

*Policy Brief*

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# Energy Security and The Hormuz Crisis: Implications for Indonesia and Priorities for Action

April 2026



Index

## Disclaimer

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*This April 2026 Policy Brief by the Indonesian Business Council presents an evidence-based analysis of the Strait of Hormuz disruption and its impact on Indonesian industry. It also proposes a structured three-stream response framework to support government and business in acting decisively, stabilizing operations in the near term while strengthening long-term energy resilience.*

*The brief reflects the most relevant available information at the time of drafting in mid-April 2026. The policy and geopolitical environment surrounding the Strait of Hormuz crisis remains highly dynamic. The policy and geopolitical environment surrounding the Strait of Hormuz crisis has continued to escalate beyond the drafting period of mid-April 2026. The April ceasefire proved short-lived; Iran reimposed restrictions following the US naval blockade of Iranian ports from 13 April, and as of publication the Strait remains effectively closed to normal commercial traffic. The structural vulnerabilities identified in this brief have, if anything, been reinforced by subsequent developments.*

*IBC's Rapid Industry Assessment is based on 21 responses across ten sectors collected between 30 March and 7 April 2026. The assessment is not statistically representative of the Indonesian economy and should be read as directional evidence of where pressures are concentrating, rather than as nationally generalizable statistics. Within this scope, the findings are consistent with independently reported macroeconomic and sectoral data, and IBC considers them a credible and timely contribution to the evidence base informing this brief.*

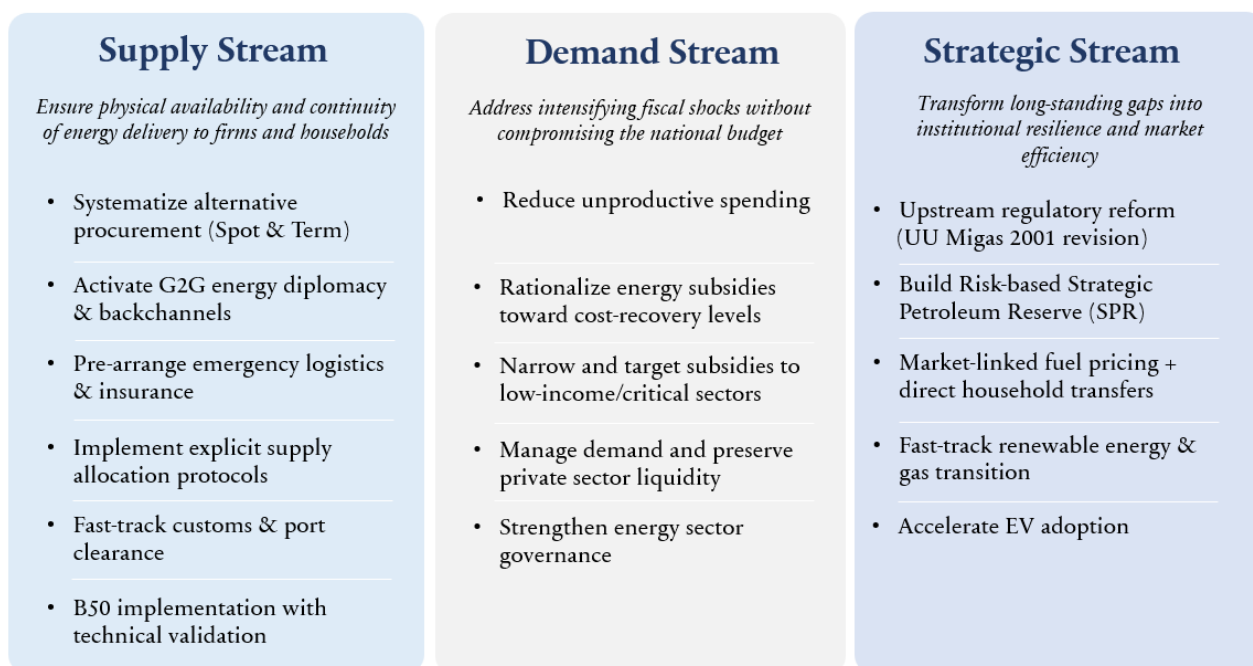
## EXECUTIVE SUMMARY

**The closure of the Strait of Hormuz following the US-Israel military strikes on Iran in late February 2026 has become a material business and market risk for Indonesia,** one that is already reshaping investment decisions, fiscal trajectories, and supply chain viability across the economy. It is already translating into tangible pressures on business operations in Indonesia. Across sectors, firms are facing tightening energy supply, compressed margins, depleting inventories, and the need to adopt defensive postures that are beginning to affect investment, employment, and growth. What began as an external shock has become a domestic business emergency.

**What businesses are experiencing.** The IBC Rapid Industry Assessment confirms that 21 leading industrial firms across ten sectors confirm that this pressure is already translating into operational reality. Only three firms report a fully available supply. Sixteen hold 30 days or fewer of inventory. Fifteen have little or no remaining capacity to absorb further cost increases. Thirteen are paying premiums above normal procurement cost, of whom eight are paying 10 to 20 percent or more above baseline. On the demand side, fifteen report early softening, fifteen have deferred medium-term investment, and thirteen are adjusting or considering changes to workforce plans. Twelve reports of emerging financial stress among SME suppliers. These are directional indicators, not nationally representative statistics, but they are consistent with independently reported macroeconomic and sectoral data, and they point in one direction: buffers are thin and narrowing.

**How the crisis is reaching the broader economy.** Beyond the factory floor, the disruption is feeding into the national economy through several compounding pressures. The national budget is under acute strain, with the fiscal deficit running at nearly double last year's pace. The government's emergency reserves are being used rather than conserved. Prices are rising through back channels such as freight, food logistics, and industrial inputs, even as petrol prices at the pump are held stable. Major international institutions have all revised Indonesia's 2026 growth forecast downward, citing the Hormuz crisis, and all project growth below the government's target. The rupiah has weakened significantly, adding to the cost of every dollar of imported energy and raw materials. Investor confidence remains cautious following negative outlook revisions by both Moody's and Fitch, with the risk of actual rating downgrades now a live concern if fiscal conditions deteriorate further.

**IBC recommends a three-stream response framework**, recognizing that the crisis must be managed across multiple fronts simultaneously rather than sequentially.



**These streams are interdependent.** Supply stabilization without fiscal discipline risks depleting buffers prematurely. Fiscal tightening without supply assurance risks amplifying scarcity. Structural reform without immediate response forfeits the political momentum that a crisis uniquely creates.

The challenge for the government is to respond to the current shock and do so in a way that stabilizes business operations today while building Indonesia's resilience against future disruptions. The window for effective, affordable action remains open, but it is narrowing.

