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Energy Price Stability in Times of Crisis: Policy Trade-offs and Crisis Management in Indonesia's Fuel and LPG Subsidy Strategy

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ABSTRACT

The global energy crisis has forced many countries to adjust domestic energy prices in response to rising international costs. In contrast, Indonesia has adopted a distinct policy approach by maintaining stable prices of subsidized fuels and liquefied petroleum gas (LPG) through fiscal intervention, while gradually allowing market-based adjustments for non-subsidized fuels. This study analyzes Indonesia's energy price stabilization strategy and examines the policy trade-offs associated with its implementation. Using a qualitative policy analysis approach, this research draws on government reports, international publications, and recent empirical data. The findings show that Indonesia effectively mitigates the immediate impact of global price volatility by absorbing external shocks through subsidies and fiscal mechanisms. However, this stability comes at the cost of increased fiscal pressure, potential consumption distortions, and delayed energy transition. The widening price gap between subsidized and non-subsidized fuels risks encouraging consumption shifts toward subsidized products, thereby complicating fiscal risk management. This study argues that Indonesia does not eliminate the energy crisis but redistributes its impact from consumers to the state. It contributes to the literature by reframing energy subsidies as a crisis management instrument, highlighting the trade-offs between social protection, fiscal sustainability, and long-term energy security.

Keywords: **energy crisis, trade-off's policy, energy subsidies, crisis management, Indonesia's strategy**

INTRODUCTION

The global energy landscape has experienced profound disruption in recent years as geopolitical conflicts, supply chain disruptions, and post-pandemic economic recovery have intensified volatility in international oil and gas markets (International Energy Agency, 2023; World Bank, 2023). Because energy constitutes a fundamental production input, fluctuations in global energy prices rapidly transmit to inflation, fiscal balances, industrial competitiveness, and household welfare, compelling governments to reconsider the balance between market efficiency and social protection (International Monetary Fund, 2022).

Many countries have responded by allowing domestic energy prices to follow international market movements. While market-based pricing improves fiscal sustainability and allocative efficiency, it also transfers external shocks directly to households and businesses, increasing inflationary pressure and socio-economic vulnerability, particularly among lower-income populations (Coady et al., 2015; Arze del Granado et al., 2012). Consequently, governments confronting energy crises often face a fundamental policy dilemma: whether to prioritize fiscal discipline through market adjustment or protect domestic welfare through state intervention.

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Indonesia represents an important case within this debate. Rather than fully transmitting international price increases to domestic consumers, the government has maintained relatively stable prices for subsidized fuel and liquefied petroleum gas (LPG) through fiscal compensation while allowing non-subsidized fuels to adjust according to international benchmarks. This dual-track pricing mechanism seeks to preserve household purchasing power, contain inflation, and maintain macroeconomic stability, yet simultaneously generates increasing fiscal commitments and widening price differentials between subsidized and non-subsidized fuels. Such conditions create incentives for fuel substitution that may weaken subsidy targeting and increase long-term fiscal exposure.

The effectiveness of energy subsidies has been extensively debated within the energy economics literature. Conventional studies generally conclude that subsidies distort market signals, encourage excessive fossil-fuel consumption, impose substantial fiscal burdens, and disproportionately benefit higher-income households because energy consumption increases with income (Burniaux & Chateau, 2014; Coady et al., 2015; OECD, 2018). However, more recent scholarship argues that evaluating subsidies solely from an efficiency perspective overlooks their broader function as instruments of social protection, political stability, and crisis management, particularly in developing economies facing external shocks (International Institute for Sustainable Development, 2022). During periods of severe energy market disruption, governments frequently prioritize economic resilience and short-term stability over market efficiency by absorbing external price shocks through fiscal intervention (International Monetary Fund, 2022).

These contrasting perspectives suggest that energy subsidy policy is fundamentally characterized by policy trade-offs. The Theory of the Second Best (Lipsey & Lancaster, 1956) provides an appropriate analytical lens by arguing that when ideal market conditions cannot be achieved, policies that appear economically inefficient may nevertheless produce superior overall outcomes under real-world constraints. Within this perspective, Indonesia's subsidy policy can be interpreted as a deliberate second-best strategy that sacrifices fiscal efficiency to preserve macroeconomic stability and social welfare. Simultaneously, the broader concepts of energy security, energy sustainability, and energy justice demonstrate that energy policy cannot be evaluated solely on economic criteria. Energy security emphasizes reliable and affordable supply, energy sustainability highlights long-term environmental objectives, whereas energy justice focuses on the equitable distribution of policy benefits and burdens across society (International Energy Agency, 2022; Sovacool, 2016). These perspectives illustrate that improvements in one policy objective frequently occur at the expense of another, making trade-offs inherent in energy governance.

