning the 2017 National Budget, macroeconomic base assumptions have been dynamically advancing and have given quite significant impact on the size of the 2017 Budget. Global economic might not be stabilized yet due to some reasons, such as the making of

progressive policy by developed countries and its moderation effect on economic structure and geopolitical condition of China. All of these bring a pressure to Indonesian domestic economic. Despite this fact, the initiative of economic growth recovery, that was started in 2016, can still keep its momentum toward 2017. Indonesian economic growth in 2017 has been targeted as increasing by 5.2 % (five point two percents).

In order to achieve this target, Government improves the credibility of fiscal policy, maintains macroeconomic stability, and strengthens investment climate, which later helps to increase positive perception of economic actors. Inflation rate in 2017 is estimated to be 4.3% (four point five percents) or higher than the assumed rate in the 2017 National Budget, which has been 4.0% (four point zero percents). One causal factor of inflation rate pressure is the fluctuated price of worldwide commodity, including oil. Policy making to control inflation has been coordinated by Government with Bank of Indonesia either at central or local levels. The mix of fiscal policy, monetary policy and real sector policy, are created to maintain the availability of public service for public demand. The competent public service might be helpful to maintain inflation rate at the target interval of the 2017 national inflation, which is around 4.0% \pm 1.0% (four point zero percents plus minus one point zero percent).

Average exchange rate of Indonesian Rupiah (IDR) to United States Dollar (USD) in 2017 is estimated to remain in balance point, precisely at IDR 13,400.00 (thirteen thousands and four hundreds rupiahs) per one United States dollar. It seems that IDR goes weak on USD, and two reasons stand behind this. One is US Central Bank's plan to increase bank interest rate following the toughening of US economic growth, and secondly, it is related with US trade protection policy. Moreover, interest rate of National Treasury Note (NTN) in term of 3 (three) months is estimated for 5.2% (five point two percents) in 2017, or lower than the assumed rate in the 2017 National Budget, which stands at 5.3% (five point three percents). The fluctuation of the 3-month NTN interest rate is affected by positive sentiments to government policy making aimed to restrain investment and inflation rates.

It is presumed that Indonesian crude oil price (ICP) in 2017 will be increasing though at limited scale of averagely USD 50.0 (fifty US dollars) per barrel, or higher than the assumed ICP in the 2017 National Budget, which stands at USD 45.0 (forty five US dollars) per barrel. This increase is stimulated by the trend of ICP rising due to the limitation of oil production by OPEC. Oil lifting realization in 2017 is estimated as 815,000 (eight hundreds and fifteen thousands) barrels per day, which equals to the assumed rate in the 2017 National Budget. Gas lifting realization in 2017 is forecasted to be 1,150,000 (one million one hundred and fifty thousands) barrels of oil equivalent per day, which is same with the assumed gas lifting rate in the 2017 National Budget. The lifting rates of both oil and gas resources are achievable possibly through optimization of production and operationalization of new fields. The revision of macroeconomic base assumptions then impacts National Budget posture. It also affects Government's fiscal policy that aims to maintain sustainability and credibility of National Budget. One example of this policy is controlling budget deficit at safe level.

Based on empirical data of the previous years, the absorption of National Budget components, such as Ministry/Agency's expenses, Specific Allocation Fund, and Rural Fund, are estimated at 95%–97% of the standards. The realized budget deficit in 2017 is estimated to be 2.67% (two point sixty seven percents) of Gross Domestic Income, or lower than the estimated deficit. Domestic economic has been conducive, and it is expected that this condition will support the achievement of national development goals in 2017. For instance, Human Development Index is expected to reach 70.1 (seventy point one) and Gini Ratio is needed to be 0.39 (zero point thirty nine). The discussion of the Draft of the Revision of Law No.18/2016 concerning the 2017 National Budget is done by People's Representative Council and Government with soliciting inputs from Regional Representative Council as required by Decree of Regional People's Representative Council.

Concerning with Article 27 of Law No.17/2003 concerning National Finance junction to Article 36 of Law No.18/2016 concerning the 2017 National Budget, then it is said that the Revision of the 2017 National Budget must be arranged through certain law. Discussion of this law involves People's Representative Council and Government as indicated in Constitutional Court's Decree No.35/PUU-XI/2018 on May 22, 2014. National Budget Draft has been discussed in People's Representative Council in a way that is consistent to Article 23 paragraph (2) of National Constitution, which states that National Budget Draft must be initiated by President. In other words, People's Council does not take initiative on National Budget, but presidential initiative must be consulted with the Council. Law No.17/2003 concerning National Finance says that President can authorize the related Minister or Agency's Chair, who then acts as budget user, to discuss National Budget Draft with People's Council. A member of Budget Agency in People's Council, BG, explained this situation as follows:

"..... Article 23 paragraph (2) of National Constitution declared that only President can initiate National Budget Draft while People's Representative Council seems refraining from taking initiative. President must consult the Draft with the Council. Law No.17/2003 concerning National Finance asserts that President authorizes the related Minister or Agency's Chair, who is then budget user, to discuss the Draft with People's Council." (Interview, April 2017)

Preliminary discussion about National Budget design must also elaborate the detail of Minister/Agency's work plan and budgeting, which consists of several items such as organization units, their functions, sub-functions, programs, activities, and expense types. The concerned Minister/Agency should bring this detail to the relevant Commission in People's Representative Council to be discussed in Commission's Work Meeting.

However, in practice, People's Representative Council has a limited discretion to enact National Budget Draft into National Budget Act. National Budget Plan is designed by Government and brought to People's Council for discussion and approval. Unfortunately, People's Council can only make revision against 5% proportions of the Plan. Almost all proportions (say 95%) cannot be changed by People's Council. This situation was described by BG as follows: *".... People's Representative Council feels their authority crippled. They*

were given very little space to discuss the enactment of National Budget Draft into National Budget Act. Government did the designing of National Budget Plan and only delivered it to People's Council for discussion and approval. People's Council was only capable to change 5% proportions of the Plan, while the remaining 95% must stay intact." (Interview, April 2017)

Discussion maneuver room is also narrow due to the tight schedule that People's Representative Council must face. One immediate consequence is that the discussion between People's Council, relevant Commission, and its work associates is finalized very fast. It was informed by a Vice-Chair of Commission II in People's Representative Council, HN, in the following words: "... .. discussion is like a quick conversation because People's Representative Council has tight schedule. Discussion between People's Council, Commission and work associates, therefore, suffers from a sense of excessive immediacy, because discussion must be done more or less from Week 4 in August to Week 1 in September." (Interview, January 2017)

Law No.27/2009 concerning People's Consultative Assembly, People's Representative Council, Regional Representative Council, and Regional People's Representative Council (MD3) said that People's Representative Council has complementary tools to discuss National Budget Draft, and these tools are Commission and Budget Agency (*Banggar*). Commission is assigned to discuss budget draft with related Ministry/Agency and set out the expected national revenues and also budget allocation needed to achieve the revenues. The resulted decision is handed over to Budget Agency for synchronization. After synchronization, it is returned to Commission for perfection, and the perfect result is given back to Budget Agency for finalization. Ideally, Commission must be given greater proportions of National Budget Draft to be their subject of discussion. It is the Commission that have more information or the detail about what is needed on the field after they receive inputs from work associates or they make themselves informed through work visit. Procedures to discuss National Budget Draft has been arranged in Law No.27/2009 (MD3), and actually has given more spaces of discussion for the Commission. Vice-Chair of Commission II, GP, during the interview, told that:

"Within legal perspective, the dominant player is Commission. After the standards are given to the related Ministry/Agency, then of course, the Ministry/Agency directly consults with their associates in Commission. They elaborate every item, and this activity is a part of approval that is given later by People's Representative Council. Commission sends the result of elaboration to Budget Agency, and the Agency finishes the rest. So far, it is the mechanism." (Interview, January 2017)

It differs from the suggested procedures in previous period. Budget Committee (*Panggar*) has absolute discretion over revision, and thus, been given more proportions of the budget to be changed. Even, this Committee can nullify the result of work meeting between Ministry/Agency and Commission. In the period of Budget Agency (*Banggar*), the discretion is limited by the 2009 MD3 Act. Principal task of Budget Agency is to determine fiscal policy, national revenues, and budget priority by referring to the result of work meeting between Commission and Ministry/Agency. Budget Agency is only discussing budget allocation that has been decided by

Commission. Members of Commission who also serve in Budget Agency, therefore, must defend the desired budget allocation because it is already decided in Work Meeting between Commission and Ministry/Agency. Indeed, result of discussion of Ministry/Agency's Work Plan and Budgeting (M/A WPB) is then given to Finance Minister to be used as reference to make National Budget Draft for the next year. Provisions concerning how to make M/A WPB have been arranged in Government Regulation No.21/2004. However, in the practice, there is a gap. This gap was indicated in interview by Vice-Chair of Commission VII, ES, through the following words:

"..... Government once decided to implement subsidy reduction plan for certain type of oil fuel and also for 3-kg gas tube, which prevailed on April 2017. Not only people and experts rejected this decision, but members of People's Representative Council also gave critics against this plan. One immediate reason is that the decision was never intensively discussed in Commission VII. Other reason is that this decision shows up in the discussion of Budget Agency, which surely exceeds the discretion of this Agency. Pursuant to Law No.27/2009, Article 107 paragraph 1.d and 2, it is said that Budget Agency only does synchronization the discussion that has been finalized by Commission in People's Council." (Interview, March 2017)

Findings on the field show that the work of Budget Agency is not yet optimum. Meetings of this Agency are kept in close session, or in other words, transparency is still low. That is why it is always hard for the public to obtain the minutes. Public do not have direct control over the meetings. Furthermore, it is also shown that some issues emerge during the discussion of National Budget in People's Representative Council. Besides investigating the discussion of National Budget Draft in general, Research Team of this current research also scrutinizes the process or mechanism of budget discussion in People's Council. So far, it can be said that National Budget is discussed in People's Council through the discussion of Ministry/Agency's Work Plan and Budgeting (M/A WPB). The discussion of M/A WPB is done by two Commissions, respectively, Commission I and Commission II. Result of interview with HN indicated that:

"..... the process or mechanism of budget discussion in People's Council. For instance, budget discussion concerning allocation limit is conversed in Ministry/Agency's Work Plan and Budgeting (M/A WPB). The discussion of M/A WPB is done by two Commissions, respectively, Commission I and Commission II." (Interview, May 2017)

During the discussion of National Budget Draft, two contexts are elaborated in separate session, and these two are budgeting and legislation. Commission I might discuss issues of national border, weaponry and security personnel (with the Coordinator Ministry of Politic, Law and Security) and issues of international border (with the Ministry of Foreign Affair). Also, there is public welfare (public service) in remote area that must be discussed by Commission II and its work associates. Role of People's Representative Council in National Budget discussion can be seen from Financial Notes for the 2018 National Budget Plan where tax targets were set high. Tax revenues targets in the 2018 Draft were also set relatively high. Indeed, tax revenues are forecasted to increase more than IDR 100 trillions in 2018.

Tax revenues in the 2018 National Budget Plan were benchmarked on IDR 1,609.3 trillions or higher than that in the 2017 Revised National Budget, which is assumed as IDR 1,472.7 trillions. This target is achieved by the support among others of Income Tax (*PPh*) and Value Addition Tax that have been planned to be realized at IDR 852.9 trillions and IDR 535.3 trillions. Quoting Financial Notes of 2018, it seems that revenue targets are increasing because economic condition of the next year is assumed to be better than the current year. Besides, this increase is also affected by database optimization after tax amnesty program.

Government has decided to take some policies to secure tax revenue. *First* is to optimize tax collection potentials through data efficiency and up-to-date tax information system. *Second* is to improve taxpayers' obedience rate by developing tax conscience, which the expected result is the increasing tax payment. *Third* is to provide tax incentives selectively to assist the competing ability of national industries, which then initiates the development of industrial downstream sector. *Fourth* is to improve people consumption over Excise Subjected Goods (ESG) to reduce negative externality. *Fifth* is to optimize international tax agreement and to increase effectiveness the implementation of *automatic exchange of information* (AEOI). *Sixth*, or finally, is to redistribute income to reduce inequality. To ensure that all these policies are implementable, Government does revision against Tax Draft that arranges General Provisions, Taxing Procedures, Income Tax, Value Addition Tax, and Material Fee. The informant from Budget Agency, BK, gave further description about this:

“..... tax revenue in the 2018 National Budget Plan was set at IDR 1,609.3 trillions or higher than the setup in the 2017 Revised National Budget, which is assumed as IDR 1,472.7 trillions. This target was planned to be achieved among others through Income Tax (*PPh*) and Value Addition Tax that have been planned to be realized at IDR 852.9 trillions and IDR 535.3 trillions..... if taking into account the Financial Notes of 2018, revenue targets are increasing because economic condition of the next year is presumed to be better than the current year. Besides, the increase is affected by database optimization after tax amnesty program.” (Interview, April 2017).

During the discussion of the 2018 National Budget Plan, People's Representative Council explains the challenges that Government possibly deals in 2018. The challenges concern with economic growth improvement, tax revenue, debt management, and budget deficit. Government is required to reform income tax tariff because it causes gap due to the difference in the realized revenue from income tax between employed and non-employed individuals. Yustinus Prastowo, the Executive Director of *Center for Indonesia Taxation Analysis* (CITA), describes that the gap of the revenue above can be understood through the percentage graphic of the increasing marginal tax load. This graphic shows that the high level of revenue is related with the low level of tax load. Result of interview with the informant, YP, was showing that: "Middle class was less progressive. For instance, taxpayers with income ranging from IDR 100 to 300 millions have payable income tax load of 40%. It was a lot different from class category with income ranging from IDR 400 to 500 millions, whose payable income tax load is only 5%. If this hypothesis is true, then Government needs to reform tariff structure." (Interview, April 2017).

Tax tariff reformation must be initiated by revision against Income Tax Act. This Act explains all relevant rules, including tariff size given to the taxpayers. Based on information given by the officers in the Ministry of Finance, the revision of Income Tax & Value Addition Tax Act has been discussed by the internal rings of the Ministry of Finance. The discussion about tax is done to ensure that the revision is implementable. Fiscal authority cannot accept the excuse that revision is not enforceable. During internal discussion, fiscal authority will compare national tax policies with those in other countries. It is expected that this comparison helps the government to determine the priority of policy or its implementation. Principally, government thinks that high-income people must pay tax higher than low-income people. To determine how much tax money is to be paid, General Directorate of Tax must first see taxpayers' profile. If taxpayers obtain income from their job, then the tax is deducted by job provider. If taxpayers are self-employed, they must report their income based on self-assessment principle. Therefore, government in tax reformation period should be focusing on self-assessment to facilitate tax supervision. But, supervision always needs comparison in order to be fair. Without comparative data, government is difficult to control taxpayers. Self-assessment principle asserts that if what is reported by taxpayers is true, then tax authority does not have choice except finding or having comparative data. Finance Minister, Sri Mulyani Indrawati, justified that government is in the middle of discussion about this principle. Tax reformation teams have been sent to every part of region to draw information about the comparison of tax policies between Indonesia and other countries.

Discussion About First Semester Realization Report and Second Semester Prognosis of the Current-Year National Budget: National Budget is a political process that takes a very long journey before it becomes final. It starts with preliminary discussion about government's work plan for National Budget and continues with the discussion about National Budget Draft. The process ends with the discussion of First Semester Realization Report and Second Semester Prognosis of the Current Year National Budget. The output of political process, therefore, is First Semester Realization Report and Second Semester Prognosis. As required by National Constitution, National Budget must be open and enforced for the sake of people's welfare and prosperity. Therefore, budget use should be strictly scrutinized to ensure that national financial goals are truly achieved and respecting the mandate of National Constitution. As the proof of responsibility for National Budget implementation, Government prepares budget realization report at first semester of the current year and hands it over People's Representative Council. Budget prognosis is prepared in the second semester of the current year. The informant BG explained this arrangement as follows: ".... the expected output is *First Semester Realization Report and Second Semester Prognosis*. National Constitution requires National Budget to be open and enforced for the sake of people's welfare and prosperity. As a result, budget should be strictly scrutinized to ensure that financial goals are achieved and respecting National Constitution's mandates." (Interview, April 2017).

First Semester Realization Report and Second Semester Prognosis have been organized in Article 27 paragraph (1) of Law No.17/2003 concerning National Finance. Paragraph (2) of Article 27 explains that First Semester Realization Report and Second Semester Prognosis must be delivered at least in

the end of July of the current year in order to be discussed between People's Representative Council and Central Government. This situation was explained by the informant BG as follows: "... . *First Semester Realization Report and Second Semester Prognosis were prepared periodically. Budget General Directorate, through Director of National Budget Setting, received realization report from Treasury General Directorate, and compiled it with other reports into a document called Red Book. Realization report is indicating budget use on dates of 7,15, 22, and 28 of every month in the current year of the budget. The periodical reports are then submitted to Director of National Budget Setting to be tabulated into realization and exercise reports. On the end of May, the Director prepares the draft of First Semester Realization Report and Second Semester Prognosis. This draft is usually presented on the first week of June during Coordination Meeting across the units of Echelon II in Budget General Directorate.*" (Interview, May 2017).

