

The Editorial Teams :

Abra Talattov (Head of Center FESD)
abra.talattov@indef.or.id

Rusli Abdullah (Researcher)
rusli.abdulah@indef.or.id

Mirah Midadan (Researcher)
mirahmidadan@indef.or.id

Raden Mas Try Ananto Djoko Wicaksono
(Assistant Researcher INDEF)
tryananto.wicaksono@gmail.com

Summary

- The Government of Indonesia (GoI) should anticipate indications of a rebound in energy commodity prices since the beginning of 2021 because it has the potential to trigger a spike in energy subsidies in the 2021 State Budget.
- FAO noted an increase in world food commodity index prices.
- The rainy season is one of the causes of the increase in horticultural commodity prices, in this case, Chile.
- The social protection program implemented during the pandemic (2020) have not been able to tackle the increasing rate of poverty. However, the level of inequality between urban and rural areas has not changed significantly.

The Alert for Price Spikes**Energy**

Over a year the COVID-19 pandemic has impact on social and economic mobility. The fall in energy commodity prices in the first half of 2020 is a sign of declining world energy demand due to massive social restrictions around the world. In fact, the world crude oil price had plunged freely into

negative in April 2020 as a sign that the world's energy supply could not be absorbed by industries in other parts of the world.

However, the world crude oil price, which throughout 2020 on average perched at the level of USD 40 per barrel, is now starting to reverse its direction to penetrate the level of USD 60 per barrel in early 2021. Likewise with fluctuations in the price of liquefied natural gas (LNG, Japan) which began to reverse direction from an average of USD 6.7 - 6.9 / MMBtu during Semester II - 2020, now crept up to the level of USD 7.75 / MMBtu as of January 2021. The increase in the price of energy commodities is a result of positive sentiment on world economic recovery accompanied by optimism for successful vaccinations around the world. On the one hand, the rebound in world crude oil prices is a blessing for oil producers, but on the other hand, it also creates a new test for net oil-importing countries such as Indonesia.

Amidst the depressing state budget for Indonesia due to economic contraction, this explosion in world crude oil prices needs to be anticipated because it has the potential to increase the energy subsidy budget. The realization of fuel subsidies in 2020 amounted to Rp. 14.9 trillion, smaller than the ceiling of Rp. 17.7 trillion aided by the drop in world crude oil prices. Meanwhile, the realization of the 3 Kg LPG subsidy in 2020 actually reached IDR 40.25 trillion or exceeded the IDR 23.5 trillion ceilings.

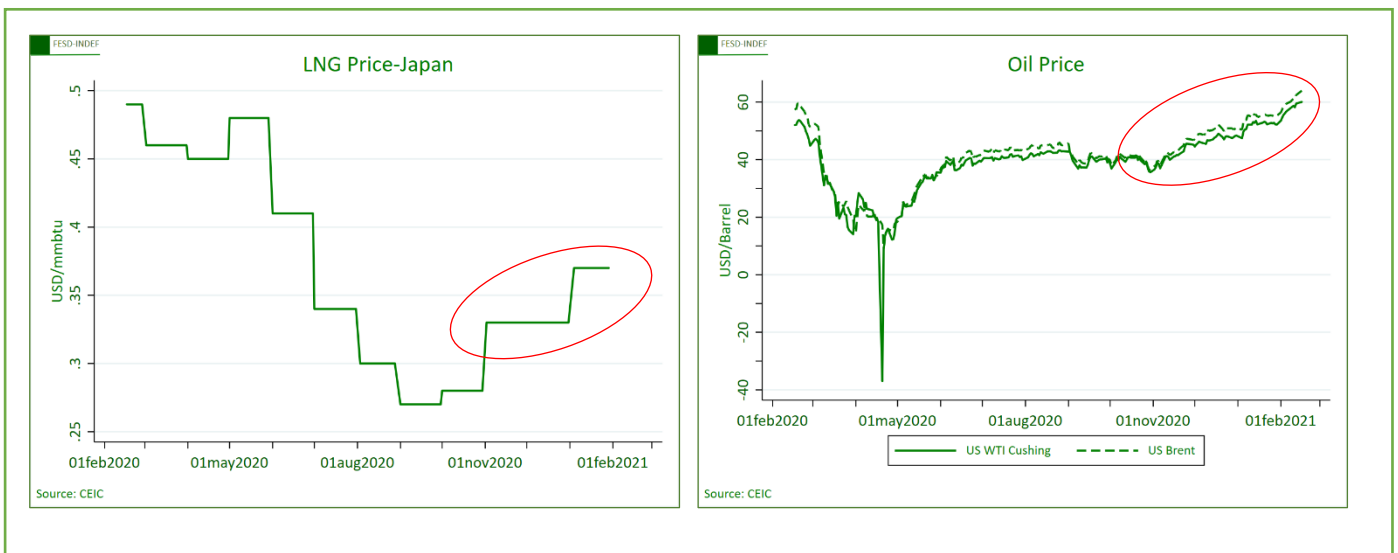
This means that if the increase in world crude oil prices continues to creep up above the ICP assumption in the 2021 APBN, which is pegged at USD 45 / barrel, then fuel subsidies have the potential to penetrate the Rp16.6 trillion ceiling. Likewise, if the LNG price continues to increase, the LPG subsidy budget also has the potential to exceed the Rp.40.3 trillion ceiling. This is because 70% of domestic LPG needs must be met from imports.

