

Analysis Of Subsidized Fuel Policy As An Instrument Of Indonesia's Economic Stability Amid Global Energy Price Volatility

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ABSTRACT

This study analyzes the subsidized fuel (BBM Bersubsidi) policy as an instrument for Indonesia's economic stability amid fluctuations in global energy prices. A surge in world energy prices indirectly impacts the rise of commodity prices, increases production costs—specifically driven by higher transportation expenses—and inflates the fiscal burden on the State Budget (APBN). The government plays a crucial role in market intervention to prevent these external shocks from destructively transmitting into the domestic economy. This study aims to analyze the effectiveness of the government's policy role in maintaining macroeconomic stability amidst a global energy crisis. The method employed is a descriptive qualitative approach through a literature review, examining various scientific literatures, secondary data, and relevant policies. The results demonstrate that the mix of fiscal policy, monetary policy, and energy governance for subsidized commodities is proven effective in curbing inflation and maintaining economic stability in the short term. However, its long-term effectiveness heavily relies on the resilience of the state budget (APBN) burden. The implications of this study emphasize the necessity of other complementary policies as a follow-up to optimize the subsidized fuel policy, which will impact the economic balance from the short to the long term. These include maintaining national economic stability and growth, creating a favorable investment environment (encompassing the preservation of purchasing power, along with integrated infrastructure), and maintaining public trust and stability toward the Rupiah.

Keywords: Economic Stability, Energy Crisis, Fiscal Policy, Monetary Policy.

ABSTRAK

Penelitian ini menganalisis kebijakan Bahan Bakar Minyak (BBM) bersubsidi sebagai instrumen stabilitas ekonomi Indonesia di flutuasi harga energi global. Lonjakan harga energi dunia secara tidak langsung akan berdampak pada kenaikan harga-harga komoditi, peningkatan biaya produksi yang diliputi kenaikan biaya transportasi dan pembengkakan beban fiskal dalam Anggaran Pendapatan dan Negara (APBN). Pemerintah memiliki peranan untuk mengintervensi pasar agar guncangan eksternal tersebut tidak akan berdampak secara destruktif kepada perekonomian domestik. Penelitian ini bertujuan untuk menganalisa efektivitas peran kebijakan pemerintah dalam mempertahankan stabilitas makroekonomi di tengah krisis energi global. metode yang digunakan adalah kualitatif deskriptif melalui studi keputakaan (Literatur Review) dengan meninjau berbagai literatur ilmiah, data sekunder, dan kebijakan yang relevan. Hasil penelitian menunjukkan bahwa kebijakan fiskal, kebijakan moneter, serta tata kelola energi komoditas subsidi terbukti efektif meredam inflasi dan menjaga stabilitas perekonomian untuk jangka pendek. akan tetapi efektivitas jangka panjangnya sangat bergantung pada ketahanan beban APBN. Implikasi dari penelitian ini menegaskan perlunya kebijakan pendamping lainnya sebagai tindak lanjut dari pengoptimalan kebijakan BBM Subsidi yang akan berdampak pada keseimbangan ekonomi jangka pendek hingga jangka panjang. Seperti menjaga stabilitas dan pertumbuhan perekonomian negara, terciptanya ruang investasi yang baik (meliputi memastikan daya beli tetap terjaga, infrastruktur yang terintegrasi, dan infrastruktur yang terintegrasi), dan menjaga kepercayaan terhadap rupiah.

Kata Kunci: Stabilitas Ekonomi, Krisis Energi, Kebijakan Fiskal, Kebijakan Moneter.

1. Introduction

Fiscal policy constitutes a government strategy for regulating and managing the economy through revenue instruments (taxation) and state expenditure (APBN). Fiscal policy has several primary objectives, including maintaining economic stability, controlling inflation, reducing unemployment, and ensuring equitable income and wealth distribution. According to John Maynard Keynes (1999) the founder of macroeconomic theory fiscal policy is an active government policy aimed at regulating expenditure and taxation in order to manage

aggregate demand. Keynes emphasized the role of state intervention through public spending to stimulate economic growth, reduce unemployment, and correct market failures, rather than merely reducing taxes imposed on society (Rosul, 2024). From the Keynesian perspective, government policy should not be passive; rather, the government must address social inequalities arising from economic systems that generate severe poverty and social injustice. Keynesian thought has therefore inspired a wide range of policies that prioritize public welfare and provide broad-based economic stimulus for society as a whole. In Indonesia, fiscal policy

has become increasingly integrated across sectors to intervene in socio-economic life and to promote public welfare.

National fiscal policy serves as a fundamental pillar of state governance, encompassing a broad and diversified spectrum of strategic interventions that directly dictate public welfare through targeted allocations in healthcare, education, infrastructural development, and public transportation networks. This expansive operational scope stands in stark contrast to monetary policy, which maintains a more localized focus on regulating circulating currency, adjusting benchmark interest rates, and anchoring inflationary pressures within controllable parameters. Consequently, fiscal policy carries a substantially heavier socioeconomic burden; its efficacy is not merely measured by the conceptualization of legislative frameworks, but rather by the empirical rate of budgetary absorption and the tangible downstream impacts generated to elevate public prosperity.