Based on the excerpt above, after Coordination Meeting among the Echelon II units, it continues with Leadership Meeting among directors in Budget General Directorate to coordinate the reports from Echelon II units and those of Echelon I units. This Leadership Meeting also aims at discussing the assumption behind First Semester Realization Report and Second Semester Prognosis, and also predicting National Budget Exercise in the current year. After Leadership Meeting among directors held in Budget General Directorate, it is followed by Leadership Meeting among directors held by Finance Ministry on the first week of June. Principal issues of this meeting include: (a) the determination of the assumed number in First Semester Realization Report and Second Semester Prognosis; (b) the determination of the assumed number in National Budget; and (c) the finalization of draft document of First Semester Realization Report and Second Semester Prognosis of the current year National Budget, which is delivered by Budget General Directorate, c.q Director of National Budget Setting, to all Echelon I Units in Finance Ministry. As confirmed by the informant BG that:

"... *Leadership Meeting talked about First Semester Realization Report and Second Semester Prognosis, and also National Budget Exercise in the current year. It is followed by Leadership Meeting in Finance Ministry on the first week of June that discusses such issues as: the determination of the assumed number in First Semester Realization Report and Second Semester Prognosis; the determination of the assumed number in National Budget; and the finalization of draft document of First Semester Realization Report and Second Semester Prognosis of the current year National Budget, which must be handed over by Budget General Directorate, c.q Director of National Budget Setting, to all Echelon I Units in Finance Ministry.*" (Interview, June 2017)

On the second week of June, Echelon II units of Finance Ministry provide inputs concerning with the Draft of First Semester Realization Report and Second Semester Prognosis to Budget General Directorate. This Directorate, c.q Director of National Budget Setting, also examines, investigates and accommodates the inputs given by Echelon I units. All inputs are then compiled into the final draft of First Semester Realization Report and Second Semester Prognosis.

The final draft is given to Finance Ministry on the third week of June for some corrections. After corrections are given, the

draft is returned to the Director of National Budget Setting to accommodate the corrections. The corrected draft is discussed in Cabinet Session on the fourth week of June. In this Session, the draft is possibly corrected again. Correction Team should be very busy to make the draft into perfection. The draft must be ready for publication on the fourth week of June because it must be presented to People's Representative Council in the beginning of July. As told by the informant ES that:

"... *in Cabinet Session, there is a possibility that the draft would be corrected again. Correction Team, therefore, must be busy to accommodate any corrections, and make the draft ready for publication on the fourth week of June because the draft should be presented to People's Representative Council in the beginning of July.*" (Interview, June 2017)

The following table shows processes in preparation of First Semester Realization Report and Second Semester Prognosis.

If First Semester Realization Report and Second Semester Prognosis are already final, it is then printed into a book. Government delivers this Book to People's Representative Council on the first week of July. As required by Article 27 paragraph (2) of Law No.17/2003, the Book is discussed by Government and People's Representative Council. The discussion begins with Work Meeting attended by Budget Agency, Finance Minister, and Governor of Bank of Indonesia. This Meeting is then followed by another meetings, which include Work Committee's Meeting and Budget Agency's Internal Meeting. It ends once again with Work Meeting between Budget Agency, Finance Minister, and Bank of Indonesia's Governor but this Meeting will discuss the validation and approval for the result of Work Committee's Meeting. Discussion between Government and People's Representative Council is only happening in the realm of Budget Agency but not in Plenary Session. Government is represented by Finance Minister but not by Minister of National Development Planning or the Head of National Development Planning. However, during the discussion of First Semester Realization Report and Second Semester Prognosis, Finance Minister is accompanied by Budget General Directorate and Treasury General Directorate. Work Meeting that involves Budget Agency, Finance Minister and Bank of Indonesia's Governor, is usually held on the first week of July. In this Meeting, Finance Minister explains the principals of First Semester Realization Report and Second Semester Prognosis of the current year National Budget. Work Committee is established in this Meeting with assignment to draw conclusions from the discussion of First Semester Realization Report and Second Semester Prognosis. The output of this Meeting is Finance Minister's Report concerning the Principals that underline First Semester Realization Report and Second Semester Prognosis, and also the founding of Work Committee assigned to draw conclusions from the discussion of First Semester Realization Report and Second Semester Prognosis.

After the establishment of such Conclusion Maker Work Committee, then on the first week of July, the Committee conducts internal meeting to discuss conclusion materials that have been obtained. In the process, Regional Representative Council presents its report of supervision on National Budget exercise to People's Representative Council, and People's Council uses this report as consideration base for the follow-up.

Table 1. Preparation of First Semester Realization Report and Second Semester Prognosis

No.	Description	In-Charge Institution	Output	Remark
1	The preparation of realization report on dates of 7,15, 22, and 28 in every month.	Treasury General Directorate	Red Book, containing monthly realized numbers	Report is prepared periodically or monthly.
2	Tabulation of monthly realization reports.	Budget General Directorate	The exercise of tabulation result	Tabulation is done after receiving Red Book.
3	Preparation of Draft of First Semester Realization Report and Second Semester Prognosis.	Director of National Budget Setting, Budget General Directorate	Draft of First Semester Realization Report and Second Semester Prognosis	The Draft is prepared on the Fourth Week of May.
4	Coordination Meeting among Echelon II Units of Budget General Directorate.	Budget General Directorate	The assumed numbers in First Semester Realization Report and Second Semester Prognosis	Coordination Meeting is held on the First Week of June.
5	Leadership Meeting of Budget General Directorate to coordinate Echelon I Units on issues of: a. The assumed numbers in First Semester Realization Report and Second Semester Prognosis. b. The assumed numbers in National Budget/ Revised Version.	Budget General Directorate	The assumed numbers in First Semester Realization Report and Second Semester Prognosis, and the assumed numbers of National Budget Exercise	This Leadership Meeting is held on the First Week of June.
6	Leadership Meeting of Finance Ministry discussing issues of: a. The assumed numbers in First Semester Realization Report and Second Semester Prognosis. b. The assumed numbers in National Budget Exercise. c. The delivery of Final Draft of First Semester Realization Report and Second Semester Prognosis to all Echelon I Units of Finance Ministry.	Budget General Directorate	Final Draft of First Semester Realization Report and Second Semester Prognosis, which is distributed to Echelon I Units of Finance Ministry	This Leadership Meeting is held on the First Week of June.
7	The delivery of the Draft of First Semester Realization Report and Second Semester Prognosis from Finance Ministry's Echelon I Units to Budget General Directorate.	Finance Ministry's Echelon I Units to Budget General Directorate	The corrections of First Semester Realization Report and Second Semester Prognosis after considering inputs from other units.	The delivery is made on the Second Week of June.
8	The delivery of final draft of First Semester Realization Report and Second Semester Prognosis to Finance Ministry.	Budget General Directorate	The corrections from Finance Minister	The delivery is conducted on the Third Week of June
9	The optimization of Finance Minister's corrections on the final draft of First Semester Realization Report and Second Semester Prognosis.	From Finance Minister to Budget General Directorate	The improvement of final draft after accommodating corrections from Finance Minister	The optimization is made on the Third Week of June
10	Cabinet Session to determine the expected numbers in First Semester Realization Report and Second Semester Prognosis.	Budget General Directorate	The expected numbers in First Semester Realization Report and Second Semester Prognosis	The Session is held on the Fourth Week of June
11	The corrections on the Draft of First Semester Realization Report and Second Semester Prognosis.	Correction Team	First Semester Realization Report and Second Semester Prognosis (while waiting for correction result in the end of June)	Correction process is carried out on the beginning of July
12	Publication of Book of First Semester Realization Report and Second Semester Prognosis.	General Secretariat of Finance Ministry	Book of First Semester Realization Report and Second Semester Prognosis	Book is published on the Fourth Week of June
13	Presentation of Book of First Semester Realization Report and Second Semester Prognosis to People's Representative Council	General Secretariat of Finance Ministry		Presentation is done on the First Week of July

Source: Budget Commission Report, People's Representative Council, 2017

Table 2. Delivery and Discussion of First Semester Realization Report and Second Semester Prognosis

No.	Description	In-Charge Institution	Material To Be Prepared	Output	Remark
1.	Government delivers First Semester Realization Report and Second Semester Prognosis of National Budget	Budget General Directorate			The delivery is done on the First Week of July
2.	Work Meeting between Budget Agency, Finance Minister, and Bank of Indonesia's Governor 1. Finance Minister delivers the Principals of First Semester Realization Report and Second Semester Prognosis. 2. The Establishment of Work Committee to conclude First Semester Realization Report and Second Semester Prognosis.	Budget General Directorate	<ul style="list-style-type: none"> • Presentation of Finance Minister • Preliminary Draft of Conclusion • Assignment Letter Concept given to Work Committee members by Government (coordinating with Bureau of Communication and Information Service that is responsible to General Secretariat of Finance Ministry) 	1. Report of Finance Minister concerning the Principals	The Meeting is done on the First Week of July
3.	Regional Representative Council delivers the result of supervision on National Budget to People's Representative Council as consideration base for the follow-up	Budget Agency's Secretariat		Report of Superviison by Regional Representative Council	The delivery is done on the First Week of July
4.	Work Committee's Meeting to discuss First Semester Realization Report and Second Semester Prognosis	Budget General Directorate	Final Draft of Work Committee	Work Committee's Result of Discussion with inputs from Regional Representative Council	The Meeting is conducted on the First Week of July
5.	Internal Meeting of Budget Agency	Budget Agency		Work Committee's Report on First Semester Realization Report and Second Semester Prognosis	This Internal Meeting is held on the Second Week of July
6.	Work Meeting attended by Budget Agency, Finance Minister and Bank of Indonesia's Governor	Budget General Directorate		Report of Discussion and Approval of First Semester Realization Report and Second Semester Prognosis	This Meeting is held on the Second Week of July

Source: Budget Commission Report, People's Representative Council, 2017

Regional Council's supervision on National Budget exercise has been arranged in Article 22 D paragraph (3) of National Constitution. The output of the Committee's activity is the result of discussion from the Committee after accommodating inputs given by Regional Council. On the second week of July, this result of discussion is elaborated through Internal Meeting of Budget Agency. In this Internal Meeting, Conclusion Maker Work Committee presents to Budget Agency of the result of discussion of First Semester Realization Report and Second Semester Prognosis. Henceforth, also in this Meeting, both First Semester Realization Report and Second Semester Prognosis of the 2018 National Budget are validated. The following table illustrates the schedule of Delivery and Discussion of First Semester Realization Report and Second Semester Prognosis.

Based on data of First Semester Realization Report of the 2017 National Budget, it is shown that the exercise of the 2017 National Budget has been in line with fiscal strategy and macroeconomic development. Such alignment facilitates the achievement of national development targets as stated in government's vision and mission. Economic growth improvement, Gross Fixed Capital Allocation, better financial governance than the previous, and faster budget absorption, are processes implemented to achieve national development goals. To keep budget quality better, Government consistently uses the expenses for infrastructure, mandatory service (education and health), and social protection to alleviate poverty and reduce economic gap. The interview with the informant GP has given the following result:

".... National Budget exercise is affected by several factors, either internal or external, such as economic instability either in domestic or global realms, bad impact of National Budget policies either in previous year or current year, and other policies with great influence on the 2017 National Budget. Global uncertainty is affected by factors such as Fed Fund Rate (FFR), US trade policy under new administration, and the sustainability of economic rebalancing policy by China. Indonesian export and import performances have been increasing since the end of 2016, and it is a factor that stimulates economic growth at first semester of 2017 that achieves 5.0 percents, which is better than the year before. The improvement of export and import performances is followed by the improvement of investment and consumption level, which surely supports Government to attain higher economic growth macroeconomic base assumptions including inflation, rupiah exchange rate, 3-month National Treasury Note's interest rate, and Indonesian Crude Oil Price (ICP), have quite significant effect on first semester realization of the 2017 National Budget, either for national revenues or expenses. For national revenues, the major contribution derives from tax and non-tax revenues in oil & gas sector. For national expenses, the pressures that affect second semester realization in 2017 include the increasing of subsidy on energy (3 kg LPG tube and electricity), debt interest payment, and profit sharing fund for oil & gas products due to the change of oil & gas revenues, and also the change of General Allocation Fund (GAF) due to the change of Net Domestic Income (NDI)." (Interview, April 2017)

To anticipate the fluctuation of macroeconomic base assumptions and fiscal conditions, Government did adjustment on these assumptions and conducted fiscal consolidation through revision of the 2017 National Budget in the beginning

of July. The adjustment involves revising policies on national revenues, national expenses, and budget financing, in order to obtain the 2017 National Budget that is more credible, high quality, and sustainable. Besides using fiscal strategy, Government also cooperates with other institutions, including Bank of Indonesia, to maintain domestic economic stability, rupiah exchange rate, and inflation control. The synergy between Government and People's Representative Council in law making process is needed to create National Budget that is efficient, effective, and contributive to health and high quality economic. Result of interview with the informant BP was indicating that: *"Indonesian economic growth at first semester of 2017 has achieved 5.0 percents (yoy) or higher than the previous year, which stands for 4.9 percents. Since the end of 2016, the increase of export and import performances is quite significant and becoming a positive factor that supports economic. The components with the greatest contribution to Gross Domestic Income, respectively consumption and investment, have grown relatively stable. Regarding to employment, all sectors, except for mining sector, have shown positive growth at first semester of 2017. Agriculture and service are sectors with the greatest contribution to employment. Based on first semester realization and the prediction that the performance of all growth components are increasing at second semester, then it can be said that first semester economic growth in 2017 is estimated to be 5.1 percents (yoy) inflation rate at first semester of 2017 remains under control although it is higher than its rate in 2016. Inflation pressure arrives among others due to unwisely administered price and the unfavorable impact of subsidy reformation on energy sector although it aims to create more precise subsidy policy. In the other hand, implementation of government policy to maintain the supply of commodities has been contributing to keep inflation rate in control."* (Interview, May 2017).

The exchange rate of Indonesian rupiah (IDR) to United States dollar (USD) at first semester of 2017 is still remaining on the target of the 2017 National Budget. Throughout first quarter in 2017, IDR was relatively stable and had a better value than its value in the end of 2016. The movement of IDR in this period is affected by public sentiment to the policies made by United States' new administration and also to the increase of FFR interest rate. At second quarter of 2017, IDR exchange rate was estimated as still relatively stable with inclination to increase. The promotion of Indonesian rank into *investment grade* as announced by international rating agency, Standard & Poor's (S&P), is estimated to result in positive sentiment to IDR exchange rate. Until first semester of 2017, the exchange rate has reached IDR 13,331 per USD.

The realization of 3-month National Treasury Note's interest rate at first semester of 2017 is estimated to attain averagely 5.1 percents. This interest rate is affected by several factors such as the promotion of economic status into *investment grade* provided by international rating agency, Standard & Poor's; global negative sentiment against Chinese credit rating decline; second increase of Fed interest rate on June 14, 2017; and controlled inflation rate. During the interview, the informant GP described this situation as follows:

".... The movement of ICP at first semester of 2017 has reached averagely US\$48.9 per barrel. This rate is higher than the previous in 2016 that achieves US\$36.2 per barrel. Such increasing is prominently affected by OPEC agreement

on November 2016 and May 2017 where the oil countries decide to cut their crude oil production, while other cause is the rise of geopolitical risks. In average, the realized oil lifting throughout first semester (from January to May of 2017) has reached 784 thousands barrels per day. The realized gas lifting at first semester (from January to May of 2017) has attained 1.094 thousands barrels of oil equivalent per day, which is lower than the previous level in 2016. Some factors are influencing the realized lifting of both oil and gas, and these include: the natural decline of production wells, the aged operational facilities, and the yet unsuccessful exploration domestic and global economic developments are greatly affecting National Budget realization at first semester of 2017. The realized national revenues have reached IDR 718,249.3 billions or higher than the previous in 2016. This realized revenues are consisting of three elements, such as tax-based revenues achieving at IDR 571,916.4 billions, non-tax-based revenues attaining at IDR 146,119.8 billions, and bequest grant revenues reaching around IDR 213.2 billions. The improvement of national revenues is evident due to the increase of crude oil price, the impact of tax amnesty program that has been effective, and the reformation of taxation that is still in progress the realized expenses at first semester of 2017 has reached IDR 893,318.6 billions or 42.9 percents higher than the previous in 2016. This realization is comprising of the realized expenses of central government achieving at IDR 498,560.5 billions and Transfer-to-Region and Rural Fund attaining at IDR 394,758.2 billions. Auction acceleration was given to these financial activities since the previous year, and the improvement of financial governance has made the realization of central government's expenses, Transfer-to-Region and Rural Fund becoming more patterned and balancing in schedule." (Interview, May 2017).

Despite the high realization of national revenues and expenses at first semester of 2017, there is a deficit as much as IDR 175,069.3 billions or 53.0 percents of the target in the 2017 National Budget. To cover this deficit, the realized budget financing has been IDR 209,360.7 billions, which then there is an excess in budget financing for IDR 34,291.4 billions. This budget financing is contributed by debt financing, especially through national notes, which is deemed as suitable to the application of front loading strategy in budget financing. The revision of macroeconomic base assumptions and policy mix in the 2017 Revised National Budget Plan is estimated as giving positive impact on economic growth at second semester of 2017. The assumptions that have been subjected to revision are inflation, 3-month National Treasury Note's interest rate, rupiah exchange rate, and ICP. This revision is triggering the revision on national revenues, national expenses, budget deficit, and budget financing. Referring to the achievement in previous year and the government's fiscal strategy that tends to expansive, it can be said that budget deficit is possibly widening over times. In the end of 2017, Indonesian economic is considered to be better than the situation in 2016. However, some factors, either internal or external, are affecting this economic. Global economic uncertainty and the declining trend of world trade volume have impacted domestic economic, including economic growth realization. Besides these factors, there is other determinants, such as the declining trend in world commodity price, debt ceiling policy applied by European countries and United States, and Chinese economic rebalancing. These latter factors also influence global economic performance. Moreover, domestic demand for national products remains relatively stable, possibly due to the

increasing consumption rate, the promotion of debt rank into investment grade given by S&P international rating agency, and the improvement of sectoral performance. All these determinants of domestic products will provide optimism to economic growth assumptions in the next year National Budget. By taking into account all factors above, Indonesian economic is assumed to grow at 5.2 percents in the end of 2017. Interview with the informant ES has given the following result:

"... inflation rate in the end of 2017 is estimated to achieve at 4.3 percents. The increase of inflation rate at second semester in 2017 is affected by the rise of global oil price, and the displacement of harvest season due to climate change. Despite this unfavorable trend, Government sets strategies to control inflation rate, which among others is securing food stock and supply, and accelerating infrastructure development to facilitate the distribution of staple necessities, which later can save distribution and logistic costs. All these efforts are surely nothing without building a synergy between Central Government, Local Government, and Bank of Indonesia, especially in securing coordination of fiscal policy, monetary policy, and real sector policy" (Interview, May 2017).