Recent international assessments reinforce this multidimensional interpretation. The International Monetary Fund recognizes Indonesia's macroeconomic resilience amid continuing global uncertainty while simultaneously warning that prolonged fiscal intervention reduces fiscal space and creates quasi-

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fiscal liabilities. Likewise, the World Bank argues that generalized energy subsidies remain fiscally expensive and often distribute benefits inefficiently, emphasizing the need for more targeted social protection mechanisms. These findings indicate that Indonesia's strategy should not be viewed simply as successful price stabilization but rather as an institutional mechanism for reallocating the burden of global energy shocks from households to the public sector.

Although extensive studies have examined the fiscal, economic, and environmental consequences of energy subsidies, relatively limited research conceptualizes subsidies as an integrated crisis management strategy that intentionally redistributes external shocks while balancing competing objectives of price stability, fiscal sustainability, energy transition, and social equity. Existing studies also tend to evaluate subsidy effectiveness from a single analytical perspective rather than integrating economic, institutional, and social dimensions into a unified framework.

Accordingly, this study analyzes Indonesia's fuel and LPG price stabilization strategy during the global energy crisis by integrating three complementary analytical perspectives: **Policy Trade-off Analysis**, the **Energy Security–Sustainability Framework**, and the **Energy Justice Perspective**. Specifically, the study examines the policy instruments used to stabilize domestic energy prices, evaluates the trade-offs emerging from fiscal intervention, and compares Indonesia's strategy with policy responses adopted in other countries. By reframing energy subsidies as a crisis management instrument rather than merely an economic distortion, this study contributes to a more comprehensive understanding of adaptive energy governance in developing economies confronted with persistent global uncertainty.

RESEARCH METODOLOGY

This study employs a qualitative research design using a policy analysis approach to examine Indonesia’s energy price stabilization strategy in the context of the global energy crisis. The research is primarily based on secondary data, including government reports, international institutional publications, and recent empirical data from credible media and data platforms.

Data sources include reports from international organizations such as the International Energy Agency, World Bank, and International Monetary Fund, as well as national and regional sources such as the Institute for Essential Services Reform. In addition, recent policy developments and empirical evidence are incorporated from news and data platforms, including Radio Republik Indonesia (2026), Antara News (2026), and Katadata Insight Center (2026), to ensure that the analysis reflects current conditions.

The analytical approach adopted in this study is descriptive-analytical and interpretative. First, the study identifies key policy measures implemented by the Indonesian government, particularly those related to fuel and LPG price stabilization. Second, it examines the economic, social, and energy-related implications of these policies by synthesizing findings from the literature. Third, a comparative perspective

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is applied to assess Indonesia's policy in relation to regional trends, particularly in Southeast Asia.

To guide the analysis, this study utilizes an integrated conceptual framework that combines three main perspectives: policy trade-off analysis, energy security and sustainability frameworks, and energy justice. This framework enables a multidimensional evaluation of Indonesia's policy, capturing not only its economic impacts but also its social and structural implications.

Rather than testing a specific hypothesis, this study aims to develop an analytical interpretation of Indonesia's energy policy as a form of crisis management strategy. The validity of the analysis is ensured through triangulation of sources, where findings are supported by multiple data points from institutional reports, empirical data, and recent policy developments.

FINDINGS AND DISCUSSION

Global Energy Crisis and Policy Response

The global energy crisis continues to be shaped by geopolitical tensions, particularly conflicts in the Middle East, which have heightened uncertainty in global energy supply and price stability (International Energy Agency, 2023). In response, governments worldwide have adopted varying strategies, ranging from price liberalization to direct intervention.

Indonesia's response, however, reflects a more proactive and anticipatory policy stance. Recent developments indicate that the government is not only responding to price volatility but also actively preparing for potential supply disruptions. For instance, high-level government coordination has emphasized the need to anticipate an oil crisis triggered by geopolitical instability, particularly in the Middle East (Antara News, 2026).

