

The Impact of World Oil Prices, Inflation, and Exchange Rates on Energy Subsidies in Indonesia

Ahmad Ananda Prawira, Rusiadi

Abstract

This study aims to analyze the effect of world oil prices, inflation, and exchange rates on energy subsidies in Indonesia during 2016–2025. This study employs a quantitative approach using secondary annual data and multiple linear regression analysis. The dependent variable is energy subsidies, while the independent variables consist of Brent world oil prices, inflation, and the rupiah exchange rate against the US dollar. The results show that world oil prices have a positive and significant effect on energy subsidies, with a coefficient of 1.667 and a significant value of 0.014. In contrast, the exchange rate has a positive but statistically insignificant effect, with a significance value of 0.073, while inflation has a negative and insignificant effect, with a significance value of 0.252. Simultaneously, world oil prices, exchange rates, and inflation have a significant effect on energy subsidies, as indicated by an F-statistic of 14.524 and a significant value of 0.004. The R^2 value of 0.879 indicates that 87.9% of the variation in energy subsidies can be explained by the variables included in the model. These findings indicate that global oil price fluctuations are the most important factor influencing Indonesia's energy subsidy burden. Therefore, adaptive and targeted subsidy policies are needed to mitigate the fiscal risks arising from global energy price volatility while maintaining protection for vulnerable households.

Keywords: *World Oil Price, Inflation, Exchange Rate, Energy Subsidy, Indonesia.*

Ahmad Ananda Prawira¹

¹Master EkonomiStudent, Universitas Pembangunan Panca Budi Medan, Indonesia

e-mail: Ndaprawira@gmail.com¹

Rusiadi ²

²Universitas Pembangunan Panca Budi Medan, Indonesia

e-mail: dekan.fasosa@pancabudi.ac.id²

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Introduction

Energy subsidies are a fiscal policy instrument that plays a crucial role in maintaining energy price stability and public purchasing power in Indonesia. Through subsidy policies, the government strives to keep certain energy prices affordable for the public, particularly fuel oil (BBM), LPG, and electricity [1]. This policy has a strategic function because energy is a crucial component in household activities as well as production and distribution activities. However, on the other hand, energy subsidies are also a component of state spending that is heavily influenced by global and domestic economic developments. Changes in global oil prices, the rupiah exchange rate, and inflation rates can create pressure on the amount of subsidies the government must bear [2].

World oil prices are one of the external factors closely linked to energy subsidies. Oil is a strategic commodity traded on the international market in US dollars [3]. When world oil prices rise, energy procurement costs also tend to rise. If the government maintains domestic energy prices at a level affordable to the public, the increase in economic prices can widen the gap between market prices and domestic selling prices, thereby increasing the need for subsidies [4]. Therefore, fluctuations in world oil prices can be a source of pressure on the government budget, especially when the increase occurs relatively quickly.

In addition to global oil prices, the rupiah exchange rate against the US dollar is also an important factor in determining the size of energy subsidies. A weakening exchange rate increases the need for rupiah to obtain energy commodities traded in dollars. Therefore, rupiah depreciation can increase domestic energy costs even if global oil prices remain relatively stable. This situation suggests that changes in the exchange rate can amplify the impact of rising global oil prices on the government's fiscal burden. Conversely, rupiah appreciation has the potential to reduce pressure on energy import costs and ultimately reduce the need for subsidies [5].

Inflation is also closely related to energy subsidy policy. Energy is a key input in various economic activities, so changes in energy prices can affect the prices of goods and services by increasing production and distribution costs. Rising energy prices can create inflationary pressures (*cost-push inflation*), while the government can use energy subsidies as an instrument to mitigate the impact of these price increases on the public. Thus, energy subsidies are not only related to government spending, but also serve as an economic stabilization instrument to maintain public purchasing power and control the impact of energy price fluctuations on inflation [6].

Data developments during the 2016–2025 period show quite strong dynamics in world oil prices, exchange rates, inflation, and energy subsidies in Indonesia. The world price of Brent oil increased from US\$43.64 per barrel in 2016 to US\$71.69 per barrel in 2018. During the same period, the rupiah exchange rate weakened from Rp13,436 to Rp14,481 per US\$, while energy subsidies increased significantly from Rp43.7 trillion to Rp153.5 trillion. These conditions indicate that increasing world oil prices accompanied by a weakening exchange rate can increase pressure on the energy subsidy budget [7].

