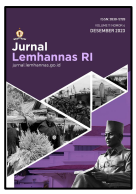

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Geopolitical Risks and Indonesia's Economic Resilience

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Abstract

Purpose: Global geopolitical turmoil creates uncertainty that has direct implications for Indonesia's economic stability. The gap phenomenon arises when the government's fiscal and monetary policies fail to fully anticipate external risks, particularly those related to fluctuations in energy prices, trade tensions, and regional political dynamics. This study aims to understand the relationship between geopolitical conflicts and national economic resilience.

Study Design/Methodology/Approach: This study uses a qualitative approach with descriptive analysis, drawing on literature studies, secondary data, and official documents.

Findings: The findings indicate that fiscal discipline, export market diversification, and strengthening foreign exchange reserves are key strategies for mitigating external pressures. In addition, strict fiscal oversight and enforcement of public governance is crucial in preventing the erosion of the economic structure due to potential corruption. The theoretical implications of this study enrich the perspective of Prospect Theory by emphasising how risk perception and government decision-making shape the direction of macroeconomic policy. From a practical perspective, the findings provide a reference for policymakers to formulate anticipatory strategies against geopolitical shocks. The policy implications underscore the importance of striking a balance between short-term stability and sustainable development.

Originality/Value: The novelty of this research lies in the integration of geopolitical analysis with fiscal discipline as a key instrument to maintain Indonesia's economic resilience amid global uncertainty.

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INTRODUCTION

The world's geopolitics got even more ugly over the last twenty years. Great power rivalries, interstate wars, and geopolitics of energy routes still disturb the world economy (Antonakakis et al., 2017; Caldara & Iacoviello, 2018; Manurung et al., 2022). One of the most serious problems is the increasing tension between Iran and Israel. They and their fight could ignite a broader conflict in the Middle East. The war is not only a metaphor for political and military rivalry, but it also has severe economic implications, for this area controls a key passage for global oil supply through the Strait of Hormuz (Ariffin & Zulkifli, 2013; Pham, 2010). While that would be unlikely in a war between the two countries, more than 20 percent of the world's oil commerce passes through the strait, for days at least, and as the conflict escalates, the prospects for supply problems rise. International markets have responded by sending the price of crude oil through the roof, which is bad for the world economy.

Indonesia as a net energy importer is immediately vulnerable to these forces. Import prices increase and lead to a jump in fuel prices on the domestic market, and thus inflation continues as it precedes de-stabilization in macro-economy (Caldara et al., 2016; Demirbaş et al., 2017). Oil steadied above $1-00 a barrel on Tuesday, but fuelled by the eurozone crisis, has moved up from a comfortable trading band between $75 and $80 over the past few months on fears of a blockade of the Strait of Hormuz. This instability pushes the rupiah down, amplifies the cost of energy subsidies and eats away at household spending power. Thus, wars in faraway countries at distant waters reach out to (and impact) the Indonesia economy-macro and the funding and fueling of an army with (or for) an imperial mission but without a war economy.

Although scholars have examined the impact of oil prices on Indonesia's macroeconomic indicators, they generally emphasise technical aspects, for instance inflation, fiscal deficits, and exchange rate fluctuations (Mohamued et al., 2021; Rahman & Serletis, 2011; Vandyck et al., 2018). Few studies incorporate geopolitical risks as a decisive variable. In addition, the majority of studies make use of the orthodox economic theories, supply-demand laws or the monetary transmission approach, which are based on rational policy conduct. However, in reality, decision making under geopolitical crises is shaped by uncertainty, risk, and politics (Adekoya and Adebiyi, 2020; Herrera, 2018). Also, the literature largely analyses the Russia–Ukraine war and leaves out the Iran–Israel escalation and the weakness of the Strait of Hormuz. Thus, there still are holes to explain on how conflicts in the Middle East construct Indonesia's fiscal discipline, economy resilience and national stability.

Indonesia urgently requires strategies to safeguard economic stability while navigating global geopolitical storms. The Iran–Israel conflict not only triggers oil price hikes but also produces a domino effect that includes rising inflation, rupiah depreciation, and swelling subsidy burdens. Without adaptive and disciplined policies, these dynamics risk undermining fiscal sustainability, slowing development, and eroding national resilience. To examine these dilemmas, this article uses Prospect Theory that was proposed by Daniel Kahneman and Amos Tversky (1979). This theory suggests that policy makers react more strongly to potential losses than equivalent gains, try to avoid risk in profit conditions and try to take risk in loss conditions, and frame policies in terms of perceived threats. Prospect Theory is hence a useful frame through which to understand why governments resort to defensive policies when faced with crises and how perceptions of risk inform economic strategy.

