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# ANALYSIS OF THE EFFECT OF ENERGY SUBSIDIES ON STATE EXPENDITURES AND FISCAL SECURITY IN INDONESIA

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***ABSTRACT***

*This study analyzes the impact of energy subsidies on state expenditures and fiscal resilience in Indonesia. Using time series data from 2020 to 2024, this research employs descriptive analysis to determine how energy subsidy policies affect government spending and the long-term sustainability of fiscal policy. The results show that increasing energy subsidies significantly burdens the state budget, reduces fiscal flexibility, and potentially hampers the government's ability to respond to macroeconomic shocks. A reduction or better targeting of energy subsidies is essential to maintain fiscal resilience and allocate state spending to more productive sectors.*

*Keywords: Energy Subsidy, State Expenditure, Fiscal Policy, Fiscal Resilience, Indonesia*

**ABSTRAK**

Penelitian ini menganalisis pengaruh subsidi energi terhadap belanja negara dan ketahanan fiskal di Indonesia. Menggunakan data runtut waktu dari tahun 2020 hingga 2024, penelitian ini menerapkan analisis deskriptif untuk mengetahui bagaimana kebijakan subsidi energi memengaruhi pengeluaran pemerintah dan keberlanjutan kebijakan fiskal jangka panjang. Hasil penelitian menunjukkan bahwa peningkatan subsidi energi secara signifikan membebani anggaran negara, mengurangi fleksibilitas fiskal, dan berpotensi menghambat kemampuan pemerintah dalam merespons guncangan makroekonomi. Pengurangan atau penargetan subsidi energi secara lebih tepat sangat diperlukan untuk menjaga ketahanan fiskal dan mengalokasikan belanja negara ke sektor yang lebih produktif.

Kata Kunci: Subsidi Energi, Belanja Negara, Kebijakan Fiskal, Ketahanan Fiskal, Indonesia.

## 1. INTRODUCTION

Energy subsidies are a fiscal policy instrument employed by the Indonesian government to maintain energy price stability and safeguard the purchasing power

of the population. However, this policy often presents a fiscal dilemma, as the substantial budget allocated to subsidies can curtail fiscal space for more productive expenditures such as education, healthcare, and infrastructure.

According to data from the Ministry of Finance, spending on energy subsidies, particularly for fuel (BBM) and electricity, has even surpassed the budget allocation for infrastructure development in certain years. This raises crucial questions about the extent to which energy subsidies impact overall government spending and their consequences for Indonesia's fiscal resilience, especially within the context of budget deficits and debt-to-GDP ratios.

Previous research, such as that conducted by Nugroho (2017) and Harimurti (2021), suggests that reducing energy subsidies can enhance government spending efficiency and strengthen the fiscal structure. Nevertheless, a gap persists in understanding the long-term effects of energy subsidies on national fiscal resilience.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Analyzing the complex relationship between energy subsidies, state expenditures, and fiscal security in Indonesia necessitates a robust theoretical framework. This framework draws upon principles from fiscal policy theory, public finance, and resource economics, integrating concepts of government budgeting, macroeconomic stability, and the efficient allocation of public resources. Given the Indonesian context, where energy subsidies are a significant fiscal instrument, understanding their multifaceted impact requires examining both their intended benefits and their often-unintended consequences on the nation's financial health.

### 1. Fiscal Policy and Budget Allocation Theory

At its core, the analysis of energy subsidies begins with fiscal policy theory, which examines how government spending and taxation influence the economy. Subsidies, as a form of government expenditure, directly affect the size and composition of the state budget. From this perspective, the substantial allocation to energy subsidies represents a trade-off with other potential government expenditures.

According to Keynesian economics principles, government spending, including subsidies, can stimulate demand and protect purchasing power, particularly for lower-income segments of the population (Nugroho, 2017). However, public finance theory also emphasizes the concept of opportunity cost. Every rupiah spent on energy subsidies is a rupiah that cannot be allocated to other critical sectors like education, healthcare, infrastructure development, or research and development (Harimurti, 2021; Darmawan, 2023). This diversion of funds can limit the government's ability to invest in long-term economic growth and human capital formation, potentially hindering the nation's productive capacity.

Furthermore, the theory of optimal public expenditure suggests that government spending should be allocated to maximize social welfare and economic efficiency. When subsidies become disproportionately large or inefficiently targeted, they can lead to resource misallocation and crowd out more productive public investments. As highlighted by Adiputra et al. (2024), the persistent high cost of energy subsidies can create a "fiscal

burden" that limits the government's flexibility to respond to economic shocks or pursue development priorities.

**2. Fiscal Security and Macroeconomic Stability**

The concept of fiscal security is central to understanding the broader implications of energy subsidies. Fiscal security refers to a government's ability to meet its financial obligations, maintain budgetary stability, and withstand economic shocks without resorting to unsustainable borrowing or severe austerity measures. Energy subsidies directly impact fiscal security through their influence on:

Budget Deficits: When subsidy expenditures are high, they can contribute significantly to a country's budget deficit, forcing the government to borrow more. Persistent large deficits increase public debt, which can erode fiscal space and raise concerns among investors about fiscal sustainability (Fathurrahman et al., 2023; Siregar & Situngkir, 2024). High debt levels can lead to higher interest payments, further straining the budget and reducing funds available for other essential services.

Debt-to-GDP Ratio: The debt-to-GDP ratio is a key indicator of fiscal health. High and increasing energy subsidies can exacerbate this ratio by increasing government borrowing without necessarily generating proportional economic growth. Pramono and Wibowo (2022) argue that unsustainable subsidy burdens can undermine fiscal resilience by making the national budget more vulnerable to external shocks and commodity price volatility.