From 2019 to 2020, global oil prices experienced a sharp decline. Brent prices fell from US\$64.03 per barrel in 2019 to US\$41.96 per barrel in 2020. This decline coincided with the weakening of global economic activity due to the COVID-19 pandemic. Energy subsidies also decreased from Rp136.9 trillion in 2019 to Rp108.8 trillion in 2020. Meanwhile, inflation fell

from 2.72 percent to 1.68 percent. This phenomenon demonstrates a relatively synchronous change between global oil prices, inflation, and energy subsidies, although the rupiah exchange rate does not show the same pattern.

Entering the economic recovery period, global oil prices rose again. In 2021, the Brent price reached US\$70.86 per barrel and rose sharply to US\$100.93 per barrel in 2022. During the same period, energy subsidies increased from Rp140.4 trillion to Rp171.9 trillion. The rupiah exchange rate also weakened from Rp14,269 to Rp14,871 per US\$, while inflation increased significantly from 1.87 percent to 5.51 percent. 2022 was one of the periods that showed the strongest pressure on the Indonesian economy because the increase in global energy prices occurred simultaneously with increasing inflation and a weakening exchange rate. These conditions increased the government's challenge in maintaining affordable energy prices while maintaining fiscal stability [8].

After peaking in 2022, global oil prices declined again. Brent prices fell to US\$82.49 per barrel in 2023 and US\$80.52 per barrel in 2024, then fell again to US\$69.14 per barrel in 2025. However, the development of energy subsidies did not fully follow the decline in global oil prices. Energy subsidies were recorded at Rp164.3 trillion in 2023 and increased to Rp177.6 trillion in 2024, and remained at Rp177.6 trillion in 2025. During the same period, the rupiah exchange rate continued to weaken, from Rp15,236 per US\$ in 2023 to Rp15,848 per US\$ in 2024 and Rp16,892 per US\$ in 2025. This phenomenon indicates that changes in energy subsidies are not only influenced by global oil prices, but also by other factors that need to be considered, especially the exchange rate and domestic economic conditions.

Inflation developments also exhibit a fluctuating pattern. Inflation rose from 3.02 percent in 2016 to 3.61 percent in 2017, then declined to 2.72 percent in 2019 and reached a low of 1.68 percent in 2020. Following the pandemic, inflation rose to 5.51 percent in 2022 in line with mounting pressure on global energy and commodity prices. Subsequently, inflation declined again to 2.61 percent in 2023 and 1.57 percent in 2024, before rising to 2.92 percent in 2025. This pattern demonstrates that energy subsidies can act as an instrument to mitigate the transmission of rising energy prices to the prices of goods and services in general.

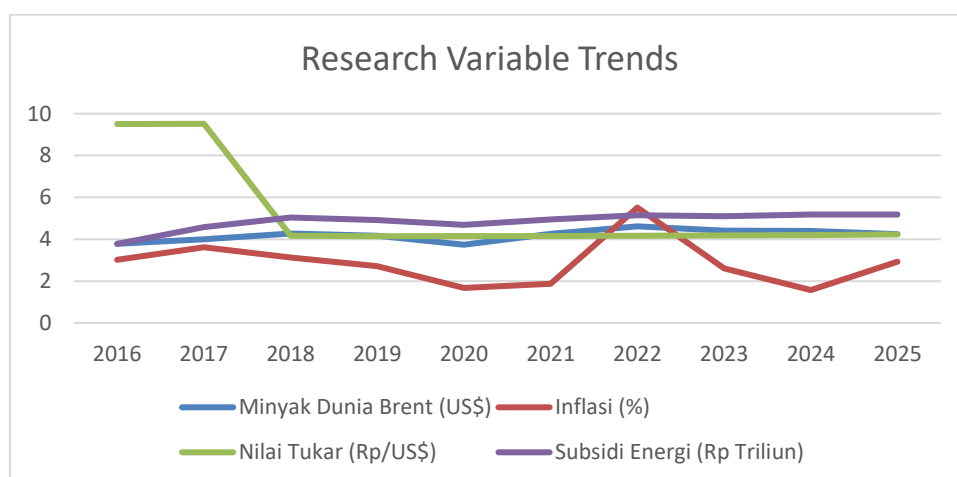


Figure 1. Research Variable Trends

Figure 1 shows that rising global oil prices tend to be accompanied by increases in energy subsidies in several periods, particularly in 2017-2018 and 2021-2022. However, this relationship is not always linear. In 2024-2025, for example, global oil prices fell from