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The study, therefore, does not only contribute to the macroeconomic discussion, but also pertains to the national resilience of Indonesia. In the realm of Astagatra, the global oil disruptions have declined the trigatra, geographical position and natural resources, to take part because of the trigatra so that have an impact on pancakes trigatra through a fiscally, inflation, political legitimacy, social integrity, and the power. A slackening in the economic gatra triggers a domino process that kicks in toward other means of resilience. As a result, reinforcing fiscal discipline, diversifying energy supplies and improving governance should not only be considered economically, but more importantly they should be strategic prerequisites for defending national resilience

The study fills the gap by linking Prospect Theory with the Astagatra framework, providing a comprehensive perspective on how Indonesia confronts external geopolitical shocks. By combining geopolitics with public finance and resilience theory, this article presents a unique reflection on how economic sustainability lays the foundation for national resilience. This research is hoped to contribute to academic discussions and policy implications by demonstrating how external conflicts abroad can critically impact the sustainability of economic and national resilience in Indonesia.

LITERATURE REVIEW

The literature review focus on prospect theory, a critique of classical utility theory (Kahneman & Tversky, 2013). This theory explains that individuals and policymakers are not always rational when facing risks but tend to assess profits and losses differently. In macroeconomy, prospect theory provides policymakers in Indonesia with an understanding that they will perceive potential losses due to geopolitical turmoil, like the Iran-Israel conflict that threatens the vital Strait of Hormuz route, as greater than the potential benefits from fluctuations in global energy prices. This perspective is essential because it encourages the understanding that fiscal and monetary policy responses are not solely based on economic calculations, but also the perception of risk, which is often asymmetric.

The theory is relevant when it is linked to geopolitical concepts as the interaction between geographical, political, and economic factors shape the dynamics of relations between countries (Herrera, 2018). Geopolitical conflicts in the Middle East, especially around the Strait of Hormuz have a direct impact on the stability of the world's energy supply. The geopolitical instability will affect Indonesia's domestic economic conditions, that is still relies on large amounts of oil imports, both through trade channels, inflation, and fiscal pressure. This is where prospect theory can explain how the Indonesian government responds to external threats with a cautious attitude, as the perception of possible losses is more dominant.

The increase in global oil prices is the main channel of geopolitical impact on the Indonesian economy. Oil, as a strategic commodity, has a dual role, that are as a production input and as an energy need for the community. Energy economics theory suggests that oil price fluctuations exhibit a high correlation with inflation, exchange rates, and a country's fiscal burden (Aastveit et al., 2023; Soekapdjo et al., 2021). Indonesia, although once an oil-exporting country, is more dependent on imports; therefore, the surge in world oil prices increases the vulnerability to domestic inflationary pressures (Hasan et al., 2022; Soekapdjo et al., 2019). based on the prospect theory, this price surge is a potential for significant losses, prompting the government to take

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measures, for example as energy subsidies. Although the public often appeases these measures, they increase the fiscal burden in the long run.

In addition to inflation, the depreciation of the rupiah is another variable that shows a significant impact of the surge in global oil prices. The rupiah weakened as the need for foreign exchange to pay for oil imports increased. In contrast, foreign capital flows had the potential to exit due to increased perception of geopolitical risks. This depreciation is not only a monetary issue, but also has a direct impact on the fiscal, because it increases the burden of energy subsidies calculated in rupiah (Svensson, 1999). Within the framework of prospect theory, the depreciation of the rupiah creates double losses. First, it realistically reduces people's purchasing power for imported goods, second, it psychologically lowers investor confidence in Indonesia's economic stability. This combination confirms the role of risk perception in exacerbating the objective impact of depreciation.

The fiscal burden then becomes a central issue. Fiscal burden can be defined as pressure on state budgets due to increased spending, especially energy subsidies, amid limited revenues (Daniel, 2001; L. Nugroho & Winoto, 2024; Soeharjoto et al., 2020). Rising oil prices have forced the government to increase the allocation for subsidies, while revenues from taxes and natural resources are not always comparable. This fiscal straitjacket leads to a shortfall and constrains policy space for future growth. In prospect theory, governments keep subsidy policies to prevent potential socio-political losses to avoid potential socio-political losses (reduced volatility over fuel price) but is economically persuaded to increase the future number of fiscal risks. The policy paradox here is that in their effort to prevent short-term losses, they risk creating long-term ones.