## I. THE CRISIS AND HOW IT REACHED INDONESIA

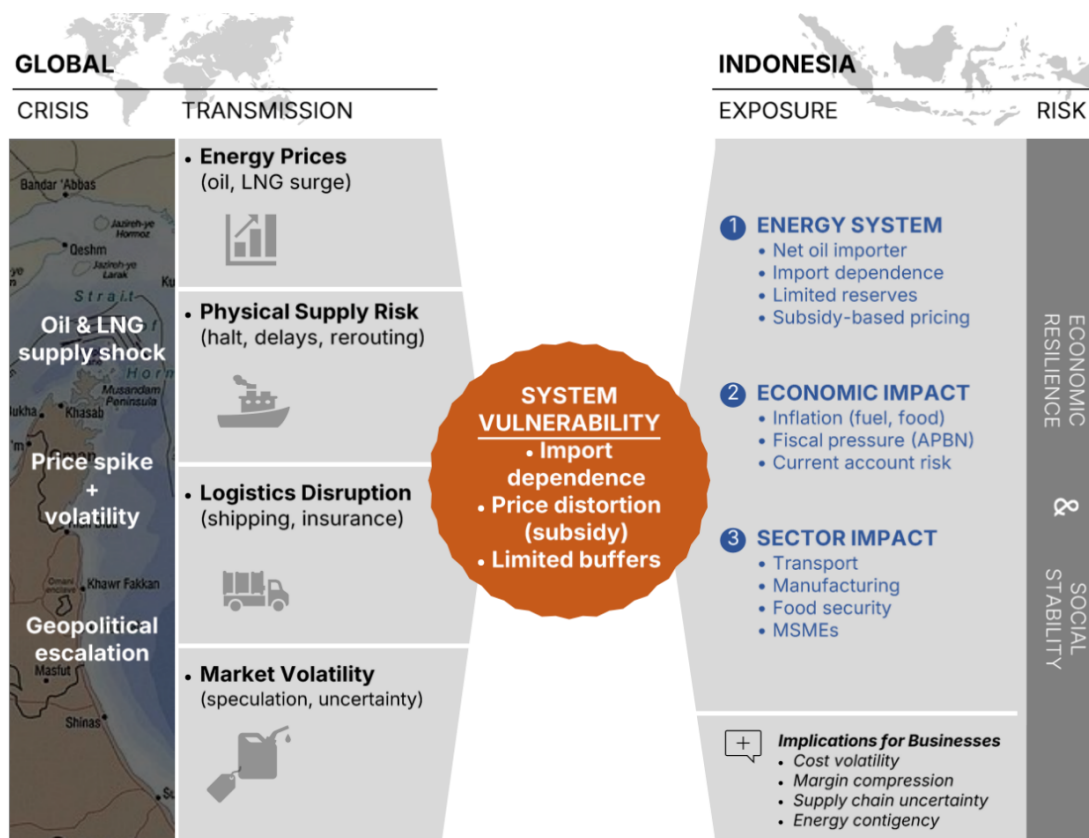
**What began as a military operation in late February 2026 has evolved into the largest disruption to global energy flows since the 1973 oil embargo.** On February 28, 2026, the United States and Israel launched coordinated airstrikes on Iran (Operation Epic Fury), killing Supreme Leader Ali Khamenei and striking key military sites. Iran responded with missile and drone attacks on US-allied Gulf states and, on March 2, the Islamic Revolutionary Guard Corps (IRGC) declared the Strait of Hormuz closed, warning that any vessel attempting transit would be targeted. This escalation effectively disrupted one of the world's most critical energy corridors, through which, before the crisis, roughly 20 million barrels per day of crude oil and refined products flowed, accounting for around a quarter of global seaborne oil trade and a significant share of LNG movements. By March, the repricing and withdrawal of war-risk insurance coverage made commercial transit economically unviable for most operators, bringing flows through the Strait to a near standstill.

**The closure of the Strait of Hormuz has disrupted global oil and gas supply chains through four primary transmission channels.** Energy prices and derivative products have risen sharply as markets tighten, while physical supply risks have increased due to halted shipments, delays, and forced rerouting. Logistics disruptions have intensified in parallel, driven by higher shipping costs, the withdrawal of war-risk insurance, and tightening vessel availability. These pressures are compounded by heightened market volatility, as uncertainty and speculative behaviour amplify price movements and complicate procurement decisions.

**Indonesia's reliance on energy imports, subsidy structure, and limited reserves increases its sensitivity to external supply disruptions.** As a net oil importer that sources over half of its fuel consumption from abroad, the country remains heavily dependent on external supply, including LPG and petrochemical feedstocks. The government has responded by accelerating procurement diversification toward non-Middle Eastern sources and engaging in energy diplomacy with alternative supplier countries. These diversification measures are a necessary and appropriate response to the disruption. The analytically relevant questions going forward are operational: when does alternative supply arrive, in what volume, through which ports, and how is it allocated across sectors and regions, particularly given Indonesia's archipelagic distribution challenges.

**The Strait of Hormuz is more than a shipping lane.** For Iran, the Strait of Hormuz remains the primary coercive instrument in its confrontation with Washington, while the conflict itself has become significantly more complex since the crisis began. What started as Iran's unilateral closure has evolved into a multi-layered standoff. The United States imposed a naval blockade on Iranian ports from 13 April. A brief U.S. military escort operation, "Project Freedom," was launched and then paused within 48 hours in early May amid diplomatic signals of progress toward a potential agreement. Iran has since formalized a new transit regime that channels commercial vessels through its territorial waters under Iranian naval supervision, effectively asserting permanent sovereign control over the waterway rather than treating the disruption as a temporary closure. Three resolution pathways remain plausible: a negotiated settlement, further escalation, or an abrupt declared de-escalation. Across all three scenarios, however, the physical supply consequences are likely to persist well beyond any political resolution. Damaged Gulf infrastructure, elevated war-risk insurance premiums, cautious shipping behavior, and trade routes restructured under emergency conditions may continue to affect supply chains even after formal tensions ease. For Indonesia, the relevant planning question is therefore not simply whether the Strait reopens, but how long it will take after a political resolution for supply, logistics, and pricing constraints to materially ease. Current evidence suggests that this adjustment gap is more likely to be measured in months rather than weeks.

**The disruption is not abstract.** It has already created a direct operational emergency for Indonesian shipping interest. At the onset of the Strait closure, a number of vessels carrying Indonesian cargo, including Pertamina tankers transporting energy supplies destined for the domestic market, were stranded in the Persian Gulf, unable to transit without war-risk insurance coverage or Iranian authorization. The Pertamina Pride is among the vessels for which Indonesia has formally sought safe passage through diplomatic channels. Some transits have since been permitted through backchannel arrangements, with Iran granting selective access based on bilateral relationships and diplomatic engagement, with passage terms negotiated through sovereign channels. As of mid-April 2026, at least two Pertamina tankers remain stranded near the Strait, and diplomatic efforts to secure their passage continue.



Indonesia's exposure is not simply a function of geography. It reflects structural conditions that have developed over two decades: a widening gap between domestic production and consumption, the near-total absence of strategic reserves, and a pricing framework that shifts the cost of every oil price shock directly onto the national budget. These are the conditions that determine how severe the Hormuz closure becomes for Indonesia specifically. These structural conditions are further compounded by the inflationary pressure that energy cost increases generate through supply chains, and the rupiah depreciation that widens the cost of every dollar of imported energy.

## II. ENERGY SYSTEM UNDER PRESSURE

### 2.1 A structural dependence that has deepened over time

Indonesia's energy system is under pressure from steadily rising demand, while domestic oil production has declined and failed to keep pace, increasing import dependence despite continued support from coal, gas, and bioenergy. Total petroleum consumption has reached approximately 1.6 million barrels per day, while domestic crude oil and condensate production has hovered near 600,000 barrels per day, down sharply from 829,000 barrels per day in 2016. The resulting supply gap of roughly

1 million barrels per day means that more than 60 percent of Indonesia's total petroleum needs must be met through imports. This is not a recent development. Indonesia has been a net oil importer since 2004, including during its final years as an OPEC member. What has changed is the scale of the gap, with rising consumption and declining production widening reliance on imports.

**The vulnerability extends well beyond crude oil.** Indonesia imports approximately 78 percent of its liquefied petroleum gas (LPG), with planned imports of 7.8 million tons in 2026. With over 90 percent of LPG consumption flows through subsidized 3-kilogram canisters used by low-income households, any disruption carries immediate social consequences. Natural gas, meanwhile, serves a dual function, as fuel for power generation and industry, and as feedstock for petrochemical production. Indonesia's petrochemical industry requires approximately 3 million tons of naphtha per year, all of which is imported, with roughly 70 percent sourced from the Middle East. Transport, industry, and household energy needs all depend on imported supply, a significant share of which passes through routes now under severe disruption.

## *2.2 Limited buffers and the absence of a strategic reserve*

**A critical distinction must be drawn between commercial petroleum reserves (CPR) and strategic petroleum reserves (SPR).** Indonesia holds only the former. Pertamina maintains operational fuel stocks generally estimated at 21-23 days of consumption, though actual coverage varies significantly by product. According to the Minister of Energy and Mineral Resources' report to the President in mid-March 2026, Indonesia's fuel stocks range from approximately 16 days for diesel to 31 days for Pertamina Turbo, with subsidized gasoline (Pertalite) at around 24 days. These levels reflect working inventories designed to sustain day-to-day distribution rather than to absorb prolonged external supply disruptions. Indonesia does not currently maintain dedicated government-held strategic petroleum reserves, limiting its capacity to buffer sustained shocks.

**Table 1. International Comparison of Petroleum Reserve Coverage and SPR Readiness**

Country	Total Reserve Coverage	Type	IEA Minimum (90 days)
Japan	254 days	Government + Industry + Joint	Met
South Korea	over 200 days	Government + Commercial	Met
India	74 days	Government SPR + Commercial	Partially met
Indonesia	21-23 days	Commercial only – no SPR	Not met

*Source: Bloomberg Technoz (2026); Morningstar (2026); Nippon.com (2026); PIB (2026); Rajya Sabha (2026)*

**The scale of this SPR becomes clear in a regional comparison.** With only 21 to 23 days of commercial reserves, Indonesia remains well below the 90-day benchmark commonly referenced by the International Energy Agency for net-importing countries (see Table 1). While Indonesia, as an IEA Association Country, is not formally required to meet this threshold, the gap has practical implications. During the coordinated global stock release in March 2026, participation was limited, reflecting the country’s relatively constrained reserve capacity. As a result, Indonesia’s ability to absorb short-term supply disruptions continues to rely largely on commercial logistics.