US\$80.52 to US\$69.14 per barrel, but energy subsidies remained at Rp177.6 trillion. Concurrently, the rupiah weakened to Rp16,892 per US\$ in 2025. This indicates that the exchange rate may be a factor in determining the size of energy subsidies when global oil prices decline.

This phenomenon demonstrates the complexity of the relationship between macroeconomic conditions and energy subsidies in Indonesia. World oil prices reflect external pressures, the exchange rate reflects the cost of energy commodities in domestic currency, and inflation reflects price pressures within the economy. These three variables can operate simultaneously and influence the size of energy subsidies. Therefore, partial and simultaneous analysis of each variable is necessary to obtain a clearer empirical picture of the determinants of energy subsidies in Indonesia [9] .

Several previous studies have examined the relationship between energy prices and macroeconomic conditions, but the results have not shown a completely consistent relationship. Differences in observation periods, economic conditions, energy pricing mechanisms, and government policies can cause subsidy responses to changes in oil prices, inflation, and exchange rates to differ across periods. Furthermore, the 2016–2025 period encompasses a variety of important economic conditions, ranging from the decline in oil prices, the COVID-19 pandemic, economic recovery, and the global energy price volatility in 2022 [9] . These conditions provide room for more specific empirical testing of the factors influencing energy subsidies in Indonesia.

Based on the above description, this study aims to analyze the influence of global oil prices, inflation, and the exchange rate on energy subsidies in Indonesia. This research is expected to provide empirical evidence regarding the extent to which changes in global and domestic economic indicators affect energy subsidies. The research findings are also expected to provide the government with considerations in formulating more effective energy subsidy policies, maintaining price stability and public purchasing power, and maintaining fiscal sustainability in the management of the state budget.

Literature Review

2.1 Energy Subsidies and Fiscal Policy

Energy subsidies are a fiscal policy instrument used by governments to maintain affordable energy prices and protect people's purchasing power. However, when international energy prices increase while domestic prices remain stable, the price difference becomes a fiscal burden on the government. Therefore, the size of energy subsidies is determined not only by domestic policies, but also by changes in global energy prices and macroeconomic conditions [10] .

2.2 World Oil Prices and Energy Subsidies

Global oil prices are an external factor that directly impacts domestic energy costs. Rising oil prices increase the economic cost of fuel and energy. If the government maintains domestic prices through subsidies, these increases will increase the need for subsidy budgets . [11] Therefore, the higher global oil prices, the greater the pressure on energy subsidies.

2.3 Inflation and Energy Subsidies

Energy is a crucial input in production and distribution, so rising energy prices can increase inflationary pressures through the *cost-push inflation mechanism*. Conversely, when inflation rises, the government can maintain subsidies as a *shock absorber* to contain rising energy prices and protect people's purchasing power. This relationship suggests that inflation and energy subsidies are linked through the price transmission mechanism and government policy responses [12].

2.4 Exchange Rates and Energy Subsidies

The exchange rate determines the cost of international energy in domestic currency because world oil is traded in US dollars. A depreciation of the rupiah increases the cost of purchasing energy in rupiah. If domestic energy prices are not adjusted, the government will have to cover higher costs through subsidies. Therefore, a weakening rupiah is expected to increase energy subsidies [13].

Research Gap

The literature shows that global oil prices, inflation, and exchange rates have different mechanisms influencing energy subsidies. However, this relationship is not always consistent because it is influenced by energy pricing policies, consumption volumes, and economic conditions. The Indonesian phenomenon from 2016 to 2025 shows that subsidies do not always move in line with global oil prices. Even when oil prices decline, subsidies remain high when the rupiah depreciates. This situation suggests that oil prices alone are insufficient to explain changes in energy subsidies.