Economic resilience and stability then become the last dimension that is important to understand. Economic resilience is defined as a country's ability to absorb external shocks without causing significant disruption to the domestic sector (Lee et al., 1995). Economic stability is related to the sustainability of maintained growth and the lack of macroeconomic volatility (Ihwanudin et al., 2023). In the Indonesian perspective, the economy’s resilience comes under the pressure of inflation, rupiah depreciation, and fiscal burdens which are exacerbated by oil price hikes. This is the step where discussed theories and ideas meet, geopolitik generates uncertainty, oil-prices will be the channels of transmission, inflation and devaluation deepen susceptibility, and a fiscal ballast restricts the political awning place. If nothing else, all this shows that Indonesia's economic stability relies a lot on external factors, and this action response is not only rational but also driven by loss perception or losses aversion (the decision-making bias that was explained by prospect theory).

Geopolitical conflicts and changes in global oil prices are strongly related and especially influential on emerging countries, according to prior studies. For instance, in the research of Jones et al. (2004), and Bachmeier & Cha (2011) demonstrates that in several countries oil price shocks influences inflation and economic growth. Another study by Duan et al. (2021) and Hedström et al. (2019) emphasises how geopolitical uncertainty in a country also affects capital flows and exchange rates. In the case of Indonesia, several studies emphasize that the energy subsidy burden is the main channel through which oil prices influence fiscal sustainability. Nonetheless, these studies have not discussed the prospect theory model to explain why countries differ in their approach to risk, and to understand how those differences manifest in policy responses in the developing world. This research fills the gap by emphasizing the psychological aspects and risk perception in macroeconomic analysis.

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Based on the literature review, the conceptual framework of this research can be described systematically. The geopolitical conflict (Iran-Israel at the Strait of Hormuz) acts as a trigger variable that affects global oil prices. The surge in oil prices then channeled impact to domestic inflation, rupiah depreciation, and fiscal burdens. These three factors simultaneously affect Indonesia's economic resilience and stability. All these relationships were analyzed using the lens of prospect theory, which emphasizes how loss perceptions drive fiscal and monetary policy responses. Thus, this study not only offers a structural understanding of the transmission of geopolitical impacts but also adds a psychological dimension that enriches contemporary macroeconomic analysis. Hence, the conceptual framework can be illustrated in the Figure 1.

Source: From various sources that have been processed

Figure 1. Research Conceptual Framework

Furthermore, according to Figure 1, the conceptual framework of the research also describes the flow of relationships among variables in this research. Geopolitical Conflict (Iran–Israel, Strait of Hormuz) affects Global Oil Prices, Inflation, and Rupiah Depreciation. These factors (global oil prices, inflation, and rupiah depreciation) also have an impact on Indonesia's fiscal burden (energy subsidies) and economic resilience and stability. All of these phenomena are analyzed using prospect theory as a theoretical foundation.

METHODS

This study uses a qualitative and descriptive approach to provide a comprehensive understanding of the relationship between geopolitical conflicts and economic stability in Indonesia (Nugroho et al., 2023). The reason for this choice of method is a reflection on the nature of geopolitical events and how they affect economic variables like inflation, rupiah exchange rates, oil prices and the presence of fiscal burdens, all of which are analyzed best through the eyes of a narrative, which focuses on the meaning, interpretation and socio economic, within which the key events unfolds or is being swept under the carpet. Consequently, this research not only refers to the understanding of this variable relation but also to the identification of underlying principle of economic change that happened in Indonesia. The source of data for this research is secondary, obtained

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through a search of relevant literature from scientific journals, books, reports from international institutions, and official government data. Secondary data were chosen because they represented the long-standing track record of geopolitical phenomena and economic conditions in Indonesia, allowing researchers to compare previous empirical findings with dynamics. The research was conducted using internationally reputable journals, Bank Indonesia publications, Central Statistics Agency reports, and reports from global organizations like the IMF and the World Bank, which review various issues related to economic stability in developing countries.

The data collection mechanism is carried out through three main stages. First, identify relevant literature that aligns with the research focus by using keywords like geopolitical risk, oil price surge, inflation, rupiah depreciation, and fiscal discipline. Second, the selection of sources is carried out taking into account the relevance, credibility, and year of publication to ensure up-to-date data is used without neglecting critical historical references. Third, all the data obtained is systematized in the form of a thematic matrix to facilitate the process of categorizing variables and their relationships. The data processing process is carried out through content analysis techniques, where the collected data is analysed in depth to find patterns, trends, and differences that have emerged in previous research The use of content analysis allows researchers to carry out empirical testing of the formulated theoretical framework and check whether the adopted theories, i.e., prospect theory and or economic resilience theory, are in accordance with actual conditions in Indonesia. The process of the report writing in this phase is the analysis of the results, whereby a summary hermeneutic story, that also incorporates cycles and themes has been developed from emergent data. The results of the analysis not only present the main findings but also explain the relationship between global geopolitical factors and Indonesia's macroeconomic stability, covering the risks and opportunities they pose. Furthermore, through this mechanism, research is expected to make a substantial scientific contribution while providing practical recommendations for policymakers.

