

## The impact of energy pricing policy on Indonesian economy

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### Abstrak

Fuel plays an important role in Indonesia. In line with the ongoing development, the consumption of fuel increases rapidly. Considering fuel as a sensitive commodity, the government maintains the price of fuel at a very low price through subsidy. Later,

it is realized that this policy has some negative effects, i.e. inefficiency in fuel consumption, pollution, discourage the search for alternative energy sources, etc. However, the urgency of revoking fuel subsidy comes from the pressure of state budget's condition. Experiencing massive budget deficit, the government plans to cut

its expenditure by reducing the subsidy. The subsidy reduction will cause the price of fuel to increase.

While, we do not know the impact of the increase in fuel price on the economy.

In view of that, the objectives of this thesis are: first, to estimate the likely impact of increasing the price of fuel on aggregate output, employment, saving and income distribution. Second, to determine appropriate policy that may reduce the negative impact resulting from increasing price of fuel.

The methodology used in this thesis is computable general equilibrium (CGE). CGE

has been selected because of its capability in describing interaction among sectors within economy. The advantage of using CGE models is that, once constructed, they yield a tractable tool for analyzing a wide range of possible policy changes. By using the CGE model, we do some scenarios of fuel price increase and investigate its impact on the economy.

The simulation result shows that the policy of increasing fuel price can be used to strengthen government budget. However, the impact on unemployment should be seriously taken into consideration. Given the more vital role played by HSDO compared with that of gasoline and IDO in the economy, the percentage of price increase in HSDO should be lower than the other if the government wants to soften the burden to society.