Fiscal policy in Indonesia: Analysis of state budget 2017 in Islamic economic perspective

Jaelani, Aan

Faculty of Sharia and Islamic Economic, State Islamic Institute of Syekh Nurjati Cirebon

1 December 2016

Fiscal Policy in Indonesia: Analysis of State Budget 2017 in Islamic Economic Perspective

Aan Jaelani
Lecturer in Islamic Economic, Faculty of Sharia and Islamic Economic,
IAIN Syekh Nurjati Cirebon
Email:
iainanjal@gmail.com
Homepage:
https://authors.repec.org/pro/pja475/
https://ssrn.com/author=2555293

Abstract
This study of fiscal policy in State Budget (APBN) 2017 that the task of the Indonesian government to run them to create prosperity for the community. The state budget is prepared using the rules of public economics consisting of state revenues, state expenditures, and budget financing has the posture of the budget, the issues of fiscal policy, and the role of the government in carrying out its functions. With the analysis of Islamic economics, fiscal policy in the State Budget 2017 is the duty of the government to implement the budget for the public welfare with indicators on aspects of religion (religious life), life (justice and security), intellect (education), descent (health and social security family), and treasure (income distribution and access to employment).

Keywords: *fiscal policy, state budget, welfare, maqashid shariah, Islamic economics*
JEL classification: E62, F52, G18, H61, O23, P43

A. Background

Fiscal revenue is the most important source of financing public expenditure in any economy through public budget. The level of fiscal revenue is determined by the fiscal policy implemented by the government, but also the economic evolution (Eugenia Ramona Mara, et al., 2009).

After the Second World War, the fiscal policy has been seen as a macroeconomic tool center. Stagflation problem in 1970 is slowly changing the focus of monetary policy, and that there be a number of reasons why fiscal policy can not be effective. the effect on aggregate demand is questionable based on Ricardian equivalence; high debt levels make it difficult to expand government intervention; as fiscal policy decisions are made by politicians, it could also be a design and implementing tools and lobby groups can distort decision (Blanchard et al, 2010).

Spilimbergo, et al. (2008) assessed that in 2008 the sharp decline in aggregate demand, and the two macroeconomic policies used during the previous two decades which proved insufficient to stabilize the economy. As a result of the crisis that engulfed the entire world, the export recovery strategy defined and monetary expansion is not an option because the liquidity trap mentioned earlier, also had limited effect.

Therefore, European governments turn to Keynesian theory, that they implement the fiscal stimulus plan that is intended to prop up aggregate demand. Two basic elements of the stimulus plan in the form of increases in government spending and a reduction in government revenue. The method used is not appropriate, the increase in the budget deficit can not be avoided, and a larger deficit also led to a higher public debt.

Countries that face a high level of public debt has limitations to using fiscal stimulus. High public debt led to higher interest payments, so much money that could be used to stimulate demand to be paid to creditors. As a result, the efficiency of fiscal policy is also limited. Just as bound on a nominal interest rate of zero which leads to a liquidity trap and the failure of monetary policy, which leads to high debt fiscal space is very narrow and the failure of fiscal policy (Bartha and Gubik, 2012). This is what happens in fiscal policy in the draft of State Budget (RAPBN/Rencana Anggaran dan Pendapatan Belanja Negara) 2017 in Indonesia.

In Book II Financial Notes Along RAPBN 2017, 2017 was a year of fiscal consolidation, both on the revenue side of the state, government expenditure, as well as the financing of the budget. In the field of state revenues, improvements were made calculations of tax revenues in line with tax revenue calculation basis is more rational in 2016. In the area of state spending, efficiency and sharpening performed on operating spending, but remain focused on infrastructure development, poverty reduction and social inequality, as well as the creation of employment. Meanwhile, in the field of financing of the budget, made savings in investment funds with a focus on state-owned enterprises and infrastructure independence by finding cheap financing sources. Thus, the State Budget 2017 is designed more realistic, credible and efficient.

The policy of fiscal consolidation is done by considering the global and domestic economic challenges in 2017. The global economic challenges include the following: (1) The global economy is still colored by uncertainty, and (2) are still relatively lower commodity prices. Correspondingly, domestic factors are influenced by (1) the growth of the national economy that is not optimal as a consequence of the manufacturing industry is still weak; and (2) global economic slowdown and falling commodity prices have a significant impact on the achievement of state revenues. However, the domestic macroeconomic conditions in 2017 are expected to be improved by the impact of gone through various economic policies in the years 2015 to 2016 (Ministry of Finance RI, The Financial Memorandum Along RAPBN 2017).

Strategic policy in the 2017 State Budget is emphasizing infrastructure development and efficiency. President Jokowi asserted that “the Government increases productive spending for infrastructure development and connectivity between regions." Therefore, the local government has a function and an increasingly important role. With the transfer of funds, local governments can be more effective in using the budget for the construction (Republika, August 18, 2016).

Nevertheless, State Budget 2017 in view of the Minister of Finance Sri Mulyani is in a position less healthy. In 2016, Sri Mulyani estimates reduced tax revenue of Rp 219 trillion. This triggers the ministry budget cuts and transfers to the regions of Rp 133.8 trillion. Meanwhile, in State Budget 2017, the transfer of funds to the regions is also changing. In the 2016 revised budget, transfers to the regions Rp 729,270.8, whereas the allocation in the State Budget 2017 is only Rp 700,026.7 trillion.

The State Budget of the Government Republic of Indonesia less healthy due to the primary deficit in the State Budget 2017 which reached Rp 111.4 trillion. Sri Mulyani stressed that the primary balance of the state budget deficit was actually unwell, so the government must be careful. Negative primary balance shows that the government shows so far have been borrowing funds only for the payment of the debt. Thus, governments are borrowing not to invest, but to pay past debts.

Allocation of debt interest payments in State Budget 2017 has soared compared to the revised budget 2016. Originally this fund is only Rp 191,218.3 trillion, but the State Budget 2017 increased to 221,405.1 trillion. In other words, Indonesia is not only the absolute deficit of Rp 332.8 trillion but also face a primary deficit problem. Therefore, the government must ensure that this primary balance could be zero or even positive. If this policy is not achieved, the future ability of the government budget only as predators that make expansion expenditure can not be funded by government revenues. The Indonesian government is only paying the loan, so that the budget position must be corrected (Republika, August 18, 2016).

In view Boediono (2016), the ideal of public finance which is based on the principles of good governance and in line with good financial governance. With the alignment, then the budget could be a milestone to build a fair and prosperous country in accordance with the ideals of the country. Sustainable development of Indonesia depends on the correct management of the state budget and transparent. In 1950-1960's became bleak portrait for the management of the state budget out of control at that time.