This study fills this gap by simultaneously examining global oil prices, inflation, and the exchange rate as determinants of Indonesia's energy subsidies. This approach is crucial for explaining whether subsidy changes are predominantly influenced by *external shocks*, domestic price pressures, or changes in the exchange rate.

Research Methodology

This study uses a quantitative approach with an explanatory research design to analyze the influence of world oil prices, inflation, and exchange rates on energy subsidies in Indonesia. The data used are secondary data obtained from official publications and relevant statistical sources. The research period covers 2016–2025. The dependent variable in this study is energy subsidies (Y) measured in IDR trillion. The independent variables consist of world Brent oil prices (X₁) measured in US\$/barrel, inflation (X₂) in percent, and the rupiah exchange rate against the US dollar (X₃) in IDR/US\$.

Table 1. Research Variables

No.	Variables	Symbol	Indicator	Unit
1	Energy Subsidies	Y	Realization subsidy energy	Rp Trillion
2	World Oil Prices	X ₁	Brent Crude Oil	US\$/ barrel
3	Inflation	X ₂	Inflation Rate	%
4	Exchange rate	X ₃	Rupiah against USD	Rp/US\$

The data is then arranged based on the observation period and processed using statistical software to obtain estimates of the relationship between variables.

To test the effect of world oil prices, inflation, and exchange rates on energy subsidies, multiple linear regression analysis was used. The empirical research model is formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Information:

Y	= Energy subsidies
α	= Constant
X_1	= Brent world oil price
X_2	= Inflation
X_3	= Rupiah exchange rate against the US dollar
$\beta_1, \beta_2, \beta_3$	= Regression coefficient
e	= Error term

Research Hypotheses

Based on the theoretical framework, the research hypothesis is formulated as follows:

H1: World oil prices have a positive and significant effect on energy subsidies in Indonesia.

H2: Inflation has a significant effect on energy subsidies in Indonesia.

H3: The exchange rate has a positive and significant effect on energy subsidies in Indonesia.

H4: World oil prices, inflation, and exchange rates simultaneously have a significant effect on energy subsidies in Indonesia.

Results

Developments in global oil prices, inflation, the exchange rate, and energy subsidies in Indonesia during the 2016–2025 period show significant dynamics. Global oil prices fluctuate following global economic conditions, while the rupiah exchange rate moves in line with external and domestic pressures. Changes in these two indicators have the potential to impact domestic energy costs and ultimately increase pressure on the energy subsidy budget.

On the other hand, inflation has shown a relatively controlled pattern, although it has increased in certain periods, particularly during periods of global energy price volatility. Energy subsidies have also experienced significant fluctuations, with a significant increase during periods of rising global oil prices. This indicates that changes in energy subsidies are not solely related to oil prices but are also influenced by exchange rates and domestic price conditions.

Multiple linear regression analysis was used to examine the effects of world oil prices, inflation, and the exchange rate on energy subsidies in Indonesia. Testing was conducted partially using a *t*-test and simultaneously using an *F*-test to determine the significance of each variable's influence and the combined influence of all three variables.

The regression equation obtained is:

$$Y = -184,881 + 1,667X_1 + 0.016X_2 - 8,280X_3 - e$$

Where:

Information :

- Y = Energy Subsidy
- X_1 = World Oil Price
- X_2 = Exchange Rate
- X_3 = Inflation

Table 2. Multiple Linear Regression Results

Variables	B	Std. Error	Beta	t	Sig.
Constant	-184,881	96,951	—	-1,907	0.105

World Oil Prices	1,667	0.485	0.703	3,434	0.014
Exchange rate	0.016	0.007	0.400	2,174	0.073
Inflation	-8,280	6,532	-0.221	-1,268	0.252

Source : SPSS

The results of multiple linear regression indicate that world oil prices significantly influence energy subsidies in Indonesia. The coefficient of world oil prices is 1.667 with a significance value of $0.014 < 0.05$, indicating a positive and significant relationship. Meanwhile, the exchange rate has a positive coefficient of 0.016, but it is not significant at the 5% level with a significance value of 0.073. Inflation has a negative coefficient of -8.280 and does not significantly influence energy subsidies with a significance value of 0.252.

Thus, only global oil prices were found to have a significant effect on energy subsidies in the research model. These results indicate that changes in global oil prices are a more dominant factor in explaining variations in energy subsidies than exchange rates and inflation.