Within the context of emerging markets such as Indonesia, this fiscal mandate is frequently operationalized through various economic stimulus packages, most notably the subsidized fuel framework (Bahan Bakar Minyak Bersubsidi). This subsidy mechanism is explicitly engineered as a counter-cyclical fiscal instrument designed to alleviate financial burdens on the demographic segments relying on petroleum and bio-diesel variants for daily commuting and commercial activities. Mechanistically, the primary objective of keeping fuel prices artificially low is to minimize transportation costs and facilitate seamless logistics, thereby fostering macroeconomic stability and accelerating mobility across both centralized metropolitan hubs and peripheral regional economies.

This intervention aligns systematically with the statutory mandates of the Indonesian government, specifically Article 2 of Law Number 22 of 2001 concerning Oil and Natural Gas (BPK, 2001), which dictates that the management of oil and gas resources must fundamentally adhere to the principles of a populist economy, national security, utility, equity, equilibrium, and shared prosperity. By framing energy accessibility within this legal and ethical paradigm, the subsidized fuel policy transcends simple market intervention, operating instead as a vital redistributive fiscal solution structurally calculated to democratize transportation access, insulate consumer purchasing power, and secure long-term social welfare amidst shifting global economic dynamics.

Indonesia continues to experience extremely high motor vehicle usage, exceeding 172 million units by the end of 2025, with motorcycles accounting for the majority (BPS, 2025). Motor vehicles are predominantly used for daily work-related activities and other household needs. Consequently, Indonesia's fuel consumption has reached approximately 1.5–1.6 million barrels per day, while domestic production remains only around 600 thousand barrels per day. As a result, Indonesia depends on imports for approximately 59% of its daily gasoline needs. On an annual basis, fuel consumption reaches approximately 547.5 million barrels, with 328.5 million

barrels still dependent on imports from neighboring countries such as Malaysia and Singapore (Kementrian ESDM, 2026b). According to the Secretary of the Directorate General of Oil and Gas at the Ministry of Energy and Mineral Resources Indonesia's fuel imports are dominated by Singapore at 64.3% and Malaysia at 27.1% (Kementrian ESDM, 2026). Thus, Indonesia's oil supply is highly dependent on imports rather than domestic production, while the country's strategic oil reserves are estimated to last only around 23 days (Kementrian ESDM, 2026).

On February 28, 2026, bombings occurred in central Tehran targeting several governmental and economic centers in Iran. Shortly thereafter, Iran's Supreme Leader Ayatollah Ali Khamenei passed away as a result of the attacks. The incident generated profound national grief and escalated tensions among major powers. This conflict created significant concern among countries dependent on Arab states for approximately 20% of global oil supplies. As tensions intensified between Iran and the United States–Israel alliance, the Strait of Hormuz was closed under the directive of Iran's new leader, Mojtaba Khamenei. He ordered the complete suspension of shipping activities through the strait and threatened military action against vessels attempting to pass through it.

As a major route for oil tankers transporting petroleum from Arab countries, the Strait of Hormuz constitutes one of the world's most critical energy transit corridors. Its closure disrupted oil exports from countries such as Qatar, Bahrain, and Saudi Arabia, thereby obstructing their ability to transport oil through the strait. Consequently, several countries were forced to adopt emergency energy policies in response to the resulting energy crisis. Global oil prices surged dramatically, reaching an unprecedented level of USD 113 per barrel (CNBC Indonesia, 2026).



Source 1 Strait of Hormuz, (2026)

How does this global crisis reverberate within the Indonesian domestic framework? Is Indonesia genuinely immune to the severe geopolitical and economic ramifications triggered by the closure of the Strait of Hormuz? Evidenced by the current architectural vulnerabilities in global supply chains, Indonesia is undeniably and substantially affected by this blockade. Consequently, it is highly plausible—if not inevitable—that the Indonesian government will orchestrate a series of strategic interventions mirroring the defensive postures of other sovereign nations. These measures are designed

as a critical contingency plan to mitigate severe supply disruptions and guarantee long-term national energy security.

To understand the gravity of the situation, one must examine the global landscape, where multiple nation-states have already executed aggressive maneuvers to protect their domestic reserves. For instance, China—historically positioned as the world's foremost crude oil importer—has adopted an ultra-cautious doctrine; the state has strictly mandated its largest strategic petroleum reserves and commercial refineries to completely suspend energy exports to foreign markets. Simultaneously, Vietnam has enacted an aggressive fiscal policy by slashing oil import tariffs to near-zero percent. This fiscal shockwave, however, has been compounded by severe downstream shortages, culminating in the involuntary closure of numerous independent, small-scale fueling stations across the country due to acute fuel depletion (Strait of Hormuz, 2026).

In contrast, alternative governance models have focused on demand-side management rather than fiscal or supply manipulation. The Philippines, for example, opted for a structural labor reorganization, implementing a mandatory four-day compressed workweek coupled with a one-day work-from-home (WFH) institutional framework for public sector employees—a strategy explicitly designed to curb national fuel consumption. Meanwhile, major energy producers like Russia have begun systematically restricting their oil and energy exports, utilizing export quotas as an anticipatory defense mechanism to prioritize and insulate domestic industrial demand. Collectively, these diverse paradigms represent a fraction of the highly protectionist policies deployed worldwide, as sovereign states increasingly prioritize domestic resilience over global market obligations.