Indonesia's Energy Price Stabilization and Efficiency Strategy (Enhanced with Comparative Evidence)

Indonesia's strategy extends beyond price stabilization through subsidies. It also incorporates energy efficiency measures as a complementary policy instrument. Government directives have emphasized the implementation of cross-sectoral energy-saving policies aimed at ensuring both energy security and economic stability amid global uncertainty (Antara News, 2026).

One notable policy innovation is the introduction of a work-from-home (WFH) scheme designed to reduce fuel consumption from daily commuting. The policy, which proposes one remote working day per week, reflects an effort to manage demand-side energy consumption without disrupting economic productivity (Antara News, 2026)

This approach demonstrates that Indonesia's energy policy is not limited to fiscal absorption mechanisms but also includes behavioral and structural adjustments. Such measures indicate a shift toward a more integrated energy policy framework that combines price stabilization, consumption control, and institutional coordination.

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Indonesia's strategy of maintaining stable fuel and LPG prices becomes particularly significant when examined in a regional context. Empirical data show that fuel prices in Southeast Asian countries increased sharply following the escalation of geopolitical conflict in early 2026. However, Indonesia experienced only minimal increases compared to its regional peers.

According to recent data, diesel prices in several Southeast Asian countries rose by more than 100%, with extreme cases such as Laos experiencing an increase of up to 169.5%. In contrast, Indonesia recorded only a 7.5% increase in diesel prices during the same period. Similarly, gasoline prices in neighboring countries rose between 13% and 93.9%, while Indonesia's increase remained limited to 2.8% (Katadata Insight Center, 2026).

This stark contrast highlights Indonesia's position as a **policy outlier**, where domestic price stability is actively maintained despite substantial global and regional price pressures. The relatively low increase in fuel prices reflects deliberate government intervention aimed at suppressing price transmission from international markets to domestic consumers.

Indonesia's price stabilization strategy does not represent a blanket price freeze across all energy products. Instead, it relies on a segmented approach. While subsidized fuels remain strictly buffered through state compensation mechanisms, non-subsidized fuels undergo market-based adjustments to absorb international price fluctuations. While this selective pass-through reduces direct state fiscal liabilities, empirical evidence suggests it creates an unintentional behavioral distortion. As the price gap between non-subsidized and subsidized fuels widens, middle-income consumers face economic incentives to downgrade to subsidized alternatives, potentially expanding total subsidized consumption volumes and eroding the fiscal relief gained from non-subsidized price adjustments. (IQPlus & UGM, 2026; Petromindo & Ministry of Energy and Mineral Resources/MEMR, 2026)

Policy Trade-offs Analysis

Economic Dimension: Fiscal and Efficiency Balance

Indonesia's dual strategy—price stabilization and energy efficiency—illustrates an attempt to balance fiscal sustainability with economic stability. While subsidies continue to play a central role in absorbing global price shocks, efficiency policies aim to reduce overall energy demand, thereby mitigating fiscal pressure in the medium term.

This combination aligns with findings from energy transition studies, which emphasize the importance of reducing energy intensity as part of broader economic resilience strategies. According to the Indonesia Energy Transition Outlook, improving energy efficiency is critical for maintaining economic stability while reducing dependency on fossil fuels (Institute for Essential Services Reform, 2025).

From an economic perspective, the adjustment of non-subsidized fuel prices reflects a policy trade-off aimed at containing broader state expenditure. By allowing market mechanisms to dictate non-subsidized fuel prices, the state reduces the

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burden of overall compensation payments to state-owned energy enterprises. However, this policy creates a secondary fiscal risk: fuel substitution. When non-subsidized fuel prices rise significantly above subsidized rates, demand shifts toward subsidized commodities, threatening quota overruns and increasing overall fiscal exposure in the medium term. (Setyanti, A.M., 2026)

Energy Dimension: Transition vs Short-Term Stability

Despite these efforts, a fundamental tension remains between short-term stabilization and long-term energy transition. The IESR report highlights that Indonesia still faces structural challenges in transitioning toward a low-carbon energy system, including continued reliance on fossil fuels and slow adoption of renewable energy technologies (Institute for Essential Services Reform, 2025).