**Plans for a strategic reserve have been discussed for years, but none have moved beyond the proposal stage.** The Ministry of Energy and Mineral Resources has proposed a 45-million-barrel SPR, and the Minister suggested a storage facility near Singapore. Neither project has advanced to implementation. Industry experts estimate that expanding Indonesia’s fuel reserves to a 70-day supply would require approximately US\$22 billion in capital investment and at least 36 months of construction lead time per storage unit, underscoring that the SPR is a long-term structural imperative rather than a near-term solution. This policy action cannot be remedied in the timeframe of the current crisis.

**The absence of a strategic reserve reflects a deeper structural condition.** For decades, Indonesia’s energy pricing framework has insulated consumers from the actual cost of energy through subsidies. Energy subsidies have consistently absorbed around 9 to 10 percent of total government expenditure, a pattern traceable at least to 2016, when energy subsidies alone consumed Rp106.8 trillion, equivalent to 9.25 percent of the APBN that year. This prioritization continues in the 2026 budget, where energy subsidies and compensation remain a major expenditure component, amounting to

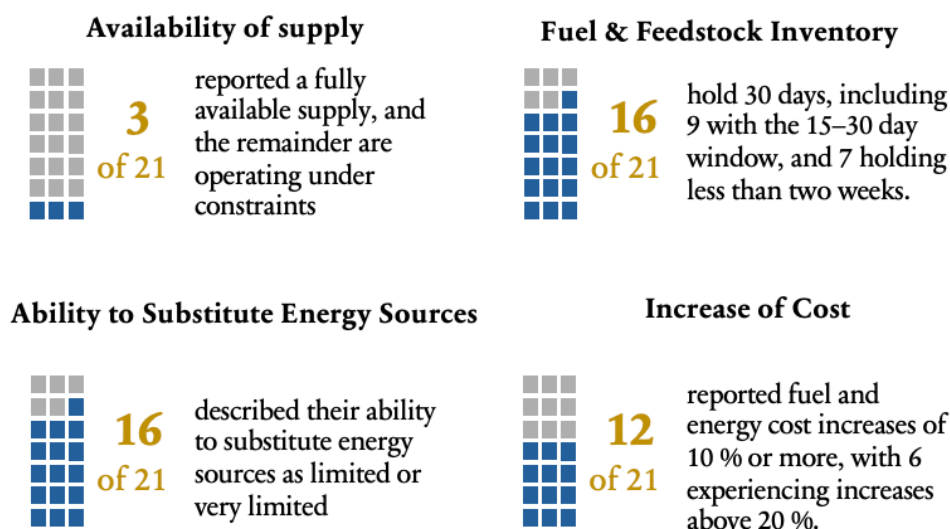
well above Rp300 trillion. Fiscal resources of this scale, directed persistently toward price stabilization, have crowded out investment in strategic storage, upstream development, and supply diversification. The consequence is structural: Indonesia has entered this crisis with limited reserves to absorb shocks and constrained fiscal space to respond. The absence of an SPR and the scale of the subsidy burden are therefore not independent issues, but two expressions of a long-standing policy trade-off between short-term price stability and long-term supply security.

### *2.3 Pressure is already visible across the business sector*

**An IBC diagnostic assessment of 21 leading industrial firms, conducted between 30 March and 7 April 2026 across ten sectors, provides directional evidence that the crisis is not only a price issue but a supply and operational continuity concern (see Figure 1).** The assessment reveals three consistent patterns. First, physical supply is constrained. The majority of firms are operating under some form of supply limitation, with most holding less than a month of inventory and very few reporting fully available access. Second, cost pressure is broad-based. Most firms report significant fuel and energy cost increases, and a majority are paying above-market premiums simply to secure supply. Third, the capacity to absorb further cost escalation is largely exhausted. The number of firms reporting little or no remaining buffer far exceeds those with room to adjust, and several describe their current cost position as unsustainable.

**Uncertainty itself is emerging as a distinct economic cost.** Where firms cannot predict access to supply, allocation priority, or the policy treatment of their sector, they are forced into defensive postures, delaying procurement, conserving cash, and postponing expansion. Business responses already indicate this shift. Most of the firms report deferring medium-term investment decisions, reflecting a move from operational adjustment toward risk containment. If disruption persists beyond three to six months, these deferrals risk hardening into cancellations, with longer-term consequences for productive capacity.

Figure 1. Supply and Cost Pressure at the Firm Level



Source: IBC Rapid Industry Assessment (2026)

#### 2.4 Three distinct vulnerability channels

The pressure on Indonesia's energy system manifests through three distinct channels, each requiring a different policy instrument.

**LPG and household exposure.** LPG is Indonesia's most socially sensitive energy product, with over 90 percent of consumption flowing to low-income households through subsidized canisters. The government has responded to the Hormuz disruption by shifting sourcing to approximately 70 percent from the United States. This reduces direct exposure to the Strait, but it trades one concentration risk for another: longer shipping distances and higher freight costs. At Rp80 trillion in LPG subsidies in 2024 alone, even a moderate increase in procurement costs carries significant fiscal weight. Unlike refined fuels, where the government controls retail pricing, LPG supply disruption would be felt immediately and directly in households and MSMEs due to the lack of viable substitutes, particularly in the F&B sector depend on it for daily operations, making it the product with the shortest distance between a supply-chain problem and a social one.

**Refined fuels and the transport-logistics nexus.** The transport sector accounts for approximately 36 percent of Indonesia's total energy consumption, with road freight as the dominant mode for moving goods across the archipelago. Fuel cost increases,

therefore, flow rapidly through supply chains, affecting food distribution, e-commerce logistics, and inter-island shipping. The government's commitment to maintaining subsidized Peralite at Rp10,000 per liter and diesel at Rp6,800 per liter shields consumers from direct price transmission, and the accelerated B50 biodiesel mandate aims to reduce diesel import dependence by approximately 4 million kiloliters. However, cost transmission through non-subsidized channels, freight charges, and internationally priced inputs continues. The pressure on transport costs adds to the cost pressures already being felt across other sectors.

**Petrochemical feedstock and industrial production.** This may be the most immediately consequential channel. Indonesia's sole naphtha cracker operator declared force majeure in March 2026 after its primary Middle Eastern naphtha supply was disrupted. Producers are seeking alternative naphtha from Africa, India, or the United States, but these routes extend shipping times from 10 to 15 days to at least 50, meaning replacement supply cannot arrive fast enough to prevent production disruption. The Indonesian Food and Beverage Industry Association reports that packaging costs have already risen over 30 percent as petrochemical-based materials become scarcer. This is fundamentally a supply constraint. Even where alternative procurement is possible, the volume, lead time, and cost cannot replicate what the Middle Eastern corridor previously delivered. Of the three channels, this is the one where disruption is most likely to constrain domestic industrial output and affect the availability, not just the price, of everyday goods.

### III. MACROECONOMIC IMPACT: FISCAL & INTERNAL-EXTERNAL IMBALANCES

The current energy shock is transmitting into Indonesia's economy through multiple, mutually reinforcing dimensions, such as fiscal pressure, domestic inflation and growth slowdown, and external balance stress. Business evidence indicates that each channel reinforces the others, increasing the risk that a manageable external shock evolves into a broader macroeconomic strain. These pressures are compounding simultaneously, and the interaction between them is the central analytical challenge for policy.

### 3.1 Fiscal Transmission

**The budget's core energy assumption has been overtaken.** Indonesia's energy subsidy and compensation allocation of Rp381.3 trillion, equivalent to approximately 10 percent of total government expenditure, was calibrated on an Indonesian Crude Price assumption of US\$70 per barrel. With Brent crude trading in the range of US\$96-126 per barrel during the crisis, the gap between budgeted and actual conditions is substantial. The resulting gap has already generated an estimated additional fiscal burden exceeding Rp200 trillion, with the overall deficit now projected to widen to approximately 2.9 percent of GDP in 2026, exceeding the initial target of 2.68 percent.

**This gap translates directly into fiscal pressure.** For every US\$1 increase in oil prices, government revenues rise by approximately Rp3.5 trillion, but expenditures, primarily through subsidies and compensation, expand more significantly by around Rp10.3 trillion, resulting in a net deficit impact of roughly Rp6.7-6.8 trillion.