In a similar vein, yet executing a starkly contrasting methodology, Indonesia has formulated its own idiosyncratic policy matrix to safeguard domestic consumption and maintain macroeconomic continuity amidst this pervasive energy scarcity. On June 5, 2026, the Indonesian administration established a definitive policy benchmark, choosing to completely freeze subsidized fuel (*Bahan Bakar Minyak Bersubsidi*) prices at their current baseline levels through December 2026. To complement this fiscal burden, the government simultaneously introduced aggressive energy conservation measures, including a mandatory weekly one-day WFH decree across various sectors, alongside supplementary crisis-mitigation frameworks.

Admittedly, this policy trajectory diverges drastically from contemporary global economic orthodoxy. While the vast majority of international governments have chosen to liberalize domestic fuel pricing—forcing consumer rates to align with the highly volatile and inflated global market spot prices—Indonesia has resolutely chosen to keep its subsidized fuel prices entirely unadjusted. Nevertheless, this unorthodox approach is far from arbitrary; it is structurally well-founded. By absorbing the global price shock through state-funded subsidies and combining it with strategic

demand reduction, this intervention is explicitly engineered to insulate domestic purchasing power. Ultimately, this policy acts as a vital macroeconomic stabilizer, fostering national economic resilience and maintaining social stability amidst the unprecedented turmoil of the global energy crisis.

This study aims to examine the influence of the organization-public relationship and situational factors on public participation in CSR activities. More specifically, the objectives of this study are:

1. Analyzing the influences that serve as factors for maintaining national economic stability and growth during a global energy crisis.
2. Analyzing strategies to create a favorable investment environment during a global energy crisis.
3. Analyzing measures to maintain public trust and stability toward the Rupiah.

This study is expected to contribute to current and future economic growth following the global energy crisis induced by war. Specifically, it aims to maintain an investment environment that remains welcoming and offers certainty to sustain national economic growth and stability. This aligns with the state's objective to foster public welfare and advance the social life of the community.

2. Literature Review

Macroeconomics

Studies economic activity in aggregate, including phenomena such as inflation, unemployment, and economic growth. Through the study of macroeconomics, one can understand changes in economic cycles, evaluate the role of public policy in maintaining economic balance, and identify strategies for promoting stable and sustainable economic growth (Hidayat et al., 2025).

Keynesian Policy Theory

The Keynesian fiscal policy theory posits that government intervention through strategic spending and taxation is essential to stabilizing an economy, particularly during times of recession or severe downturns. Within this framework, subsidies function as a vital component of government expenditure (G) designed to stimulate aggregate demand (AD), which Keynesians define through the foundational identity (Keynes, 1936).

$$Y = C + I + G + (X - M)$$

Source2: Keynes (1936)

When a government injects liquidity into the market by subsidizing consumer goods or lowering production costs for businesses, it effectively increases disposable income and sparks a chain reaction known as the multiplier effect.

Economic Stability Theory

Economic stability theory focuses on the conditions under which an economic system can maintain consistent

growth without experiencing extreme fluctuations, such as high inflation, mass unemployment, or financial crises. This theory is rooted in classical economic thought, which was subsequently developed through the contrasting yet complementary perspectives of the Keynesian school. Theoretically, the scope of economic stabilization encompasses domestic price stability to preserve public purchasing power, sustainable gross domestic product (GDP) growth to prevent economic overheating, optimal employment availability to minimize unemployment, and external balance as reflected in the stability of exchange rates and the balance of payments (Romer, 2018).

Energy Security Theory

Energy Security Theory constitutes a conceptual framework within international political economy and macroeconomics that focuses on the capacity of a nation or an economic system to ensure the sustainable, stable, and affordable availability of energy supplies. Initially, this theory developed in the aftermath of the 1970s oil crises, primarily focusing on military dimensions and the physical securing of crude oil supplies (Wah et al., 2015). However, within the modern landscape, the scope of this theory has expanded into a multidimensional approach that integrates the realist perspective—wherein energy is treated as a strategic political tool of the state—with neoliberalism, which views energy as a market commodity regulated through global interdependence and institutional governance (Cherp & Jewell, 2014).

Economic growth reflects an increase in a country's output and income, often measured by Gross Domestic Product (GDP) (Veronica & Sari, 2024). Stability provides security and continuity for economic growth and development. Energy is very important for a country's economy because fossil fuels are still the main energy used in economic activities. However, the increase in energy consumption in developed and developing countries has caused problems such as a decrease in the availability of energy resources, especially petroleum, and increased global warming due to greenhouse gas emissions such as carbon dioxide (CO₂) (Amalina, 2025). Various stabilization programs carry different consequences, including subsidized fuel programs aimed at improving public welfare. The subsidized fuel program serves as part of Indonesia's fiscal policy framework to assist citizens using motorcycles and automobiles fueled by Pertalite gasoline and Biosolar diesel. Its primary purpose is to reduce transportation costs and enhance mobility, thereby supporting economic stability in both central and regional economies. This policy is consistent with Article 2 of Law No. 22 of 2001 (BPK, 2001b) concerning Oil and Gas, which emphasizes public welfare, equitable distribution, and collective prosperity.

3. Methodology

Systematically employs a qualitative library research methodology, operating through a comprehensive descriptive-analytical approach designed to deconstruct the complex macroeconomic variables underpinning Indonesia's contemporary economic

stability. Rather than relying on primary empirical field data, the structural foundation of this inquiry is entirely constructed upon a vast repository of secondary literature, which ensures a high degree of conceptual breadth and theoretical grounding.