This structural tension between immediate price stabilization and long-term decarbonization is empirically underscored by the Institute for Essential Services Reform in its *Indonesia Energy Transition Outlook (IETO) 2026*. The report reveals a persistent gap between policy rhetoric and implementation reality, highlighting that Indonesia's renewable energy mix target of 23% by 2025 has been missed, reaching only around 16% to 17% due to deep-seated policy and fiscal inertia. IESR identifies heavy fossil fuel subsidy commitments—which accumulated to over IDR 1,000 trillion between 2022 and 2026—as a key structural barrier that artificially depresses fossil energy prices and dampens market incentives for clean technology adoption. Consequently, while price stabilization successfully buffers consumers from external market shocks, it prolongs reliance on fossil fuels, weakens clean energy investment signals, and risks entrenching a locked-in dependence on conventional energy infrastructure.

In this context, energy subsidies—while effective in maintaining price stability—may delay the transition process by sustaining fossil fuel consumption. However, the introduction of energy efficiency policies suggests an emerging policy direction that attempts to reconcile these competing objectives.

Social Dimension: Inclusive Protection Strategy

From a social perspective, Indonesia's policy reflects a commitment to protecting household welfare. By maintaining stable energy prices and simultaneously promoting efficiency measures, the government seeks to ensure that economic activities remain uninterrupted while minimizing the burden on consumers.

Importantly, recent policy statements emphasize that energy-saving measures are designed to be non-disruptive to economic productivity, ensuring that public services and private sector activities continue to function effectively (Antara News, 2026).

This approach reflects a broader policy orientation toward inclusive economic protection, where stability is achieved not only through fiscal intervention but also through adaptive governance strategies.

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From an energy justice perspective, the decision to adjust non-subsidized fuel prices while freezing subsidized prices aligns with principles of distributive justice. Higher-income households, who are the primary consumers of non-subsidized fuels, bear the direct cost of global market volatility, whereas low-income groups remain protected under state-subsidized tariffs. Nevertheless, procedural and targeting flaws remain critical issues, as middle-income groups impacted by non-subsidized price increases may exploit weak targeting mechanisms to access subsidized fuel intended strictly for lower-income populations.

Comparative Insight: Indonesia as a Policy Outlier

Compared to other countries that rely primarily on price adjustments, Indonesia's approach can be characterized as multi-layered intervention: (1) Price buffering (subsidies); (2) Demand management (energy efficiency policies); (3) Institutional coordination (cross-ministerial strategy)

This multi-dimensional strategy distinguishes Indonesia from conventional policy responses and highlights a more adaptive model of crisis management. Rather than relying solely on fiscal instruments, the government integrates behavioral and structural policies to enhance resilience.

A comparative analysis reinforces the uniqueness of Indonesia's policy approach. While most countries in Southeast Asia allowed fuel prices to adjust rapidly in response to global market dynamics, Indonesia implemented a controlled pricing strategy supported by fiscal intervention.

The variation in price increases across countries can be attributed to differences in policy regimes. Countries with liberalized energy markets tend to experience faster and more significant price adjustments, whereas countries with regulated pricing systems, such as Indonesia, are able to delay or suppress price increases through government intervention (Katadata Insight Center, 2026).

This evidence suggests that Indonesia's policy is not merely a passive response but a deliberate institutional choice to prioritize domestic stability over market responsiveness. In this sense, Indonesia's strategy reflects a form of adaptive governance, where policy flexibility is used to manage external shocks.

Discussion: Toward an Integrated Crisis Management Model

The inclusion of comparative regional data significantly strengthens the interpretation of Indonesia's energy policy. The findings suggest that Indonesia's energy policy is evolving from a subsidy-based stabilization model toward a more integrated crisis management framework. This framework combines:

- Fiscal intervention (subsidies)
- Demand-side management (energy efficiency)
- Strategic coordination (policy integration)

This reinforces the central argument of this study:

Indonesia does not eliminate the energy crisis but redistributes its impact—from consumers to the state.

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By absorbing price shocks through subsidies and fiscal mechanisms, the government effectively decouples domestic energy prices from global volatility. This policy choice prioritizes social stability and economic resilience, even at the cost of increased fiscal burden.

From a theoretical perspective, this evolution reinforces the relevance of the *Theory of the Second Best*, where policy choices are shaped by constraints and trade-offs rather than ideal conditions (Richard Lipsey & Kelvin Lancaster, 1956).

