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# Managing Energy and Financial Shocks of Middle East Crisis

Yose Rizal Damuri

Executive Director, CSIS Indonesia

[yose.rizal@csis.or.id](mailto:yose.rizal@csis.or.id)

The on-going conflict in the Middle East poses significant threat to the Indonesia's economy. The effect depends on how long the conflict would take place; but broad base impact would be negative and detrimental if the conflict takes longer than a few weeks. The main transmission channels are higher oil and gas prices, more expensive shipping or even logistical disruption, imported inflation, rupiah volatility, and pressure on the state budget.

The reason behind the market shock is clear. The latest escalation has disrupted oil production and tanker movements around the Strait of Hormuz. On March 9, 2026, Brent settled at \$85.41 and WTI at \$81.01, levels that could easily rise above \$100 per barrel if disruptions persist.<sup>1</sup> At

<sup>1</sup> <https://www.reuters.com/business/energy/us-oil-prices-jump-supply-fears-amid-expanding-us-israeli-war-with-iran-2026-03-08/>

the same time, major shipping lines have continued rerouting vessels away from the Red Sea–Suez corridor and imposing conflict surcharges, increasing freight costs and delivery times. Even before the current attack on Iran, traffic through the Suez Canal had already fallen significantly, to roughly one-fourth of its pre-October 2023 crisis level.

## **Implications to Indonesia's Economy**

**The main channel for Indonesia's vulnerability is oil and gas.**<sup>2</sup> Indonesia still ran an oil-and-gas trade deficit of \$19.70 billion in 2025, even though its overall trade surplus was a strong \$41.05 billion. In 2025, Indonesia imports around 56 million tons of oil with the value of around US\$33 billion. While direct import of these products coming from Middle East is less than 15%, the region is supplying 25% of crude and 35% of LPG. Moreover, Indonesia sources its fuel products mainly from Singapore and Malaysia, which depends on a lot of sourcing its crude materials from Middle East.

**That leads directly to fiscal pressure.** The 2026 Indonesian budget was built on an oil-price assumption of around \$70 per barrel and an exchange-rate assumption of Rp16,500 per US dollar. If oil stays well above that, the government faces higher subsidy and compensation pressure, especially through fuel and energy-related items. If the conflict lasts for less than two weeks and oil price will stay at US\$80 before going back to the US\$65-70 area, it may create additional gross subsidy of around Rp1 trillion. But if the conflict lasts three months, and the price goes up to over US\$100, it would increase additional subsidy of Rp26 trillion.

**Prolong conflict may not only increase oil and gas import-bill to Indonesia but also exposes the country to supply disruption.** Production in some sectors might be compromised, especially those who rely on oil as raw materials such as petrochemical, while other sectors would face higher production costs. The drag would also build through weaker household consumption and may reduce Indonesia's economic growth prospect.

**Low fuel availability may create social pressure in an already fragile situation.** With fuel consumption in 2025 reaching 230 kiloliters per day, and roughly half of that supply coming from imports, the country becomes increasingly vulnerable if no mitigation measures are taken. Some reports have already mentioned fuel rushes in several major cities, such as Medan, while speculation and fuel hoarding are also increasing.

**The second major channel is inflation.** Indonesia's inflation backdrop has been relatively favorable at 2.92% year-on-year in 2025. The Middle East shock can import inflation through fuel, LPG, transport, airfares, shipping, and eventually food distribution costs. Even if domestic retail fuel prices do not jump immediately, the prolong conflict of three months would easily increase inflation 1-1.8% with a headline inflation goes up to 4–5%. This would also threaten the already weak Indonesian household purchasing power.

**The third channel is the rupiah and financial markets.** During geopolitical tensions, investors often shift into dollar assets, which tend to weaken emerging-market currencies. If

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<sup>2</sup> See: <https://www.csis.or.id/publication/indonesias-strategic-dependencies/>

the conflict deepens and oil rises further, BI may have to keep monetary policy tighter for longer to prevent imported inflation and excessive currency weakness. That helps stability, but it can also weigh on credit and growth. Even if the conflict only lasts for a couple of weeks, greater geopolitical uncertainty may increase risks and cost of capital to the financial market that make it more difficult for Indonesia to raise financing for both private and public activities.

Table below gives some simple estimated calculation on the impact to the economy based on how long the conflict persists.