This article will explain the fiscal policy in the State Budget 2017 in the global and domestic challenges facing Indonesia. The posture of a budget, the issues of fiscal policy, and the role of government in carrying out the functions through the State Budget in 2017 to achieve the prosperity of the community became an important part to be analyzed through fiscal policy from the perspective of Islamic economics.

B. Literature Reviews

The study of fiscal policy focused on the management of government revenues and expenditures aimed at the welfare of the people. Fiscal policy is also related to the concept of public welfare and economic development. Some studies literature on fiscal policy among other works of Bent Hansen (2008), *The Economic Theory of Fiscal Policy (Public Economics)*. This book explores whether fiscal policies can secure full employment without inflation, one of the key questions in economics after Keynes. This book discusses three important performance of fiscal policy, the general theory of public finance and fiscal policy, microeconomics, and macroeconomics.

Alvin H. Hansen (1949) in *Monetary Theory and Fiscal Policy* describes the theoretical field of monetary and fiscal policies that have serious gaps in the economic literature. The book also provides a comprehensive descriptive analysis of money and banking institutions but with very limited attention to the theory of money and prices.

Alan J. Auerbach (2003) in *Fiscal Policy, Past and Present* illustrates the state of fiscal policy in more detail and then consider the determinants of fiscal policy and action. Although this article provides enough information about how the fiscal policy has reacted to the economy in recent decades, the difficult question is how fiscal policy, in turn, has affected the economy. Indeed, given the extent to which the current situation is different from in the past, there is a reason to be cautious about the latest evidence on the economic effects of fiscal policy, at least as a guide for fiscal policy decisions in the future.

Alan J. Auerbach & Laurence J. Kotlicoff (1987) in *Dynamic Fiscal Policy* describes the effects of fiscal policy on the economy. Fiscal policy refers to the government's actions in collecting and issuing private resources. This book deals with the dynamic aspects of fiscal policy, including the impact of fiscal policy on capital formation, economic growth, and intergenerational equity; the effect of long-term expectations on short-term results; and restrictions imposed by the current policies for a viable future policy.

Michael Howard (2001) in *Public Sector Economics for Developing Countries* explained that economic studies in the public sector advanced industrial economies are equipped with the fiscal problems of developing countries. The fiscal analysis for developing countries can be found in the publications of the World Bank and the International Monetary Fund, literature surveys, monographs and other books. The core of this book is nothing but provide guidance on aspects of the literature on fiscal issues in developing countries.

Hidayat Amir & Fitra Faisal Hastiadi, eds. (2016) in *Dynamics of Fiscal Policy Respond to Global Uncertainty (Dinamika Kebijakan Fiskal Merespon Ketidakpastian Global)* describes a series of policies to respond to global uncertainty due to the financial crisis that hit the world. Hopes to become a developed country and apart from the shackles of state middle class, to be leveraged by the harmonization of fiscal policy and monetary precise and accurate, keeping the performance of the capital and finance in times of crisis, support the electricity, gas and water (LGA), development potential creative economy as a source of new growth, tax reforms with the adoption of growth theory, stimulus tax cuts (personal exemption) to maintain purchasing power, tightening subsidies are wasteful and not on target either subsidized electricity and fertilizer subsidies, and financing schemes climate change to maintain the continuity of nature.

Ma'mun Syadullah & Afdi Muhammad Nizar (2013) in *Fiscal Policy: Theory & Practice in Indonesia (Kebijakan Fiskal: Teori & Praktek di Indonesia)* explained the mainstream view of the main function and role of fiscal policy. The book also discusses the mechanism of the state budget as a tool of fiscal policy and empirical experience support in Indonesia, the practical load of commentaries about the quantities of goods in the budget with the support of relevant empirical ¬fiscal policy in Indonesia.

Abimanyu (2011) in *Reflections and the Idea of Fiscal Policy (Refleksi dan Gagasan Kebijakan Fiskal)* provides a reflection of fiscal policy in Indonesia ranging from reform of the bureaucracy and the political economy, the problem of fiscal risk, support the tax on the real sector, the budget and fight against corruption, the financial sector and its privatization and debt, as well as economic and global economic integration. This book provides important notes for improvements and changes in fiscal policy in Indonesia.

Ziauddin Ahmed, Munawar Iqbal & M. Fahim Khan, eds. (1983) in *Resource Allocation and Fiscal Policy in Islam* describes the scope of fiscal policy in an Islamic economy from fiscal policy discussion that includes the theory of fiscal policy and taxation system in Islam, as well as the principle of sharing, resource allocation, and project evaluation. This book is quite good as an introduction to understanding fiscal policy in an Islamic economy.

Hidayat Amir, ed. (2012) on *Strengthening Economic Relations and International Finance in Supporting the National Development (Penguatan Hubungan Ekonomi dan Keuangan Internasional dalam Mendukung Pembangunan Nasional)* provides an analysis of fiscal policy studies related to international relations. International relations have a broad dimensions because each policy in this field involves the dimensions of other countries in its decision-making. In this book discussed how fiscal policy. The book is expected to be able to give benefits to each stakeholder fiscal policy, both from academics and practitioners in the business environment and bureaucracy, either as a reference source or limited resources.

Abimanyu & Megantara, eds. (2009) in *New Era of Fiscal Policy: Thinking Concepts and Implementation (Era Baru Kebijakan Fiskal: Pemikiran Konsep dan Implementasi)* noted that fiscal policy has two principal instruments, namely taxation and expenditure policies. By using the two main components of fiscal policy is able to answer questions about how the influence revenues and expenditures of the state of economic conditions unemployment, and inflation. In the context of economic development planning, the design of fiscal policy is not only directed to the development of the economic aspects such as per-capita income, economic growth, unemployment reduction and stabilization of the economy, but also increase social aspects such as equal distribution of income, education, and health. This book provides an overview of a new era of fiscal policy management for the period from the 1960s until today.

Other studies related to government spending as a form of budget management, economic growth, and corruption in government, among others Jamzy Zodik (2007) examined the relationship between government spending and economic growth. This study is good enough to analyze spending Indonesian government that affect regional economic growth. However, other facts about corruption seem not disclosed.

Anton Gunawan Herman (1991) in *Government's Budget and Inflation in Indonesia (Anggaran Pemerintah dan Inflasi di Indonesia)* provides an explanation of the relationship of government budgets and inflation in Indonesia. This book is very relevant to uncover patterns and state budget management system in Indonesia, but only to analyze the economic situation in Indonesia during the New Order.

Ani Sri Rahayu (2010) in *Introduction to Fiscal Policy (Pengantar Kebijakan Fiskal)* provides an overview of fiscal policy relating to taxation and government spending Indonesia. This book is good enough to explain the structure of the budget and its management since the reform period, though not reveal problems in the areas of the budget.