Under these conditions, the Government ultimately had to face two options, first, increasing the price of BBM and LPG which of course were very unpopular in the midst of people's economic

difficulties, or the second option, maintaining the selling price of BBM and LPG but with the consequence of the breakdown of the energy subsidy budget. In responding to the potential for an increase in energy subsidies, the government

needs to immediately prepare a transition step to change the energy subsidy scheme openly to closed and right on target.

The Development of World Liquefied Natural Gas and Crude Prices from January 2020 - February 2021



Food

On February 4, 2021, FAO noted, the world food price index in January 2021 reached 113.3, up 4.7 points from the previous month. In fact, the index figure is the highest every month since 2014. 5 commodities have become FAO's highlights, namely cereals, vegetable oil, milk, meat, sugar, and dairy products. These five commodities are all subject to price spikes.

a. Cereals

The increase in the cereal price index reflects several things, namely:

- (i) Global supply depressed due to lower than previously forecasted production and share prices in the United States,
- (ii) On the side there were large purchases by China,
- (iii) Drought concerns in South America,

- (iv) Temporary suspension of registration of maize exports in Argentina.

Furthermore, the increase in world wheat prices is caused by:

- (i) Due to the increasing demand,
- (ii) The projection of declining sales in Russia on March 2021.

Meanwhile, the increase in rice prices was due to: (i) increased demand from Asia and Africa, and (ii) a shortage of rice supplies in Thailand and Viet Nam, pushing up export prices for January fallow.

b. Vegetable Oil

The increase in world vegetable oil prices was due to:

- (i) Lower than expected palm oil production in Indonesia and Malaysia due to excessive rainfall,
- (ii) In the case of Malaysia, there is a continuing shortage of migrant workers in Malaysian oil palm plantations,
- (iii) Meanwhile, the price of international soy oil increased for the eighth consecutive month, driven by reduced export availability and a prolonged strike in Argentina,
- (iv) As for sunflower oil, the price increase was due to a sharp decrease in global supply during the 2020/21 sunflower harvest.

- (i) Concerns of lower global availability in 2020/21,
- (ii) Weather conditions expected to be drier in 2021 than in 2020 in South America,
- (iii) The increase in crude oil prices and the strengthening of the Brazilian Real against the US Dollar. Strengths that are likely to affect shipments (cost-fare) from Brazil, the world's largest sugar exporter, and
- (iv) The demand for global sugar imports continues to increase.

How it will impact to Indonesia?

Not all of the increase in the food price index in early 2021 has an impact on the increase in Indonesian commodities. Several increases in Indonesia's domestic food commodity prices were caused by other factors.

a. **Soy.** The increase in the price of imported soybeans at the beginning of 2021 caused the scarcity of tempe was more due to disrupted supply from the United States. The disruption arose due to the 2-fold increase in demand for soybeans from China, which affected the delivery of goods to Indonesia.