Indicator	Short Conflict	Medium Conflict	Prolonged Conflict
Duration	1–2 weeks	2-8 weeks month	2–3 months
Average Oil Price	\$80/bbl	\$90-100/bbl	>\$100/bbl
Estimated Rupiah Exchange Rate	Rp16,900/USD	Rp17,250/USD	Rp17,800/USD
Additional Oil Import Cost (USD)	\$150 million	\$900 million	\$3.5 billion
Additional Oil Import Cost (Rupiah)	Rp3 trillion	Rp18 trillion	Rp60 trillion
Estimated Gross Fiscal Pressure	Rp1 trillion	Rp7 trillion	Rp28 trillion
Estimated Inflation Impact	+0.2–0.4 percentage points	+0.5–0.9 percentage points	+1.0–1.8 percentage points
Financial Market Effect	Mild negative sentiment, rupiah could slightly weaker	Stronger USD pressure, higher bond yields	USD as safe-haven, rupiah further depreciation, possible BI tightening

Based on the assumption that Indonesia imports around 920 thousand bpd, while the budget is set based on the price of oil \$70/bbl

**Lastly, there is also a trade and logistics effect**, especially for flows linked to Europe and Africa. Indonesia is not as directly tied to the Middle East through merchandise trade as it is through energy and shipping, but trade routes matter. Export and import flows involving Europe were already affected by the Suez-related disruption. If ships keep rerouting around Africa, Indonesian exporters and importers face longer lead times, higher insurance, higher freight costs, and greater working-capital needs. This especially hurts manufacturers dependent on imported inputs and firms exporting on thin margins.

The bottom line is although in the short-term impacts of the conflict to Indonesia's economy may still be manageable, it would become more serious if the conflict is getting longer. **A prolonged conflict of 2–3 months becomes economically significant because the damage intensifies through four channels at once: higher oil import costs, a weaker rupiah, higher inflation, and larger subsidy/compensation pressure to the fiscal.**

## Policy Recommendations for Short and Medium Term

Recommendations of this policy note focuses on some actions that should be taken in the short term and to prevent significant impact on the longer term. In the short-term Indonesia should prioritize the availability and supply certainty over lowest headline price. In addition, the focus should also be to increase people's confidence about the supply of fuel. In the longer-term Indonesia should initiate supply certainty, including by initiating petrol supply cooperation at regional level.

### *Short Term*

1. **Indonesia should immediately diversify its procurement of fuels, crude oil, and LPG rather than waiting until existing stocks are depleted.** With the situation in the Strait of Hormuz still uncertain and some countries reducing production, Pertamina should secure additional short-term supply from North America, particularly for fuels and petroleum gases. In addition to the United States, Indonesia could explore sourcing petroleum gases from Canada, which supplies about 8% of global petroleum gas production. Although sourcing from these countries may be more expensive than from traditional suppliers, it remains preferable to ensure supply availability and stability. This diversified sourcing approach could be implemented for the next 2–3 months while closely monitoring developments in the region.
2. **Pertamina should increase refinery operations to compensate for the decline in fuel imports.** According to US EIA report (2025), Indonesia has eight refineries with a total capacity of about 1.2 million bpd, all of which are under the control of Pertamina.<sup>3</sup> The average utilization rate was approximately 79% in 2024. Pertamina should increase refinery utilization while at the same time ensuring a stable supply of crude oil. This could partially compensate for the decline in fuel imports.
3. **Indonesia should temporarily require higher operational reserves** for critical fuels and lease additional storage where necessary, including floating storage. The recent statement by MEMR Minister Bahlil Lahadalia regarding a 20-day fuel stock has already raised public concerns about fuel availability.<sup>4</sup> The government should temporarily increase this target and require all licensed distributors, not only Pertamina, to maintain higher emergency reserves. At the same time, **the government should expedite import licensing for various non-Pertamina distributors, whose operations have been constrained by numerous regulations enacted last year.**

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<sup>3</sup> [https://www.eia.gov/international/content/analysis/countries\\_long/Indonesia/Indonesia\\_2025.pdf](https://www.eia.gov/international/content/analysis/countries_long/Indonesia/Indonesia_2025.pdf)

<sup>4</sup> <https://en.tempo.co/read/2090632/indonesia-can-sustain-fuel-supply-for-20-days-says-minister-bahlil>

4. In addition to availability and supply, **the government should also deal with operational problems of petrol-rush, hoarding and speculation.** That matters even more considering fuels demand to rise 12% during the Eid period. Effective plan is a combination of reliable stock information with strict anti-hoarding enforcement.
  - a. **Publish more frequently information on the status at local and national level.** At local level, the information includes stock at major depots, which SPBU are open and the expected refill time for each cluster of stations. At national level, the information on buffer stock including number of days would be available, number of tanker deliveries on the route, and action plan to increase buffer stock.
  - b. **This should be complemented by tightening controls at SPBU:** no containers, no repeated purchases, no modified tanks. The use of technology will help, but the main element is effective enforcement, with a clear message that fuel supply is national priority, but hoarding will be prosecuted. An anti-hoarding task force consisting of key stakeholders, including police and local government, could be set-up when the situation is getting worse.