Aan Jaelani (2014) in *Public Finance Islam: Reflections on the State Budget and Political Budget in Indonesia* describes that the development policy in Indonesia to implement the human development paradigm should be able to put people as actors and regional economic development as a vehicle for the public welfare. However, the government's policy as outlined in the form of budget precisely the opposite direction to a strategic role in the public welfare. The phenomenon of budget politics in the management of media budget to fulfill the political needs of the few and the political community.Management of the state budget in favor of a handful of people in the political-economic sphere and not pro-poor budgeting. This book concludes that the management of the state budget using performance-based budget structure has not shown good governance performance by indicators: effectiveness, efficiency, transparency, and accountability in the management of the budget.

Mahmud Julaid in *Qira'at fi al-Maliyat al-'amma fi al-Islam* (1995) conducted an analysis of the concept of public finances *(al-maliyat al-'ammah)* and its application in the Islamic government in the classical period, but the relevance of public finance management in the context of the current government is not enough to give a full explanation.

Aan Jaelani (2015) in *Public Financial Management in Indonesia: Review of Islamic Public Finance* informs that the public financial management by the government is very important in view of the level of welfare in Indonesia is still low, as there are still much poverty with the level of fulfillment of the needs of low, corruption that occurs in every area of government, income distribution is uneven, low economic growth, and various other irregularities budget. With a qualitative approach that emphasizes the phenomenon of the social reality and the country's financial management practices in Indonesia, the approach to history and historical analysis is able to provide solutions to the existing problems. Reviewing public financial revenues and government spending Become instruments in creating public welfare.

Nejatullah M. Siddiqi (1992) through his work, *Teaching Public Finance in Islamic Perspective*, describes comprehensively about the public finances of Islam and its application in the context of the modern economy in Muslim countries. However, because this work is patterned "module" as lecture material, so it can not be found in-depth analysis of the "discussion" of budget management from Islamic economic thinkers.

Public finance key studies in Islam can also be found in the work of Zafar Iqbal, *an Islamic Perspective on Public Finance* (2003). These works reveal public finances comprehensively discusses the theory of justice in the economy, tax theory, the theory of the budget, commercial organizations public sector finance, and corruption. Although this work compares these theories perspective of Islam and the West, but not providing political analysis of Islamic economics.

C. Results and Discussion

1. Posture of Fiscal Policy in State Budget 2017

Policy of State Budget 2017 is summarized as follows. *First*, optimization of state income tax mainly is done while maintaining the investment climate and the business world. Potential tax revenue is estimated to grow 13-15 percent of the tax calculation base 2016 state income policy is also supported by the optimization of non-tax revenues (Penerimaan Negara Bukan Pajak/PNBP) to keep watching environmental sustainability. *Second*, the emphasis on improving the quality of spending productive and priorities, among others, focused on encouraging the acceleration of infrastructure development, poverty reduction, and social inequalities while maintaining compliance spending mandated by legislation, namely the budget allocation for education and health budgets which respectively by 20 percent and 5 percent of state spending. Another strategy is to target subsidies to sharpen and improve the quality of its distribution, as well as direct social assistance to a non-cash pattern. Policies on state spending are also aimed at strengthening fiscal decentralization through increased transfer funds to the Regional and Village Fund (Dana Desa). In line with expenditure policy, the Government is committed to accelerating and streamline expenditure on state ministries/agencies and transfer funds to the Regional and Village Fund. *Third*, efforts to strengthen resilience and controlling risk through control of the deficit and the debt ratio can be maintained so that the level of fiscal sustainability.

State Budget 2017 is the instrument of the implementation of fiscal strategies should be congruent with the Government Work Plan (Rencana Kerja Pemerintah/RKP) in 2017, as a description of the development stages of the third annual National Medium Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional/RPJMN) 2015-2019. It is implemented with fixed attention sound fiscal management and sustainable. RKP 2017 includes the goals, policy direction, and development strategies drawn up with fixed support sustainable development and achievement of the goals of medium-term development as set out in RPJMN. As for development priorities and strategies are grouped into four dimensions of development, namely the development dimension of man and society, the development dimension of the leading sectors, equalization and territorial dimensions, as well as the development dimension of politics, law, defense, and security.

The posture of State Budget 2017 prepared using the economic principles of public consisting of government revenue, expenditure, and financing of the budget. In 2017, the amount of revenue the state was set to Rp1.737.629,4 billion, down 2.7 percent from the revised budget target in 2016. Of the total revenues of the state, the tax revenue was set to Rp1.495.893,8 billion, down 2, 8 per cent of the revised budget target in 2016. Meanwhile, non-tax revenues were set to Rp240.362,9 billion, down 1.9 percent from the revised budget target in 2016. Acceptance of taxation is still the backbone of state revenues in the State Budget 2017 with the number of admissions which reached 86.1 percent of total revenues.

Summary posture state budget in 2016-2017 is presented as follows:

Table 1. Posture of APBN and RAPBN 2017 (billion rupiah)

Types	APBNP 2016	RAPBN 2017
A. Revenues	1.786.225,0	1.737.629,4
I. Internal Revenue	1.784.249,9	1.736.256,7
1. Tax Revenues	1.539.166,2	1.495.893,8
2. Non Tax Revenue	245.083,6	240.362,9
II. Grant Receipt	1.975,2	1.372,7
B. Expenditure	2.082.948,9	2.070.465,9
I. Central Government Expenditure	1.306.696,0	1.310.439,3
1. Expenditure Ministry / Agency	767.809,9	758.378,0
2. Shop Non Ministry / Agency	538.886,1	552.061,3
II. Transfer to Regional & Village Fund	1.975,2	1.372,7
1. Transfer to Regional	729.270,8	700.026,7
2. Fund Village	46.982,1	60.000,0
C. Primary Balance	(105.505,6)	(111.431,4)
D. Surplus/(Deficit) Budget (A - B)	(296.723,9)	(332.836,6)
% Surplus/(Deficit) against Pdb	(2,35)	(2,41)
E. Budget Financing (I+Ii+Iii+Iv+V)	296.723,9	332.836,6
I. Debt Financing	371.562,6	389.009,3
II. Invesment Financing	(93.984,8)	(49.138,9)
III. Lending	461,7	(6.409,7)
IV. Liabilities Guarantee	(651,7)	(924,1)
V. Other Financing	19.336,1	300,0

Source: Ministry of Finance 2016

According to the classification functions, allocation of central government expenditure broken down into 11 functions that describe the task of the government in implementing service functions and governance in order to achieve national development goals. Such functions consist of: (1) public service function; (2) barrier function; (3) the function of order and security; (4) economic function; (5) the function of environmental protection; (6) the functions of housing and public facilities; (7) health functions; (8) the function of tourism; (9) the function of religion; (10) the function of education; and (11) the function of social protection. In the 2017 State Budget, the allocation of central government expenditure by a function is the largest public service function, which amounted to 26.2 percent of total central government expenditure, the remaining 73.8 percent is spread on the functions of the other. The amount of the allocation for public service function reflects the primary function of government to continue to improve the quality of service to the public.