At second semester of 2017, rupiah exchange rate is estimated to be fluctuating. Two factors are influencing this fluctuation, respectively: (1) external factor, which is the emergence of uncertainty in global financial market due to the plan of US monetary authority to increase federal interest rate, and (2) internal factor, which is the policy to improve the performance of current transaction balance and the realization of government infrastructure projects, which is expected that this policy will increase investors' trust to Indonesia. Macroeconomic stability and better fiscal resilience might improve market trust to the stability of rupiah exchange rate in the future. Giving attention to the factors above, it is assumed that rupiah exchange rate at second semester of 2017 will be stable averagely at IDR 13,470 per USD, and might reach averagely around IDR 13,400 per USD in the end of 2017. The informant ES gave further description about this as follows:

"The 3-month National Treasury Note's interest rate is estimated to move downward at second semester of 2017 due to the dynamic global liquidity triggered by US plan to increase federal interest rate, business sentiment to the decline of Chinese debt rating by Moodys international rating agency, and the implementation of general elections in England and European Union countries. Meanwhile, in domestic realms, the promotion of Indonesian debt rating into investment grade by S&P international rating agency is one reason behind the increasing demand for debt notes and the reduction of government's debt cost at second semester of 2017, the 3-month National Treasury Note's interest rate is estimated to be 5.3 percents, or averagely, to be 5.2 percents in 2017. Oil producing countries in OPEC or non-OPEC have decided to reduce world oil supply, which as a result, the great demand for oil from the developing countries impacts on the rise of world crude oil price. At second semester of 2017, the estimated ICP remains averagely at USD 51 per barrel, or averagely USD 50 per barrel throughout 2017. based on market situation in the current days, actual condition on the field, and policy or program to be made, therefore, crude oil lifting rate at second semester of 2017 is estimated to achieve averagely 845 thousands barrels per day. Gas lifting rate at second semester of 2017 is estimated to be averagely 1.2

millions barrels of oil equivalent per day. Prognosis of macroeconomic base assumptions has been deviating from the targets of the 2017 National Budget. Despite this deviation, Government has adjusted the targets of macroeconomic base assumptions through the 2017 Revised National Budget Plan". (Interview, May 2017).

Pursuant to the realization of National Budget at first semester of 2017, the prognosis of macroeconomic base assumptions at second semester of 2017, and the policy concerning National Budget, as stated in the Draft of the 2017 Revised National Budget that has been submitted to People's Representative Council, then the forecasts of national revenues, national expenses, budget deficit and budget financing at second semester, and the forecasts of all of these at the end of fiscal year, thus, can be arranged more realistically. The realized national revenues at second semester of 2017 are estimated to achieve IDR 995,878.8 billions or 56.9 percents of the targets in the 2017 National Budget. Some factors are influencing this realization, such as the rise of Indonesian crude oil price (ICP); the rise of world commodity price, including coal; the attenuation of exchange rate of IDR to USD; the global economic slack in China and Europa; and the less usefulness of tax database derived from tax amnesty program. The evidence that this database is less useful can be seen from the fluctuation of income tax on non-oil & gas resources in 2017. Other evidence is coming from the degeneration of national cigarette production, which is assumed further as forcing excise revenues declined. Based on this prognosis, the realized national revenues in the end of 2017 are estimated to be IDR 1,714,128.1 billions, which match with the target in the 2017 Revised National Budget Plan. Relating with national expenses, the idea of revision against the 2017 National Budget is made to accommodate the intention to make expenses more efficient and also the possible additional allocation in the budget to be used for priority and urgent activities. Moreover, Government prepares a more realistic prognosis of national expenses by paying attention to budget absorption performance in the last couple of years. Within the realization pattern of national expenses in few years ago, it seems that some proportions of budget allocation are not absorbed (or called as natural economization) possibly because these might be the auction residuals or the result of efficiency making. Therefore, the outlook of national expenses until the end of year is estimated to be absorbed at the level of 98.0–99.8 percents in the 2017 Revised National Budget Plan.

This estimation has already taken into account the absorption performance of National Budget components, which can be seen on its exercise for Ministry/Agency's expenses, Transfer-to-Region and Rural Fund. Given the pattern of absorption performance, the outlook of national expenses in the end of 2017 is presumed achieving IDR 2,077,008.6 billions (98.4 percents of the standards in the 2017 Revised National Budget). End-year budget deficit is estimated as IDR 362,880.5 billions or 2.67 percents of Gross Domestic Income, which might be lower than budget deficit rate in the 2017 Revised National Budget Plan. To finance this budget deficit, main source of budget financing is through debt financing (national notes). Brief posture of the 2017 National Budget is consisting of first semester realization report, second semester prognosis and end-year financial outlook.

Discussion about Revised National Budget in Current Budget Year: Discussion about Revised National Budget is a

part of cycle in the process of revising National Budget. The output of this discussion is Financial Notes and Revised National Budget Act. Any revisions or adjustments on National Budget are made possible by Law No.17/2003 concerning National Finance. National Budget can only be changed under some conditions, such as if (i) macroeconomic conditions deviate from the assumptions in National Budget; (ii) principals underlying fiscal policy have been changed; (iii) budget allocation must be crossover across organization units, activities, and expense types; and (iv) there is conditions that force Surplus Budget Balance (SBB) from the previous year to be used for budget financing in the current year. The revisions of National Budget and its conditions for revision have been arranged in Article 27 paragraph (3).

Article 161 of Law No.27/2009 concerning People's Consultative Assembly, People's Representative Council, Regional Representative Council, and Regional People's Representative Council, is also explaining about the revisions of National Budget in current budget year. In the case when macroeconomic base assumptions and posture of National Budget have been changing very significantly, Government might propose the Draft of the Revised National Budget on relevant budget year. The very significant revision of macroeconomic base assumptions includes the prognosis of:

- a. The decline of economic growth at minimally 1% below the assumption; and
- b. The deviation of macroeconomic base assumptions at minimally 10% of the assumption, except when lifting deviation remains at the lowest level of 5%.

Meanwhile, the very significant revision on National Budget posture involves the prognosis of:

- a. The decline of tax revenues at minimally 10% of the standards;
- b. The increase or decline of Ministry/Agency's expenses at minimally 10% of the standards;
- c. Demand for expenses to be used for urgent necessities but the standards are not yet available in the budget; and
- d. The increase of deficit at minimally 10% of deficit ratio of National Budget to Gross Domestic Income.

Discussion and approval of the Draft of the Revised National Budget are done by Government, Budget Agency, and related Commission at least in 1 (one) month during the meeting sessions, especially after the Draft is submitted by Government to People's Representative Council. This situation was explained by the informant BG as follows: "Discussion stages of The Draft of the Revised National Budget are same as those of Prime National Budget. The difference is that draft discussion does not involve the presentation of conspectus by Fractions and the reply of government to this conspectus. The Draft must pass through several stages of discussion, such as: the presentation of Financial Notes and The Revised National Budget; Work Meeting between Budget Committee, Finance Minister, and Bank of Indonesia's Governor; Work Meeting between Commission and Its Work Associates; Work Meeting between Commission VII and Commission XI; Work Committee's Meeting; and finally, Plenary Session of People's Representative Council. Pursuant to Article 27 paragraph (5) of Law No.17/2003 concerning National Finance, Central Government can propose the Draft of the Revised National

Budget in current budget year in order to obtain People's Council's approval before current budget year ends...." (Interview, May 2017).

Using the data concerning preparation and presentation of Financial Notes, the Revised National Budget Plan, and the Draft of the Revised National Budget, which are previously used to supervise National Budget exercise since the beginning of budget year, therefore, Budget General Directorate does the activities of coordination, monitoring, and evaluation on the realized macroeconomic indicators to develop the understandings about macroeconomic base assumptions and National Budget realization in current budget year. These activities produce an output that takes form as Report of Monitoring and Evaluation on National Budget Exercise. There are factors influencing National Budget realization, and these have been explained in Article 27 paragraph (3) of Law No.17/2003. In normal condition, economic factors influencing National Budget might be easily monitored. Indeed, the monitoring begins since National Budget is exercised, and its realization is estimated. Budget General Directorate must also build coordination with relevant institutions to gain understandings about the outlook of macroeconomic base assumptions in current budget year. Budget General Directorate also takes responsibility to ensure that the coordination will produce output in form of the Posture of the Revised National Budget.

It must be noted that the 2018 National Budget is composed based on the estimated realization of the 2017 National Budget. If at the end of 2017, there is significant difference between realization and estimation, then the size of the 2018 National Budget must be subjected to revision. The need of revision gives indication that the 2018 Revised National Budget Plan must be submitted to People's Representative Council earlier than normal schedule. To follow up the result of monitoring and evaluation, internal meeting is held periodically in the environment of Budget General Directorate to elaborate the needed policy. The meeting is organized from the fourth week to the fifth week of March, and the output is the agreement concerning adjustment on National Budget in current budget year. As already told by BG that:

"Based on the outlook of macroeconomic base assumptions obtained from coordination, then the posture of the 2018 Revised National Budget and how to exercise it are determined. This determination helps to facilitate the making of the Revised National Budget Plan through some scenarios of policy making. This activity is done by Budget General Directorate c.q Director of National Budget Setting from March to April, and April is when the Plan is ready to be sent to People's Representative Council this simple scenario is used because National Budget is easily controlled and thus can be aimed on more realistic targets. For example, when economic growth fails to achieve the targets, then targets of tax revenues are difficult to attain. If expenses are higher than revenues, National Budget deficit becomes bulging up, and therefore, it is time to seek for other funding sources. It must be noted that the use of surplus budget remainders is limited and the financing might be possible only by selling national assets. Therefore, deficit remainders might be possibly covered by releasing debt notes or cutting the expenses." (Interview, May 2017)

In relation with the impact of National Budget on fiscal resilience in Indonesian economic, then the preparation and determination of the posture of the Revised National Budget and the exercise of it, must be done in precise. The exercise must take into account the deficit targets because there should be enough room in the budget for development programs and poverty alleviation initiatives. All these necessities must be on the proportions that can be absorbed by National Budget financing, at least in a way that might not give burden to the future generation.

On the first week of May, National Budget posture is discussed in Coordination Meeting attended by Echelon II units in Budget General Directorate. Result of this Meeting provides so many inputs that can make budget posture vulnerable to change although it is already settled by Director of National Budget Setting. The possibility of budget posture to change is surely higher when there is policies that change macroeconomic base assumptions and fiscal policy principals, and also when there is conditions forcing the budget to be displaced or those allowing the previous-year surplus budget balance to be used as budget financing. The output of Coordination Meeting is the posture of the Revised National Budget Plan.

Besides determining the posture of the Revised National Budget Plan, Director of National Budget Setting also prepares Financial Notes and the Draft of the Revised National Budget to be discussed at Leadership Meeting in Budget General Directorate, and this Meeting is also a place where Echelon I units are coordinated. The Meeting is usually held from the first week to the second week of May to discuss the Draft of the Revised National Budget until there is agreement about National Budget posture among Echelon I units. On the same schedule, precisely the second week of May, Leadership Meeting is held in Finance Ministry to seek for agreement. In this Meeting, Budget General Directorate as the responsible institution delivers the concepts of the Financial Notes and the Draft of the Revised National Budget to all Echelon I units in Finance Ministry, such as Fiscal Policy Agency, Financial Balance General Directorate, and Debt Management General Directorate. Inputs from Echelon I units are scheduled to be received on the second week of May. Budget General Directorate, c.q Director of National Budget Setting, then accommodate these inputs and boil them into the concepts for the Financial Notes, the Revised National Budget Plan, the Draft of the Revised National Budget, and the materials of Leadership Meeting.

All these concepts are prepared based on inputs from Echelon I units and handed over to Finance Minister to be corrected on the second week of May. After correction by Minister, on the third month of May, all concepts are adjusted and completed based on the correction by Finance Minister. Then, all Echelon I units, such as Budget General Directorate, Fiscal Policy Agency, Financial Balance General Directorate, and Debt Management General Directorate, will prepare the materials for Cabinet Session.

This Cabinet Session takes a decision concerning Revised National Budget scheduled on the third week of May. Responsible institution in this Session is Policy Harmonization Center (*Pushaka*) and the output is Cabinet Session's Decision as told by the informant HN as follows: *"... based on the inputs from Cabinet Session, then responsible institution,*

Budget General Directorate c.q Director of National Budget Setting, prepares the concepts for the Financial Notes, the current-year Revised National Budget Plan, and the Draft of Revised National Budget. This preparation is done on third week of May, and the output is Financial Notes, the 2018 Revised National Budget Plan, and the Draft of the 2018 Revised National Budget. General Secretariat of Finance Ministry delivers the Draft of Revised National Budget to State Secretariat to obtain President Order and forwards the Order to People's Representative Council on the third week of June. At the same time, General Secretariat submits Financial Notes and the Draft of Revised National Budget to People's Council for discussion." (Interview, May 2017)

The discussion of the Draft of the Revised National Budget begins only after People's Representative Council receives documents of Financial Notes and the Draft of the Revised National Budget. On the fourth week of May, People's Council organizes Plenary Session to announce that Financial Notes and the Draft of Revised National Budget of the current budget year will be discussed by Budget Agency and the related Commissions. This Session is continued with Work Meeting between Budget Agency, Finance Minister and Bank of Indonesia's Governor, and Session's agenda includes: (a) the delivery of Principals underlying the Draft of the 2018 Revised National Budget; and (b) the establishment of: (i) Work Committee assigned to handle the matters of Base Assumptions, Fiscal Policies, Revenues, Decifit and Financing in the Draft of the 2018 Revised National Budget; (ii) Work Committee assigned into the matters of Central Government's Expenses in the Draft of the 2018 Revised National Budget; (iii) Work Committee assigned into the matters of Transfer-to-Region in the Draft of the 2018 Revised National Budget; and (iv) Work Committee assigned to formulate the Draft of the 2018 Revised National Budget.

Both preparation and exercise of National Budget, including its First Semester Realization Report and Second Semester Prognosis, are supervised by Regional Representative Council based on inputs from People's Representative Council. The result of supervision is used as consideration bases in formulating the Plan and the Draft of the Revised National Budget. From the fourth to the fifth week of May, the related Commissions and its work associates hold Work Meeting. Base assumptions that underlay the Draft of the 2018 Revised National Budget are discussed in Work Meeting between Commission VII, Commission XI, and its work associates. Meanwhile, the discussion about the revision of Ministry/Agency's Work Plan and Budgeting and the base assumptions of the 2018 Revised National Budget is done at Work Meeting between Commission I to XI and its work associates. Result of this Meeting must be completed on the fifth week of May. Next process is Work Committee's Meeting to discuss Base Assumptions, Revenues, Deficit and Financing on the first week of June. Work Committee for Central Government's Expenses and Work Committee for Transfer-to-Region are organizing its meeting on the second week of June. Formulator Team for the Draft of the 2018 Revised National Budget organizes a meeting to discuss the Draft on the second week of June. In order to harmonize the revision of Ministry/Agency's Work Plan and Budgeting (M/A WPB) with the result of synchronization at Budget Agency, therefore, each Commission conducts Work Meeting with its work associates after the Work Meeting of Budget Agency, Finance Minister and Bank of Indonesia's Governor.

Commission's Work Meeting is held on the second week of June and the output is the perfection of the revision in M/A WPB. The perfection is discussed again in Commission's Work Meeting, and then handed over to Budget Agency and Finance Minister for acknowledgment on the second week of June. The informant HN described the process as follows: *"After Work Committees performed meetings with Formulator Team, then Budget Agency did Internal Meeting on the second week of June to synchronize the result of Work Committee's Meeting and the suggestion of Formulator Team concerning the Draft of the 2018 Revised National Budget. Budget Agency's Internal Meeting should provide consideration bases to be used later in Work Meeting involving Budget Agency, Finance Minister, and Bank of Indonesia's Governor. This Internal Meeting served some agendas such as: report delivery and approval on the result of discussion between Work Committees and Formulator Team of the Draft of the 2018 Revised National Budget; presentation of Fractions' mini-opinions to represent final posture; description of government's opinion; and decision making that continues toward second level discussion about the Draft of the 2018 Revised National Budget" (Interview, May 2017).*

Final stage of the discussion about the Plan and the Draft of the Revised National Budget between Government and People's Representative Council is Plenary Session that is always scheduled on the third week of June. This Session serves some agendas:

- a. The delivery of report of second-level discussion in Budget Agency concerning with the Draft of the 2018 Revised National Budget;
- b. The presentation of approval or disapproval by each Fraction in verbal way as required by the Chair of Plenary Session; and
- c. The presentation of final standings by Government concerning the Draft of the 2018 Revised National Budget.