Vulnerability to Commodity Price Swings: Energy subsidies often expose the state budget to global energy price volatility. When international oil or gas prices rise, the cost of maintaining fixed domestic prices through subsidies can skyrocket, leading to unforeseen budgetary pressures and forcing the government to either increase borrowing or cut other expenditures (Widodo et al., 2023). This inherent vulnerability directly threatens fiscal security.

**3. Resource Economics and Efficiency Considerations**

From a resource economics perspective, energy subsidies often lead to inefficient consumption and market distortions. By keeping energy prices artificially low, subsidies can encourage excessive consumption, discourage energy conservation, and reduce incentives for investment in renewable energy or energy efficiency (Suryani & Yuniarti, 2024). This creates a moral hazard where consumers and industries have less incentive to optimize energy use.

Furthermore, subsidies can lead to misallocation of resources across different sectors of the economy. Industries that are heavy energy consumers might receive an unfair advantage, potentially hindering the growth of more energy-efficient or sustainable sectors. The concept of deadweight loss in economics applies here, where the economic efficiency is reduced because the price mechanism is distorted. Reforming or reducing these subsidies, as suggested by Saputra and Santosa (2023), can lead to more efficient energy consumption patterns and free up resources for more productive investments, thereby strengthening the fiscal structure in the long run.

## 3. RESEARCH METHOD

Type of Research: Descriptive quantitative. This study adopts a quantitative approach, utilizing descriptive analysis and regression methods. The primary objective is to examine the impact of energy subsidies on government expenditure and fiscal resilience in Indonesia over a defined time period.

**Data Collection Techniques**

The data collection technique employed is documentary analysis. This involves Gathering published data from official government institutions related to energy subsidies, national spending, and fiscal resilience indicators such as the debt-to-GDP ratio and budget deficit.

## 4. DATA ANALYSIS AND DISCUSSION

**Data Analysis**

Based on the data above, there has been a significant upward trend in total energy subsidies since 2020, with subsidies increasing from Rp95.7 trillion to Rp159.6 trillion in 2023, and projected to rise further to Rp186.9 trillion in 2024. The most substantial increase occurred in the fuel and LPG components, particularly between 2020 (Rp47.7 trillion) and 2022 (Rp115.6 trillion). This surge is closely related to fluctuations in global oil prices and government policies aimed at maintaining public purchasing power during and after the COVID-19 pandemic.

| Year | BBM and LPG (Triliun Rp) | Listrik (Triliun Rp) | Total Subsidi Energi (Triliun Rp) |
|---|---|---|---|
| 2020 | 47,7 | 48,0 | 95,7 |
| 2021 | 83,8 | 49,8 | 133,6 |
| 2022 | 115,6 | 58,8 | 174,4 |
| 2023 (Target) | 74,8 | 70,5 | 145,3 |
| 2023 (Realisasi)* | 95,6 | 64,0 | 159,6 |
| 2024 (Target) | 113,3 | 73,6 | 186,9 |

Source : ESDM Sector Performance Achievements

**Discussion**

The increase in energy subsidies during the 2020–2024 period indicates that Indonesia's fiscal policy continues to face challenges in balancing social protection with budget efficiency. The surge in subsidies has been particularly pronounced in the fuel and LPG components, rising from Rp47.7 trillion in 2020 to a targeted Rp113.3 trillion in 2024. This increase has been influenced by several factors, including fluctuations in global oil prices, currency depreciation, and government efforts to maintain public purchasing power amid the COVID-19 pandemic and other global pressures.

The impact of rising subsidies can be seen in the limited fiscal space within the State Budget (APBN). Large subsidy allocations reduce the government's capacity to fund productive sectors such as infrastructure, education, and health. This aligns with the findings of Harimurti (2021), who stated that a high subsidy burden constrains fiscal capacity and reduces the long-term effectiveness of fiscal policy.

Moreover, the high level of energy subsidies also affects fiscal resilience. Dependence on subsidized energy increases the risk to fiscal sustainability, especially in the event of global energy price shocks. According to Siregar and Indrawati (2021), poorly targeted subsidies worsen budget structure and potentially increase the budget deficit-to-GDP ratio.

Nevertheless, energy subsidies are not entirely detrimental. They can function as a social stabilization tool to help vulnerable groups cope with rising prices. Therefore, subsidy reform strategies are needed to maintain a balance between social stability and fiscal sustainability. Data-driven subsidy approaches, such as direct cash transfers, are considered more efficient and better targeted compared to price subsidies.

In conclusion, this discussion supports the hypothesis that energy subsidies have a significant relationship with government expenditure and fiscal resilience. Subsidy policies must be strategically directed to avoid becoming a long-term fiscal burden while still protecting the public during times of crisis.

## 5. CONCLUSION & SUGGESTION

### CONCLUSION

The results of this study indicate that energy subsidies in Indonesia, particularly during the 2020 to 2024 period, have had a significant impact on the structure of government spending and fiscal resilience. The increase in subsidies, especially in the fuel and LPG components, has reduced the government's budgetary flexibility, narrowed fiscal space for productive sectors, and heightened the risk to long-term fiscal sustainability.

This situation underscores that, although energy subsidies serve as a social protection instrument, the fiscal burden they impose over the long term requires policy reform. A more targeted subsidy mechanism is necessary to maintain a balance between economic stability and the efficient management of the national budget.

### SUGGESTION

Future research is recommended to incorporate a qualitative approach through interviews with policymakers to better understand the political and institutional dynamics behind subsidy allocation. In addition, comparative studies with other developing countries could provide broader insights into best practices for subsidy reform and strengthening fiscal resilience.

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