**Table 2. Oil Price Gap and Implications for Fiscal Balance**

Indicator	Value (US\$/barrel)
APBN 2026 ICP assumption (baseline)	\$70
Government worst-case scenario modelled	\$92
Brent at which deficit breaches 3% GDP	approximately \$90
Brent at crisis onset (2 Mar 2026)	approximately \$80-82
Brent crude peak during crisis	\$126 (8 March 2026)
Brent crude range (May 2026, current)	\$100 to 117
Gap vs. APBN assumption (current, May 2026)	plus \$30 to plus \$47
Gap at peak (Mar 2026)	plus \$56

*Source: Ministry of Finance (2026); ESDM (2025); Indonesia Investment (2026)*

**The fiscal buffer exists, but it is not unlimited.** If oil prices remain at current levels for the balance of the year, the total subsidy and compensation burden could reach Rp 500 trillion or more. The government retains a Rp420 trillion excess budget balance (SAL) as a fiscal buffer, with Rp300 trillion placed in the banking system, including an additional Rp100 trillion injection to ease tightening liquidity conditions. While

this provides short-term support, it also underscores that available buffers are being actively utilized rather than preserved. The budget deficit had already reached Rp240.1 trillion by March 2026, nearly double the pace of the previous year. Given that deficit expansion typically accelerates in the second quarter alongside subsidy realization, the current trajectory suggests a growing risk of breaching the 3 percent of GDP threshold unless offset by significant expenditure adjustments and or energy price policy recalibration.

**Unlike the 2022 commodity shock, which was offset by coal and CPO windfalls, the 2026 episode lacks a comparable revenue buffer.** Commodity prices have not risen to similar levels, while dividend contributions from state-owned enterprises are flowing through a different institutional channel, affecting the direct availability of these resources to the central government budget. Public debt has already risen to a projected 40 percent of GDP, with debt servicing absorbing roughly 20 percent of government income, limiting fiscal flexibility precisely when it is most needed.

**The bond market dimension of this fiscal deterioration warrants explicit attention.** While Indonesia's 10-year government bond yield remains broadly stable at around the mid-6 percent range in recent weeks, the risk of upward repricing remains material if the fiscal deficit approaches or exceeds the 3 percent threshold or if sovereign and market sentiment weakens. A sustained increase of 50 basis points would raise annual financing costs, particularly if it affects not only new issuance but also a broader share of refinancing needs. This would further compress the fiscal space available for crisis response if elevated oil prices persist into the second half of 2026, while simultaneously increasing borrowing costs and funding pressures for the private sector.

### ***3.2 Internal Imbalances: Inflation and Growth Slowdown***

**The fiscal pressures documented in Section 3.1 are transmitting into the domestic economy through two channels that are directly felt by households and businesses:** rising inflation and moderating growth. Both are already visible in current data, and both are likely to intensify if the disruption persists.

**On inflation, the subsidy system has so far shielded consumers from the full pass-through of global energy prices to retail fuel costs.** However, cost transmission is

occurring through indirect channels. Transport and logistics costs have risen as fuel costs increase for non-subsidized users and supply security premiums pass through freight charges. Food distribution costs are widening, contributing to food price pressures that are more difficult to contain through subsidy mechanisms. Packaging and production input costs in the petrochemical-dependent manufacturing sector have risen materially. The rupiah's depreciation is compounding this through higher import costs across a broad range of goods. The OECD projects Indonesia's inflation to accelerate to 3.4 percent in 2026, above the upper bound of Bank Indonesia's 2.5 percent target band with a tolerance of plus or minus 1 percent. Bank Indonesia's mandate to contain inflation is therefore facing pressure from multiple directions simultaneously, narrowing the space for accommodative monetary policy at a moment when growth support would otherwise be warranted.

**On growth, three major international institutions have revised Indonesia's 2026 outlook downward, each explicitly citing the Hormuz crisis as the primary driver.** The World Bank trimmed its forecast to 4.7 percent, the OECD to 4.8 percent, and the ADB maintained 5.2 percent but warned that risks would intensify if the conflict persisted. All three sit below the government's 5.4 percent budget target, and all were formulated under a baseline assumption of a relatively short-lived disruption. The IMF's Spring 2026 World Economic Outlook frames the stakes more starkly: under its adverse scenario of sustained disruption, global growth falls to 2.5 percent, with the IMF noting that energy-importing economies with pre-existing vulnerabilities and limited fiscal buffers face the most severe exposure.

**These external projections are directionally consistent with the leading indicators from the IBC assessment:** fifteen of twenty-one surveyed firms have deferred medium-term investment decisions, and fourteen report early demand deterioration. S&P Global Ratings has further identified Indonesia as among the most exposed economies in Southeast Asia under a prolonged energy shock, noting that higher oil prices are expected to widen the current account deficit, raise borrowing costs, and reduce household purchasing power simultaneously.

**The combination of fiscal tightening, constrained monetary policy space, and private sector retrenchment creates conditions under which Indonesia's growth could deteriorate more sharply than headline indicators currently suggest.** The critical variable is duration: all three institutional forecasts were formulated under a

baseline assumption of a short-lived disruption. If that assumption proves wrong, the downside scenarios are materially worse

### *3.3 External Imbalances: Exchange Rate and Current Account*

**The fiscal and growth pressures described above do not stay contained within the domestic economy.** They transmit outward through the exchange rate and the current account, two dimensions that, while distinct, must be read as a single external balance. The rupiah weakens in part because the current account position is deteriorating; conversely, a weaker rupiah raises the cost of imports relative to exports, creating a partial price-effect offset on the trade balance, though this is substantially neutralized by Indonesia's inelastic dependence on energy imports whose volumes cannot easily be reduced in the short term. Understanding the external position therefore requires holding both dimensions simultaneously.

**The rupiah entered the crisis already under pressure.** Before Operation Epic Fury was launched, the currency had weakened to around Rp16,675 per dollar by late February 2026, already Rp175 beyond the APBN budget assumption of Rp16,500. This was followed by a rapid and stepwise deterioration, with the rupiah reaching Rp16,872 within three days of the conflict's onset. Bank Indonesia intervened through multiple channels simultaneously: offshore NDF transactions, domestic DNDF transactions, spot market operations, and secondary market purchases of government bonds. By mid-March, the rupiah stood at Rp16,985; by early April, it had crossed Rp17,100; and as of 13 to 14 April 2026, the currency is hovering at approximately Rp17,100 to Rp17,123 per dollar, near a record low and Rp600 to Rp623 beyond the APBN baseline (As of early May 2026, the rupiah has weakened further to approximately Rp17,350–17,425 per dollar, reflecting continued pressure from the unresolved Strait closure and the imposition of the US naval blockade on Iranian ports from 13 April.). This depreciation is already adding measurable pressure to the fiscal position through higher rupiah-denominated import costs, particularly for energy, compounding the oil price impact documented in Section 3.1.

**Three structural factors are keeping depreciation pressure elevated beyond the immediate shock.** Indonesia's external position remains constrained by a persistent current account deficit and an export base that relies heavily on volatile commodities, limiting the stability of foreign exchange earnings. FDI inflows have remained below

potential, partly reflecting investor sensitivity to regulatory predictability and the overall investment climate, while domestic capital market outflows since September 2025 have reflected broader concerns about sovereign risk in the current environment. These structural weaknesses are now interacting with cyclical pressures. While most emerging market currencies have depreciated amid global risk repricing, the rupiah's weakening has been more pronounced, indicating a rising country-specific risk premium. Recent negative outlook revisions by Moody's and Fitch, combined with the upcoming MSCI market classification review in May 2026 and uncertainty around the timing of S&P's next rating action, are sustaining a period of investor caution.

**External buffers remain adequate but are coming under increasing pressure as sustained intervention and market volatility begin to erode reserve levels.** Bank Indonesia's reserves stood at US\$151.9 billion at the end of February 2026, equivalent to 6.1 months of imports, but declined by March to near a two-year low, reflecting the cost of stabilizing the rupiah. Part of the resilience has been supported by valuation effects, with global gold prices rising sharply to around US\$2,400-2,600 per ounce during the Q1 2026 Hormuz escalation period, helping to support the USD value of reserves. However, this cushion does not offset underlying pressures. If fiscal strains persist, oil prices remain elevated, and investor caution continues over the next three to six months, the rupiah could face further depreciation, amplifying pressures on inflation, fiscal space, and financial conditions.