The cycle of discussion and approval of the Draft of the Revised National Budget is lasting less than a month. This length of cycle is consistent with Article 161 of Law No.27/2009, which states that the discussion and approval of the Draft of the Revised National Budget must be done by Government along with Budget Agency and its relevant Commission at least in 1 (one) month during the session period. After the Draft is discussed and approved, Government submits it to People's Representative Council.

Discussion and Approval of the Draft of the Accountability for National Budget Exercise in Previous Budget Year:

Discussion and approval of the Draft of the Accountability for National Budget Exercise in previous budget year will be elaborated in the following. As shown in Article 55 paragraph (1) of Law No.1/2004 concerning National Treasury, indeed in order to help President to serve presidential accountability for National Budget exercise, then Finance Minister as fiscal manager must facilitate the submission of Central Government's Financial Statement to President. In paragraph (3) of same article, this Financial Statement should be handed over by President to Financial Examiner Agency at least in 3 (three) months after the end of budget year. As stated in Article 30 paragraph (1) of Law No.17/2003 concerning National Finance, at least in 6 (six) months after the end of budget year, President should deliver to People's

Representative Council of the Draft of the Accountability, or Financial Statement audited by Financial Examiner Agency.

The submission of the Draft of the Accountability for National Budget Exercise by President to People's Representative Council has been arranged in Article 163 paragraph (1) of Law No.27/2009 concerning People's Consultative Assembly, People's Representative Council, Regional Representative Council and Regional People's Representative Council. The process of discussion and approval of this Draft is already arranged in Article 158 of People's Representative Council's Order of Conduct, which is described as follows:

- a. During Plenary Session, Government makes delivery to People's Representative Council of the Principals of the Draft of the Accountability for National Budget Exercise, and the Principals are compiled into a form of Financial Statement that must be audited by Financial Examiner Agency at least in 6 (six) months before budget year ends.
- b. Fraction presents its conspectus concerning the Draft of the Accountability for National Budget Exercise conveyed by Government.
- c. Government gives reply to Fraction's conspectus, and Treasury General Directorate is the coordinator in preparing government reply.
- d. Financial Examiner Agency presents the Financial Statement of Central Government in Plenary Session.
- e. Budget Agency discusses the Draft of the Accountability for National Budget Exercise by taking into account Fraction's conspectus, government reply to this conspectus, suggestion and opinion of Deliberation Agency, the decisions made in Work Meeting between Government and Commission, and Central Government's Financial Statement.
- f. Discussion and approval of the Draft of the Accountability for National Budget Exercise must be done at least in 3 (three) months after People's Representative Council receives Central Government's Financial Statement that has been audited already by Financial Examiner Agency.
- g. Budget Agency performs further discussion on the Draft.
- h. Before Budget Agency approves the Draft, therefore, National Finance Accountability Agency performs a study on Central Government's Financial Statement that has been audited by Financial Examiner Agency; and
- i. Decision making at first-level discussion on the Draft of the Accountability for National Budget Exercise is arranged by provisions in Article 155 paragraph (4) of People's Representative Council's Order of Conduct, which is elaborated as follows:
 - 1) In Plenary Session, Government conveys to People's Representative Council of the Principals of the Draft of the Accountability for National Budget Exercise, and the Principals are compiled into a form of Financial Statement that must be audited by Financial Examiner Agency at least in 6 (six) months before the end of budget year.
 - 2) Fraction conveys its conspectus concerning the Draft after Government makes delivery about it.
 - 3) Government provides reply to this conspectus, and Treasury General Directorate coordinates this reply.
 - 4) Financial Examiner Agency conveys Central Government's Financial Statement in Plenary Session.
 - 5) Budget Agency conducts a discussion on the Draft of the Accountability for National Budget Exercise by

giving attention to Fraction's conspectus, government reply to the conspectus, suggestion and opinion of Deliberation Agency, the decisions made in Work Meeting between Government and Commission, and Central Government's Financial Statement.

- 6) Discussion and approval of the Draft of the Accountability for National Budget Exercise must be completed at least in 3 (three) months after Central Government's Financial Statement audited by Financial Examiner Agency is received by People's Representative Council.
- 7) Budget Agency performs further discussion on the Draft. Before the Draft is approved in relation with point 5, National Finance Accountability Agency conveys to Budget Agency of the result of study on Central Government's Financial Statement that has been audited by Financial Examiner Agency.
- 3) Decision making at first-level discussion on the Draft of the Accountability for National Budget Exercise as mentioned in Article 155 paragraph (4) of People's Representative Council's Order of Conduct, can be described as that decision making concerning National Budget Draft between Budget Agency and Government in the end of first-level discussion is involving some agendas, such as: the delivery of conspectus by the Chair of Budget Agency; the presentation of Work Report by Work Committee; the reading of concepts of the Draft of the Accountability for National Budget Exercise; the explanation of mini-opinions as final position of the Fraction; government's opinion; the signing of concepts of National Budget Draft; and the decision making on whether the process proceeds to second-level discussion or otherwise.
- 4) Result of discussion at first-level discussion is conveyed by Budget Agency in Plenary Session.
- 5) The process in Plenary Session must be arranged in consistent with Article 155 paragraph (4) of People's Representative Council's Order of Conduct, which states that result of first-level discussion is reported in Plenary Session and begun with: (i) the presentation of report consisting of the process, mini-opinions, and final position of Fraction in first-level discussion; (ii) the presentation of approval or disapproval from each Fraction and its member in verbal way as required by the Chair of Plenary Session; and (iii) the presentation of final standings by President as represented by related Minister.

The supporting data concerning conflict of interests in National Budget Setting were given by the informant HN, which can be described as follows: *"Year of 2017 was the third-year for the Work Cabinet Administration led by President Joko Widodo and Vice-President Jusuf Kalla to develop their Nawacita ideas. Since 2015, national development priorities have been focusing on infrastructure development, poverty alleviation, and inter-regional gaps with still consistently keeping fiscal management in healthy and sustainable conditions. Year of 2015 began with changing financial management paradigm by shifting consumptive expenses into productive expenses through reforming energy subsidy and national expenses. Energy subsidy, mainly for oil fuels, was converted from price subsidy to fixed subsidy. The conversion was only prevailed for diesel fuel, while premium fuel was not in subsidy, and the savings will be used in more productive expenses. In the other hand, national expenses are prioritized to budget allocation for infrastructure, education,*

health, and social grant. Such policy is supported by the initiative of efficient national expenses to create better fiscal room for either Ministry/Agency or Local Government. Reformation on national expense structure in 2016 is the year of accelerated budget absorption, marked by regulation change to stimulate budget absorption, mainly for infrastructure expenses. This change provides flexibility for Ministry/Agency and Local Government in procuring goods and services earlier, usually on the fourth week of the year. Reformation on national expense structure is governmental effort to maximize the role of national expenses to stimulate economic growth, poverty alleviation, and employment creation." (Interview, May 2017)

Work Cabinet Administration and its national components have taken some efforts with quite significant results. The absorption of expense budget for Ministry/Agency, mainly for infrastructure at first semester of 2016, has been increasing twice than that in 2015. Social welfare indicator was improving shown by the decline of poverty rate, gini ratio, and unemployment rate. Human Development Index that indicates public access to economic, education, and health sources is continually increasing from 68.90 in 2014 to 69.55 in 2015.

Year of 2017 was year of fiscal consolidation, either for national revenues, national expenses, and budget financing. Relating with national revenues, tax revenue calculation was adjusted to be more rational with the 2016 targets. Concerning with national expenses, the efficiency and sharpening of operational expenses were done by focusing on infrastructure development, poverty alleviation, social gap reduction, and unemployment declining. For the interest of budget financing, investment financing was saved by promoting self-reliance to State-Owned Enterprises and also by looking for cheaper financing for infrastructure development. There was expectation that by these considerations, the 2017 National Budget Plan should be designed more realistic, more credible, and more efficient. Fiscal consolidation policy was made by giving attention to domestic and global economic challenges in the 2017. Global challenges include: (1) global economic indicating the presence of great uncertainty, and (2) relatively low commodity price. At the same time, domestic situation is affected by (1) less optimum national economic growth due to low performing manufacture industry sector; and (2) slow-moving global economic and commodity price declining that impact on national revenues.

Domestic macroeconomic conditions in 2017 are expected to improve due to the impact of economic policies in year of 2015-2016. As explained by the informant HN that: "... the policy concerning the 2017 National Budget Plan was briefly described as follows. First, the optimization of national revenues, mainly tax-based revenues, was done to maintain investment and business climates. Potential tax revenues were estimated to grow for 13-15 percents of tax calculation base in 2016. National revenues were also optimized through non-tax revenues but by still promoting life environment conservation. Second, the quality of productive expenses and priority expenses was improved by focusing on accelerating the initiatives of infrastructure development, poverty alleviation, and social gap reduction. The quality of these expenses must be kept in line with the fulfillment of Mandatory Spending, which requires allocation of 20 percents and 5 percents of national expenses for education and health sectors. Other strategies are to sharpen subsidy targets, improve distribution quality, and provide social aids in non-cash pattern. National expense policy was directed to fiscal decentralization through

improving financing for Transfer-to-Region and Rural Fund. In line with this policy, Government committed to accelerate and increase the effectiveness of the expenses for Ministry/Agency, or those for financing Transfer-to-Region and Rural Fund. Third, efforts were taken to strengthen fiscal resilience and to restrain fiscal risk through controlling deficit and debt ratio at fiscal sustainability level the 2017 National Budget Plan is a fiscal strategy that is created based on the 2017 Government's Work Plan (GWP) and that is also the result of elaboration of the third-year development stage of Middle-Term National Development Plan for Period 2015-2019. It is expected that this alignment helps to obtain fiscal management that is healthy and sustainable. The 2017 GWP contains with targets, policy directions, and development strategies, which are arranged to support the sustainability of development and the achievement of middle-term development targets. Consistent with this intention, the 2017 GWP promotes a theme, which is, "the Acceleration of Infrastructure and Economic Developments to Increase Employment Opportunity, to Alleviate Poverty, and to Reduce Interregional Gap." This theme is elaborated into development strategies and priorities, which are summarized into four development dimensions, respectively, dimension of human and society development, dimension of leading sector development, dimension of redistribution and territoriality, and dimension of development on politic, law, defense and security." (Interview, May 2017)

Macroeconomic base assumptions in 2017 were closely related with global economic development in that year, which is forecasted to be improving than that in 2016 although the degree of this improvement still remains uncertain. Global demand was increasing shown by the ascending volume of world trade and the rise of commodity price, which should be the main pillar of global growth in year of 2017. Economic condition of the developed countries has been stimulated by US economic expansion after making fiscal consolidation policy to deal with domestic and global economic challenges in 2017. As previously described, the 2017 National Budget Plan is an instrument of fiscal strategy that its implementation must be in harmony with the 2017 Government's Work Plan (GWP) and the third-year development stage of Middle-Term National Development Plan for Period 2015-2019. Through this harmonization, it is expected that the exercise of the 2017 National Budget Plan will produce a healthy and sustainable fiscal management. The 2017 GWP provide explanations about targets, policy directions, and development strategies, which all of them are arranged to support the sustainability of development and the achievement of middle-term development targets. Relating with this spirit, the 2017 GWP elevates a theme, which is, "the Acceleration of Infrastructure and Economic Developments to Increase Employment Opportunity, to Alleviate Poverty, and to Reduce Interregional Gap." Following up this theme is involving many development strategies and priorities, but these are shortened into four development dimensions, precisely, dimension of human and society development, dimension of leading sector development, dimension of redistribution and territoriality, and dimension of development on politic, law, defense and security.

The supporting data to this situation were provided by the informant BG who said that:

"... global economic in 2017 was improving than that in 2016 although the degree of this improvement still remains

uncertain. Global demand was increasing and it was indicated by the ascending volume of world trade and the rise of commodity price. All of them should be the main pillar of global growth in year of 2017. The developed countries' economic condition was getting better as stimulated by US economic expansion. However, it was hampered by European economic setback after the exit of Britain from European Union. Despite this fact, the developing countries have their performance improved and it should be the booster of global economic growth. The moderation of Chinese economic growth might still be continuing, but it is compensated with dramatic advancement of Indian economic growth in recent days. The initiation of regional cooperation, especially ASEAN Economic Community (AEC), also brings positive impact on economic activity of Southeast Asia region. World economic growth in 2017 was estimated to be strong by 3.4 percents, while the economic of developing countries was forecasted to grow by 4.6 percents. World trade volume as main booster factor to the strengthening of economic growth was estimated to grow to 3.9 percents in 2017, which increases from 2.7 percents in 2016 meanwhile, in domestic side, household consumption was the main contributor to national economic in 2017. Government expenses into infrastructure is expected to be able to increase competing ability and strengthen national connectivity. This expectation remains strong due to tax amnesty policy applied since 2016, which might substantiate investment at real sector through the repatriation of funds from abroad. If global economic begins to recover, then international trade performance might also be improving." (Interview, May 2017)

Taking into account the assumed conditions of global economic, then several macroeconomic base assumptions are used as the base in setting out the 2017 National Budget Plan, and these assumptions include: (1) economic growth of 5.3 percents; (2) inflation rate of 4.0 percents; (3) exchange rate of Indonesian Rupiah 13,000 per United States Dollar; (4) 3-month National Treasury Note's interest rate of 5.3 percents; (5) Indonesian crude oil price (ICP) of USD 45 per barrel; (6) Indonesian oil lifting rate of 780 thousands barrels per day; and (7) Indonesian gas lifting rate of 1,150 thousands barrels of oil equivalent per day. These assumptions are taking reference from the middle-term development targets stated in Middle-Term National Development Plan for Period 2015-2019, annual targets in the 2017 Government's Work Plan, and the development and prospect of economic in domestic and global realms in 2017.

Fiscal policy principals in the 2017 have risen a theme called "The Optimization of Fiscal Management to Improve Competing Ability and to Accelerate Just and Sustainable Economic Growth". This theme is the base to compose the 2017 National Budget Plan. Consistent with this theme, fiscal policy in 2017 is directed to support the achievement of sustainable economic growth, to create employment, to alleviate poverty, and to reduce gap, which is in the end arriving at the realization of people's welfare and prosperity. Indeed, the 2017 National Budget Plan is a fiscal policy instrument created based on various strategies, policies, and priorities stated in 2017 Government's Work Plan. In the 2017 National Budget Plan, fiscal policy strategy is created to develop fiscal stimulants, to optimize fiscal resilience, and to maintain middle-term fiscal sustainability. Strategic policies stated in the 2017 National Budget Plan include:

- (a) Relating with national revenue, Government optimizes tax revenues through various policy innovations, including tax amnesty policy that has been prevailed since 2016 and law enforcement in tax sector. Tax amnesty policy is a step to establish tax base and to improve taxpayers' obedience in the future. Tax policy is also aimed to increase people purchasing power, to improve investment climate, and to substantiate competing ability of national industries. All of these can be actualized by giving fiscal incentives to strategic economics and controlling degree of consumption on certain commodities with negative externality.
- (b) Policies concerning Non-Tax National Revenue are aimed to increase public service quality by giving attention to environment conservation. Policies concerning National Expense are directed into several goals: (1) to enhance the scope of productive expenses, such as for infrastructure development, interregional connectivity, electric structure and infrastructure, housings, sanitation, and clean water; (2) to increase efficiency while also sharpening non-operational expenses, mainly those used to increase fiscal room; (3) to improve the quality and effectiveness of social protection programs, such as enhancing household targets for the expectant family program, improving health service quality, ensuring the sustainability of direct aid program to the society, National Health Security, Smart Indonesia Card, Healthy Indonesia Card, Rice for Welfare Family, and Aimerd-Mission Scholarship. Concerning with this Scholarship, it can be improved by ensuring the fluency of funneling system and the accuracy of receiver database; (4) to substantiate the implementation of priority programs in various fields such as education, health, food and energy sovereignty, maritim and ocean issues, and tourism and industry; (5) to actualize the funneling of subsidy and non-cash social grant precisely on targets, which can be done by making database to become more transparent and redesigning subsidy funneling system in order to be more accountable; and (6) to support law enforcement, especially in alleviating illegal drugs' circulation, and and to stabilize security and defense through terrorism mitigation and and weaponry system procurement.
- (c) Transfer-to-Region and Rural Fund are important instruments in fiscal decentralization, and both are aimed to strengthen the fundings for local and rural development, to accelerate the actualization of people's welfare and prosperity, and to support the achievement of national priorities.

Pursuant to the policies above, it seems that fiscal policy direction is expansive and focusing on supporting productive activities to improve productive capacity and competing ability. Such policy can be counterbalanced by healthy and sustainable fiscal policy management. It can be done through several actions such as (1) controlling the safe limit of deficit, (2) controlling ratio of debt to Gross Domestic Income (GDI) by restraining debt-based financing at controllable (manageable) level and by allocating debt utilization for productive activities, and (3) restraining primary balance through *fiscal vulnerability control*.

In line with these actions, the direction of financing policy in 2017 will go to several points such as: (1) controlling ratio of debt to GDI at manageable level; (2) utilizing debt for

productive activity in order to develop macroeconomic balance; (3) using Surplus Budget Balance (SBB) as fiscal cushion to anticipate uncertainty; (4) optimizing creative and innovative financing in order to accelerate development and to improve financing access for Micro, Small & Medium Enterprises; (5) increasing the quality of government planning and the effectiveness of investment; (6) improving the mechanism of national duty accomplishment due to the fact that the nation is a member of international financial organization/agency; (7) encouraging export initiative among others by implementing National Interest Account (NIA); (8) opening access for society to development and investment financings; and (9) improving access to education and housing for low income societies.