Table 2. Simultaneous Results

Model	Sum of Squares	df	Mean Square	F-count	Sig.
Regression	14,587.05	3	4,862.35	14,524	0.004

Source: SPSS

The F-count value of 14.524 with a Sig. of $0.004 < 0.05$ indicates that world oil prices, exchange rates, and inflation simultaneously have a significant effect on energy subsidies in Indonesia.

Table 3. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	0.938	0.879	0.818	18,29732

Source: SPSS

Based on the test results, an R value of 0.938 was obtained, indicating a very strong relationship between world oil prices, exchange rates, and inflation on energy subsidies. The R Square value of 0.879 indicates that 87.9% of the variation in energy subsidies can be explained by world oil prices, exchange rates, and inflation in the research model. Meanwhile, the remaining 12.1% is explained by other factors outside the model.

The adjusted R-square value of 0.818 indicates that, after adjusting for the number of variables and research observations, the model is able to explain approximately 81.8% of the variation in energy subsidies. These results demonstrate that the regression model has strong explanatory power for changes in energy subsidies in Indonesia.

Discussion

4.1 The Impact of World Oil Prices on Energy Subsidies

The results of the study indicate that global oil prices have a positive and significant effect on energy subsidies in Indonesia, with a coefficient of 1.667 and a significance value of 0.014. This finding suggests that rising global oil prices directly increase pressure on the energy subsidy budget. Economically, rising global oil prices increase the economic cost of energy, while the government still has an interest in maintaining affordable domestic energy prices.

These findings are consistent with *the price pass-through theory*, where changes in international oil prices can be transmitted to domestic energy costs. When the government holds back domestic energy price increases, the difference between the economic price and the price

paid by the public must be covered through subsidies. The OECD also emphasized that the 2007-2008 global oil price increase exposed the vulnerability of Indonesia's energy subsidy policy to oil price volatility while increasing pressure on the government budget [14] .

These findings are increasingly relevant to research by Setyanti and Harsa (2026), who found a long-term relationship between fuel subsidies, global oil prices, the exchange rate, and inflation in Indonesia. The study also showed that fuel subsidy spending significantly responds to changes in global oil prices. Therefore, these findings strengthen the evidence that global oil prices are the most significant source of external pressure on Indonesia's energy subsidies [15]

These findings also have important fiscal implications. The dependence of subsidies on global oil prices puts the state budget at risk during international energy shocks. The ADB identifies fuel subsidies as a factor that can create fiscal pressure and limit the government's ability to finance other development sectors.

4.2 The Effect of Exchange Rates on Energy Subsidies

The results of the study show that the exchange rate has a positive coefficient of 0.016, but does not have a significant effect on energy subsidies, with a significance value of 0.073. The positive direction is in accordance with theory *Exchange rate pass-through* . A depreciation of the rupiah theoretically increases the cost of oil and energy products traded in US dollars, thereby increasing the need for subsidies in rupiah.

However, the insignificance of the exchange rate indicates that the effect is not statistically strong enough after controlling for world oil prices and inflation. One explanation is the existence of government policy mechanisms in determining domestic energy prices. Changes in the exchange rate are not always fully transmitted to energy prices because some of the pressure can be absorbed through subsidy policies, compensation, or price adjustments [16]

These results are interesting because research by Setyanti and Harsa (2026) found that exchange rate depreciation has a positive impact on inflation in the long run, and also showed that changes in the exchange rate and oil prices interact in transmitting external pressures to the Indonesian economy. These differences in results indicate that the impact of the exchange rate can depend on the dependent variable and policy design analyzed. In this study, world oil prices appear to be more dominant in explaining changes in subsidies than individual changes in the exchange rate.

4.3 The Effect of Inflation on Energy Subsidies

Inflation has a coefficient of -8.280 with a significance value of 0.252, indicating that it has no significant partial effect on energy subsidies. The negative trend indicates that rising inflation during the study period tended to correlate with declining subsidies, but the relationship was not statistically strong.