#### *Medium & Long Term*

1. **In the medium term, Indonesia should move from open-ended blanket subsidies toward an automatic fuel price adjustment mechanism to reduce the fiscal burden of subsidies.** As recommended in a CSIS report on fuel subsidies (2025), the government should set a fixed subsidy amount, both in the state budget and at the point of purchase, while allowing the retail price to adjust periodically. The report suggests setting the fuel subsidy at Rp3,000 per liter, to generate significant savings in energy subsidies of up to Rp180 trillion.<sup>5</sup> Such an automatic price adjustment mechanism would not only reduce subsidy spending but also encourage more efficient oil consumption, as consumers adjust their behavior in response to price changes, while also easing balance of payments pressure from fuel imports.
2. **In the medium and longer term, Indonesia should use this crisis as a momentum for energy transition, and to incorporate transition as part of energy security aspiration.** This has been the case for European Union during the Ukraine war crisis. The EU not only moved to reduce Russian fossil fuel imports, but also raised its clean energy ambitions, which linked to energy security directly. According to IEA, in 2023 alone investment in renewable power generation in the EU reached almost USD 110 billion, up more than 6% from the previous year, while investment in power grids rose by more than 20% to nearly USD 65 billion.<sup>6</sup> Indonesia should accelerate energy transition and use cleaner and abundant sources of energy, e.g., solar and wind, as well as natural gas, while at the same time increase electricity in energy use of the economy.

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<sup>5</sup> Damuri, Y. et. al. (2024). Energy Subsidy Reform Report. CSIS Indonesia: Jakarta <https://www.csis.or.id/publication/energy-subsidy-reform-report/>

<sup>6</sup> IEA (2024). World Energy Investment: European Union. <https://www.iea.org/reports/world-energy-investment-2024/european-union>

3. **Indonesia should push for ASEAN emergency energy cooperation** using existing platforms, such as the ASEAN Petroleum Security Agreement, which was updated last year. Together with partners such as Japan, Korea, and China, ASEAN has discussed the ASEAN Plus Three Oil Stockpiling Roadmap, which aims to strengthen regional oil reserves and emergency preparedness. This initiative should be expedited, and Indonesia is in a good position to push these plans into action given the current situation. It can be done by calling extraordinary meetings to discuss the issue, if necessary, calling for extraordinary leader summit, together with the partners.

**The meetings should also address financing challenges and potential Balance of Payments (BoP) pressures** associated with the current geopolitical crisis and rising oil prices. ASEAN Plus Three already has an important financial safety mechanism, the Chiang Mai Initiative Multilateralisation (CMIM) to provide liquidity support in the event of BoP stress. Discussions should therefore explore how this facility could be activated more quickly and coordinated with regional energy security measures.

In addition, ASEAN members could consider closer coordination on emergency financing for fuel procurement, shared stockpiling arrangements, and temporary swap arrangements for energy imports, ensuring that countries facing short-term shortages or currency pressures can maintain fuel supply without destabilizing their macroeconomic conditions. Strengthening coordination between energy and finance ministries within the ASEAN Plus Three framework would help ensure that energy security measures are supported by adequate financial buffers during periods of geopolitical instability.

## Conclusion

The Middle East conflict poses clear risks to Indonesia's economy, mainly through higher oil prices, rising import costs, inflation, and fiscal pressure. While the short-term impact may still be manageable, a prolonged conflict would significantly increase these pressures and affect economic stability. Indonesia should therefore act quickly to secure fuel supply, strengthen energy resilience, and improve fuel market management with the help of stronger regional cooperation at ASEAN Plus Three. At the same time, subsidy reform is important to reduce Indonesia's fiscal vulnerability to future energy shocks and to make energy consumption more efficient.

CSIS Indonesia, Pakarti Centre Building, Indonesia 10160

Tel: (62-21) 386 5532 | Fax: (6221) 384 7517 | [csis.or.id](http://csis.or.id)

Please contact the editorial team for any enquiries at

[publication@csis.or.id](mailto:publication@csis.or.id)