On the interest to develop budget financing that is more informative, transparent, and understandable to stakeholders, then Government modifies budget financing classification in the 2017 National Budget Plan. Previously, budget financing structure was consisting of debt and non-debt financings, but budget financing structure of the 2017 National Budget was comprising of debt financing, investment financing, loan lending, bail duty, and other financings. Moreover, Government, through the 2017 National Budget Plan, allocates investment financing to Public Service Agency for National Asset Management as much as IDR 21,650.0 billions. This allocation is aimed to support the function of *land banks*, mainly relating with the fulfillment of demand for land procurement for infrastructure development. Land procurement is very useful for national strategic projects, which is then expected to provide some benefits, such as accelerating infrastructure development, supporting economic growth, improving connectivity, reducing distribution cost, and increasing fiscal resilience. As told by the informant HN that:

“The posture of the 2017 National Budget Plan was designed using public economic perspective and therefore, it consisted of national revenues, national expenses, and budget financing. In 2017, national revenue size was reaching IDR 1,737,629.4 billions, which is declining by 2.7 percents from the target in the 2016 Revised National Budget. Of total national revenues, tax revenues are estimated to be IDR 1,495,893.8 billions or declining by 2.8 percents from the target in the 2016 Revised National Budget. Meanwhile, non-tax revenues are estimated to be IDR 240,362.9 billions, or declining by 1.9 percents from the target in the 2016 Revised National Budget. Tax revenues still become the backbone of national revenues in the 2017 National Budget Plan with revenue level reaching around 86.1 percents of total national revenues. In the other hand, referring to the principals of fiscal policy in 2017, the size of national expenses in the 2017 National Budget is IDR 2,070,465.9 billions, or declining by 0.6 percents from its standard in the 2016 Revised National Budget. National expenses in 2017 are consisting of two elements. One is central government’s expenses at IDR 1,310,439.3 billions, which comprises of expenses for Ministry/Agency at IDR 758,378.0 billions and expenses for non-Ministry/Agency at IDR 552,061.3 billions. Second element is Transfer-to-Region and Rural Fund that needs allocation of IDR 760,026.7 billions.” (Interview, May 2017)

As indicated in National Budget structure of the current budget year, central government’s expenses have 11 (eleven) functions. In the 2017 National Budget Plan, function with the greatest allocation includes public service function and

economic function, which each absorbs 26.2 percents and 25.4 percents of central government’s total expenses. The remaining 48.4 percents are scattered at other functions. Due to this situation, the 2017 National Budget Plan suffers from budget deficit at IDR 332,836.6 billions or 2.41 percents of GDI, which is increasing from of 2.34 percents in 2016. The deficit in the 2017 National Budget Plan is planned to be covered by budget financing at IDR 332,836.6 billions. The revision of macroeconomic base assumptions has impacted the posture of the 2017 National Budget Plan because macroeconomic base assumptions are used as the base to calculate National Budget posture. Therefore, the revision in those assumptions will bring positive or negative impact on the size of national revenues, national expenses, and budget financing. Final conduit of this impact is the revision of National Budget deficit. The impact of macroeconomic base assumptions on National Budget posture can be understood through sensitivity analysis. The informant ES provided relevant opinions about this, which is as follows: *“... macroeconomic base assumptions with positive impact on the posture of the 2017 National Budget Plan are economic growth, inflation rate, exchange rate of IDR to USD, ICP, and oil & gas lifting rates. The increase of all these assumptions will deliver direct impact on the increase of national revenues, mainly from tax and non-tax revenues, but also give impact on the decline of budget allocation for Transfer-to-Region and Rural Fund, especially profit sharing fund (PSF). Increasing budget allocation to these funds might increase national expenses because Constitution has required minimum allocation of 20.0 percents and 5.0 percents of total national expenses for education and health sectors.” (Interview, April 2017).*

As shown in sensitivity analysis, the impact of the realized increase of macroeconomic base assumptions on the increase of national expenses is higher than its impact on the increase of national revenues. In total, the increase has positive impact on National Budget posture because it gives surplus in budget financing, which then can be used to deploy another expenses or to reduce budget deficit. In the other hand, only one macroeconomic base assumption with negative impact on National Budget posture, and it is 3-month National Treasury Note’s interest rate. The change of 3-month National Treasury Note’s interest rate only impacts on national expenses for debt interest payment. This expense might be trivial and can be covered by deficit financing or expense cutting. The flux of economic conditions causes macroeconomic base assumptions to continually changing. To understand this change, sensitivity number in the 2017 National Budget Plan is used to help fast calculation of budget posture in order to obtain description about the deficit in the Plan. However, this sensitivity number cannot determine deficit posture precisely because budget posture is affected not only by macroeconomic base assumptions but also by government policies. Fiscal policy principals and macroeconomic base assumptions are prepared through concepts. Macroeconomic base assumptions used by Government as references to determine fiscal capacity are prepared by Government, Central Bureau of Statistic, and Bank of Indonesia. Ministry/Agency performs activities of planning and budgeting, and the output of these activities are Government’s Work Plan (GWP) and Ministry/Agency’s Work Plan and Budgeting (M/A WPB). Both are reflecting the development priority decided by President with approval of People’s Representative Council. After GWP and M/A WPB are discussed by Director of the related Agency as chief of

operation officer (COO), Finance Minister as chief financial officer (CFO) and also Planning Minister, then the resulted National Budget Draft is submitted along with Financial Notes to People's Representative Council. Legal references for the outputs are Government Regulation No.20/2004 concerning Government's Work Plan for the case of GWP and Government Regulation No.21/2004 concerning Ministry/Agency's Work Plan and Budgeting for the case of M/A WPB.

Work plans of Ministry/Agency for one year period are casted into M/A WPB. Technical guidance for preparing M/A WPB is determined every year through Finance Minister's Decree. Law No.17/2003 concerning National Finance is the legal base for budgeting reformation. This Law explains about possible revisions made on budgeting approach. There are several options in budgeting approaches such as budgeting with middle term perspective (*medium term expenditure framework*), integrated budgeting (*unified budget*), and budgeting based on performance (*performance budget*). By understanding these options, the presence of work plan and budgeting gives assurance that planning and budgeting are correlated. This description was consistent with what has been told by the informant ES: *".....the result of discussion between the Director of the related Agency as Chief of Operation Officer (COO), Finance Minister as Chief Financial Officer (CFO), and Planning Minister, is National Budget Draft and Financial Notes. These two outputs are then discussed by People's Representative Council and Government by involving inputs from Regional Representative Council. The discussion begins with presidential speech about National Budget Draft at the planned fiscal year and also about Financial Notes. This speech was usually given on the third week of August in Plenary Session of People's Representative Council. During the discussion, People's Council might propose ideas that might change the level of revenues and expenses in the Draft. People's Council's decisions concerning the Draft must be ready at least in two months before budget year begins. The approved National Budget must contain details of organization units, their functions, sub-functions, programs, activities, and expense types. If the Draft is rejected, Government still can use the expenses at the limit of previous-year budget."* (Interview, May 2017).

At the time when National Budget was exercised, the related Ministry/Agency and National Treasurer did prepare the reportings and recordings pursuant to National Accounting Standard (NAS). Main product of this activity is Central Government Financial Report (CGFR) consisting of Budget Realization Report (BRR), Balance Sheet, Cash Flow Report (CFR), and Notes in Financial Report (NiFR). Ministry/Agency prepare all these financial statements to be submitted to Finance Minister at least in two months after the end of budget year. Finance Minister recapitulates these financial statements. Meanwhile, Finance Minister acts as National Treasurer and prepares Cash Flow Report. Moreover, Finance Minister also acts as fiscal manager when facilitating the submission of central government's financial reports to President in order President to use it to serve accountability for National Budget exercise. President delivers central government's financial reports to the Financial Examiner Agency (FEA) at least in three months after budget year ends. The audit by FEA must be completed at least in two months after financial reports are received. Article 30 of Law No.17/2003 concerning National Finance has stated that

President must deliver to People's Representative Council of the Draft concerning the Accountability for National Budget Exercise. Along with financial statements audited by FEA, this Accountability Draft should be received by People's Council at least in six months after the end of budget year. Financial reports submitted by Central Government should be minimally including Budget Realization Report, Balance Sheet, Cash Flow Report, and Notes in Financial Report. All these reports must involve appendixes that show financial reports of State-Owned Enterprises and other agencies. Format and content of National Budget Accountability Report must be obedient to National Accounting Standard.

The informant BW described this subtleties in the following words: *"Government uses macroeconomic base assumptions to be the base in determining fiscal capacity. These assumptions are prepared by Government, Central Bureau of Statistic and Bank of Indonesia. Planning and budgeting are activities done by Ministry/Agency, and the output is Government's Work Plan (GWP) and Ministry/Agency's Work Plan and Budgeting (M/A WPB). Both are the reflection of development priority decided by President with the approval of People's Representative Council. Either GWP and M/A WPB are discussed through ministries or agencies, and during the discussion, the Director of the related Agency acts as chief of operation officer (COO) who must face not only with Finance Minister who act as chief financial officer (CFO) but also with Planning Minister. The resulted National Budget Draft is submitted along with Financial Notes to People's Representative Council. In case of GWP, it is prepared based on Government Regulation No.20/2004 concerning Government's Work Plan while Government Regulation No.21/2004 concerning Ministry/Agency's Work Plan and Budgeting is the base to prepare M/A WPB. Ministry/Agency's Work Plan and Budgeting (M/A WPB) are prepared periodically every year. Technical guidance for M/A WPB is provided through Decree of Finance Minister, which thus must be made every year. Budgeting reformation is already required by Law No.17/2003 concerning National Finance. This Law gives explanations about fundamental revisions on budgeting approach. Therefore, budgeting option that can be selected is budgeting with middle term perspective (*medium term expenditure framework*), integrated budgeting (*unified budget*), and budgeting based on performance (*performance budget*). If one understands these options, it is quite sure that planning and budgeting are connected the discussion involving the Director of the related Agency as Chief of Operation Officer (COO), Finance Minister as Chief Financial Officer (CFO), and Planning Minister, produces National Budget Draft and Financial Notes. These two products are discussed by People's Representative Council and Government with inputs from Regional Representative Council. The discussion is opened by presidential speech about National Budget Draft at the planned fiscal year and also about Financial Notes. The speech was usually performed on the third week of August in Plenary Session of People's Representative Council. During the Session, People's Council proposes ideas that might change the level of revenues and expenses stated already in the Draft. Also, People's Council should make decisions concerning the Draft at least in two months before budget year begins. The approved National Budget must contain the detail of organization units, their functions, sub-functions, programs, activities, and expense types. If the Draft is rejected, Government can still use the expenses at limit of previous-year budget at the same time*

when National Budget is exercised, the related Ministry/Agency and National Treasurer prepare the reportings and recordings based on National Accounting Standard (NAS). The main product of this activity is Central Government Financial Report (CGFR), which consists of Budget Realization Report (BRR), Balance Sheet, Cash Flow Report (CFR), and Notes in Financial Report (NiFR). All these financial statements are prepared by the related Ministry/Agency to be submitted to Finance Minister at least in two months after budget year ends. Then, Finance Minister recaps all these financial statements. When acting as National Treasurer, Finance Minister makes Cash Flow Report, while when acting as fiscal manager, the Minister facilitates the submission of central government's financial reports to President who then uses it to serve presidential accountability for National Budget exercise. President hands over central government's financial reports to the Financial Examiner Agency (FEA) at least in three months after budget year ends. The audit by FEA must be completed at least in two months after financial reports are received. Law No.17/2003 concerning National Finance, in Article 30, has stated that it is President who must deliver to People's Representative Council of the Draft concerning the Accountability for National Budget Exercise. Along with financial statements audited by FEA, this Accountability Draft should be on the desk of People's Council at least in six months after the end of budget year. Financial reports submitted by Central Government include Budget Realization Report, Balance Sheet, Cash Flow Report, and Notes in Financial Report. The reports often involve appendixes that show financial reports of State-Owned Enterprises and other agencies. Meanwhile, format and content of National Budget Accountability Report are arranged and presented pursuant to National Accounting Standard." (Interview, May 2017)

Based on these statements, preliminary inferences concerning political process in budget policy making, thus, can be made, and these are elaborated in the following words:

(a) In the realm of People's Representative Council, policy making concerning budget (or usually National Budget) is a political process because it involves government and fractions that represent people's voices. Therefore, it is not surprising if this process must accommodate multi-interpretation and variety of interests and aspirations to deliver people's welfare and prosperity. The process is underlied by some commitments. First is to prepare short-term, middle-term and long-term development plans. Second is to deal with issues of social and economical gaps in the next five year and to invite people to think forward about how to develop Indonesia in the future. Third is to design National Budget posture that cares about domestic savings and helps real sectors to move and improving. Until now, macro policy is given more emphases than real sector policy, and government has disregarded real sector development. Also, food security is strongly emphasized because the current import is still high and not well regulated. Indonesia must keep its economic growth in a balance. East Asia is the center of attention of the world and Indonesia has strategic position in Pacific Asia. All these commitments should be the base of political process in National Budget policy making at People's Representative Council, and the budget must defend people interests.

- (b) Macroeconomic base assumptions used by Government as the base in determining fiscal capacity are prepared by Government, Central Bureau of Statistic and Bank of Indonesia. Every Ministry/Agency performs the activities of planning and budgeting, and the output is Government's Work Plan (GWP) and Ministry/Agency's Work Plan and Budgeting (M/A WPB). The outputs are reflection of development priority decided by President and approved by People's Representative Council. These outputs are discussed through ministries or agencies, and during the discussion, the Director of the related Agency acts as chief of operation officer (COO) who must face not only with Finance Minister who act as chief financial officer (CFO) but also with Planning Minister. The result of this discussion is National Budget Draft that must be submitted along with Financial Notes to People's Representative Council. For GWP, it is prepared based on Government Regulation No.20/2004 concerning Government's Work Plan while for M/A WPB, it is prepared pursuant to Government Regulation No.21/2004 concerning Ministry/Agency's Work Plan and Budgeting.
- (c) Ministry/Agency's Work Plan and Budgeting (M/A WPB) are prepared periodically every year. Decree of Finance Minister is released annually to provide technical guidance for M/A WPB. Reformation in budgeting has actually been required by Law No.17/2003 concerning National Finance. This Law explains many fundamental revisions on budgeting approach. The available options of budgeting are budgeting with middle term perspective (*medium term expenditure framework*), integrated budgeting (*unified budget*), and budgeting based on performance (*performance budget*). The presence of work plan and budgeting should make one to believe that planning and budgeting are linked one another.
- (d) The discussion involving the Director of the related Agency as Chief of Operation Officer (COO), Finance Minister as Chief Financial Officer (CFO), and Planning Minister, will produce National Budget Draft and Financial Notes. These two products are then discussed by People's Representative Council and Government with inputs from Regional Representative Council. The discussion is opened by presidential speech about National Budget Draft at the planned fiscal year and also about Financial Notes. This speech was usually scheduled on the third week of August in Plenary Session of People's Representative Council. In the process, People's Council proposes ideas that might change the level of revenues and expenses stated already in the Draft. Also, People's Council should make decisions concerning the Draft at least in two months before budget year begins. The approved National Budget must contain the detail of organization units, their functions, sub-functions, programs, activities, and expense types. If the Draft is rejected, Government can still use the expenses at limit of previous-year budget.

During the exercise of National Budget, the related Ministry/Agency and National Treasurer do make reportings and recordings based on National Accounting Standard (NAS). The main product is Central Government Financial Report (CGFR), which consists of Budget Realization Report (BRR), Balance Sheet, Cash Flow Report (CFR), and Notes in Financial Report (NiFR). All these financial statements are made by the related Ministry/Agency to be submitted to Finance Minister at least in two months after budget year ends. Then, Finance Minister recaps all these financial statements.

When acting as National Treasurer, Finance Minister makes Cash Flow Report, while when acting as fiscal manager, the Minister facilitates the submission of central government's financial reports to President who then uses it to serve presidential accountability for National Budget exercise. President hands over central government's financial reports to the Financial Examiner Agency (FEA) at least in three months after budget year ends. The audit by FEA must be completed at least in two months after financial reports are received. Law No.17/2003 concerning National Finance, in Article 30, has stated that it is President who must deliver to People's Representative Council of the Draft concerning the Accountability for National Budget Exercise. Along with financial statements audited by FEA, this Accountability Draft should be on the desk of People's Council at least in six months after the end of budget year. Financial reports submitted by Central Government include Budget Realization Report, Balance Sheet, Cash Flow Report, and Notes in Financial Report. The reports often involve appendixes that display the financial reports of State-Owned Enterprises and other agencies. Meanwhile, format and content of National Budget Accountability Report are arranged and presented pursuant to National Accounting Standard.