Moreover, the integration of efficiency measures reflects an attempt to move beyond short-term crisis response toward a more sustainable policy trajectory. While Indonesia still relies heavily on subsidies, the inclusion of energy-saving policies indicates a gradual shift toward balancing energy security, economic stability, and sustainability.

Integrating international macro-fiscal evaluations into Indonesia's crisis management model illuminates the structural trade-offs between short-term stability and fiscal sustainability. The IMF (2026) notes that while Indonesia's fiscal rules have successfully contained direct budget deficits, extensive quasi-fiscal operations—such as under-compensated public service obligations imposed on state energy enterprises—obscure the true public sector footprint during energy crises. Concurrently, World Bank (2025, 2026) assessments argue that broad price buffering erodes fiscal buffers needed for critical human capital and infrastructure investments. Therefore, viewed through the Theory of the Second Best (Lipsey & Lancaster, 1956), Indonesia's current policy framework functions effectively as an interim crisis-mitigation tool; however, its long-term viability necessitates a phased reform. As recommended by multilateral frameworks, this entails gradually closing the gap between subsidized and market prices while utilizing the resulting fiscal savings to fund targeted cash transfers via unified socio-economic registries (World Bank, 2026)

Ultimately, Indonesia's approach demonstrates that managing an energy crisis is not solely about controlling prices but also about managing demand, coordinating institutions, and anticipating future risks. This positions Indonesia as a case of adaptive energy governance in the Global South, where policy flexibility becomes a key asset in navigating global uncertainty.

CONCLUSION

This study examines Indonesia's energy price stabilization strategy in the context of the global energy crisis and highlights the complex trade-offs embedded in its policy choices. The findings show that Indonesia has adopted a distinctive approach by maintaining relatively stable fuel and LPG prices through fiscal intervention, thereby shielding domestic consumers from global price volatility. Comparative regional evidence further confirms that Indonesia's limited price increases are not coincidental but the result of deliberate policy design, positioning the country as a policy outlier in Southeast Asia.

The analysis demonstrates that Indonesia's energy crisis management relies on a calibrated dual-track strategy rather than absolute price control. By shielding

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lower-income groups through subsidized fuel stability while exposing higher-tier fuels to market dynamics, the state redistributes fiscal and economic pressure. While this approach effectively safeguards social stability and mitigates lower-tier inflationary shocks, it introduces structural trade-offs—most notably the risk of fuel substitution and potential quota slippages. Long-term sustainability will depend on the government's ability to enforce strict targeted distribution mechanisms for subsidized fuels while accelerating structural energy efficiency reforms.

From a theoretical perspective, this study contributes to the literature by reframing energy subsidies as a crisis management instrument rather than merely an economic inefficiency. By applying the *Theory of the Second Best* developed by Richard Lipsey and Kelvin Lancaster (1956), the findings suggest that policy effectiveness in crisis contexts should be evaluated based on contextual constraints and trade-offs, rather than ideal market conditions. In addition, the integration of energy security, sustainability, and justice perspectives provides a more comprehensive understanding of how governments navigate competing policy objectives under uncertainty.

Importantly, the study identifies an emerging shift in Indonesia's policy approach—from a subsidy-dominated model toward a more integrated crisis management framework that combines fiscal intervention, demand-side management, and strategic coordination. The introduction of energy efficiency measures indicates an initial move toward reducing structural dependence on subsidies while maintaining economic stability.

From a policy standpoint, these findings suggest that while price stabilization may be justified as a short-term response to global shocks, its long-term sustainability depends on the government's ability to implement adaptive reforms. These include improving subsidy targeting, enhancing energy efficiency, and accelerating the transition toward more sustainable energy systems. Without such adjustments, prolonged reliance on fiscal absorption mechanisms may pose risks to both fiscal resilience and energy security.

In conclusion, Indonesia's experience illustrates that managing an energy crisis in a developing economy requires more than adherence to market principles; it demands strategic flexibility, institutional coordination, and a careful balancing of competing priorities. As global energy uncertainty persists, Indonesia's approach offers valuable insights into how governments can navigate crisis conditions while maintaining social stability, even as they confront the ongoing challenge of ensuring long-term sustainability.

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