**Indonesia's current account entered the Hormuz crisis from its strongest external position since 2019.** In 2025, Indonesia posted a controlled deficit of just US\$ 1.5 billion, equivalent to 0.1 percent of GDP, a marked improvement from the US\$ 8.6 billion deficit recorded in 2024. That recovery took two years to build and is now under pressure from three simultaneous dynamics. The oil and gas import bill is rising as higher procurement prices push up energy costs; monthly trade data from BPS provides early directional signals, though the full balance of payments impact will only become visible when Q1 2026 data is published by Bank Indonesia, expected in late May 2026. Portfolio investment outflows, which had moderated through late 2025, have resumed as geopolitical uncertainty and a window of investor caution ahead of upcoming sovereign and market classification reviews weigh on foreign investor appetite; the capital and financial account had already recorded a full-year deficit of USD4.2 billion in 2025, and the 2026 trajectory is adverse. Cape of Good Hope

rerouting, adding two to four weeks to delivery schedules alongside materially higher war-risk insurance premiums, is simultaneously widening the services trade deficit in ways that will compound over months rather than weeks.

**Critically, the price and quantity effects on the current account are moving in opposite directions.** Higher oil prices worsen the import bill in value terms, but supply disruption and rerouting also reduce import volumes in some categories, creating a partial offset. This means the current account is deteriorating but not collapsing, and the pace of deterioration is more gradual than the oil price gap alone would suggest. Bank Indonesia's pre-crisis forecast placed the 2026 current account deficit in the range of 0.1 to 0.9 percent of GDP. At prevailing price and logistics cost levels, a deterioration toward 1.5 percent of GDP or beyond is plausible. That would represent the largest single-year reversal of current account improvement since 2018. The actual magnitude will depend on the duration of elevated prices and supply disruptions, and on whether non-oil export performance holds. A deterioration of that scale would add a distinct external vulnerability to an already pressured fiscal and currency position, and significantly complicate Bank Indonesia's reserve management task for the remainder of the year.

**These fiscal, inflationary, and external pressures do not remain at the macroeconomic level.** They are already translating into the operating conditions of Indonesian businesses, shaping procurement decisions, investment plans, workforce choices, and the financial health of supply chains.

## IV. SECTOR IMPACT AND BUSINESS CONSEQUENCES

### *4.1 Business Cost Pressure*

**The macro-level pressures documented above are landing directly on firm operations.** The IBC Rapid Industry Assessment reveals a dual cost pressure: firms are absorbing significant fuel and energy price increases while simultaneously paying scarcity premiums to secure supply in a tightening market. These two forces are compounding, and the result is that the majority of surveyed firms report little or no

remaining capacity to absorb further increases, with several describing their current position as unsustainable at prevailing levels.

**Currency exposure adds a further layer of pressure.** The vast majority of firms depend at least partially on imported or internationally priced energy, meaning rupiah depreciation widens the gap between what they pay for inputs and what they earn in revenue. Very few are fully shielded from this effect. The combination of elevated input costs, scarcity premiums, and currency pressure is squeezing firm-level margins from multiple directions simultaneously (see Figure 2).

**The qualitative pattern is consistent across sectors that uncertainty itself has become an economic cost.** Where firms cannot predict supply access, allocation priority, policy treatment, or the trajectory of the exchange rate, they are forced into defensive postures holding back procurement, conserving cash, and suspending expansion plans. This is the mechanism through which a supply disruption becomes an investment shock, and an investment shock compounds into a structural loss of productive capacity.

**Figure 2. Survey Result on Business Cost Pressure and Risk Exposure**

<b>12 of 21</b> Fuel or energy cost increase of 10% or more	<b>6 of 21</b> Fuel or energy cost increase above 20%	<b>13 of 21</b> Paying supply security premium above normal
<b>8 of 21</b> Paying 10 to 20% or more above normal	<b>15 of 21</b> At near cost absorption limit	<b>5 of 21</b> Unable to absorb further cost increases
<b>17 of 21</b> Dependent on imported or internationally priced energy	<b>8 of 21</b> Significant or critical FX pressure	<b>1 of 21</b> Fully shielded from currency risk

*Source: IBC Rapid Industry Assessment (2026)*

**These firm-level cost pressures are now translating into broader operational and strategic consequences across four interconnected areas:** demand softening, investment deferral, workforce pressure, and financial stress among SME suppliers and distributors. They reflect a progression from cost absorption to operational caution, and in some sectors, to the early stages of retrenchment.

Table 3. Sector-Level Business Signals and Forward Risk

<b>15 of 21</b> report early or moderate demand deterioration, 2 say erosion is already materializing	<b>15 of 21</b> have deferred medium-term investment decisions	<b>13 of 21</b> adjusting or considering workforce changes, 2 already implementing reductions	<b>12 of 21</b> report moderate or early-stage financial stress among key SME suppliers
Gradual decline becomes contraction, downstream customers pull back further	Deferrals harden into cancellations with structural output and competitiveness consequences	Hiring freezes convert to active reductions, household income and consumer demand weakened	Supply-chain fragility propagates upstream and downstream, resilience deteriorates at system level
<b>Demand softening</b>	<b>Investment deferral</b>	<b>Workforce adjustment</b>	<b>SME supplier stress</b>

Source: IBC Rapid Industry Assessment (2026)

#### 4.2 Demand Softening and Investment Pause

**Demand conditions are showing a consistent weakening trend across sectors.** While the decline remains gradual, firms are increasingly observing second-round effects, as customers facing similar cost pressures begin to scale back. At the same time, investment sentiment has shifted toward caution. What began as temporary delays in capital expenditure is becoming more fragile, with prolonged uncertainty raising the risk that postponed investments may not fully recover, potentially affecting future capacity, competitiveness, and job creation.

#### 4.3 Workforce Effects

**Workforce responses are beginning to adjust in line with softer demand and delayed investment.** Firms are increasingly adopting a cautious stance, starting with hiring restraints and moving toward more active workforce adjustments in some cases. While not yet widespread, these shifts suggest early signs of labor market softening, particularly if current conditions persist beyond the near term. The trajectory indicates a gradual transition from precautionary measures toward more structural adjustments.

#### 4.4 SME Supplier Stress and Supply-Chain Fragility

**Pressure is also becoming more visible within supply chains, particularly among SME suppliers and distributors.** Early signs of financial strain in these segments pose a broader systemic concern, as larger firms depend on SMEs for operational flexibility and continuity. Weakening SME conditions can therefore amplify disruptions, reduce supply-chain resilience, and increase vulnerability across both upstream and

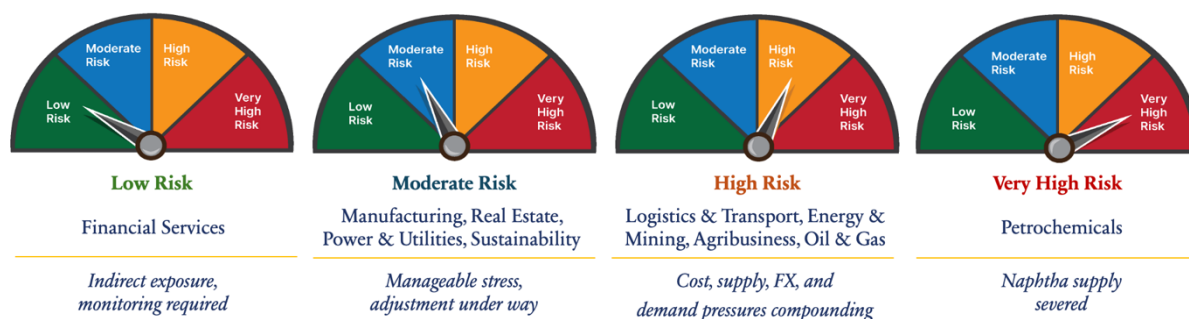
downstream linkages. Given the central role of MSMEs in employment and economic activity, this emerging stress highlights the need for closer policy attention to supply-chain stability.

#### 4.5 Uneven Sector Exposure

**The impact of the crisis is not uniform across sectors.** To distinguish between sectors facing manageable stress, significant strain, and critical exposure, IBC assessment evaluated business risk across four dimensions: cost pressure, supply risk, foreign exchange risk, and demand risk. Cost pressure was measured through indicators including the magnitude of fuel and energy cost increases, operating margin impact, remaining cost absorption capacity, and perceived severity. Supply risk, weighted more heavily because operational disruption is central to this crisis, incorporates indicators such as inventory levels, physical availability, delivery reliability, cost premiums for securing supply, and the feasibility of alternative sourcing or input substitution. Foreign exchange risk captured the severity and breadth of currency exposure across firms. Demand risk assessed the depth and timing of observed demand softening, as well as firms' exposure to price-sensitive customer segments.

