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**THE INCREASE IN FUEL PRICES AND THE PROBLEMS FOR THE ECONOMY**

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<https://doi.org/10.54922/IJEHSS.2022.0462>

**ABSTRACT**

This study aims to analyze the impact of the increase in fuel prices on the Indonesian economy. This study used qualitative methods to analyze the problem of increasing fuel prices in Indonesia and its impact on the economy. Data were collected through observation, interviews, and documentation. Interviews were conducted with the public and business actors affected by rising fuel prices in Indonesia. Data were analyzed using interactive analysis including data reduction, data presentation, and drawing conclusions. The results showed that the increase in fuel prices in Indonesia has a negative impact on the economy. This can be seen from the increase in the number of unemployment, the increase in the price of basic needs, the increase in the cost of producing goods and services (in and out of town transportation services), the increase in inflation, decreasing real salary and household consumption, and encouraging requests for compensation policies such as Direct Cash Assistance and Wage Subsidy Assistance as a form of compensation for rising fuel prices.

**Key Words:** Economy, Inflation, Poverty.

**1. INTRODUCTION**

The increase in fuel prices has encouraged the emergence of various responses and problems. Some are positive and some are negative. The positive is sourced from the argument that the policy of increasing fuel prices is like a ticking time bomb that will explode one day. The negative responses are more structural in nature. This means that the policy dilemma of increasing fuel prices can be anticipated with fiscal measures, such as budgetary discipline and requests to write off foreign debt. Indeed, the impact of the increase in fuel prices on poverty is enormous and difficult to deal with by relying on the compensation program. This means that the increase in fuel prices is the end step. However, some also stem from political sentiments of anti-fuel price increase policies without appropriate solutions (Dartanto, 2005).

The increase in oil prices creates causes problems for oil-importing countries. The increase in oil prices will directly increase the cost of producing goods and services and the burden of living for the people and ultimately weaken world economic growth. The increase in fuel prices will directly affect the increase in the prices of other goods as fuel is part of the input factor (Dartanto, 2005). This will get a response from the community and invite a counter-reaction from the public (Ikhsan, Dartanto, & Usman, 2005).

Based on the economic perspective, an increase in fuel prices will increase production costs, inflation which in turn will have a negative effect on economic growth, and a decrease in wages and household consumption. Besides, sectors that use a lot of fuel will experience the highest

impact, especially the land transportation, sea transportation, rail transportation, and courier and delivery service sectors. These sectors need to increase prices to survive and this can be seen from the increase in transportation costs (Sahara, 2022).

Price increases in the transportation sector can affect other economic sectors through a multiplier effect. The simultaneous increase in the prices of goods will push up inflation. Then, the negative impact will be even worse by considering the psychological effects on the community and government. The psychological impact on the community occurs when the community collectively expects that an increase in fuel prices will be followed by price increases in other sectors.

The increase in fuel prices is unavoidable because (1) Fuel subsidies and compensation are not yet on target and are still widely enjoyed by wealthy people; (2) An increase in the fuel price can reduce the additional burden of subsidies and compensation and provide direct assistance to the vulnerable people so that it is more targeted and fair; and (3) The cheap price of fuel can cause a tendency for people to waste more energy so that it is increasingly unfriendly to the environment (KPPN, 2022). Therefore, this study aims to analyze the impact of the increase in fuel prices on the Indonesian economy.

## 2.METHOD

This study used a qualitative method to analyze the problem of increasing fuel prices in Indonesia and its impact on the economy. Data were collected through observations, interviews, and documentation. Interviews were conducted with the public and business actors affected by the increase in fuel prices in Indonesia. Data were analyzed using interactive analysis covering data reduction, data presentation, and drawing conclusions (Miles, Huberman, & Saldaña, 2014).

## 3.RESULTS AND DISCUSSION

The direct impact of the increase in fuel prices is predicted to cause inflation. This impact will trigger a follow-up impact in the form of an increase in the price of other goods and services. Based on the Price Monitoring Survey by Bank Indonesia (BI), the main commodity contributing to inflation until the fourth week of September 2022 is gasoline by 0.91 percent, while city transportation contributed 0.05. Meanwhile, intercity transportation, filter clove cigarettes, and rice contributed 0.02 percent each. Besides, eggs, cement, and household fuel (BBRT) contributed 0.01 percent each (Yogatama, 2022). Statistics Indonesia (BPS) noted that inflation in September 2022 is 1.17% on monthly basis or month over month (mom) or annual basis reaching 5.95% on an annual basis or year on year (yoy).

This inflation is due to the increase in fuel prices in September 2022. The increase in fuel prices will not stop in September and the aftershocks will still be felt at the end of 2022. In September and October 2022, year-on-year inflation was quite high, even surpassing the rate before the COVID-19 pandemic. In September, year-on-year inflation reached 4.61% due to rising fuel prices, and high inflation continued in October 2022 which reached 4.47%, a slight down compared to the previous month. This indicates that the increase in fuel prices affects the inflation rate in October 2022 due to the increase in the prices of some goods and services, especially transportation services within and outside the city (BPS DKI Jakarta Province, 2022).

The impact of the fuel price has been felt by the community, especially the lower middle class, with the increase in the price of basic commodities and public transportation. First, there will be a decrease in purchasing power due to the income effect although the burden will be different based on the household income class, especially for poor household groups that do not have enough space to deal with short-term cash flow problems. Second, the simultaneous increase in fuel prices will increase the prices of other basic commodities which will be burdensome for the middle and lower classes who are in the process of economic recovery affected by the COVID-19 pandemic. Third, the social aspect of society is to encourage an increase in the unemployment rate as fuel is the basic material for the company's operations so the increase will burden production costs. For production efficiency, companies need to stop recruiting new employees or even be forced to terminate employment (PHK) which potentially increases the unemployment rate. Fourth, an increase in the unemployment rate will also lead to an increase in the poverty rate. Statistics Indonesia data on March 2022 show that the poverty line has increased by 3.975% compared to September 2021 (Uswah, 2022).

The increase in fuel prices has prompted demands for compensation policies, such as Direct Cash Assistance (BLT) and Wage Subsidy Assistance (BSU) because, for the upper middle class, the increase in fuel prices has no impact significantly, but they still experience a decrease in disposable income.

The government's policy of distributing direct cash assistance funds to the beneficiaries to minimize the impact of the increase in fuel prices is considered inappropriate. Based on experience, BLT was distributed to people who were not entitled to it. The government should divert the allocation of fuel price subsidies to infrastructure development that is directly in contact with community activities. Infrastructure development is expected to support the economic activities of the community (Minarsih, 2012).

Even though BLT is not the main focus of the government, this assistance helps the poor in the short term. However, BLT distribution was prone to misdirection. BLT should not be used as an instrument for the government's political interests. It should be distributed right to target and eligible people. The BLT budget should not erode the allocation for infrastructure development which is necessary for the actual development of the community's economy. As a support for the community's economy, infrastructure should be fulfilled.

#### **4. CONCLUSION**

The increase in fuel prices has caused many problems for the public and business actors in Indonesia. This can be seen from the increase in the number of unemployment, the price of basic goods, the cost of producing goods and services (in and out of town transportation services), and inflation which decreases real wages and household consumption. This encourages the issuance of compensation policies, such as Direct Cash Assistance and Wage Subsidy Assistance. However, this compensation is considered unable to solve the problems caused by the increase in fuel prices in Indonesia. Therefore, the government needs to highly consider the target beneficiaries of the assistance.

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