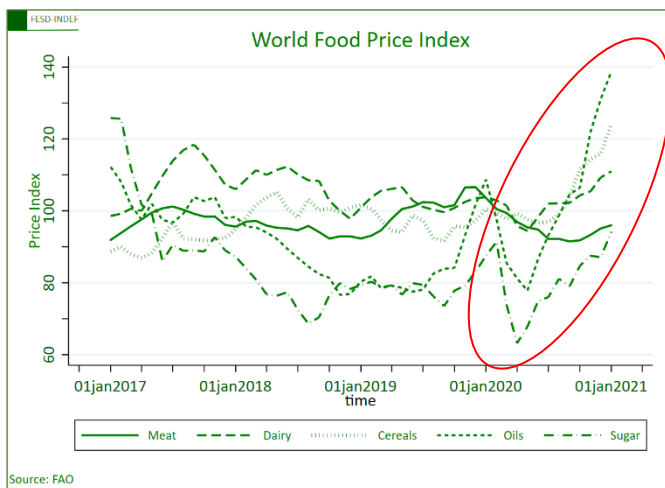
b. **Beef.** The increase of beef price in Indonesia is not due to the global price index, but because it is influenced by the restocking policy in Australia. This is because the majority of Indonesian beef imports from Australia.

Nonetheless, Indonesia still has to be vigilant about rising food prices, especially domestic commodities. The beginning of the year, coupled with the rainy season, is the cause of the increase in the price of horticultural foods, especially bird's eye chilies and red chilies. Besides, the price disparity between traditional and modern markets is an issue that needs to be resolved to achieve even food prices.

c. Beef

The price of beef and pork has not increased significantly compared to other commodities: Demand from China is increasing ahead of the Lunar New Year celebrations, quoted prices for beef and pork have increased only slightly, as global supplies remain adequate to meet demand. Ovine meat prices: strengthening for the fourth consecutive month, driven by dwindling supplies from Oceania and increased demand from China.

The Development of the World Food Price Index



d. Sugar

The increase in world commodity prices was driven by:

Poverty, Inequality, and Social Welfare

It is undeniable that the Covid-19 pandemic has put intense enough pressure on Indonesia's social welfare issue. The number of people losing their jobs increases the unemployment rate, which, of course affects each household's ability to meet their basic needs every month. Coupled with the increase in the prices of several food commodities that were depended on imports during the pandemic, of course, it is increasingly worsening the situation.

The number of poor people in the period of September 2020 increased by 2.76 million people (yoy), which in percentage shows that the poverty level became 10.19% during the period. The increase in poverty was more prevalent in urban areas than in rural areas, with an inequality level of 0.385. In other words, the pandemic situation in Indonesia did not have a significant effect on increasing the value of Gini ratio between urban and rural areas.

Compared to the data before the Covid-19 outbreak, the government has consistently reduced the poverty rate from 2018 to 2019 (to 9.22%). Likewise, with the inequality rate between urban and rural areas. This was allegedly the impact of the Village Fund, which reduced the poverty rate in rural areas.

During the Covid-19 pandemic, part of the Village Fund was prioritized to become Direct Cash Assistance (DCA) as a form of social protection. On the other hand, other social protection program interventions such as *Program Keluarga Harapan*, *Bantuan Pangan Nontunai*, *Sembako*, *Bantuan Sosial Tunai*, *Kartu Prakerja*, *Bantuan Presiden Produktif*, *Subsidi Gaji*, also discount on Electricity Rates certainly ease the burden on society in the midst of a pandemic Covid-19. However, the accuracy of the assistance program recipients remains an important note for the government in line with a large amount of overlap information between ministries/ institutions regarding data on households receiving social protection programs.

Reference

Badan Pusat Statistik, www.bps.go.id

FAO Food Price Indeks, [FAO Food Price Index | World Food Situation | Food and Agriculture Organization of the United Nations](#)

PIHPS (Pusat Informasi Harga Pangan Strategis), www.hargapangan.id

Datagraphic

Datagraphic is an update on the development of selected commodity prices. Datagraphics are not limited to one or two specific indicators.