This finding can be explained by the nature of energy subsidies as a policy instrument, not simply an automatic response to changes in inflation. The government can adjust the subsidy size based on oil price conditions, fiscal capacity, energy pricing policies, and public protection targets. Thus, inflation does not directly determine the size of the subsidy when other factors such as world oil prices and exchange rates are taken into account simultaneously [17]

Theoretically, energy subsidies can actually function as a *shock absorber* against inflation. When energy prices rise, the government can maintain domestic energy prices through subsidies, thereby mitigating the transmission of energy price increases to inflation. Research by Setyanti and Harsa (2026) shows that fuel subsidies, global oil prices, exchange rates, and inflation are interrelated in the long run [7] . The study emphasizes that the impact of subsidies needs to be understood as part of the interaction between fiscal policy, external risks, and macroeconomic stability.

Thus, the insignificance of inflation in this study does not imply that inflation has no economic relationship with energy subsidies. Rather, these results indicate that the relationship between inflation and subsidies is more indirect and dependent on government policy responses.

4.4 The Simultaneous Effect of World Oil Prices, Exchange Rates, and Inflation on Energy Subsidies

The simultaneous test results show that world oil prices, exchange rates, and inflation simultaneously have a significant effect on energy subsidies, with an F value of 14.524 and a significance level of 0.004. The R^2 value of 0.879 indicates that 87.9% of the variation in energy subsidies in the model can be explained by these three variables.

These results confirm that energy subsidies cannot be understood through a single macroeconomic indicator. Global oil prices represent an *external shock*, the exchange rate determines the magnitude of these external costs in rupiah, and inflation reflects domestic price pressures related to the transmission of energy costs. All three shape the economic environment that influences government decisions to maintain or adjust energy subsidies.

These findings align with those of Setyanti and Harsa (2026), who demonstrated a long-term relationship between fuel subsidies, global oil prices, the exchange rate, and inflation in Indonesia. This study emphasized that the relationship between subsidies and macroeconomic variables operates through various transmission channels and cannot be viewed in isolation. However, the partial test results provide more specific findings: global oil prices are the only statistically significant variable, while the exchange rate and inflation are insignificant at the 5% level. This means that in this research model, external pressures from changes in global oil prices are more dominant in explaining changes in energy subsidies than exchange rate pressures and inflation individually.

4.5 Policy Implications

The research findings have important implications for energy subsidy management in Indonesia. The significant volatility of global oil prices indicates that global energy volatility poses a major risk to subsidy sustainability. Therefore, subsidy policies need to be designed to be more adaptive to changes in global oil prices and not solely rely on broad subsidies. The OECD emphasized that Indonesia's energy subsidy reforms need to be accompanied by targeted protection mechanisms to ensure the protection of low-income groups. The ADB also pointed out that subsidy reforms can expand fiscal space to finance development priorities such as health, education, and infrastructure.

Thus, the research findings point to the importance of more targeted, adaptive, and fiscally-capable energy subsidies. This policy is necessary to prevent global oil price fluctuations from automatically increasing the burden on the state budget, while still maintaining the purchasing power of vulnerable groups.

Conclusion

This study analyzes the influence of global oil prices, exchange rates, and inflation on energy subsidies in Indonesia during the 2016–2025 period using multiple linear regression. The results show that global oil prices have a positive and significant effect on energy subsidies, with a coefficient of 1.667 and a significance level of 0.014. This finding confirms that rising global oil prices are a major source of pressure on increasing energy subsidies due to the increasing energy costs that the government must bear.

In contrast, the exchange rate and inflation do not have a significant partial effect on energy subsidies, with significance values of 0.073 and 0.252, respectively. Although the exchange rate has a positive direction, its effect is not yet significant at the 5% level, while inflation shows a negative direction and is not significant.

Simultaneously, world oil prices, exchange rates, and inflation significantly influence energy subsidies, as indicated by the F-value of 14.524 with a significance level of 0.004. The

R² value of 0.879 indicates that 87.9% of the variation in energy subsidies can be explained by these three variables, while 12.1% is influenced by other factors outside the model.

These findings reinforce the view that global oil price volatility is the most dominant factor explaining changes in Indonesia's energy subsidies. Therefore, the government needs to strengthen its global energy price risk management policies through more adaptive and targeted subsidies, so that oil price fluctuations do not directly increase pressure on the state budget. Subsidy reform also needs to be accompanied by protection for vulnerable groups to ensure the goals of price stabilization and purchasing power protection are achieved.

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