The data acquisition process was meticulously executed by sourcing information from peer-reviewed scientific journals, authoritative economic textbooks, doctoral dissertations, institutional research monographs, and official state documents issued by relevant regulatory bodies specializing in macroeconomics, international investment paradigms, and global energy security. To guarantee the academic validity and integrity of the foundational arguments, the literature selection protocol adhered to stringent inclusion criteria, prioritising highly credible, peer-reviewed, and chronologically up-to-date publications that directly reflect the volatile geopolitical and economic conditions of the post-2026 global energy landscape.

Following the exhaustive compilation of these secondary materials, the raw qualitative data underwent a rigorous thematic analysis framework to synthesize the disparate findings into a coherent narrative. This analytical process involved the systematic categorization of qualitative data into distinct, interlinked thematic matrices, focusing primarily on the mechanisms driving global energy price inflation, the subsequent systemic shocks transmitted to emerging market economies, and the strategic efficacy of national mitigation policies deployed to insulate domestic markets.

These categorized data sets were then subjected to a deep critical interpretation, mapping out the empirical intersections between global supply chain disruptions and domestic fiscal pressures. Ultimately, this descriptive-analytical synthesis was engineered to critically examine both the theoretical paradigms of energy economics and the practical, real-world implications of global energy crises on the baseline resilience of Indonesia's national economic architecture.

3.1 Data

According to Sugiyono (2021), there are three types of research, quantitative data is information that appears in numerical or numerical form and can be measured objectively. This data consists of numbers or variables that can be calculated, measured, and analysed using statistical methods (Sugiyono, 2019).

3.2 Analysis Method

This study adopts a descriptive qualitative approach with an in-depth thematic analysis. Secondary data were gathered from official government websites (Ministry of Energy and Mineral Resources, and Ministry of Finance), state budget (APBN) realization reports, and scientific literatures related to energy subsidies. Data analysis was conducted through literature reviews, examination of monetary and fiscal policies, macroeconomic impact interpretations, and synthesizing findings to formulate complementary policy models that maintain both short-term and long-term economic stability.

4. Results And Discussion

Maintaining Economic Stability and Growth

Economic stability and growth refer to macroeconomic conditions free from excessive fluctuations caused by inflation and exchange rate instability, while also ensuring continuous increases in Gross Domestic Product (GDP) and national income. Stability should not merely be understood as a balance between inflation and exchange rates but also as a preventive measure against severe economic volatility. Likewise, economic growth should not only serve as a source of state revenue but must also be accompanied by sustainable improvements in public welfare. The ongoing conflict between Iran and the United States has contributed to rising global energy prices. If energy prices continue to increase, transportation, logistics, and industrial production costs will inevitably rise. These increases would subsequently lead to higher national commodity prices, particularly food prices, which form the backbone of Indonesia's economy. Indonesia's economic structure remains heavily dominated by lower-middle-income households. According to Statistics Indonesia (BPS, 2025) the average monthly wage in 2026 was approximately IDR 3.28 million, with the lowest income levels around IDR 2 million. This condition is compounded by increasing unemployment.

In response, the Indonesian government decided to maintain subsidized fuel prices without increasing prices or reducing fuel supplies until December 2026. Through this policy, the government aims to preserve purchasing power and maintain economic resilience during the crisis. The policy has become a central component of Indonesia's strategy for sustaining economic stability and growth. However, the policy imposes a substantial fiscal burden. (KEMENKEU RI, 2026b) government allocated IDR 420 trillion in fiscal reserves *Sisa Anggaran Lebih* or (SAL) to offset rising fuel prices. In 2025 alone, Indonesia had already allocated between IDR 394.3 trillion and IDR 498.8 trillion for energy subsidies and compensation programs. This policy reflects an expansionary fiscal policy framework because it utilizes reserve funds that were originally intended as fiscal buffers. The challenge extends beyond rising fiscal expenditures, as Indonesia's energy infrastructure also remains inadequate. Indonesia's fuel reserves can only sustain approximately 23 days of consumption, or around 40 million barrels, while daily consumption reaches 1.5–1.6 million barrels. According to the International Energy Agency (IEA)(Dirgantara, 2026) countries should maintain emergency oil reserves equivalent to at least 90 days of net oil imports. Indonesia therefore faces a pressing need to strengthen its national oil refinery and storage infrastructure.

The strategic projection of national economic trajectories remains a cornerstone of fiscal planning, particularly within emerging market economies navigating global macroeconomic shifts. (KEMENKEU RI, 2026a) According to official assessments articulated by Finance Minister Purbaya Yudhi Sadewa, Indonesia's macroeconomic growth is forecasted to approach a robust

baseline of 6% over the course of the 2026 fiscal year. This expansionary momentum is structurally underpinned by a tri-focal growth engine consisting of highly resilient domestic private consumption, the continued expansion of high-value downstream industrialization policies (hilirisasi), and the accelerated execution of capital-intensive strategic investment projects nationwide. In the immediate term, this growth trajectory is anticipated to manifest a strong upward performance, with expansion rates in the first half of 2026 expected to comfortably exceed the 5,5% threshold. However, the realization of this optimistic fiscal forecast remains strictly contingent upon the government's institutional capacity to insulate the domestic market from external shocks, preserve macroeconomic stability, and foster synchronized growth dynamics across both centralized metropolitan economic zones and regional peripheral economies. To contextualize these future projections within the nation's current empirical performance, the latest empirical datasets delineating Indonesia's realized gross domestic product growth during the opening quarter of 2026 are comprehensive presented below:



Source3: BPS (2026b)

Statistics Indonesia (BPS) has released the economic growth report for the first quarter of 2026, stating that Indonesia experienced a Gross Domestic Product (GDP) growth of 5,61 percent year-on-year (y-on-y). This expansion was driven by increased production and the Government Final Consumption Expenditure (GFCE) component. In terms of production, the accommodation and food services sector recorded a growth of approximately 13,14 percent. Meanwhile, from the expenditure perspective, the GFCE component achieved its highest growth in recent years, registering at 21,81 percent. Even though Indonesia and the global community are currently facing a global energy crisis that disrupts international economic mobility, Indonesia was able to generate this positive outcome through distinct mechanisms. There was an unprecedented surge in Government Final Consumption Expenditure aimed at stabilizing financial markets and mitigating the impact of global inflation on the Rupiah, which had recently depreciated significantly. This contraction—or shift—in GFCE reflected a 30,13 percent increase compared to the first quarter of 2025. This phenomenon is highly unusual, considering that historical trends show the government

typically increases spending by only around 4 percent annually, traditionally focusing instead on investment growth and household consumption. Although the growth generated in the first quarter appears to deviate from established policy conventions, this intervention was deemed necessary as a strategic measure to stabilize current economic developments. Once this stability is secured, the next challenge lies in integrating these measures—further accelerating growth through the realization of government programs that prioritize regional economic independence and sustainable growth. Physical infrastructure development must be integrated with human capital development in order to improve productivity and maximize economic benefits. Once stability has been achieved, the next step is integrating economic development programs that prioritize regional economic independence and long-term national growth.

Creating a Favorable Investment Climate

Creating a favorable investment climate is a major objective for both developed and developing countries. Increased investment should not merely be interpreted as a source of government revenue, but also as a mechanism for improving public welfare through employment generation and capital formation.

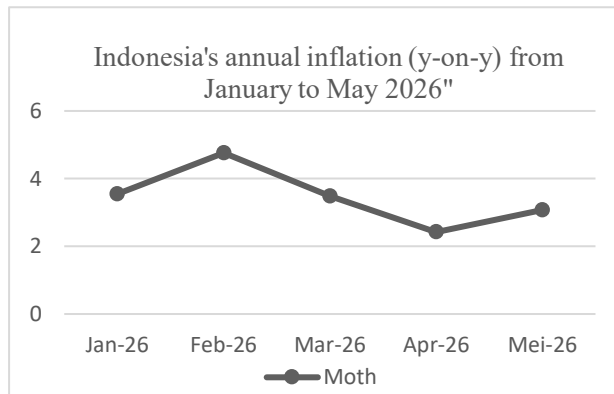
In economics, investment opportunities refer to the potential for future returns obtained by allocating capital into financial instruments such as stocks, property, and business ventures while considering associated risks and liquidity. Investment opportunities generate long-term impacts, although short-term gains may also be relevant depending on the nature of the investment (Nugraha & Muhammad, 2022)). The government's role in investment is generally limited to market regulation and supervision rather than direct participation in productive markets, except in sectors related to natural resources and public welfare. The state's primary responsibility is to ensure social welfare, education, healthcare, security, and economic growth. During crises such as the Asian Financial Crisis of 1998, the Global Financial Crisis of 2008, and the COVID-19 pandemic, investment conditions become highly uncertain. The current energy crisis triggered by the Iran–United States conflict similarly increases investment risks, particularly because foreign investors are highly sensitive to global energy instability. Nevertheless, crises also create investment opportunities. Energy-related sectors, especially mining, may generate significant returns due to rising commodity prices. Meanwhile, sectors such as banking and undervalued equities may offer substantial future gains if investors are able to capitalize on market downturns. To maintain investment stability during the energy crisis, several conditions are necessary.

Maintaining Purchasing Power

Purchasing power must become a primary requirement during times of crisis in order to maintain economic stability and protect people's ability to meet their daily needs. A clear example can be seen in Indonesia's response to the COVID-19 crisis in 2020. The

Indonesian government took bold and risky measures by continuing to pursue economic growth and maximize investment protection, while many other countries focused mainly on health policies at the expense of their economies. Many nations implemented total lockdowns or complete restrictions on social activities, which resulted in severe economic consequences. Countries such as India, Argentina, Sri Lanka, and several others experienced bankruptcy or were pushed to the brink of economic collapse. In Indonesia, however, the government implemented Large-Scale Social Restrictions (PSBB) in certain regions and Community Activity Restrictions (PPKM) in local areas, while deliberately avoiding a full nationwide lockdown. In addition, the government introduced various economic stimulus programs, including Direct Cash Assistance (BLT), incentives for Micro, Small, and Medium Enterprises (MSMEs), free vaccination programs, and other supporting policies aimed at sustaining economic growth. These large-scale policies significantly influenced economic growth and helped stabilize price fluctuations caused by social restrictions during the COVID-19 pandemic. In retrospect, these policies proved to be appropriate because their impact was substantial in supporting economic recovery and maintaining people's purchasing power. The results of these strategies provided fresh momentum for the development of the national economy, particularly through the increased use of social media, which created previously unpredictable income opportunities.