Responses were aggregated within sectors, and each sector was assigned to one of four risk bands on a composite scale ranging from 1.00 (minimal disruption) to 4.00 (critical multi-dimensional risk). **The results are descriptive, and they are not statistically generalizable.** They do, however, provide a reliable directional view of where compound pressure is concentrating.

**Figure 3. Sector Risk Classification by Crisis Exposure**



Source: Analysis from IBC Rapid Industry Assessment (2026)

This differentiation is critical as it highlights where pressures are most concentrated and where policy responses need to be prioritized. Sectors in the 'High' and 'Very High'

categories face a fundamentally different challenge, where cost, supply, currency, and demand pressures occur simultaneously, limiting the scope for gradual adjustment. While financial services fall in the ‘Low’ category, this should not be interpreted as insulation, as indirect exposure through client stress and asset quality risks remains significant.

#### 4.6 Near-term concerns and expectations from the government

**What firms fear most over the next three months is not price alone; it is supply access and policy predictability.** When asked to identify their most pressing concerns, fuel and feedstock shortages emerged as the dominant risk, followed by exchange rate volatility and fiscal sustainability (see Figure 4). The pattern is consistent across sectors and reinforces a central finding of this assessment: the crisis is being experienced as a supply and operational continuity problem, and the policy environment in which firms must respond is itself a source of uncertainty.

**Figure 4. Top Three Business Concerns Over the Next Three Months**



Source: IBC Rapid Industry Assessment (2026)

**Firms are responding to the crisis on multiple fronts at once, and their open-ended responses reflect the breadth of pressure they are managing.** Some report that export channels to the Middle East have shut entirely, with alternative markets difficult to secure. Others highlight that fuel unavailability for operations, rather than price alone, is their primary concern, and that businesses need forward-looking policy guidance extending at least 12 months ahead to plan effectively. The compounding effect of rising raw material costs and a weaker rupiah is a recurring theme, with one respondent describing the combined impact on their business as exponential. At the same time, several firms see the crisis as an opening, emphasizing the opportunity for the government to accelerate commercial EV adoption to reduce long-term fuel dependence and ease subsidy pressure. Taken together, these responses suggest that businesses are looking for both immediate operational clarity and a credible longer-term direction from government.

## BOX 1

## Revenue-Side Policies and Private Sector Liquidity

## DHE and VAT Restitution as Liquidity Transmission Channels

**The crisis is also exposing tensions in how revenue-side policies interact with business cash flows.** Beyond expenditure-side pressures, the current shock is also interacting with revenue-side mechanisms that directly affect private sector liquidity, particularly through the Devisa Hasil Ekspor (DHE) framework and the VAT restitution pipeline. While these instruments are not new, their role becomes significantly more consequential under current conditions of elevated energy prices, exchange rate pressure, and tightening working capital across sectors.

**DHE policy calibration carries higher stakes during a crisis.** The framework, strengthened since 2023 and continued under Government Regulation No. 8/2025, serves an important macroeconomic function by supporting foreign exchange liquidity and contributing to rupiah stability. By ensuring that a portion of export proceeds is retained within the domestic financial system, the policy helps anchor FX availability during periods of volatility. Exporters, however, are currently facing higher energy procurement costs, supply security premiums, and margin compression from currency movements simultaneously. The government's plan to revise the DHE regulation in 2026 should take these compounding pressures into account. Further tightening of DHE parameters under these conditions could affect exporters' liquidity positions, with implications for export performance and FX inflows. As such, while the continued implementation of the DHE framework remains appropriate, maintaining stability, predictability, and careful calibration in any upcoming revision is critical during this period of heightened uncertainty.

**The VAT restitution pipeline represents a parallel channel through which fiscal conditions are transmitted into firm-level liquidity.** Under Indonesia's VAT system, export-oriented and capital-intensive firms routinely accumulate input VAT credits that are reimbursable. In periods of fiscal constraint, the pace of restitution processing can become more gradual as part of broader cash flow management. However, at a systemic level, delays in restitution effectively reduce working capital available to firms at a time when liquidity is already under strain. For firms managing rising input costs, exchange rate pressures, and supply chain disruptions, the timing of restitution disbursement becomes a material factor in maintaining operational continuity.

**Taken together, DHE and VAT restitution illustrate how fiscal and monetary instruments interact with real-sector liquidity under stress conditions.** Their combined effect can either support stability or amplify pressure, depending on implementation. In this context, policy consistency, clarity, and predictability across both instruments become integral to maintaining business confidence, sustaining export capacity, and preserving the flow of foreign exchange into the economy during a period of heightened external risk.

#### *4.7 The Risk Ahead*




The preceding sections have documented the pressures now active across Indonesia's energy system, fiscal position, and business environment. The government's macro-stabilization measures, including the SAL-backed fuel price freeze and supply diversification, have established a necessary protective floor. The question is whether these measures, designed as emergency responses, can be sustained long enough for the underlying disruption to ease, and what happens if they cannot. The risks ahead should be seen as a compounding sequence in which each phase of policy action impacts the effectiveness of the response in the next. Immediate operational stress feeds near-term fiscal and demand-side weakness, which in turn raises the probability of structural damage to productive capacity. While escalation remains uncertain, the mechanisms through which it could occur are already visible, and the cost of managing these pressures increases as they accumulate over time.

**Indonesia does not yet have a clearly defined national emergency energy allocation protocol.** There is currently no formalized framework for sectoral prioritization under supply constraints, no clearly designated coordinating authority during crisis situations, and limited clarity on escalation triggers. As supply pressures have begun to emerge across several regions since late March 2026, the absence of such a protocol means allocation decisions may rely on ad hoc coordination, potentially leading to inconsistencies. IBC identified this as a key governance gap alongside the absence of a SPR. Unlike the SPR, which requires years of capital investment to build, an emergency energy allocation protocol is primarily an institutional and regulatory matter that can be addressed relatively quickly.

**The same pressures that are manageable at thirty days become significantly harder to address at ninety.** In the immediate window, the central risk is that firms operating with depleted cost buffers and limited substitution options face forced cost pass-through or localized supply interruptions. If these pressures persist into the one-to-three-month horizon, the defensive behaviours already documented, including procurement delays, cash conservation, and deferred capital expenditure, begin to harden. Demand softening, still gradual at present, becomes contraction. The fiscal gap between market oil prices and the APBN assumption accumulates month by month, drawing down the SAL buffer at an accelerating rate and narrowing the government's capacity for sustained stabilization. Foreign exchange pressure and imported inflation compound the effect.

Beyond three months, the distinction between temporary adjustment and structural damage begins to blur. Investment deferrals that miss financing windows or regulatory timelines are prone to being rescope, delayed, or even abandoned. Supplier networks that lose participants do not reassemble quickly. Workforce measures that began as hiring freezes can expand into reductions that affect household income, consumer demand, and the broader employment base. The business evidence already shows each of these transitions in its early stages. The risk is that, without coordinated intervention, they proceed to completion.

**Table 4. Business Risks and Consequences**

Horizon	Active Risk Mechanism	If Unaddressed
 <b>Immediate</b>	15 of 21 report early or moderate demand deterioration, 2 say erosion is already materializing	Gradual decline becomes contraction; downstream customers pull back further
 <b>Near-term</b>	15 of 21 have deferred medium-term investment decisions	Deferrals harden into cancellations with structural output and competitiveness consequences
 <b>Structural</b>	13 of 21 adjusting or considering workforce changes, 2 already implementing reductions	Hiring freezes convert to active reductions, household income and consumer demand weakened

Source: IBC analysis drawing on IBC Rapid Industry Assessment (2026) and IBC FGD (April, 2026)