In particular, the budget allocation on the functioning of the economy in the State Budget in 2017 amounted to Rp332.683,7 billion, showing an increase of 0.5 percent when compared with the revised budget allocations in 2016 amounted to Rp331.005,0 billion. The budget allocation on the functioning of the economy to support the efforts to accelerate the quality of economic growth by strengthening the economic impetus among others supported by the development of transportation, infrastructure, and energy and food sovereignty.

Direction of policies and measures that will be taken by the government in order to carry out economic functions in 2017, among others: (1) support the national food and energy sovereignty; (2) increasing the efficiency of energy use; (3) support the accelerated development of the region through the construction of infrastructure facilities and transport infrastructure, clean water, sanitation, energy and telecommunications; (4) improve the competitiveness of SMEs and cooperatives by strengthening the supply chain and market expansion; (5) increase the role of investment as the driving engine of growth, one through deregulation and simplification of licensing procedures of investment; and (6) encourage support of science and technology for improving the competitiveness of production, as well as sustainability and use of natural resources (Ministry of Finance, 2016).

Targets to be achieved in 2017 through budget allocations economic functions such as:

Table 2. Objectives and Attainment Targets in State Budget 2017

No	Objectives 2017	Attainment Targets
1	Increased agricultural expansion	Total print area of 144 613 ha of rice fields
2	Carry out the construction of new irrigation networks	Surface irrigation network built along 561.57 km (Centre)
3	Increased electricity consumption per capita	Amounted to 1,058 kWh / capita
4	Increased electrification ratio	Amounting to 92.75 percent
5	Improving national road connectivity	815 km long roads and bridges 9399 m
6	Increase the stability of the national road, among others by carrying out routine maintenance of roads	Throughout the 41 849 km
7	Carry out or continue the construction of new airports	14 airports
8	Improving the capacity and accessibility with the construction of the railway line (the first stage)	Throughout 407 km'sp
9	Increasing competitiveness of SMEs and cooperatives with the volume and range of revolving funds for SMEs to support exports	34 provinces

(*Source:* Ministry of Finance 2016).

In the State Budget 2017, Ministry of Finance, Sri Mulyani (2016a) states that "Six Development Goals in 2017 State Budget". The government allocated IDR387.3 trillion for infrastructure in the State Budget 2017. The funds will be used to achieve the six objectives of infrastructure development. The objectives are *first*, the construction of 815 kilometers (km) roads. *Second*, the construction of the bridge along the 9,399 meters. *Third*, the construction of 13 new and advanced airports. *Fourth*, the construction/development of seaport facilities in 55 locations. *Fifth*, the construction of the first phase of the railway line and it's advanced, along 550 kilometers spoor (km'sp). Sixth, the development of advanced passenger terminal at the three locations.

To finance them, the government has allocated infrastructure budget in the various Ministries/ Institutions (K/L) and delegated through the transfer of funds to the regions and villages. In addition, it will also provide viability gap fund, as part of efforts to encourage private sector involvement in infrastructure development.

Minister of Finance, Sri Mulyani Indrawati at a press conference on State Budget 2017 in the end of October 2016 states that "for infrastructure expenditure, either through (K/L), i.e. Ministry of Public Works, Transportation, Agriculture, and ESDM (Energy and Mineral Resources), or through institutions that enhance the ability of the private sector to contribute to infrastructure development. We also make transfers to the regions for infrastructure expenditure, as well as special allocation funds".

2. Global and Domestic Economic Challenges in 2017

The development of the global economy in 2017 is projected to have improved compared to 2016, though still tinged uncertainty. Global demand indicated by the increase in the volume of world trade and an increase in commodity prices is expected to be the main pillar of global growth in 2017. The economic condition of the developed countries will be driven by the expansion of the US economy but is constrained by the economic downturn that is facing the impact of the European region of the UK release of the European Union. Nevertheless, the improvement of performance of developing countries is expected to be the driver of global economic growth. Moderation of Tiongkok's economic growth is expected to continue, but will be offset by economic growth in India is increasing rapidly. Initiation of regional cooperation, the ASEAN Economic Community (AEC), also will begin a positive impact on economic activity in the region. World economic growth in 2017 is expected to strengthen to 3.4 percent, with the economy in developing countries is expected to grow to 4.6 percent. The volume of world trade is the driving factor mainstay of growth is expected to grow to 3.9 percent in 2017, up from 2.7 percent in 2016

Impact Brexit (stronghold exit or exit from the EU) in the United Kingdom to Indonesia is not too big, but caution must be taken. The impact transmission can occur through the financial markets and trade. The stock index is expected to experience an adjustment until later returned to the value that is considered reasonable. Brexit will be more influential in the European region that relates directly to the UK. The amount of influence to the European Union is exactly what will cause a second round effect. From the transmission side trading, Britain was fourth for Indonesia in terms of the amount of the value of trade with the EU. Brexit will affect the pattern of trade and investment between Indonesia with the EU and the UK. The trade balance between Indonesia and the UK until May 2016 a surplus of USD159,74 million, with an export value of Indonesia to the UK recorded USD364,63 million and imports amounted USD204,89 million. British investment value in Indonesia during the first quarter of 2016 reached

USD54,87 million with employment reached 6927 workers. On the other hand, Brexit also potentially lead to capital outflow from the United Kingdom and the European Union, which can provide positive opportunities for money market and foreign direct investment in Indonesia.

Meanwhile, on the domestic side, household consumption is expected to be a major contributor to the national economy in 2017. In addition, government spending on infrastructure is expected to improve the competitiveness and improving connectivity. The effort is driven also by the impact of tax remission policies (tax amnesty) were implemented starting in 2016 that will encourage investment in the real sector through the repatriation of ownership of existing funds abroad. Along with the improving global economy, international trade performance is also expected to undergo repairs.