A similar situation is currently occurring in Indonesia, where the energy crisis has begun to threaten the sustainability of both national and international economic stability. Therefore, Indonesia must be willing to take similar measures to ensure that investment opportunities and economic stability remain secure, one of which is maintaining subsidized fuel prices without increases until December 2026. This policy has raised significant questions as to why a country as large as Indonesia has chosen not to increase subsidized fuel prices in line with global market prices. According to Finance Minister Purbaya Yudhi Sadewa (KEMENKEU RI, 2026) fuel subsidies are intended to maintain people's purchasing power and stabilize inflation in order to support steady economic growth. By keeping subsidized fuel prices stable, the government seeks to prevent increases in the prices of essential goods, protect productive sectors, and preserve the social and economic stability of lower- and middle-income communities. Viewed from the perspective of inflation, Indonesia tended to remain stable from January to May 2026. The graph is presented below:



Source3: BPS (2026)

The graph above illustrates that the monthly inflation rate from January to May 2026 tended to remain stable. There was a 4.7% increase in February 2026 due to the anticipation of annual religious holidays. This inflationary stability must be continuously maintained, even during current times of crisis. While the global energy crisis will inevitably disrupt production and transport costs, the implementation of subsidized fuel (BBM) is expected to mitigate potentially uncontrollable inflation. Consequently, controlled inflation will create a favorable investment climate for investors seeking investment destinations. These ambitious goals must be maximized through the improvement of infrastructure development and human resources in order to achieve short, medium, and long-term economic growth.

Integrated Infrastructure Development

Maintaining purchasing power alone is insufficient. The second requirement for creating a favorable investment climate is integrated infrastructure development. Infrastructure investment should not only generate state revenue but also improve public welfare. Investors typically seek long-term investment opportunities with impacts extending five to ten years into the future. Consequently, infrastructure development must be aligned with industrialization and future economic expansion.

The development of physical and basic infrastructure is a crucial factor in creating a favorable investment environment and attracting investors. Adequate and high-quality infrastructure has a direct impact on operational efficiency and overall economic growth. This is especially important for a country like Indonesia, which has a vast territorial area and consists of many islands. Therefore, the infrastructure needed must prioritize connectivity between regions. In recent years, Indonesia has been aggressively improving and building infrastructure integrated with industrialization needs. This includes the construction of mega projects such as Nusantara Capital City (IKN), Whoosh, Mass Rapid Transit Jakarta Phase 1, and Light Rail Transit Jakarta. In addition, smaller-scale infrastructure projects have also been developed in villages and regional areas. Over the past ten years, the government has built 366,000 kilometers of village roads, 6,000 kilometers of national

roads, 2,700 kilometers of new toll roads, and 1.9 million meters of village bridges. Furthermore, 50 new ports and airports, 43 new dams, and 1.18 million hectares of new irrigation networks have also been constructed (Eri Sutrisno, 2024). This growth optimism is solidly grounded and is highly projected to materialize provided that economic stability is maintained alongside a strategic focus on both national and regional economic expansion.

Human Capital Development and Enhancement

Human resource development constitutes one of the most critical agendas for both institutions and corporations. Human capital is central to economic productivity and serves as a key component of real-sector investment. The availability of qualified human resources directly affects efficiency and productivity. According to the World Talent Ranking (WTR) 2025, Indonesia ranked 53rd out of 69 surveyed countries with a score of 45.8, declining seven positions from the previous year. This indicates the urgent need to improve human capital quality in order to support sustainable investment (Dirgantara, 2026).

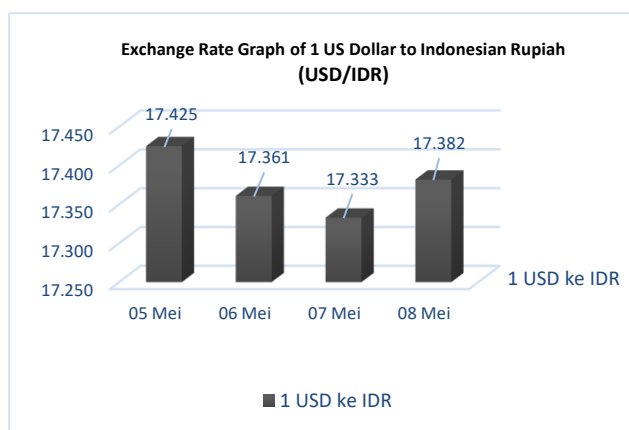
In 2026 the government allocated approximately IDR 644.72 trillion for programs under National Priority 4, which focuses on strengthening human capital, science, technology, education, healthcare, sports achievement, gender equality, and the empowerment of women, youth, and persons with disabilities (CNBC Indonesia, 2026). Key strategic programs include the Free Nutritious Meals Program (Free Nutritious Meal), LPDP scholarships, and White School, and other educational initiatives. Although these programs may not immediately produce significant improvements in human capital quality, they represent an important foundation for developing competitive and high-quality human resources.

Sustainable development principles must accompany these programs to ensure that no segment of society is excluded. The Sustainable Development Goals (SDGs) provide a framework for promoting inclusive, integrated, and equitable development. Indonesia has integrated SDG principles into regional and national development planning through the Regional Medium-Term Development Plan (RPJMD) and the National Medium-Term Development Plan (RPJMN). These programs synchronize regional development priorities with national development objectives.