DISCUSSION

Political Process in Budget (National Budget) Policy Making: The policy making concerning National Budget cannot escape from political process. Preliminary discussion about government's work plan for National Budget is conducted to elaborate five principal issues: (a) the determination of microeconomic indicators; (b) the revision of macroeconomic base assumptions for the 2017 National Budget; (c) the revision of fiscal policy in the 2017 Revised National Budget Plan; (d) the revision of fiscal policy principals in the 2017 Revised National Budget Plan; and (e) the impact of the revision of macroeconomic base assumptions on the posture of National Budget Plan and the 2017 Revised National Budget Plan. These five issues are constituting *Budget Cycle*. This cycle begins with budget setting, continues to budget calculation, and ends with enactment to budget law. Therefore, it can be said that budget cycle is comprised with budget preparation, budget exercise, budget supervision, and reporting and accountability for the budget. As the user of National Budget, Minister or Agency's Director must prepare work plan called as Ministry/Agency's Work Plan and Budgeting (M/A WPB) of the next budget year. It must be noted that M/A WPB must contain predictions about works to be achieved in the next budget year and the estimated expenses. People's Representative Council receives M/A WPB and put it into preliminary discussion concerning National Budget Plan. Result of M/A WPB discussion is handed over to Finance Minister who then uses it as the base to set National Budget Draft of the next budget year.

There are a lot of work plans that National Budget must accommodate. The making of these work plans takes reference from Government Regulation No.20/2004 concerning Government's Work Plan and Government Regulation No.21/2004 concerning Ministry/Agency's Work Plan and Budgeting. Talking about M/A WPB, it is made for one-year period. Technical guidance for M/A WPB is given every year by Finance Minister's Decree. Legal base for budgeting reformation is provided by Law No.17/2003 concerning National Finance. This Law also provides description about

revisions imposed on budgeting approach. There are few options of budgeting, such as budgeting with middle term perspective (*medium term expenditure framework*), integrated budgeting (*unified budget*), and budgeting based on performance (*performance budget*). The existence of work plan and budgeting might give a fact that planning and budgeting are linked. On the month of August, central government sends to People's Representative Council of the proposal of National Budget Draft, along with Financial Notes and the supporting documents. The discussion of the Draft is performed pursuant to the law that explains the composition and position of People's Council. During the discussion, People's Council can suggest ideas that might change the level of revenues and expenses in the Draft. Any decisions made by People's Council concerning the Draft should be completed at least in two months before budget year begins. After approval, National Budget must contain the detail of organization units, their functions, sub-functions, programs, activities, and expense types. If the Draft is rejected, Government can still use the expenses at limit of previous-year budget.

During the exercise of National Budget, the related Ministry/Agency and National Treasurer do make reportings and recordings based on National Accounting Standard (NAS). The main product is Central Government Financial Report (CGFR), which consists of Budget Realization Report (BRR), Balance Sheet, Cash Flow Report (CFR), and Notes in Financial Report (NiFR). All these financial statements are made by the related Ministry/Agency to be submitted to Finance Minister at least in two months after budget year ends. Then, Finance Minister recaps all these financial statements. When acting as National Treasurer, Finance Minister makes Cash Flow Report, while when acting as fiscal manager, the Minister facilitates the submission of central government's financial reports to President who then uses it to serve presidential accountability for National Budget exercise. President hands over central government's financial reports to the Financial Examiner Agency (FEA) at least in three months after budget year ends. The audit by FEA must be completed at least in two months after financial reports are received. Law No.17/2003 concerning National Finance, in Article 30, has stated that it is President who must deliver to People's Representative Council of the Draft concerning the Accountability for National Budget Exercise. Along with financial statements audited by FEA, this Accountability Draft should be on the desk of People's Council at least in six months after the end of budget year. Financial reports submitted by Central Government include Budget Realization Report, Balance Sheet, Cash Flow Report, and Notes in Financial Report. The reports often involve appendixes of the display of financial reports of State-Owned Enterprises and other agencies. Meanwhile, format and content of National Budget Accountability Report are arranged and presented pursuant to National Accounting Standard.

When National Budget is already enacted into law, the detail of procedures of National Budget exercise will be provided through President Decree concerning Detail of National Budget. Finance Minister then informs Minister and Director of related Agency to submit their budget documents. These documents must be prepared based on budget allocation mentioned in President Decree concerning Detail of National Budget. Indeed, budget documents usually contain the details of targets, functions, programs, activities performed to achieve the targets, fund plan for each work unit, and estimation of

revenues. Budget exercise usually begins after budget documents are approved by Finance Minister. These approved documents are mostly passed into the related Ministry/Agency, Financial Examiner Agency, Governor, Budget General Directorate, Treasury General Directorate, Director of Regional Office for Treasury General Directorate, Official Functionary of National Treasurer, and Official Functionary of Budget User. Documents relating with budget exercise are the List of Budget Exercise (LBE), other documents that are equivalent to LBE, and documents concerning with payment such as Request-for-Payment Letter, Order-for-Payment Letter, and Order-for-Funding Letter.

In regard of budget exercise, Article 17 of National Treasury Act has stated that the user or official functionary of National Budget is allowed to perform only activities on the list or to make agreement with others at predetermined budget limit. Furthermore, the guidance for exercising the budget is provided by President Decree No.42/2002 concerning Guidance for National Budget Exercise, which is then subjected to revision into President Decree No.72/2004. The supervision on National Budget exercise is not obviously revealed in Law No.17/2003 concerning National Finance. Description about budget supervision is provided by President Decree No.42/2002 junction to President Decree No.72/2004 concerning Guidance for National Budget Exercise. Indeed, Chapter IX of the Decree No.72 contains some explanations about supervision on National Budget exercise. This supervision is performed by the superior or the head of the office or work unit that is responsible to the related Ministry/Agency. Direct superior of treasurer is usually checking the cash at least once in three months. However, the recently prevailed rule of supervision is Regulation of Treasury General Directorate No.47/PB/2009 junction to Regulation of Finance Minister No.73/PMK.05/2008, which requires the checking over treasurer cash at least once in a month.

General Inspector of each Ministry/Agency or the leader of supervision unit within it performs their supervision role on National Budget exercise in their environment. They are required by the law to follow up on public complaint concerning National Budget exercise. Budget supervision is performed not only by executive but also by People's Representative Council or legislative institution, either directly or indirectly. Direct supervision is done through mechanism of monitoring against first semester report that must be submitted to People's Council at least a month after the end of first semester of the budget year. This Report should contain second semester prognosis, and People's Council can use this prognosis to anticipate whether there should be revision or not on National Budget. First semester report and second semester prognosis are discussed in Work Meeting between Budget Committee of People's Council and Finance Minister as government representative. Indirect supervision is done by delivering the result of examination by Financial Examiner Agency (FEA) concerning National Budget exercise to People's Council. What is examined by FEA is the accountability of government for exercising National Budget. Either Minister or Agency's Director as budget user must prepare accountability reports concerning National Budget exercise in their environment. The reports mostly take form as financial statements, such as Budget Realization Report, Balance Sheet, and Notes in Financial Report. All these financial statements are attached with Financial Statement of

Public Service Agency that is responsible to the related Ministry/Agency. Financial statements from Ministry/Agency must be submitted to Finance Minister at least in two months after budget year ends. All these financial statements are made by the related Ministry/Agency to be submitted to Finance Minister at least in two months after budget year ends. Then, Finance Minister does recapitulation on them. As National Treasurer, Finance Minister prepares Cash Flow Report. Besides that, Finance Minister also acts as representation of central government and prepares the summary of financial statements made by state-owned enterprises. In other situation, Finance Minister functions as fiscal manager who organizes and submits central government's financial reports to President who then uses them to serve presidential accountability for National Budget exercise. President must deliver these reports to Financial Examiner Agency (FEA) at least in three months after budget year ends. The audit by FEA must be completed at least in two months after the reports are received.

Law No.17/2003 concerning National Finance, in Article 30, has stated that it is President who must deliver to People's Representative Council of the Draft concerning the Accountability for National Budget Exercise. Along with financial statements audited by FEA, this Accountability Draft should be given to People's Council at least in six months after the end of budget year. At minimum, central government's financial reports must include Budget Realization Report, Balance Sheet, Cash Flow Report, and Notes in Financial Report, where each report usually involves appendixes of the display of financial reports from state-owned enterprises and other agencies. Regarding to the format and content of National Budget Accountability Report, it should be consistent to National Accounting Standard. Global economic development in current days has implication to the national welfare. International border and territorial strength of nation-state are no longer impermeable. National border is not anymore physical, but it is scattered among localities, independent organizations, civil societies, supra-national agencies (like NAFTA or European Union), and multinational enterprises. Mishra (2000) in the book titled *Globalization and Welfare State* has mentioned that globalization has delimited nation-state capacity to protect the society. Therefore, economic development is very important to people welfare. In global context, especially among developed countries, economic growth has toughened social integration and solidarity, and also increased the capability and access of individuals to health care, education, housings, and social protection. Edi Suharto's analysis, however, showed that among developing countries, globalization and free market economic have caused many troubles, such as enlarging social gap, impairing environment, understating local language and culture, and deepening the poverty.

Privatization, free market, and *structural adjustment* are policies imposed by international agencies to developing countries but it leads to a situation where the poor of these countries must live without protection. Economic growth is indeed important thing but it is not automatically protecting people from hostile risks. Some of developing countries start to apply social policy to implement social security schemes although the use is limited or selectively provided on status and category of individuals who work at formal sector.

As a consequence, economic development in Indonesia must be underlined by moral values, especially concerning with trade that contributes significantly to foreign exchanges.

Trade, under the shariah context and also the culture of Five Principles (*Pancasila*), is inseparable part of human life when they do *muamalah* (agreement). Relationship among humans should be given free space because it has transcendent value that stimulates economic activity that later can be made accountable to other humans. Human freedom, economic reality, and accountability to other humans, therefore, are the frameworks of business people to actualize moral values into their trading activity. In free market era, economic activity can be done without caring for ethical values. Such ethical understatement might easily lead economic actors to suffer from conflict of interests, and high vulnerability to the conflict can harm other actors. Islamic business ethic is then used as the guidance in the moral conduct of economic actors. Islamic business ethic prevents the market from being distorted, and such prevention should give *mashlahah* (utility) for human.

Samuelson said that government roles in modern mixed economic system have been increasing. It is indicated by (1) the increase of government expenses, (2) the evenly distribution of income by the nation, and (3) the direct management on the economic life. Some government functions have been changed, and it affects some government activities, such as (1) direct supervision, (2) social consumption of public goods, (3) stabilization of financial and monetary policies, (4) government production, and (5) welfare expenses.

In the other hand, market finds difficulty in creating perfect allocation of economic resources, and thus, it fails easily. Market failure, as said by Murray N. Rothbard, is caused by few factors such as common goods, market imperfection, public goods, externality, incomplete market, information limit or failure, unemployment, and uncertainty. Under the economic of Five Principles (*Pancasila*), dimensions of justice, right equality, and natural resource management must be applied using utilitarian principle for the sake of public interest. Productive branches that give benefits to the nation and affect people life must be owned by the nation to be used for people's welfare and prosperity (Article 23 of National Constitution). For example, the 32-year administration of New Order has been identified with the luster of feudalism, paternalism, and absolutism committed by government, and final direction tends to go toward centralism. The problem is that with such tendency, then autonomy, decentralization, and deconcentration are easily ceased. To accelerate local development, main agenda of reformation era is local autonomy and economic democratization. Central theme of development wisdom in reformation era is to emphasize human development paradigm that put people as development actor and use local economic as instrument to produce people's welfare and prosperity. However, government policy stated in National Budget is contradicting with government role to deliver people's welfare and prosperity. Budget politic phenomenon in National Budget management at the realm of People's Representative Council is very strong, and People's Council has authority to change the budget, which thus individuals in the Council are easily vulnerable to commit corruption either personally or with the group. Therefore, people themselves cannot alleviate social and economic poverties, and to materialize people empowerment, mainly the poor, it seems that early empowerment (*self empowerment*) is needed externally, especially from the government. As noted by Sri-Edi Swasono, people already experience *impoverishment* and *disempowerment*, which occur only when national development is no longer people-oriented. Free trade system in the global era can be supportive to economic

progress because it helps increasing economic growth and development, or in contrast, it becomes new problem for certain nations, especially in developing countries with economic setbacks, including Indonesia. This system can be applied and be useful for people's welfare and prosperity, or even nothing at all. Either in the Islamic economic or in the Five Principles (*Pancasila*) economic, the nation has right to perform intervention into individuals' economic activity, either by supervising their activity, or by managing and implementing economic activities that individuals cannot do.

Economic activity of current days is going toward free market. The existing trends always show complexity and ethical divergence in economic activity. That is why Ibnu Taimiyah assumes that intervention by the nation into economic can protect people rights from business actors' despotism, and provide greater benefits to the people. Also, intervention by the nation into economic activity can eliminate poverty and thus help accomplishing the duty of the nation.

Within Five Principles (*Pancasila*) economic, the fourth paragraph of National Constitution has stated national goals of Indonesia, which are to enlighten national life, to prosper people life, and to maintain world order based on principles of eternal freedom and social justice. Therefore, it is necessary for Indonesia to manage economic life of the people, which its ultimate goal is to prosper people economic life. Indeed, people-oriented economic is a national identity that must be struggled and manifested into people life. As further said by Sri-Edi Swasono, free market or free trade should not exist in Indonesian economic because it is a representation of "market sovereignty" rather than "people sovereignty". Principally, free market always overstates the interest of capital holders who will tighten their claw to every economic activity. Law No.38/2008 concerning ASEAN Charter needs to be criticized because it intends to apply free market system into ASEAN, including Indonesia. This system will surely harm the poor who is already lack of economic activities and resources. Poverty alleviation has been put in development policy agenda. Poverty statistic number might decrease over years, but poverty alleviation agenda is a major project that never ends. Previously, poverty alleviation uses centralized approach, which is identified by characters of top-down, mobilization, uniformity,, and off-budget project.

During reformation age, poverty alleviation approach has shifted into more decentralist direction, which is marked by characters of bottom-up, participative, sophisticatedly packed, and be influential in creating international commitment through *Millenium Development Goals* (MDGs). Now, there is a powerful concept, called as *pro poor budget*, which develops along with other concepts, such as alternative budget, people budget, participatory budgeting, and gender budgeting. The emergence of new concepts has stimulated the arrival of new paradigm, especially when financing scheme for poverty alleviation is no longer *off budget* but integrated (*built in*) to the planning and budgeting system. In other words, most of new approaches require *poverty mainstreaming* to be included in the planning and budgeting system. The agreement on MDGs is followed by the commitment to poverty and gender mainstreamings in planning and budgeting activities. This commitment has been built in since 2003/2004. Through Middle-Term National Development Plan for Period 2004-2009, the government attempts to reduce the percentage of the poor to become 8.2 percents in 2009. At the same time, government also set out National Strategy for Poverty

Alleviation, which the design is created through participative process that involves development stakeholders of Indonesia. This National Strategy emphasizes on the use of *right-based approach* as main instrument to produce *gradual & progressive realization* of the efforts to respect, protect and fulfill fundamental rights of the people, to actualize gender equality and justice, and to accelerate regional development.

In the context of National Budget management, government expenses as stated in National Budget is one of government fiscal policies. Government uses it to manage national economic. It must be noted that National Budget has been experiencing many structural changes. For now, National Budget has used performance-based budget pursuant to Law No.1/2004. Since Year of 1969, the balancing and dynamic system has been used in setting out National Budget. This system replaces previous budget system used by New Order that disregards differentiation between revenue and expense budgets. It must be noted that this differentiation helps one to understand how much expenses do the government must spend for public sector. Effective budget management, however, is not yet contributive to the achievement of goal of people's welfare and prosperity. This research intends to explore and analyze opportunities of budget policy reformation to produce *pro poor budget* that substantially contains the goals of alleviating poverty, promoting prosperity, and minimizing budget divergence. Somehow, this research assumes that such institutional design is important but not enough to produce a concrete *pro poor* National Budget.

Review on budget management is an activity to understand national finance by scrutinizing government revenues and expenses. In other words, the current research will investigate the discipline of national (public) finance that emphasizes on role of the nation in managing the budget for people's welfare and prosperity. Budget management policy, for some reasons, is always different among the nations. Globalization affects government efforts to actualize people's welfare and prosperity, but the degree of this effect differs in each government. Jamzy Zodik conducted a study on relationship between government expenses and regional economic growth. This study was considering government expenses as the actualization of budget management, economic growth, and surprisingly, also government corruption. The study also analyzes the effect of government expenses on regional economic growth although problem of corruption is not much uncovered. How National Budget is prepared can be reviewed through theory of national role in economic. This theory is used to analyze whether budget is managed for people's welfare and prosperity. According to Mardiasmo, budget is the estimated performance to be achieved in a time period, and usually stated in financial term. Budgeting or budget setting process is an operational plan expressed in the form of qualification or monetary unit and prevailed for certain time period. Entirely, budgeting is a process or method to prepare a budget. According to Anthony and Govindarajan, budgeting has four goals: (1) to make alignment with strategic plan, (2) to coordinate activities across the parts of organization, (3) to assign responsibility to manager or leader while authorizing them with funding to be used, and to require them reporting the result of any usages of the fund, and (4) to create mutual cooperation.

Therefore, economic's role and function of the government in managing the budget have been lighting up a debate between social and capital economists. In general, government's role and function are related with the achievement of economic

development goals, which among others is to attain the optimum level of people welfare. However, whether government is necessary to intervene into goal achievement is triggering a debate between socialism and capitalism advocates. Capitalism with genuine liberal spirits asserts that government is not necessary to intervene economic affairs except for rules of economic that are not created by the individual of economic actors. In this case, everyone has absolute freedom to manage their life aspects, including economic. Classic economic endorsers led by Adam Smith assume that government has three functions, respectively, in security and defense, social justice (legal conducts), and public works (social). They declare that the important thing in government is not to do the activity that can actually be done by the individual of citizen, and government only concerns with economic activities that cannot be done by individual or private sector.