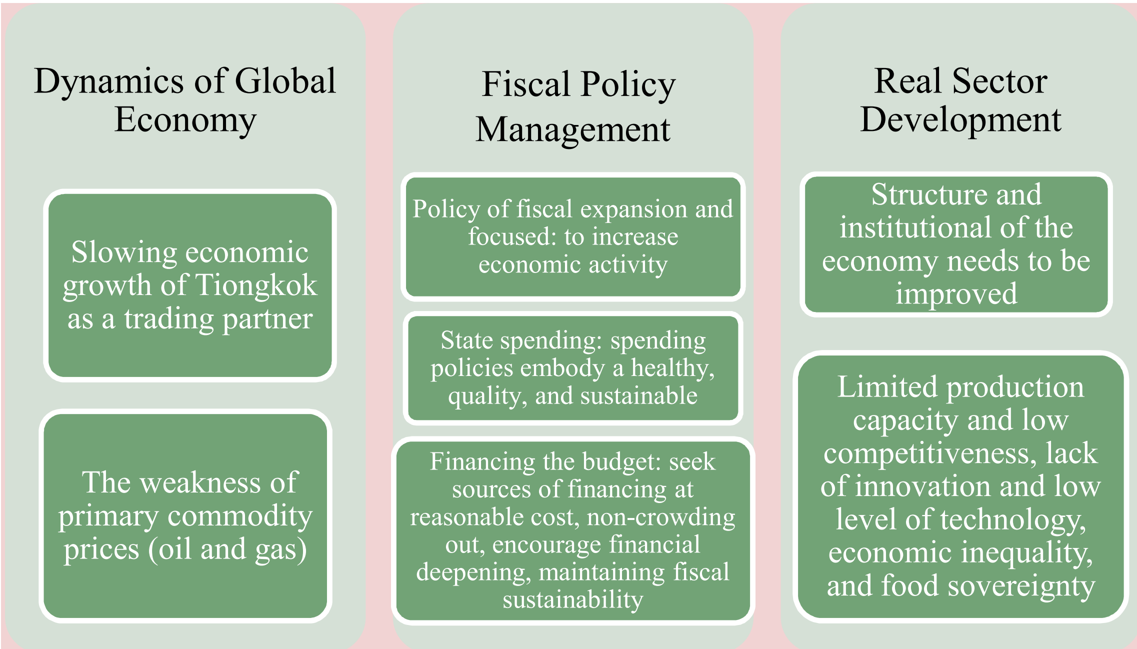

Figure 1. Global and Domestic Challenges in State Budget 2017

Taking into account the forecasts of the global economic conditions, basic macroeconomic assumptions used as the basis for formulating the State Budget 2017, are: (1) economic growth of 5.3 percent; (2) inflation of 4.0 percent; (3) the value of the rupiah against the US dollar amounted to Rp13.300 per US dollar; (4) the interest rate of SPN 3 months by 5.3 percent; (5) the price of crude oil Indonesia (Indonesian Crude Price/ICP) of USD45 per barrel; (6) oil lifting Indonesia amounting to 780 thousand barrels per day; and (7) gas lifting of 1,150 thousand barrels of oil equivalent per day. Preparation of basic macroeconomic assumptions was based on the development goals contained in the medium-term RPJMN 2015-2019, annual goals in RKP 2017, as well as the development and domestic and global economic outlook in 2017.

3. Principles of Fiscal Policy 2017

In Act of the Republic of Indonesia Number 18/2016 on State Budget 2017, affirmed that the State Budget 2017 prepared in accordance with the requirements of governance and capabilities in raising income countries in order to support the realization of the national economy based on economic democracy with the principles of togetherness, efficiency, justice, sustainability, environmental friendliness, independence, and balancing economic progress and national unity. Fiscal policy in the various countries aims to achieve an efficient allocation of resources that generate maximum material gain to the community.

The main points of fiscal policy in 2017 with the theme "Strengthening Fiscal Management for Increased Competitiveness and Accelerate Economic Growth Sustainable and Fair" became the basis of preparation of the State Budget 2017. In line with this theme, the fiscal policy in 2017 will be directed to support the achievement of economic growth sustainable, job creation, poverty reduction, and the reduction of inequality, which in turn leads to improved welfare for the whole society. Thus, the State Budget 2017 as an instrument of fiscal policy drawn up with reference to a variety of strategies, policies, and priorities in the Government Work Plan (Rencana Kerja Pemerintah/RKP) 2017.

In the State Budget 2017, fiscal policy strategy aimed at strengthening fiscal stimulus, strengthen fiscal durability, as well as maintaining fiscal sustainability in the medium term. Strategic policy in the State Budget 2017 that will be pursued is as follows.

First, on the revenue side of the state, the government seeks to optimize tax revenue through a variety of policy break throughs, including through the implementation of tax amnesty policy that began in 2016 and law enforcement in the field of taxation. Tax amnesty policy is pursued as a step to strengthen the foundations for broadening the tax base and increase taxpayer compliance in the future. In addition, the tax policy is also aimed at encouraging the people's purchasing power, improving the investment climate and competitiveness of national industries through the provision of fiscal incentives for strategic economic activities, as well as control the consumption of certain goods that have negative externalities. Meanwhile, non-tax policies aimed at improving the quality of public services with environmental sustainability.

Secondly, on the expenditure side, the policies directed to: (1) increasing productive expenditures such as infrastructure development and connectivity between regions, the development of facilities and infrastructures, housing, sanitation and water supply; (2) improve the efficiency and the sharpening of the main non-operating expenditures on goods expenditures to increase fiscal space; (3) improving the quality and effectiveness of social protection programs, among others, the expansion of the program targets families hope, improve service quality, health and sustainability of aid programs directly to the public, the National Health Insurance (*Jaminan Kesehatan Nasional/JKN*), Card Indonesia Smart (*Kartu Indonesia Pintar/KIP*), Card Healthy Indonesia (*Kartu Indonesia Sehat/KIS*), rice for family welfare (*Beras untuk keluarga sejahtera/Rastra*), and Bidik Misi Scholarships, by improving the distribution system and the accuracy of the data receiver; (4) strengthen the implementation of priority programs in education, health, sustainable agriculture and energy, maritime and marine, as well as tourism and industry; (5) the distribution of subsidies and non-cash social assistance programs are better targeted, among others, through improved databases and rearrangement transparent subsidy distribution system more accountable; and (6) to support law enforcement and defense and security stabilization, through eradication and enforcement of illicit drug trafficking, terrorism, and weapons procurement. Furthermore, the transfer to the Regions and the Village Fund *(Dana Desa)*, as an important instrument of fiscal decentralization, aimed at strengthening regional and rural development funding in order to accelerate the realization of public welfare and support the achievement of national priorities.

Based on the revenue and expenditure policies mentioned above, the direction of fiscal policy is expensive and is still focused on supporting productive activities in order to increase production capacity and competitiveness. While the direction of fiscal policy is expensive is still followed by the management of fiscal policy is sound and sustainable through: (1) controlling the deficit within safe limits, (2) controlling the ratio of debt to GDP through control of financing that comes from debt within the limits of control (manageable), as well as directing the use of debt for productive activities, and (3) controlling the primary balance through the control of fiscal vulnerability.