Maintaining Trust and Rupiah Stability

Sustaining public confidence and ensuring the structural stability of the national currency constitutes the ultimate prerequisite for long-term macroeconomic fortitude, given that the exchange rate dynamics of the Rupiah play a profoundly crucial role in anchoring inflationary pressures and underpinning sustainable economic growth trajectories. Beyond its mechanical functions within the domestic marketplace, the stability of the Rupiah serves as an integral component of national economic identity and sovereign credibility, thereby necessitating continuous and highly specialized policy interventions to insulate it from external vulnerabilities. In the contemporary financial architecture, a national currency transcends its rudimentary definition as a mere

medium of exchange; rather, it operates as a fundamental store of value and an asset-safeguarding mechanism that is meticulously monitored by international institutional investors, domestic market scale actors, and global liquidity providers. During periods of pervasive global financial fragmentation and systemic currency crises, the structural integrity of emerging market currencies faces rigorous empirical testing regarding their institutional reliability and market resilience. Under these turbulent global conditions, fiat currencies frequently exhibit a heightened vulnerability toward persistent, definitive depreciation, driven by capital flight and aggressive monetary tightening in developed economies. Consequently, strategic state interventions must be aggressively deployed as a defensive mechanism, reflecting the government's rigorous commitment to fortify the purchasing power of the national currency and align its valuation with its true macroeconomic fundamentals. To evaluate the empirical manifestations of these broader monetary pressures and the subsequent policy adjustments, the following analytical chart delineates the contemporary exchange rate fluctuations and structural trajectory of the United States Dollar relative to the Indonesian Rupiah:



Source4: *Exchange Rate Graph of 1 US Dollar to Indonesian Rupiah, n.d., (2026)*

On May 5, 2026, the rupiah weakened to IDR 17.425 per US dollar, declining by 30 points or 0.17%. The weakening of the rupiah was in line with the movement of most Asian currencies, which responded variably to the US dollar. The Chinese yuan weakened by 0.16 percent, followed by the Malaysian ringgit which corrected by 0.18 percent, while the Japanese yen edged down slightly by 0.03 percent (Dirgantara, 2026). The depreciation was influenced by United States monetary tightening, which encouraged capital flows away from emerging markets and back toward safer assets. Rising global oil prices also increased Indonesia's import burden as a net energy importer. This situation resembles aspects of the 1998 Asian Financial Crisis, when the rupiah collapsed from IDR 2,400 to IDR 16,000 per US dollar due to external debt exposure and capital flight (Dirgantara, 2026). Although current currency weakness is largely driven by geopolitical conflict, there remains concern that prolonged instability could evolve into a broader international crisis affecting neighboring countries and weakening currencies over the long term.

The contemporary global financial landscape in 2026 has subjected emerging market economies to unprecedented capital flow volatility and acute exchange rate pressures. Within this turbulent macroeconomic milieu, Indonesia presents a compelling paradox where its national currency remains fundamentally undervalued despite stellar domestic economic indicators. As articulated by the Governor of Bank Indonesia, Perry Warjiyo, during the Financial System Stability Committee press conference on May 5, 2026, the country's domestic vitality is structurally robust, evidenced by a 5.61% GDP growth rate in the first quarter of the year, a tightly controlled inflation environment, and an aggressive credit expansion reaching approximately 38.7%. Furthermore, the nation's gross international reserves have remained highly formidable, providing a substantial fiscal buffer against external shocks.

Nevertheless, this domestic resilience has not automatically translated into currency appreciation due to severe exogenous headwinds, including aggressive monetary tightening in developed economies and heightened geopolitical frictions that continue to exert downward pressure on the Rupiah. Consequently, a consensus among policymakers emphasizes that conventional monetary mechanisms are no longer sufficient, necessitating the deployment of extraordinary, alternative macroprudential measures to reinforce and stabilize the national currency. To navigate this systemic currency misalignment without depleting national reserves or destabilizing domestic markets, Bank Indonesia has enacted a sophisticated, synchronized dual-market intervention framework. ("Keterangan Pers Komite Stabilitas Sistem Keuangan," 2026) This mechanism operates aggressively across both onshore spot markets and offshore jurisdictions, specifically targeting prime global liquidity centers such as Hong Kong, Singapore, London, and New York through Non-Deliverable Forward transactions. By maintaining a persistent operational presence in these diverse financial hubs, the central bank aims to effectively curb speculative short-selling of the Rupiah while simultaneously ensuring that Indonesia's foreign exchange reserves remain structurally more than sufficient to maintain long-term exchange rate stability. In tandem with external market stabilization, a pivotal pillar of Indonesia's defense architecture rests on preserving systemic liquidity within the domestic banking sector and capital markets. Rather than inducing an aggressive liquidity squeeze to protect the currency—which could inadvertently jeopardize domestic growth—Bank Indonesia has successfully maintained internal liquidity at more than adequate levels, as empirically validated by the primary money market indicators consistently hovering in double digits at 14.1%. By ensuring that commercial banks remain highly liquid, the central bank guarantees that the domestic credit transmission mechanism remains uninhibited, allowing productive economic sectors to thrive despite the defensive monetary posture. Recognizing that capital flight is often exacerbated by domestic retail speculation, Bank Indonesia has also executed an aggressive

tightening of macroprudential capital controls by imposing strict regulatory caps on non-underlying U.S. Dollar purchases. The central bank substantially reduced the regulatory ceiling from its historical baseline of USD 100,000 down to a tiered threshold of USD 50,000 and eventually USD 25,000 per person per month, effectively eliminating speculative greenback hoarding. This defensive capital control is strategically augmented by an offensive structural shift toward Local Currency Settlement frameworks, explicitly encouraging direct Yuan-Rupiah transactions. This diversification away from the U.S. Dollar serves a dual purpose, as it insulates Indonesia's bilateral trade with its largest partners from volatile exchange rates and systematically diminishes the long-term dependency of the domestic economy on Western financial architecture.