Socialist economic system is not supporting individual freedom, and therefore, economic activity must be empowered by government as institution or agency that represents the individuals. The roles of government in managing the economic are to plan the use of production factors, to perform production activities, to arrange distribution of consumption goods, and to organize public service for education, health and other sectors. Economic development in recent days has affected the popularity of many economic ideologies. In the middle of twentieth century, there is no longer genuine extreme systems. Therefore, economic system applied in the most parts of the world is mixed economic system. Indonesia applies Five Principles (Pancasila) economic as its national economic system, and this ideology is emphasizing on harmony, compatibility and balance in the relationship of individuals and people underlined by national personality. This ideology is not picking up good things from capitalist system to be mixed with good things from socialist system. However, in reality, Indonesian economic system is actually identical with mixed economic system. As indicated in analytical economic theory, government economic function can be understood from the function and objective of government expense budget policy. It has been elaborated by Musgrave in a work titled *a Theory of Public Finance*, where government economic function is divided into three, respectively, *first is allocation branch (to secure adjustments in the allocation of resources)*, which is a function to serve *public wants* (public demand); *second is distribution branch (to secure adjustments in the distribution of income and wealth)*, which is a political function in expense budget, or usually called as "classic function" where government revenues and expenses have social and economical effects; and *third is stabilization branch (to secure economic stabilization)*, which is a function to keep the use of production factors at high level in order to stabilize money value.

Government economic role theory is used to analyze National Budget management, either from planning, implementation, and responsibility, and also to examine its relation with budget divergences. In general, government budget politic cannot be separated from economic globalization, including free market. Less transparent budget management and lack of government accountability have declined economic situation compared to other nations. National Budget managed by the government for the sake of development must be helpful to improve economic growth and to substantiate national and cultural values of Indonesia. Economic reason has marginalized Indonesian

people who only become “the guest” rather than “the host” in their own house. There are six national problems caused by globalization. *First*, why the development removes the poor, not the poverty? Until now, development always dehumanizes people. *Second*, why the development is only development in Indonesia, not development of Indonesia? It is foreigners who do the development in Indonesia and hold concession of strategic economic projects, while Indonesian people are only the audiences or even the servants of globalization. *Third*, why “market sovereignty” is allowed to be powerful over “people sovereignty”? *Fourth*, should we become the host in our house, or be “*the master in our own homeland, not just to become the host*” who only serves globalization and foreign interest? Why we become *the laborer* in our country, not *master of ceremony*? The consequence to this problem is that Gross Domestic Products are growing faster than Gross National Products. Many economists are inattentive to this fact. *Fifth*, people welfare is hardly achieved, and the gap between rich and poor is increasing. *Sixth*, the gap between rich and poor has only led to the emergence of *frustration-gap* on the poor. Frustration-gap is a gap between the aspiration stimulated by luxurious consumptive advertisement and the strengthening of *affluency* pull among the riches along with their absurdities, which only worsen structural gap in property ownership. Therefore, Indonesian economic should implement “economic democracy” (Article 33 of National Constitution) to reject economic liberalization brought by free market. This economic democracy actualizes economic relationship based on *mutualism and brotherhood*, rejects *laissez-faire* or eliminates neoliberalistic free market. The manifestation of economic democracy is the reinstatement of people economic. National Budget management is an activity where government manages the sources of revenues and expenses to deliver people’s welfare and prosperity. National Budget is a part of national finance that its principles, systems, and structures are periodically changing with global and national situations. Within the context of national finance management, especially National Budget, the mechanism of budget management is always different across social, political and cultural situations. Indeed, National Budget is always used to defend the interest of national development, and the politics around the budget must have commitment to defend public interest. Until now, budget management in reformation era still uses a distinctive budget structure, called *performance based budget*. This budget is considered as helpful to improve government performance and also to produce *good governance*. To achieve all these goals, budget must fulfill criteria of effectiveness, efficiency, transparency, and accountability.

As mentioned in Article 23 of National Constitution, National Budget is a manifestation of national finance management conducted every year with open and responsible implementation for people’s welfare and prosperity. The enactment of National Budget into National Budget Act (Law) through discussion with People’s Representative Council is a manifestation of people sovereignty. Through National Budget, Government and People’s Council establish the annual financial plan to be used to finance government work programs. National Budget is indeed the instrument used by government to arrange fiscal policy in national economic. Fiscal policy is one of macroeconomic policy instruments that plays important and strategic roles to affect economic, mainly to achieve national development goals, which among others is to deliver people’s welfare and prosperity. In this case, National Budget provides the base to set for national

development direction. The directions of policy, goal, and priority of the development done by government for a year have been stated in Financial Notes and National Budget. The activities of planning and budgeting to produce National Budget are the first step in National Budget cycle. These are conducted a year before budget year of National Budget begins. Planning activity is always preceding budgeting activity. During the planning, the directions of policy and priority of national development are set out, and government’s work plan and indicative standards are determined. Budgeting activity begins from determination of fiscal capacity. Result of this determination will provide the base for Financial Notes, National Budget Plan, and National Budget Draft to People’s Representative Council. The beginning of allocation process of government financial resources to set out development policy direction is by determining National Budget indicative standards. One of indicative standards is central government’s expense budget plan that must be allocated to all ministries and agencies. Ministry/Agency’s expense budget standards are consisting of baseline and new initiative items. Indicative standards are determined through Joint Decree of the Minister of National Development Planning/the Head of National Development Planning Agency and the Minister of Finance.

Finance Ministry plays some roles in determination of indicative standards, such as: (1) assessing new initiative with National Development Planning Agency; (2) delivering a report about fiscal capacity to National Development Planning Agency, and later the Agency will use it as the base in examining the demand of development budget; and (3) conducting a meeting with National Development Planning Agency and the relevant Ministry/Agency to make agreement about the financing of programs and activities. In the environment of Finance Ministry, the determination of indicative standards is done by Budget General Directorate. Recalling the fact that indicative standards are early base of allocation used by central government in writing National Budget Draft, therefore, calculating fiscal capacity is a crucial thing. The proportion of financial resources allocated to finance programs and activities of Ministry or Agency must be forecasted in proper way and compared with national revenue plan. This comparison might help the concerned parties to understand fiscal fissure that should be covered through proper financing level. One of important things in forecasting expenses of Ministry and Agency is to determine how much budget is needed to cover operational expenses. It must be noted that operational expenses are mandatory expenses that is spent to ensure that performance of institutions is really sustainable. The operational expenses include expenses for employee and expenses for operational goods. Two approaches are used by Budget General Directorate in making forecasts about Ministry/Agency’s operational expenses. First approach is examining Ministry/Agency’s expense realization report of two years ago, and using it as the base to forecast the demand of operational expenses in current budget year. Second approach is examining Ministry/Agency’s budget allocation level of one year ago, and using it as the base to forecast the allocation of operational expenses in current budget year. The use of these two approaches to forecast operational expenses is then resulting in two versions of forecasts. These two versions cause a difficulty in making policy concerning operational expenses through Indicative Standards. It is said as difficult because Budget General Directorate must decide which version is more accurate and reflecting the demand of

operational expenses for Indicative Standards of the next budget year.

In general, National Budget structure is consisting of national revenues and bequest grant (*hibah*), national expenses, primary balance, general balance (budget surplus/deficit), and budget financing. National revenues and bequest grant are posted in first row and then subtracted with national expenses to have result whether budget is surplus or deficit. Both national revenues and bequest grant are revenues obtained by the nation in one budget year that can be added to the current fund equity, and therefore, it is not necessary to the nation to pay for this equity. The size of national revenues and bequest grant is greatly affected by the forecasts of national and international economic development, and the forecasted item includes macroeconomic base assumptions, government policy concerning national revenues and bequest grant, economic development policy, collected national revenues, and other policies. For example, national revenues targeted from oil & gas natural resources are affected by the assumed lifting rates of oil and gas, Indonesian Crude Oil Price (ICP), and exchange rate assumption. Tax revenues targets are derived from inflation growth targets and government policies concerning tax such as the revision of non-taxable income, the extensification of efforts to increase the number of taxpayers, the provisioning of fiscal stimulus, and others. National expenses are expenses spent by the nation in one budget year, which the level might reduce the current fund equity. Making expenses is the duty of the State, and those that have been spent cannot be drawn. In principle, expense size in National Budget is already at the highest limit and cannot be outnumbered. National expenses have strategic role to support the acceleration of inclusive and sustainable development to achieve and improve people's welfare and prosperity. National expenses comprise of Central Government's Expenses and Transfer-to-Region. The size of national expenses is affected by several factors, such as macroeconomic base assumptions, organizational necessities, development policy, risk (natural disaster and global crisis impact), macroeconomic fluctuation, fiscal stimulus policy, and other condition or policies. For example, energy subsidy expenses are effected by the estimated Indonesian Crude Oil Price (ICP), exchange rate, the estimation of the subsidized fossil oil volume, and the price policy for the subsidized fossil oil.

The financing can be all national revenues at certain year that the nation must pay or all national expenses at certain year that the nation must receive. Financing level is affected by some factors such as macroeconomic base assumptions, source and demand of financing, and other conditions and policies. Pursuant to Law No.17/2003 concerning National Finance, budgeting in Indonesia is implemented through performance-based budgeting approach. The detail of performance-based budgeting was already stated in Government Regulation No.90/2010 concerning Ministry/Agency's Work Plan and Budgeting. Moreover, Article 5 paragraph (1) letter c of Government Regulation No.90/2010 concerning Ministry/Agency's Work Plan and Budgeting explained that performance-based budgeting is used to make clear about relationship between budget allocation and expenses, about result of activity or program, and about accountability of performance achievement. The clarity of all those things surely helps government to understand organizational structure to increase accountability, transparency and effectiveness of the measured budget use. It can be said that every budget

allocation must be based on result of performance reported by Ministry/Agency. In Financial Notes of National Budget, operational expenses are those used for the operational of government issues. More clearly, in the book titled *Basics of National Budget Setting Practice in Indonesia* (2013, 200), it has been explained that operational expenses are expenses that support the achievement of office service outputs, such as all proportions of employee expenses, some proportions of goods expenses, and minor proportions of capital expenses. National Budget's Financial Notes insist that operational expenses for employee and goods are compulsory.

Employee expenses are expenses used to finance the compensation, which can take form of either money or goods, which is given to central government's workers, pensioners, Army/Police, and national officers, who serve in the domestic area or abroad, to be the retains to their services, except for those relating with capitalization. Factors affecting forecasts and allocation of salaries and benefits are policies concerning salaries and benefits, inflation rate, rupiah exchange rate, social contribution index, retirement benefits for national officers, and government contribution to social security, including health security for active officers or pensioners. Factors influencing forecasts and allocation of social contribution are policies concerning social security given to national officers, number of social security participants, issues of ranks (job category and periodic salary), and forecasts of number of new employees. Posts of expenses for honorarium, vacation, overtime work, and others are expenses for the compensation that must be given to non-official government employees who work overtimes or who take vacation leaves, or expenses for special benefits and other financing for employees, including Ministry/Agency's workers who must be transferred into regional offices after Ministry/Agency where they previously work is liquidated.

Goods expenses are expenses used to purchase goods or goods-related services to help producing goods or its services that are later to be sold or not sold. Goods expenses are also expenses used to procure goods that are later provided or sold to the people beyond the criteria of expenses for social grant or travel expenses. Financial forecasts, according to Hoshmand (2010:3), are one element in the planning and control systems of organization. Indeed, organization needs financial forecasts to predict the future effectively. Through this prediction, management can make proper decision concerning the development of organization in the future. Financial forecasts also provide guidances to the management in dealing with uncertainty in the future. Hoshmand (2010:2) mentioned that financial forecasts are the combination of statistic analysis and knowledge to build acceptable estimation that helps organization in planning the business. Forecasts are knowledge-based and not judgment-based, or in other words, forecasts must be created scientifically involving clear and measurable methods. Budget forecasts in government sector have been described by Edwards (2010:1) who said that *"budget forecasts are a vital component of fiscal planning for governments, and they are informative of general macroeconomic health. Government agencies such as the Congressional Budget Office, the Office of Management and Budget, and the Social Security Administration all produce fiscal forecasts of various kinds in order to inform policy, and academic researchers have produced their own forecasts to assess the sustainability of fiscal policy"*.

Moreover, Edwards (2010:1) also showed other function in budget forecasts at government sector. This function is “...to inform microeconomic or individual well-being. Individuals within a political unit receive transfers and pay taxes differently depending on their circumstances, and we would like to know the incidence of spending and taxation. A key goal of fiscal policy is to provide social safety nets through the redistribution of resources from the well-off to the needy”.

Government Finance Officer Association’s (GFOA) Best Practice (2014) has recommended the need for conducting preliminary analysis on budget forecasts. This analysis will check up historical data and relevant economic conditions, which then might be helpful to improve the quality of budget forecasts and provide insights about quantitative technique considered as proper for forecasting. It must be noted that forecasting is an activity to seek for a consistent pattern or trend.

According to GFOA (2014), there are three methods used for budget forecasts, precisely:

- Extrapolation, which is, the use of historical data to forecast the future by examining the trends;
- Regression/ econometric, which is, the use of statistic analysis based on the relationship between independent and dependent variables; and
- Hybrid forecasts, which is, the combination between knowledge-based forecasts (tend to use experience and feeling on certain situations) and quantitative method.

National development goals stated in vision and mission of the government are achievable through the exercise of the 2017 National Budget. At first semester of 2017, the goals are achieved through fiscal strategies and macroeconomic developments. The improvement of economic growth, the increase of Gross Fixed Capitalization, the improvement of national financial management in previous years, and the acceleration of budget absorption in current years, are good steps to actualize national development goals in 2017. To maintain expenses quality, Government consistently emphasizes budget exercise on infrastructure, mandatory budget (education and health sectors), and social protection for poverty alleviation and gap minimization. Anticipating trends in macroeconomic base assumptions and fiscal conditions, Government then proposes adjustments on macroeconomic base assumptions and fiscal consolidation in the 2017 Revised National Budget, which is planned to prevail on July 2017. These adjustments are given by subjecting to revision of the policies on national revenues, national expenses, and budget financing, which the ultimate result is that the exercise of the 2017 National Budget can be more credible, high quality, and sustainable. Internal and external factors are influencing National Budget exercise. These factors are economic instability either in domestic or global realms, bad impact of National Budget policies either in previous year or current year, and other policies with great impact on the 2017 National Budget. Several factors are influencing global uncertainty, such as Fed Fund Rate (FFR), US trade policy under new administration, and the sustainability of economic rebalancing policy by China. Since the end of 2016, Indonesian export and import performances have been increasing, and this increase is possibly a factor that stimulates economic growth by 5.0 percents at first semester of 2017, which is better than the year before. The improvement of export and import performances is

followed by the improvement of investment and consumption level, which then must be supportive to government efforts in attaining higher economic growth. The components of macroeconomic base assumptions, such as inflation, rupiah exchange rate, 3-month National Treasury Note’s interest rate, and Indonesian Crude Oil Price (ICP), have quite significant effect on first semester realization of the 2017 National Budget, either for national revenues or expenses. Relating with national revenues, the major contribution emanates from tax and non-tax revenues in oil & gas sector. Regarding to national expenses, some pressures have affected second semester realization in 2017, and these include the increasing of subsidy on energy (3 kg LPG tube and electricity), debt interest payment, and profit sharing fund for oil & gas products due to the change of oil & gas revenues, and also the change of General Allocation Fund (GAF) due to the change of Net Domestic Income (NDI).

The credible, high quality, and sustainable exercise of National Budget is always the intention. To actualize this intention, besides using fiscal strategies, Government has built cooperation with other institutions, including Bank of Indonesia, to stabilize domestic economic, especially the stability of rupiah exchange rate and inflation control. The synergy between government and People’s Representative Council in making laws that support the development of health and high quality economic, might be surely helpful to the efficient and effective exercise of National Budget. In performance-based budget, budget forecasts suppose to be made based on budget demand for Ministry/Agency’s activities and programs. The desired output of this budget demand will provide clues to the forecasts. Performance-based budget must be exercised in pursuance of Government Regulation No.90/2010 concerning Ministry/Agency’s Work Plan and Budgeting. This Regulation requires budget allocation to be set out by giving attention to the link of revenues and expenses and to the desired outputs. Regarding to the 2017 National Budget, expenses realization of two years before the planned budget year has been analyzed, and the results are interpreted. The finding shows that the realization of operational expenses for employee and goods at Ministry/Agency has been partially, positively, and significantly affecting Indicative Standards. In other words, the realization of expenses in two years ago allows Government to forecast Ministry/Agency’s operational expenses and Indicative Standards in the future.

Budget General Directorate has used the proper variables in forecasting Ministry/Agency’s operational expenses and by then, the appropriate Indicative Standards are easily determined. These variables are related with budget allocation for employee and goods expenses of a year before the planned budget year. The resulted model is statistically better than the model of two years before the planned budget year. It is proved by coefficient of determination of both models. Based on this comparison, therefore, it should be better if Ministry/Agency forecasts the standards of operational expenses by using budget allocation model. Some suggestions are proposed. Budget allocation variables in National Budget of a year before the planned budget year, respectively budget allocation for employee and goods expenses, can be arranged into a forecast model of Ministry/Agency’s operational expenses to calculate Indicative Standards. Statistically, variables in budget allocation model are better than variables in expenses realization model in explaining Indicative

Standards. In the future, Government, especially Ministry of Finance, should develop a system to monitor the attainability of outputs of programs and activities funded by National Budget at each Ministry and Agency in order to obtain the better exercise of performance-based budget. The design of this system is aimed to reduce inclination toward incremental budget forecasts. Incremental budgeting is the activity to set out the budget based on adjustments of budget allocation of the previous periods.