RESULT AND DISCUSSION

The Iran-Israel Conflict Threatening the Strait of Hormuz has the Potential to Trigger a Surge in Oil Prices and Inflation in Indonesia.

The Middle East conflict dynamics already increased with Iran and Israel jousting have the world worried that an oil price spike could be on the horizon, especially with the threat to the Strait of Hormuz. The Strait of Hormuz is an important pathway for some 20% of the world's oil to have to pass through, so it's no wonder that any security destabilization of the area will at once be seen in surges in global energy prices. This factor has become even more pertinent for Indonesia (a net oil-importing country) because the fluctuation of international crude oil price affects directly to inflation nationally. Higher global crude oil price can trigger higher power and transport costs, resulting in lower price for basic goods and services. Accordingly, conflicts outside can instantly have an impact on domestic economic stability, which can be further interpreted by referring to prospect theory by Kahneman and Tversky (Tversky & Kahneman, 1979). This theory shines the light on the consistent realization that the decision makers, investors and governments are not rational but guided by risk aversion and fear of loss. In the case of the Strait of Hormuz, the world oil market anticipates not just the imposition of the blockade, but also the potential or imminent supply interruptions. Negative

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mobility oil expectations make the market more loss averse than risk averse, in the sense that it is worried about loss of supply, than attracting supply stability. This negative mobility is what caused oil prices to soar before the crisis happened.

Similar phenomena have been observed in the Persian Gulf crisis of the early 1990s and the Libyan conflict in 2011, where oil prices surged sharply due to perceived supply risks. However, actual production did not immediately cease. Lee et al. (1995), and Duan et al. (2021) research suggests that geopolitical conflicts in oil-producing regions have an asymmetric impact on oil prices, even a slight level of uncertainty can trigger a significant price spike, while positive news does not always result in a substantial price decrease. Thus, outlook theory helps explain why oil prices often overreact to political tensions in strategic areas. For Indonesia, the increase in global oil prices resulting from the conflict in the Strait of Hormuz will put pressure on the State Revenue and Expenditure (APBN) budget. The energy subsidies that the government has been providing to maintain the stability of fuel and electricity prices will swell, which in turn can widen the fiscal deficit. Previous research by Goh et al. (2020) found that global oil price volatility is closely correlated with an increase in the burden of energy subsidies in Indonesia, which in turn affects core inflation. In other words, the volatility of world oil prices is transformed into domestic inflationary pressure, which is not only felt in the energy sector but also the prices of food, transportation, and other consumer goods.

Moreover, the inflation caused by an increase in the price of oil has a strong psychological effect on society and the business community. Consistent with the concept of Prospect Theory, Indonesian consumers are more responsive to price changes in necessity upwards rather than downwards. An increase in oil-just a few percentage points-can have an exponential increase in other goods prices, because consumers feel a large impact in losses compared to the production costs. This increase is consistent with Goh et al. (2020), and Kilian (2008) study, the inflation in Indonesia usually born by the influence of public expectation that provide high sensitivity to price energy as a signal for decreasing about purchasing power. In parallel, the increase of oil prices also hit the financial sector. For the investors in the capital market, they regard the geopolitical risk in a negative manner where their cost production will be expected to rise, expecting a weakening rupiah because of higher oil and gas imports, and expecting a restrictive monetary policy to prevent inflationary pressure. For example, a Kim & Jung (2018), and Turhan et al. (2013) found that oil price shocks can trigger volatility in bond and foreign exchange markets in developing countries. In the case of Indonesia, Bank Indonesia often responds to rising oil prices by implementing tighter interest rate policies to curb inflation, although this policy can hinder credit growth.

In terms of public welfare, the impact of the Iran-Israel conflict on inflation in Indonesia cannot be underestimated. Low-income households are the most affected, as a significant portion of their spending is allocated to energy and food needs. As explained in pervious research Emon (2023) , the increase in energy prices tends to be regressive, suppressing the purchasing power of the poor group more than the rich group. This poses a policy dilemma for the Indonesian government, that is whether to maintain energy prices with increasingly expensive subsidies or to let prices follow market forces, which risk worsening poverty. Drawing on historical experience, research by Yuniarto et al. (2023), and Murshed & Tanha (2020) confirms that Asian countries are highly vulnerable to global oil price volatility due to their dependence on imports and high energy intensity in their economic structures. Indonesia falls into this category, particularly since it became a net oil importer in the early 2000s. Dependence on imports makes Indonesia

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more susceptible to external risks than oil-producing countries. Therefore, the conflict in the Strait of Hormuz automatically increases the vulnerability of the domestic economy, both in terms of inflation and fiscal stability.