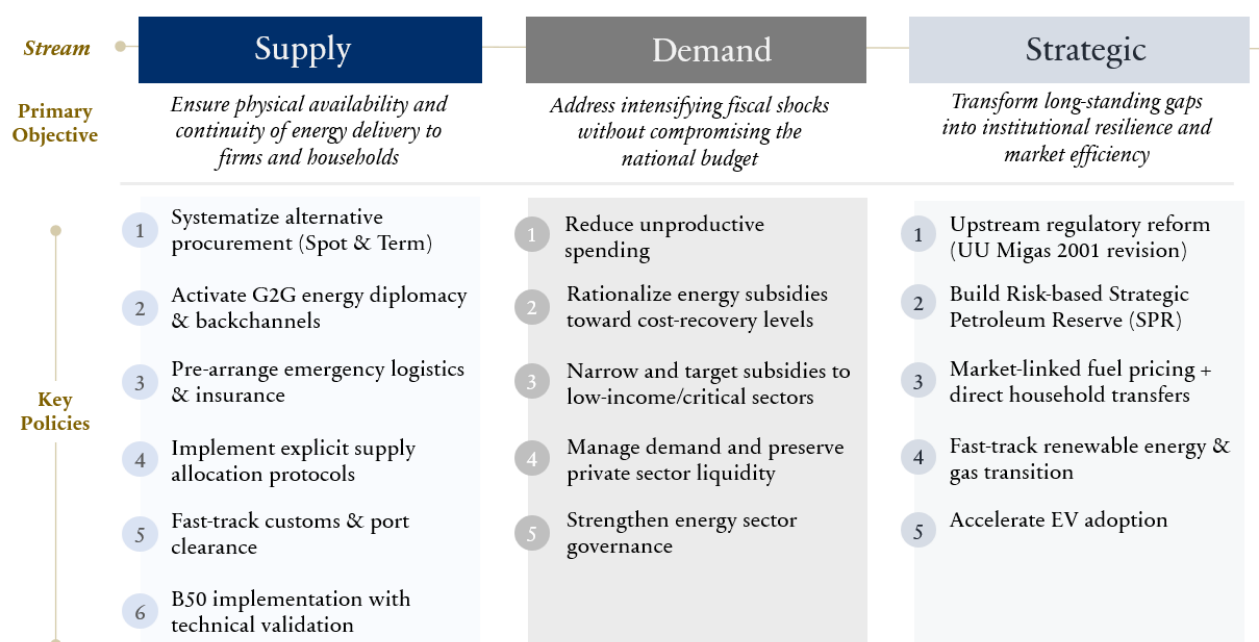
**A further dimension of risk extends beyond the duration of the crisis itself.** Even if the immediate disruption eases, whether through diplomatic resolution, partial reopening of the Strait, or stabilization of alternative supply arrangements, the global energy and trade landscape that emerges may not resemble the one that existed before February 2026. Damaged production facilities, export terminals, and pipeline infrastructure in the Gulf region cannot be rebuilt quickly; major energy infrastructure takes years and billions of dollars to restore, meaning global supply capacity may remain constrained well after hostilities cease. Major supply shocks accelerate structural realignments that are difficult to reverse. Buyers who have redirected procurement to non-Middle Eastern suppliers during the crisis may formalize those relationships through long-term contracts. Trade routes adjusted under emergency conditions may remain in place as shipping insurers and logistics operators update their risk models. Investment capital, already sensitive to geopolitical risk, may flow preferentially toward jurisdictions perceived as more secure, better capitalized, or more predictable in their policy frameworks. Indonesia may find itself competing from a less advantageous position. Countries with established strategic reserves, strong diplomatic procurement

mechanisms, and credible domestic production programs will be better positioned to secure favourable contract terms and attract energy infrastructure investment. Indonesia's limited reserves, high import dependence, and the gap between stated policy ambitions and implementation capacity could work against it in a reconfigured competitive landscape. Some market positions lost during a prolonged disruption, whether in LNG export contracts, petrochemical feedstock access, or investor confidence, may not quickly return.

## V. POLICY PRIORITIES: A THREE-STREAM RESPONSE

The crisis documented in this brief requires a response that is structured, specific, and coordinated across multiple fronts simultaneously. A single-instrument approach, whether broad fiscal stimulus, blanket subsidy expansion, or across-the-board price adjustment, would either prove insufficient for the immediate supply risk or fiscally unsustainable over the medium term. The government has already deployed significant stabilization measures, including the SAL-backed fuel price freeze, supply diversification toward non-Middle Eastern sources, and the acceleration of the B50 biodiesel mandate. These actions have established a critical protective baseline. IBC recommends building on this baseline through three response streams, each addressing a distinct dimension of the crisis. **The Supply Stream** addresses physical supply security and distribution continuity. **The Demand Stream** manages fiscal exposure and demand-side pressure through targeted measures. **The Strategic Stream** advances the structural reforms that this crisis has made both more urgent and, in certain respects, more politically feasible. The priorities below are offered as a contribution to government decision-making.

Figure 5. A Three-Stream Response to Manage Crisis and Drive Reform



## Supply Stream: Secure Supply and Stabilize Distribution

#	Key Policies	Description
1	<b>Systematize alternative procurement (Spot and Term)</b>	Pertamina should immediately expand both spot and term procurement from non-Middle Eastern sources, drawing on existing supplier relationships and establishing new ones. Diversification should be systematized rather than reactive, with clear volume targets and timeline commitments to reduce dependence on any single corridor.
2	<b>Active G2G energy diplomacy and backchannels</b>	Government-to-government energy diplomacy should be activated at the highest level to secure priority access for Indonesian buyers in a competitive global market. This includes not only formal bilateral agreements but informal backchannel engagements, following the model used by India to secure vessel passage and discounted crude, where leader-to-leader communication proved more effective than company-level negotiation.

#	Key Policies	Description
3	<b>Pre-arrange emergency logistics and insurance</b>	Emergency shipping routes should be identified and pre-arranged in advance of further disruption. The government should explore insurance support mechanisms, including potential state-backed war-risk coverage for critical energy cargoes, to reduce the logistics bottlenecks that have already stranded Indonesian vessels in the Gulf.
4	<b>Implement explicit supply allocation protocols</b>	A national emergency energy allocation protocol should be developed and published, defining which sectors receive priority access to constrained fuel and LPG supply under shortage conditions. The current absence of such a framework, identified as a significant governance gap, means that allocation decisions default to ad hoc arrangements that may not direct supply toward where it is most critical.
5	<b>Fast-track customs and port clearance</b>	Customs and port clearance procedures for energy imports should be expedited to eliminate administrative delays at a time when transit times have already been materially extended by rerouting via the Cape of Good Hope. Coordination with regional governments should be intensified to prevent localized distribution shortfalls from developing into broader supply disruptions.
6	<b>B50 biodiesel implementation with technical validation</b>	The acceleration of the B50 biodiesel mandate is a strategically sound measure to reduce diesel import dependence. However, implementation must be preceded by rigorous technical compatibility testing, supply-chain validation, and a transparent engagement mechanism for palm oil operators, ensuring that participating land and facilities meet operational readiness and legal compliance standards before being incorporated into the supply chain. The mandate should strengthen energy security without creating new logistics disruptions or environmental trade-offs.

### Demand Stream: Managing Fiscal Pressures Without Undermining the Budget

#	Key Policies	Description
1	<b>Reduce unproductive spending</b>	Immediate review of non-essential and low-priority government expenditure should be conducted to create fiscal space without resorting to price adjustments or subsidy cuts as a first resort. Spending items with low economic multipliers, weak absorption rates, or limited near-term impact on welfare and productivity should be deferred or eliminated. This signals fiscal discipline and

#	Key Policies	Description
		preserves the fiscal buffer for targeted interventions where it is most needed.
2	<b>Rationalize energy subsidies toward cost-recovery levels</b>	Retail fuel and LPG prices should be gradually adjusted to better reflect supply costs and reduce the implicit subsidy burden on the national budget. Maintaining prices significantly below cost-recovery levels is fiscally unsustainable under prolonged supply disruption and generates regressive benefits, as a disproportionate share of the subsidy accrues to higher-income consumers. Price adjustment should be sequenced carefully and accompanied by the targeted social protection measures outlined in Policy 3 to mitigate the impact on vulnerable households.
3	<b>Narrow and target subsidies to low-income and critical sectors</b>	Subsidy support should be tightened and redirected toward those with the highest dependence and least capacity to absorb higher prices (households and sectors with the highest dependence on energy and the least capacity to absorb price increases). Eligibility criteria should be strengthened and leakage reduced to ensure that a finite fiscal buffer is directed where it is needed the most. At the same time, temporary compensation schemes should be introduced not only for low-income households to mitigate the broader impact of rising fuel prices and general inflation, including food inflation, but also for transport and food logistics operators whose cost structures have been most directly affected by fuel price increases and supply security premiums. These sectors are critical to the functioning of essential goods supply chains, and their operational continuity directly affects price stability and household welfare across the archipelago.
4	<b>Manage demand and preserve private sector liquidity</b>	A national energy-saving campaign covering both fuel and electricity use should be launched to reduce demand pressure on constrained supply and limit the rate at which the SAL fiscal buffer is consumed. Alongside this, revenue-side policy instruments that affect exporter and business liquidity, including DHE frameworks and VAT restitution timelines, should be maintained with stability and predictability. Any revision to existing parameters during this period should be carefully calibrated against its potential impact on working capital, export performance, and the FX inflows that support external balance.
5	<b>Strengthen energy sector governance</b>	Operational efficiency across energy procurement, distribution, and logistics within SOEs should be reviewed to identify gaps that have been exposed by the current disruption. The regulatory and contractual frameworks governing energy supply should be assessed to ensure they provide sufficient flexibility for the sector

#	Key Policies	Description
		to mobilize alternative sources, routes, and partners quickly in a crisis environment. Governance improvements of this kind reduce systemic vulnerability without requiring structural change and can be implemented within existing institutional arrangements.