Third, as for the direction of policy financing in 2017 are: (1) control the debt to GDP ratio in the range of controllable (manageable); (2) utilizing debt for productive activities and maintain the balance of the macro; (3) utilize SAL as a fiscal cushion to anticipate uncertainty; (4) optimizing the creative and innovative financing to accelerate development and improve access to finance for SMEs; (5) enhance the quality and effectiveness of the Government's investment plans; (6) improve the mechanism for the fulfillment of obligations as a member state of the organization / international financial institutions; (7) encourage efforts to increase exports through them through the implementation of the National Interest Account (NIA); (8) open access to financing for development and investment to the community; and (9) encourage increased access to education and the provision of housing needs for low-income people.

In line with efforts to arrange to finance of the budget is more informative, transparent and easily understood by stakeholders, the government made changes in the proposed budget financing classification, 2017. If the previous budget financing structure consists of financing the debt and non-debt financing, the State Budget 2017 budget financing structure was changed to consisting of debt financing, investment financing, lending, guarantee obligations, and other charges.

To promote economic growth in Indonesia with the existing posture 2017 State Budget, the implementation of fiscal policy requires the right strategy by the government. Ministry of Finance has prepared five fiscal strategies to encourage the Indonesian economy. Sri Mulyani Indrawati said the five steps to respond to the economic downturn as follows: *first*, a tax amnesty to encourage repatriation of funds have significant impacts to economic activities; *second*, to monitor the performance of State-Owned Enterprises (SOEs) which get funding State Capital (PMN), because these funds should be able to increase the leverage of the company and the impact on economic activity; *third*, a review of business credit (KUR) for the Small and Medium Enterprises (SMEs) in order to stimulate the economy; *fourth*, fiscal policy should be used to trim the economic gap between regions. Because in an era of lower commodity prices, some areas are dependent on the efforts in the field of commodities slowdown in the economy; and *fifth*, the government will rely on budget absorption ministries and agencies to be a stimulus for the economy.

Organisation for Economic Co-operation and Development (OECD) said in the report, efficient public spending is key to Indonesia's economy strongly. OECD assess the economic development of Indonesia in the last few years quite good. However there are some things that need to be repaired. Secretary-General of the OECD, Angel Gurria reiterated that one of the issues of concern is tax revenue. Tax revenue in Indonesia is undervalued compared to its potential. Therefore, the government should increase the tax base, so that tax revenues will increase and followed by improvement of compliance levels. Illustration, currently Indonesia's total population of approximately 260 million, the taxpayer only 27 million. Of that number, only 900,000 people who pay taxes. To be able to increase the tax base and adherence to pay, the OECD recommends that digitization of the tax system, start reporting until the investigation (Barratut Taqiyyah, ed., October 25, 2016).

D. Analysis of Islamic Economic for Fiscal Policy

Fiscal policy in the various countries aims to achieve an efficient allocation of resources that generate maximum material gain to the community. Islamic economics, the concept of efficiency means that desire harmony between the spiritual and material needs. Resources should be used only in ways that achieve human well-being in the world and in the hereafter. Resources must be used optimally, ie without wastage and providing for the needs of future generations. Only items that must be produced, whether through a private or public sector, which is allowed by virtue of the provisions of shariah.

Fiscal policy covers all actions or efforts to increase the general welfare through government control of economic resources by using government revenues and expenditures, resource mobilization, and pricing of goods and services from these companies. As for the subject of fiscal policy in the form of government revenues and expenditures in all its aspects, including legal, political, and so forth.

Fiscal policy in the economy is the government's move to make changes in the tax system or spending (government expenditure). In the view of M.A. Mannan (1991), the fiscal policy objectives in the economy are to achieve well-being secular, which is defined as the maximum benefit for the individual in life regardless of man's spiritual needs. Fiscal primarily intended to achieve an efficient allocation of resources, economic stabilization, growth, and income distribution, as well as ownership.

Shaikh Mahmud Ahmad (1995) asserts that the fiscal and financial policy in an Islamic economy is one tool to achieve the objectives of Shariah, as described al-Ghazali as an effort to improve the well-being while maintaining faith, life, intellect, wealth, and ownership.

Fiscal policy is a policy that affects State Budget (APBN). This policy along with other policies such as monetary policy and trade, it is necessary to correct for disturbances that impede the economic cycle. The capitalist economic system or economic system market is highly dependent on the course of the market mechanism. In the event of disturbances on the course of the market mechanism, it is necessary to evaluate the various businesses the course of the economy, that market mechanism was running perfectly.

Related to the State Budget 2017 and economic challenges that exist, the Minister of Finance Sri Mulyani Indrawati (2016b) delivers, State Budget 2017 is prepared with more realistic and credible principles. Therefore, it will support economic activities set out in the Medium-Term Development Plan. To achieve this goal, the government's policies will focus on growth momentum and human resources and infrastructure investment to raise productivity.

From government revenue side, the government has set the taxation revenue target in a prudent way. Sri Mulyani (2016b) explains that because in the previous years, there was a situation where the revenue target was way higher and the realization was way lower. This situation led to several excesses, especially at the last quarter every fiscal year, which rose bad signal.

Taxation policy in 2017, Sri Mulyani (2016b) states that this policy will focus on increasing the tax base and taxpayers' compliance, providing taxation incentives, improving taxation regulation, and imposing excise to control certain consumer goods. From the government expenditure side, the quality improvement of government expenditure becomes the government's priority. She states that central government's budget has been equaled to Transfer to Regions, meaning that development will be boosted by Local Government's performance.

Based on fiscal policy in State Budget 2017, the government's policy, which focuses on economic growth and human resources as well as infrastructure investments to increase productivity shows that the 2017 state budget is directed at the public welfare.

In Islamic economics, the role of government as stated by al-Mawardi (1995) serves to continue the prophetic mission, or declared by al-Syatibi (1975) to reach *al-maqashid al-shariah* (objectives of shariah). In this case, the realization of the government in *al-maqashid al-shariah* is not to establish an Islamic state, but the government issued policies on the allocation of resources targeted, efficient and not wasteful in accordance with the purpose of *shariah*, that the public welfare in five components, namely the preservation of religion, life, intellect, lineage, and possessions *(hifdz al-din, al-nafs, al-'aql, nasl, wa al-mal)*. Because the economic indicators of public welfare in Islam cover material and immaterial, and can only be realized if the private lives and communities, Muslim and non-Muslim, obtaining equal rights and obligations based on the principles of fairness in public policies.