Performance or *work appearance* is a term usually identified with other term, which is, *job performance*. *Job performance theory* is a psychological theory about job behavior of individuals who then produce something that later becomes the goal of their job. According to Prawirosentono (1992:2), performance is a result of work achieved by someone or group of individuals in organization who have used their discretions or responsibilities to achieve organizational goals in legal way, without violating laws, and in obedient with moral and ethical values.

Two factors are causing the weakening of legislative roles. There are internal and external factors. Imawan (1993:79) classified factors hampering legislative members from implementing its function into internal and external. The internal factors are explained as follows:

Order of Conducts: The objective of a rule is to make duties implemented orderly and efficiently. If the rule is too detail, it might hamper its implementation. Too much details in order of conducts can tangle legislative members into stagnancy.

Data and Information: The most prominent thing to be considered is that legislative members cannot rush executive to provide data and information. It is understandable because executive must deal with governance issues every day. Legislative members are always difficult in deciding measures or policies for the sake of organization collectives. The degree of legislative's difficulty is higher than executive regarding to the fact that legislative must cope with a lot of interests and should set a bargaining among the members.

Quality of Legislative Member: Formally, technical quality of legislative members is actually increasing, but it does not have significant implication on their performance increase. It might be related with their commitment and mentality to represent people. In general, it is said that they are appointed by political party, which therefore, most legislative members do not have strong root in the peoples. That is why many legislative members think as bureaucrats who must be served by people, not serving people.

Meanwhile, the external factors are described as follows:

Election System Mechanism: So far, the election system is actually successful in obtaining the desired representatives. But the use of balancing representative system with list stelsel has produced instant figures. The application of vote getter has opened the possibility for some figures whom people never know to be appointed as people representatives.

The Compatibility of Executive and Legislative: Within Indonesian governance system, legislative is the partner of executive. In this context, partner is related with *cooptation*, where one (executive) has stronger standing than the other

(legislative), and this arrangement surely affects the implementation of tasks and functions of each institution/agency. Thaib (2000:65) said that at least, there are internal and external factors influencing performance of legislative members when they do their tasks and functions. These factors are elaborated as follows:

a. Internal Factor

- 1) Order of Conducts. Internal work mechanism of legislative is organized by Order of Conduct.
- 2) Quality of Membership. It is important factor that must be considered if legislative institution has to be optimized. Tasks and functions might be hardly completed if legislative members do not have capability for it.
- 3) Structure and Budget. The limited funds might put legislative members into difficulty in completing their tasks and functions.
- 4) Other constraining factors. These factors include traditional legacies and the dark history of legislative institution, especially when the reversion to National Constitution has made People's Representative Council in the weaker position than Government.

b. External Factor

- 1) Election System. As we know, in the political system of Indonesia, legislative candidates are brought by their political organization.
- 2) Historical Background and Political Climate. Indonesian political system is identified by stronger democratic standing of executive over legislative.
- 3) Less sophistication on Constitutional Mandates. National Constitution has explained, "... the most important thing in governance and nationalism is enthusiasm, precisely enthusiasm of national administrators, enthusiasm of governance leaders ...". In reality, executive is not entirely intended to create better work relationship with legislative, and legislative voices are not completely heard.

The performance of People's Representative Council in Indonesian political system is a reflection of national life and democracy. Therefore, factors influencing institutional performance, including Fractions, must be deeply reviewed. People's Council and Fractions within it have a lot of tasks and functions to do. Also, People's Council must fulfill personal and organizational qualities in order to have a good work required by Law and Public Expectancy. In every political system, there is policy making mechanism. If the political system respects "people interest", then this interest exists without force. The existence of interest is natural because interest is a part of life process among humans. Interest is also aspiration of any individuals who consciously intend on something, and this intention is affected by social, economical and cultural backgrounds. In reality, there are many interests involved and the number is enormous. As said by Trumann (1995), political group is "interest fosterer group" founded by individuals who make claim on certain things by showing their actions against government institutions. According to Moyes (1992) in Budiarjo (2009), *interest group* is a number of individuals who have similarity on characteristics, attitudes, trusts, and goals, and agree one another to protect and achieve goals.

Wildavsky and Caiden (2004) asserted that budget is a financial reflection on what has been done or what is intended to do by the government. Theory about criteria of what items should constitute the budget is basically theory of what the government must do and can do. Also said by Wildavsky and Caiden, the phrase “what the government must do” can be replaced by “what must exist in the budget”. It is consistent with normative budgeting theory, and if it is consistently comprehensive, it may become a political theory that gives the details of government activities in a period of time. Government activities always emanate from political struggles for political goals. Indeed, Indonesian National Budget is the description of government’s political activities that planned to be done in a period of time, which is usually years.

Politic has many concepts and definitions, and therefore, it results in various understandings and formulations. Taking this into account, Pye (1981) took examination on political development principles developed by other political scientists. Pye sorted out ten definitions of political development summarized from the principles: (1) political development is political precondition for economic development; (2) political development is the marker of political life; (3) political development is political modernization; (4) political development is national operation; (5) political development is the development of administration and law; (6) political development is the mobilization and participation of mass; (7) political development is the fostering of democracy; (8) political development is about the stability and orderly change; (9) political development is the mobilization of power; and (10) political development is a multi-dimensional social change. Moreover, Pye suggested three characteristics of these definitions, respectively, equality, capability, and differentiation and specialization. These characteristics are the most important things to understand political development concept. Equality is about equal standing in mass participation and law enforcement. Capability is about how far political system affects social and economical systems. Differentiation and specialization are talking about structure and function of political system. Agreeing with Pye, Huntington (1983) generated three criteria that one should use in comprehending politic. These criteria are: (1) power rationalization, (2) differentiation of structure and specialization of function; and (3) the increase of people participation. Furthermore, Huntington insisted that political development should convert political organizations from rigid to flexible, from involute to simple, from restrained to freedom, and from scattered to unified. Interest groups achieve their political goals through various methods and structures. This achievement is a kind of manifestation of action to them. Each method and structure might have different consequence and impact, and the type of interest group who use it also determines the difference. Lindblom (1980) in Agustino (2008:41), through the work titled “*The Policy Making Process*”, has described political process from inputs to outputs, and the process is formulated into four questions as follows:

- (1) How problems come to and go from government decision makers’ agenda?
- (2) How people formulate these problems to make an action?
- (3) What is attitude that leaders must take when they use wisdom?
- (4) How can wisdom be evaluated?

In general, public budget is a plan to describe the thought about revenues and expences (either in local or national budgets). Halim (2001) said that budgeting is a process to create financial plan consisting of revenues and expenses, and then to allocate the funds to each activity that one to another has different function and target. There are many activities to be funded and, usually all of them are arranged to be the elements of a program based on task and responsibility of certain work unit. According to Wildavsky and Caiden (2004), political organizations that have representatives in legislative institution often use their political influence to manipulate budget distribution, or even to cut or to increase budget plan. Such political activity or struggle, as noted by Wildavsky and Caiden, is giving fortunes to some but harming the others. Wildavsky and Caiden also explained that political actors always do the negotiations to make the budget that they desire successfully going through the process. Respecting to this matter, Wildavsky and Caiden (2004) has mentioned that every decision made by leaders during budget making process is always assisted by the staffs brought by leaders’ superiors or political organizations. Possibly, it is a way to keep leaders submissive to the policies of the endorsers. It is not surprising if budgeting is crowded with conflicts of interests. Main question is whose preference is first to be served. Budgeting participants cannot say that they have good budget if they do not know who is enjoying the profits and who is suffering from the loss. If the resulted budget is showing mutual agreement, then there is hidden agenda in budgeting policies. The secrets are often inserted into measuring units, time intervals, and counting methods. All of these have implication on politic (Wildavsky dan Caiden, 2004).

Politic entanglements in budgeting are becoming evident when it involves some or all citizens in policy making concerning the budget. It enhances political debate about the budget in the parliament. The debate is not only between executive and legislative, but also among the people in a political discourse as preparation to make decisions concerning public policy (Habermas, 2007). The discourses about political roles in public budget planning have been a long debate. Planning experts or planners see budget planning as a rational process where goals, alternatives, and criteria are identified. This rationalist model emphasizes on analyzing goals, instruments, and consequences, where planners have strong roles in the process. This model deems the role of power and politic as annoyances (Lindbolm, 1965). However, this position gets critics from structuralist advocates. They say that economic is closely related to the politic. Different resources owned by political actors can give them different level of political power. Indeed, political and economic factors are very influencing in planning of budget, development agenda, and development strategies. In political realms of Indonesia, there are two angles opposite one to another. One has a large formation with strict network or hierarchy from central to local governments. The nation has a large bureaucratic structure, and its personnel control and serve various sectors, including at social sector where the nation serves a religion group and the poors. Other angle is that the nation is still traditional and keeping in touch with locals. It is often seen that certain political groups contain families and clans, and their political goal always culminates at establishing *patrimonial politic or state*. There is an opinion stating that Indonesian politic is still strongly rooted to patrimonial characteristic. In this situation, politic might then be dominated by powerful family or clan that later will perform its own traditional ethnicities. The result of

patrimonial characteristic is that the locality is led only by the powerful group that might dominate public ranks and financial distribution. In decentralization era, patrimonial characteristic grows stronger. This era is marked by revival of identity politics (based on certain groups or ethnics). Kinship politic starts to emerge in local bureaucracy, and strong people are arising with huge political and economical resources to control the local, and then establishing their domination there. These people are the ruler of political and economical issues, and any times, they can be the shadow government that determines the fate of the true government. Indeed, they intentionally create social gap in relationship with others and keep distance with other individuals in other places. Shadow government is built without public communication and pro people policy, but it is woven by personal approaches and generousities to keep people submissive and consent. Based on these statements, politic is possibly understood as an effort to create the best quality of political life.

It can only be achieved (also marked) by the capability of political system to provide the desired political life, the differentiation of structure and specialization of function, and the increase of people participation in political process. Political development in life environment field is actualized by restructuring government policies due to a consideration that there is a relationship between development and environment (a dichotomy between development and environment). A review should be conducted on policies concerning relationship between government, people and industry, with a motivation to create sustainable development. Political development in the organization of People's Representative Council is also vital by reason that People's Council is an institution that can bring people aspirations into politic and makes policies for the betterment of various life aspects. Political aspects in the budget should be signified as political process to materialize people's rights. Budgeting is about how to find proper formulation to create justice. Therefore, budget politics are always closely related with efforts of the nation and government to provide proper social security to the people, especially to those living under poverty line. A transparent, accountable, and democratic relationship between government and people should eliminate suspicious senses among the two. It must be noted that the nation, government, and legislative must ensure that political process is good and giving fortunes to the people, not the officers. Budget must be seen from political perspective where budget is a political investment made by citizens on the nation.

This investment is a warranty that the nation will use the budget for people interest and consider it as the best priority than spending the budget for government officers and offices. Once again, as determined by Wildavsky and Caiden (2004), budget can be created through many methods but the methods cannot be separated from political dimensions. Conflicts around the budget might be enhancing and deepening at some levels, but it must be solved within institutional context involving President and Parliament. One theme describing this situation is the shadow of *appropriation* and its implication to the dispute of budget control. It must be noted that budget is a prediction. Budget contains words and figures of expenses to be used toward goals and targets. The words explain the types of expenses (salary, equipment, and travel cost) or the goals of expenses (preventing war, improving mental health, and providing houses for low income people). Meanwhile, the figures describe each item. There is a direct relationship

between what is written in the budget and the estimated events in the future. If the needed funds are about to be given, it goes along with instructions. If the actions result in the expected consequences, then the goals stated in the documents are achieved already. Therefore, it can be said that budget is a relationship between financial resources and human behavior to achieve policy targets. By observing this relationship, one can determine how much predictions that must be postulated to make the budget on the right tracks. Budget dimension context in the politic is explaining who plays what role, who gets what, and how much is the capability of the nation to secure the people. However, politic is only understood and performed at short-term context that benefits only some related parties. Program establishment rules remain only at the interest level of each actor. Meanwhile, people do not any understandings at all about the process, and if they do have participation into the process, they do not have position to make decisions. The worse is that they do not know how much percentages of budget do the government deliver for their welfare and prosperity. Budgeting is political process, and the product is of course always political. Therefore, by understanding how budget is made and what priorities are in the budget, then one should be able to comprehend political practice done by Government and People's Representative Council, and also to ensure whether they have *political will* to set out public budgeting based on public interest. In concern with all explanations given so far, the current research has produced an optimum proposition. It is elaborated into two elements. One is that political process in budget policy making is beginning with planning, continuing with discussion, and ending at the realization of people sovereignty. The second is that People's Representative Council, either unilaterally or together with Fractions, therefore should improve the competency and commitment to deliver pro people budget through the existing political process.

Conclusion

Political process in budget policy making is the early part of budget cycle, precisely when budget plan is made. The political process begins with preliminary discussion about government's work plan of National Budget Plan. This Plan contains five principal aspects, which include: a) the determination of microeconomic indicators; (b) the revision of macroeconomic base assumptions for the 2017 National Budget; (c) the revision of fiscal policy in the 2017 Revised National Budget Plan; (d) the revision of fiscal policy principals in the 2017 Revised National Budget Plan; and (e) the impact of the revision of macroeconomic base assumptions on the posture of National Budget Plan and Revised National Budget Plan. The discussion of these five aspects is involving stakeholders, and each of them has different interest and might use their influence to put their interest into budget policy. It becomes a habit because public budget is always government's priority in implementing its governing activities, and therefore, stakeholders always attempt to ensure that their position is truly represented in this priority. Indeed, stakeholders in budgeting are influencing budget items and giving direction on what the government must do at the short term, especially in one budget year. The existence of the stakeholders, usually interest groups, is causing budgeting into a political process that involves the positions of stakeholders (such as government, political party, and advocate of certain interest). Each stakeholder expects their interest to be accommodated into the budget plan.

Suggestion

Financial Expert Team comprising of professionals of finance and tax should be established and sent to help Budget Agency in People's Representative Council. This Team might facilitate discussion of National Budget Plan in the internal environment of Budget Commission, at least by making the discussion faster and effective. The Team is given several tasks, such as providing inputs to the members of Budget Agency in People's Representative Council; giving assist to the drafting of program and budget ceiling limit; and advocating the members of People's Representative Council when they discuss National Budget Plan with Government.

REFERENCES

- , 1979. "Political Implications of Budgetary Reform". In *Public Administration Review*.
- , 2003. "Controlling Public Expenditure: The Theory of Expenditure Limitation". In *OECD Journal on Budgeting*, Vol.2, No.4.
- Alt, James E.; and Lassen, David Dreyer, 2005. "The Political Budget Cycle is Where Yoy Can't See It: Transparency and Fiscal Manipulation". Copenhagen: Economic Policy Research Unit, Institute of Economics University of Copenhagen.
- Coulson, Kylie, 2003. "Budgeting within Australian State Government". In *VISION 2020: The 2003 IPAA National Conference*.
- Edwards, R. 2010. Forecasting Government Revenue and Expenditure in the US Using Data on Age-specific Utilization. Working Paper no. WP10-01, National Transfer Accounts Project. <http://ntaccounts.org/doc/repository/E2010.pdf>.
- Hoshmand, A. Reza. 2010. *Business Forecasting a Practical Approach*. Edisi ke-2. New York: Routledge.
- Imawan, Riswandha. 1993. Faktor-faktor yang Menghambat Usaha Optimalisasi Peran DPR RI Dalam Fungsi Legislatif Dalam Politik Indonesia, Rajawali Pers, Jakarta.
- Meloeng, L.J., 1998. *Metodologi Penelitian Kualitatif*. Jakarta: Depdikbud RI.
- Miles, Matthew B.; dan Huberman, A. Michael; dan Saldana, Johnny; 2014. *Qualitative Data Analysis: A Methods Sourcebook*. Singapore: SAGE Publications Inc.
- Musgrave, Richard A. 1959. *The Theory of Public Finance*. New York: McGraw-Hill.
- Nazir, M., 1985. *Metode Penelitian*. Jakarta: Ghalia Indonesia.
- Neumann, Sigmund, 1963. *Behavior Political*.
- Nugroho, Riant, 2014. *Public Policy: Teori, Manajemen, Dinamika, Analisis, Konvergensi, dan Kimia Kebijakan*. Jakarta: PT. Elex Media Komputindo.
- Nurudin. 2007. *Pengantar Komunikasi Massa*. Jakarta : PT. Rajagrafindo Persada.
- Prawirosentono, Suryadi. 2008. *Kebijakan KInerja Karyawan*, Yogyakarta: BPFE
- Thaib, Dahlan, 2000, *DPR Dalam Sistem Ketatanegaraan Indonesia*, Liberty, Yogyakarta.
- Truman, David B, 1960, *The Governmental Process, Political Interest and Public Opinion*, Alfred A Knof, New York , pp 333, dalam Andriani, 2002, Pengaruh Pengetahuan dan RPPs terhadap peranan DPRD dalam Pengawasan Anggaran (Studi Kasus pada DPRD se-Propinsi Bengkulu, Tesis Program Pasca Sarjana UGM, Yogyakarta).
- Wildavsky. Aaron dan Caiden, Naomi. 2004. *The New Politics of the Budgetary Process*. 5th ed. United States : Pearson Education (Inc.).
- Wildavsky, Aaron. 1975. *Budgeting: A Comparative Theory of Budgetary Process*. Boston: Little, Brown and Company.
