



Uncertainty from Middle East

What's new?

Since 7 October 2023, tension between Israel and Hamas increase the geopolitical risk in Middle East. The possible transmission to global economy and financial markets are rising uncertainty/volatility and crude oil price, since ~30% of global crude oil supply may get disrupted.

The key factor to watch going forward is how the war evolves. Worse case is if the war spread out and involve other parties (not only Israel and Hamas). High casualties and prolonged war may also raise the possibility of unintended consequences which result in further rising tension.

Impact to Indonesia

Thanks to improving macro conditions (current account/BOP, inflation, budget, etc), Indonesia have done relatively better during rising market volatility compares to previous events.

The direct impact to our economy may come from crude oil. If the government decide to raise fuel prices (for both Pertalite and Pertamina), the direct impact is ~0.4% to inflation for every 10% increase in crude oil prices. If the government decide to keep Pertalite price, government may need to spend around Rp50 tr (~0.2% of GDP) for every 10% increase in crude oil prices. For current account, it will increase deficit by ~0.2% of GDP for every 10% rise in crude oil assuming all things are equal.

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