The five indicators of well-being based society maqashid of sharia in Islamic economy following:

Figure 2.
Indicators of Society Welfare Based Maqashid Shariah

In the economic law of Islam, there are two forms of public services, ie fulfilling the needs and social services. Al-Syatibi (1975) states that the function of the community needs to be one of the functions of government. Needs a goods and services required to sustain life for man, which keep religion, keep the soul, keep the mind, keeping the offspring, and maintain the property. Consequently, the government is obliged to provide services and obtain resources for their needs, such as taking zakat. As for social services by increasing the quality of life better. The government is not obliged to provide this service. However, if there are resources in the form of grants, donations, or the rest of the property given to charity for mustahiq (recipients), then the government can use zakat is to serve the needs of the community.

Islam has orientation on the formation of good behavior and moral values as the provision of norms, principles of transactions, and social security institutions, such as the relationship between the family and the state. Specifically, M.N. Siddiqi (1992: 8) divides the three kinds of economic objectives, namely: first, the fulfillment of basic needs for all of the humanity; second, economic development and third, data collection inequality in income distribution and wealth tends to increase over time.

In the view of A. Wagner (in Richard A. Musgrave & Alan Peacock, eds., 1958), the purpose of the state there are two types, namely: *rechts und machtzweck*; to maintain law and state power (principle of justice), and *culture und wohlfetzweck*; to preserve cultural development and prosperity, such as hospitals and schools.As for the political and economic context, the government has the economic function of managing and distribution of state finances by the laws set forth or legislation to create a welfare society. In other words, the government has an obligation to create a welfare society.

Therefore, al-Mawardi (1995) confirms that the primary function of government is to formulate policies in state budget management in the form of fiscal policy. The state budget or the budget is managed to create a welfare society with indicators such as building infrastructure for the public interest by providing facilities and means of supporting and managing the state budget in accordance with the provisions of the religion and legislation, and no irregularities in managing resources revenue and expenditure of state finances.

The fiscal policy of the Islamic economy confirms that the government's role in managing the state budget is needed to create justice and provide social security to the community. To support that, as confirmed al-Mawardi (1983), the necessary facilities and public facilities, as well as strict supervision by state officials (Q.S. Shad: 6), are competent and credible directly in ensuring the distribution of incomes. It also means different from the doctrine of laissez-faire (economic freedom) that discourage or eliminate altogether the role of government in the economy.

In other circumstances, when the community's economy experiencing a crisis affecting the state budget due to revenue sources, particularly tax slumped in line with declining economic activity, the obligations of the switch to the Muslim community and all members of society. For example, the economic crisis is causing people falling into poverty, then they are not subject to the tax burden, otherwise, they will help a country with the charge taken from the Muslims rich. As politically, S.A. Siddiqi (1962) states that the fiscal policy conducted by the government no other in order to satisfy the public interest. In this context, the government has sought to distribute public revenue fairly and equitably.

In the state budget management, al-Mawardi (1996) found the owner of the funds (financial) or its administrators, including the government are not allowed to access, or otherwise reduced in spending public funds (Saladin Biyuni, 1983). This can be detrimental to the community so that the government's obligation to distribute evenly budgets that benefit every member of society to prosper. For this purpose, the al-

Mawardi (1983), administrative and financial management in the process of collection and expenditure budget effectively is essential by the government.

Al-Mawardi (1983) stated that the management of the state budget in an efficient means budget revenue and expenditure are distributed in accordance with the budget that has been prepared and the target or targets the achievement of predetermined, therefore, the state treasury should not be in deficit, used disproportionately, and does not contain elements of interest, except when used in accordance with the needs that have been previously budgeted.

In the context of managing the budget, the government budget expenditure should be within the amount the government coffers. This is important, as stated al-Mawardi (1983) that the budget expenditures are excessive or not in accordance with the budget plan could lead to government cash deficits that could harm the state treasury *(bait al-mal)*. In other words, the shape of the distribution of the state budget should consider the principles of benefits for governments and communities.

In addition, the government's budget in the context of Islamic economics has differences. All revenue from charity, '*ushr*, and sadaqah will be transferred to the state treasury *(bait al-mal)* are distributed to the fulfillment of the welfare of the poor and those in need, while other income from taxes and other sources of non-tax or other revenues of natural resources will be allocated for expenditure on civil administration, security, defense, economic development projects such as infrastructure, and state debt payments.

This means that the kind of budget in Islamic economics consists of the welfare budget and the general Budget. *First*, the welfare budget sources, such as zakah and sadaqah issued as instructions of the Koran (Q.S. 9:60), mainly related to the welfare or the reduction of poverty at the community level. *Second*, the general budget financed through tax and non-tax revenue that is used for all government spending related to general and administrative activities. However, when the funds of zakah and sadaqah is insufficient to meet the needs of poor people, the government will transfer funds from the general budget for the sake of the welfare budget.

Mondzer Kahf, ed. (2001) asserts that government spending or public expenditure *(al-infaq al-'ammah)* in order to create public welfare is a religious obligation. The teachings of Islam puts public expenditure as an important part of the tasks of government. Although the Koran does not regulate in detail the rules relating to public expenditure, but the Prophet Muhammad has been practicing with the use of the state budget in accordance with the regulations set to distribute the budget to create a welfare society.

D. Conclusion

State Budget (APBN) as a form of state financial management is conducted in an open and responsible for the overall prosperity of the people. While fiscal policy in 2017 will be directed to support the achievement of sustainable economic growth, job creation, poverty reduction, and the reduction of inequality, which in turn leads to improved welfare for the whole society. In Islamic economics, fiscal policies directed at managing the state budget revenue and expenditure are distributed in accordance with the budget that has been prepared and the achievement of goals or targets that have been set. While the role of government in managing the state budget are necessary to achieve public welfare.

Bibliography

Abimanyu, A. (2011). *Refleksi dan gagasan kebijakan fiskal.* Jakarta: Gramedia Pustaka Utama.

Adam, R., et al. (2004). *Persaingan dan ekonomi pasar di Indonesia.*Jakarta: Friedrich Nauman Stiftung.

Ahmed, Z., Iqbal, M and Fahim Khan, M. (eds.). (1983). *Fiscal policy and resource allocation in Islam.* Jeddah: King Abdul Aziz University.

Al-Mawardi, A.H.A. (1995). *Adab al-dunya wa-al-din.* Beirut: Dar al-Fikr.

Al-Mawardi, A.H.A. (1996). *Al-ahkam al-sulthaniyah wa wilayat al-diniyah.* Beirut: Dar al-Fikr.