Ultimately, these integrated, alternative measures provide a sophisticated blueprint for emerging market governance, explicitly engineered to restore the Rupiah to its true fundamental value and secure national economic sovereignty amidst global financial fragmentation. The three points above were introduced in response to the government's perceived lack of action in addressing the depreciation of the rupiah exchange rate, particularly the fifth point. Without strict supervision of dollar purchases, excessive demand for U.S. dollars could threaten the liquidity and stability of the rupiah. Through such policies, the government is expected to gain greater control over dollar appreciation, or the so-called "strong dollar," which is considered undervalued due to rising prices caused by the global energy crisis. In addition, the emergence of safe-haven assets resulting from energy blockades and tensions related to the Iran–United States conflict has encouraged investors to flock toward securing their assets.

5. Conclusion and Suggestions

Conclusion

National fiscal policy serves as a fundamental pillar of state governance, encompassing a broad and diversified spectrum of strategic interventions that directly dictate public welfare through targeted allocations in healthcare, education, infrastructural development, and public transportation networks. This expansive operational scope stands in stark contrast to monetary policy, which maintains a more localized focus on regulating circulating currency, adjusting benchmark interest rates, and anchoring inflationary pressures within controllable parameters. Consequently, fiscal policy carries a substantially heavier socioeconomic burden; its efficacy is not merely measured by the conceptualization of legislative frameworks, but rather by the empirical rate of budgetary absorption and the tangible downstream impacts generated to elevate public prosperity. Within the context of emerging markets such as Indonesia, this fiscal mandate is frequently operationalized through various economic stimulus packages, most notably the subsidized fuel framework.

This subsidy mechanism is explicitly engineered as a counter-cyclical fiscal instrument designed to alleviate

financial burdens on the demographic segments relying on petroleum and bio-diesel variants for daily commuting and commercial activities. Mechanistically, the primary objective of keeping fuel prices artificially low is to minimize transportation costs and facilitate seamless logistics, thereby fostering macroeconomic stability and accelerating mobility across both centralized metropolitan hubs and peripheral regional economies. This intervention aligns systematically with the statutory mandates of the Indonesian government, specifically Article 2 of Law Number 22 of 2001 concerning Oil and Natural Gas, which dictates that the management of oil and gas resources must fundamentally adhere to the principles of a populist economy, national security, utility, equity, equilibrium, and shared prosperity. By framing energy accessibility within this legal and ethical paradigm, the subsidized fuel policy transcends simple market intervention, operating instead as a vital redistributive fiscal solution structurally calculated to democratize transportation access, insulate consumer purchasing power, and secure long-term social welfare amidst shifting global economic dynamics.

However, maintaining subsidized fuel prices without increasing them is an extremely costly policy, particularly because fuel constitutes an inelastic basic necessity for Indonesian society. The public remains highly dependent on both stable fuel supplies and affordable prices, requiring the government to adopt extraordinary fiscal measures in order to sustain the subsidized fuel program during periods of crisis. Beyond maintaining fuel availability and price stability, the government aims to strengthen broader economic stability through policies aligned with three key pillars: maintaining purchasing power, developing integrated infrastructure, and strengthening human capital. These three pillars serve as the structural foundation for sustaining economic stability and growth. Strengthening confidence in domestic markets through these measures will help create a favorable and sustainable investment climate while supporting both short-term profitability and long-term economic development. Ultimately, stable subsidized fuel prices not only support investment opportunities but also provide the flexibility necessary for implementing the government's national development priorities.

Sustaining public confidence and ensuring the structural stability of the national currency constitutes the ultimate prerequisite for long-term macroeconomic fortitude, given that the exchange rate dynamics of the Rupiah play a profoundly crucial role in anchoring inflationary pressures and underpinning sustainable economic growth trajectories. Beyond its mechanical functions within the domestic marketplace, the stability of the Rupiah serves as an integral component of national economic identity and sovereign credibility, thereby necessitating continuous and highly specialized policy interventions to insulate it from external vulnerabilities. In the contemporary financial architecture, a national currency transcends its rudimentary definition as a mere medium of exchange; rather, it operates as a fundamental store of value and an asset-safeguarding mechanism that

is meticulously monitored by international institutional investors, domestic market scale actors, and global liquidity providers.

During periods of pervasive global financial fragmentation and systemic currency crises, the structural integrity of emerging market currencies faces rigorous empirical testing regarding their institutional reliability and market resilience. Under these turbulent global conditions, fiat currencies frequently exhibit a heightened vulnerability toward persistent, definitive depreciation, driven by capital flight and aggressive monetary tightening in developed economies. Consequently, strategic state interventions must be aggressively deployed as a defensive mechanism, reflecting the government's rigorous commitment to fortify the purchasing power of the national currency and align its valuation with its true macroeconomic fundamentals.

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