## BOX 2

### Recommendation Specific Highlight: Crisis-Related Legal Disruption

#### Contractual disruption and legal preparedness

*The contractual disruption described here compounds the SME supplier stress and investment deferrals documented in previous section*

The crisis is generating a wave of contractual disruption across supply, financing, and commercial agreements. Firms and their counterparties are invoking force majeure provisions as supply interruptions, delivery failures, and cost escalations breach existing contractual terms. The legal and financial consequences are expected to cascade through multiple jurisdictions, affecting businesses of all sizes. Drawing on lessons from the 1998, 2008, and 2019 crises, IBC recommends that the government prepare a regulatory framework and infrastructure for targeted relief. With that, the government should monitor the accumulation of contractual disputes and defaults closely and ensure that the regulatory response framework can be activated if the disruption persists long enough to pose systemic risk to business continuity.

### Strategic Stream: Transform Long-Standing Gaps into Efficiency and Resilience

#	Key Policies	Description
1	<b>Upstream regulatory reform (UU Migas 2001 revision)</b>	Indonesia's upstream oil and gas framework, governed by a law enacted in 2001 and unrevised despite more than a decade of legislative discussion, no longer provides the regulatory certainty, competitive fiscal terms, or permitting speed that international exploration capital now requires. Without structural reform, investment will continue to flow to more predictable jurisdictions and Indonesia's import dependence will deepen. Reform of the upstream regulatory and fiscal regime is a prerequisite for meaningfully expanding domestic production.

#	Key Policies	Description
2	<b>Build risk-based Strategic Petroleum Reserve</b>	The absence of a strategic petroleum reserve is the single most consequential structural gap this crisis has exposed. Indonesia does not need to replicate the IEA's 90-day stockholding model immediately, which is fiscally unrealistic in the near term. Instead, a risk-based SPR model should be built in phased, affordable increments through a hybrid of instruments: secured supply commitments from partner countries, mandatory minimum stockholding obligations on major industry players, and targeted investment in storage capacity. The regulatory and institutional groundwork should begin immediately.
3	<b>Market-linked fuel pricing with direct household transfers</b>	The current subsidy framework, which absorbs the full difference between administered and market prices during every oil price spike, has proven repeatedly unsustainable as a fiscal instrument. A managed, gradual transition toward more market-linked fuel pricing, coupled with direct cash transfer mechanisms for vulnerable households, would redirect fiscal resources more efficiently, reduce leakage to non-targeted consumers, and create the fiscal space needed for the storage and upstream investments that energy resilience requires.
4	<b>Fast-track renewable energy and gas transition</b>	The renewable energy and gas transition roadmap should be accelerated from planning to execution. Greater private sector participation in energy sourcing and resilience planning should be enabled through clearer regulatory frameworks, stronger investment certainty, and a credible pipeline of bankable projects. The current crisis has demonstrated in concrete terms the cost of structural dependence on imported fossil fuels and provides the political conditions to move the transition agenda forward with an urgency that normal conditions rarely create. As recently announced, on the 20 <sup>th</sup> of April 2026, a promising development in Indonesia's upstream oil and gas sector is the Geliga-1 discovery in the offshore Ganal Block, East Kalimantan, which indicates an estimated resource potential of around 5 Tcf of gas and 300 million barrels of condensate by ENI and Sinopec. Strategically, Indonesia should pair this discovery with stronger governance, faster licensing and predictable investment climate for renewable energy, gas infrastructure and downstream facilities in converting new reserves into reliable domestic supply as demand continues to rise.
5	<b>Accelerate EV adoption and the transition to electric cooking</b>	Accelerating EV adoption can reduce reliance on imported fuels and ease long-term subsidy pressures. This requires targeted incentives, infrastructure expansion, and clear policy direction to

#	Key Policies	Description
		ensure affordability and support a gradual shift in household and transport energy use.

## BOX 3

**Recommendation Specific Highlight: B50 Biodiesel Transition**

The government's acceleration of the B50 biodiesel mandate is a strategically sound response to diesel import dependence. However, its implementation carries material risks that should be addressed before the July 2026 rollout. The transition from B40 to B50 requires significant additional infrastructure investment, expanded production capacity, and rigorous technical compatibility testing to prevent disruption to commercial freight operations. It also requires a transparent and fair mechanism for engaging qualified palm oil operators. Importantly, B50 will not fully eliminate fossil diesel imports; an estimated 4 million kiloliters of annual dependency will remain. IBC recommends that the Government oversee a sequenced implementation plan that includes supply-chain validation, engine compatibility assurance, and realistic production targets, ensuring that the mandate strengthens energy security without creating new operational bottlenecks or environmental trade-offs that undermine Indonesia's broader sustainability commitments.

**Cross-cutting: Governance and Coordination**

**Across supply, demand, and structural responses, effectiveness hinges on coordination, clarity, and communication.** None can operate in isolation: supply measures without fiscal discipline risk depleting buffers, fiscal tightening without supply assurance risks deepening disruption, and delayed structural reform forfeits the momentum created by the crisis. Coordinated execution with clear roles and transparent decisions is therefore a strategic necessity.

**IBC recommends establishing a cross-sectoral coordination body spanning energy, logistics, industry, fiscal, financial, and public communication domains, with the mandate to coordinate crisis response and the authority to act.** Structured dialogue with Pertamina, PGN, PLN, and other key state-owned enterprises on supply scenarios and contingency planning should be formalized, providing industry stakeholders with the visibility needed to plan effectively. A national emergency energy allocation protocol, with explicit prioritization criteria for essential services and strategic industries, should be developed and made public, so that allocation decisions during constrained supply are governed by transparent rules rather than ad hoc determination.

**On monetary policy, Bank Indonesia's capacity to support growth is already constrained by imported inflation and rupiah depreciation pressure.** If FX pressures persist or intensify despite the stabilization measures outlined across the three streams, a calibrated increase in the benchmark interest rate may be warranted to anchor exchange rate stability, contain inflation expectations, and protect Indonesia's sovereign risk perception. The timing and magnitude of any such adjustment should be weighed carefully against the growth implications, but the cost of delayed action, a more pronounced depreciation, accelerating capital outflows, and a loss of market confidence is likely to exceed the cost of a measured and well-communicated rate adjustment. Coordination between the Ministry of Finance and Bank Indonesia on the sequencing of fiscal and monetary responses is therefore essential to avoid conflicting signals to markets.

**Policy clarity is itself a stabilization measure.** Clear, consistent communication of the government's response framework including the conditions under which escalation measures would be activated, and the specific outcomes secured through energy diplomacy with key partner countries would materially reduce the uncertainty that the IBC survey identifies as an independent economic cost. The government does not need to promise certainty about outcomes it cannot control. It needs to provide certainty about its own decision-making framework.

## VI. CLOSING

**The evidence assembled in this brief confirms that the Hormuz crisis is not a transient price shock.** It is a supply, fiscal, and operational stress event that is testing the limits of Indonesia's energy system, the absorptive capacity of its businesses, and the sustainability of its fiscal instruments. The government's initial response has been substantive and necessary. What follows will determine whether that response holds, and whether the pressures documented here stabilize or deepen. The window for effective, affordable intervention remains open, but it is narrowing.

**Crises of this magnitude are rare, and so are the conditions they create for advancing structural reform.** The government has acted decisively on immediate stabilization, deploying fiscal buffers, diversifying supply, and maintaining price stability for consumers. IBC believes this foundation can now support a broader set of reforms that have long been recognized as necessary but have been difficult to advance under normal conditions, including the development of a strategic petroleum reserve, the modernization of the

upstream regulatory framework, the transition toward targeted subsidy mechanisms, and the establishment of a national emergency energy allocation protocol. Public understanding of energy security risk is high, and the case for durable, structural solutions has rarely been stronger. The momentum created by the government's crisis response should be carried forward into these longer-term priorities.

**IBC offers this brief as a contribution to government decision-making, grounded in evidence from firms, sectoral analysis, and expert consultation.** IBC is committed to supporting a coordinated government-business response through continued monitoring of business conditions, structured dialogue on implementation priorities, and constructive engagement on the policy choices ahead.

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