Al-Mawardi, A.H.A. (1983). *Nashihat al-muluk.* Beirut: Dar al-Fikr

Al-Syatibi, A.I. (1975). *Al-Muwafaqat fi ushul al-syari'ah.* Cairo: al-Maktabah al-Tijaniyah al-Kubra.

Amir, H. & Faisal Hastiadi, F. (ed.). (2016). *Dinamika kebijakan fiskal merespon ketidakpastian global.* Jakarta: Gramedia Pustaka Utama.

Auerbach, A.J. (2003). Fiscal policy, past and present. *Brookings Papers on Economic Activity*, 1(75), Spring 2003.

Auerbach, A.J. & Gale, W. G. (2009). Activist fiscal policy to stabilize economic activity. *Conference Proceedings of Financial Stability and Macroeconomic Policy*, August 20-22, 2009, Jackson Hole, Wyoming.

Auerbach, A.J. & Kotlicoff, L.J. (1987). *Dynamic fiscal policy.* Cambridge: Cambridge University Press.

Barratut, S.M. (ed.) (2016). Sri Mulyani menyiapkan lima langkah fiskal. *National Konten, October 2016,* Retrieved from http://nasional.kontan.co.id/news/.

Bartha, Z., & Gubik, A.S. (2012). The significance of fiscal space in Europe's response to the crisis. *MPRA Paper No. 40346*. Retrieved from https://mpra.ub.uni-muenchen.de/40346/.

Biyuni, S. (1983). *Al-Fikr al-siyasi 'inda al-Mawardi.* Cairo: Dar al-Tsaqafah li al-Nashr wa-al-Tauzi'.

Blanchard, O., Dell'Arricia, G., & Mauro P. (2010). Rethinking macroeconomic policy. *IMF Staff Position Note*, SPN/10/03.

Boediono. (2016). APBN jangan digunakan sebagai alat politik. *Sindonews*, November 30. Retrieved from http://ekbis.sindonews.com/read/1159397/ 33/boediono-apbn-jangan-digunakan-sebagai-alat-politik-1480493736).

European Comission. (2009). *Economic crisis in Europe: causes, consequences and responses*. Luxembourg: Office for Official Publications of the European Communities.

Gunawan, A.H. (1991). *Anggaran pemerintah dan inflasi di Indonesia.*Jakarta: Gramedia Pustaka Utama.

Hansen, A.H. (1949). *Monetary theory and fiscal policy.* London: McGraw-Hill Book Company, Inc.

Hansen, B. (2008). *The economic theory of fiscal policy (public economics).* Amazon: Routledge.

Howard, M. (2001). *Public sector economics for developing countries.* Barbados: University Press of the West Indies.

Indawati, S.M. (2016a). Six development goals in 2017 state budget. *The Ministry of Finance Held a Press Conference Regarding The 2017 State Budget,* November 7. Retrieved from http://www.kemenkeu.go.id/en/Berita/six-development-goals-2017-state-budget).

Indrawati, S. M. (2016). Sri Mulyani katakan RAPBN 2017 tak sehat, ini penjelasannya. *Sindonews,* Agustus 16. Retrieved from http://ekbis.sindonews. com/read/1131763/33/.

Indrawati, S.M. (2016b). Minister of Finance delivers policies in APBN 2017. *Kompas 100 CEO Forum,* November 24 Retrieved from http://www.kemenkeu.go.id/en/ berita/minister-finance-delivers-policies-apbn-2017-kompas-100-ceo-forum).

Iqbal, Z. (2003). *An Islamic perspective on public finance.* Australia: University of South Australia.

Jaelani, A. (2014). *Keuangan publik Islam: Refleksi APBN dan politik anggaran di Indonesia.* Cirebon: Nurjati Press.

Jaelani, A. (2015). Public financial management in Indonesia: Review of Islamic public finance. *MPRA Paper* No. 72340. Available at *SSRN*: https://ssrn.com/abstract=2807095 or http://dx.doi.org/10.2139/ssrn.2807095.

Julaid, M. (1995). *Qira'at fi al-maliyat al-'ammah fi al-Islam.* Jeddah: IDB-IRTI.

Kahf, M. (ed.). (2001). *Al-siyasah al-iqtisadiyah fi itsar al-nidzami al-Islami.* Madinah: Shirkah al-Madinah al-Munawwarah.

Kementerian Keuangan RI. (2016). *Buku II nota keuangan beserta rancangan anggaran pendapatan dan belanja negara tahun anggaran 2017*. Jakarta: Kemenkeu.

Kementerian Keuangan RI. (2016). *Undang-undang RI No. 18 Tahun 2016 tentang anggaran pendapatan dan belanja Negara tahun anggaran 2017.* Jakarta: Kemenkeu.

Kisihandi, F. (ed.). RAPBN 2017 kurang sehat. *Republika*, Agustus 18. Retrieved from http://www.republika.co.id/berita/koran/halaman-1/16/08/18/oc3fg717-rapbn-2017-kurang-sehat.

Mankiw, G. N. (2010). Questions about fiscal policy: Implications from the financial crisis of 2008-2009. *Federal Reserve Bank of St. Louis Review*, 92(3), 177-183.

Mannan, M. A. (1991). *Islamic economics: Theory and practice.* Pakistan, Lahore: Shah Muhammad Ashraf Publishers.

Musgrave, R.A. & Peacock, A. (ed.). (1958). *Classics in the theory of public finance*. New York: Macmillan.

Ramona Mara, E, Inceu, A., Cuceu, I., & Violeta Achim, M. (2009).The impact of economic crisis on the fiscal revenues. *MPRA Paper No. 20978*. Retrieved from http://mpra.ub.uni-muenchen.de/20978/.

Shaikh Ahmad, M. (1995). *Economics of Islam: A comparative study.* Pakistan, Lahore: Shah Muhammad Ashraf Publishers.

Siddiqi, M.N. (1992). *Teaching public finance in Islamic perspective.* Jeddah: Centre for Research in Islamic Economics King Abdul Aziz University.

Siddiqi, S.A. (1962). *Public finance in Islam.* Pakistan, Lahore: Shah Muhammad Ashraf Publishers.

Sodik, J. (2007). Pengeluaran pemerintah dan pertumbuhan ekonomi regional: Studi kasus data panel di Indonesia. *Jurnal Ekonomi Pembangunan*, 12(1).

Spilimbergo, A., Symanski, S., Blanchard, O., & Cottarelli, C. (2008). Fiscal policy for the crisis. *IMF Staff Position Note*, SPN/08/01.

Sri Rahayu, A. (2010). *Pengantar kebijakan fiskal.* Jakarta: Bumi Aksara.

Syadullah, M. & Afdi Nizar, M. (2013). *Kebijakan fiskal teori & praktek di Indonesia*. Jakarta: Observation & Research of Taxation (ortax).