The link shows that the role of mitigation policies is crucial. Prospect Theory also teaches that policy strategies should consider people's risk perceptions. The government is not only able to stabilize prices through market intervention, but it must also manage public expectations to prevent inflation panic. Clear policy communication, targeted subsidies, and domestic energy diversification are strategic steps to reduce dependence on imported oil. Research by Artami & Hara (2018) even emphasizes that energy diversification, covering the development of renewable energy, can reduce the direct transmission of global oil prices to inflation in Indonesia. Thus, the geopolitical conflict between Iran and Israel is not only an international political issue, but also has real implications for the welfare of the Indonesian people. The surge in oil prices resulting from the uncertainty in the Strait of Hormuz marks the beginning of layered inflation, which extends from energy to basic needs. Prospect Theory helps explain why markets and societies tend to overreact to the threat of a blockade. At the same time, previous research has corroborated that the impact on the Indonesian economy is significant. The government's ability to manage external risks and domestic expectations is crucial to maintaining national economic stability.

The Increase in Global Oil Prices has the Potential to Impact Rupiah Depreciation and Fiscal Burdens, Particularly Those Related to Energy Subsidies.

The increase in global oil prices is one of the external factors that significantly affects the Indonesian economy. Being a net oil importer since the mid 2000s, world oil price movement has influenced the trade balance, the exchange rate of rupiah, and the fiscal burden for the government. This situation leads to policy puzzle, because the government will have difficult trade-off, that is let the energy prices determined by the market mechanism, which may have the consequences of increasing inflation and declining purchasing power, or maintain the energy prices (e.g., by means of a subsidy) which will burden state budget. Additionally, the depreciation of the rupiah is often a direct consequence of the surge in global oil prices. When oil prices rise, the need for a steady flow of US dollars for energy imports increases significantly. Higher foreign exchange demand from the importer side caused pressure on the rupiah. The situation is increasingly complex as financial market expectations of oil price volatility magnify exchange rate volatility. In the framework of prospect theory of Kahneman and (Tversky & Kahneman, 1979), the attitude of economic actors and governments to this risk are the response based on the theory. According to the theory, people or decision makers tend to perceive losses more powerfully than gains of equal magnitude. Here, the Indonesian government is much more about averting political and social losses stemming from a rise in domestic fuel prices at all costs than optimising long-term fiscal benefits from the removal of subsidies.

This condition reflects a loss aversion that encourages the government to maintain energy subsidies even though the fiscal burden is swelling. For example, the surge in oil prices in 2008 and 2022 shows how the government increased the allocation of energy subsidies in the state budget to maintain social stability. This policy aligns with the pattern of behavior predicted by prospect theory, in which economic actors tend to choose options considered safer, even though they are not always rationally efficient. Several previous

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studies have supported this finding. M. N. Nugroho et al. (2014) emphasized that the depreciation of the rupiah is very closely related to world oil prices and capital outflows, especially during the global crisis period. Bank Indonesia has also emphasized that 10% rise in oil price can depreciate the rupiah by 1-2%, it also depends on the financial marke conditions. Meanwhile, , Handayani et al. (2020) argues that the subsidies are pro-cyclical, meaning it will increase if world oil prices increase, resulting in higher fiscal deficit.

This phenomenon reveals a close relationship between the national economic system and external dynamics. As explained in the material on mixed economic systems, the state is essential in maintaining a balance between market mechanisms and social interests. Through the subsidy policy, the government aim to maintain socio-economic stability, even though it must bear the fiscal consequences. Yet this approach also has long-term consequences, curtailing fiscal space for productive spending on education and infrastructure. Moreover, a higher global oil price has consequences not only for the economy, but also for politics. Fellow SPKEP analyst Jemma Purdey said fuel price hikes sparked social unrest in Indonesia and governments were usually very cautious about raising fuel prices. This causes the government to be careful in changing the prices of energy. Once more, prospect theory supports this attitude, the government favors alternatives that limit possible political damage even at the cost of budget effectiveness.

Previous studies of by Nugroho (2020) highlighted that the energy subsidy policy in Indonesia is not only economy based but also used as the political instrument for the government to keep legitimacy in society. Meanwhile, , Handayani et al. (2020) point out that low-income countries with large subsidy systems are the most fiscally vulnerable, particularly when international oil prices are highly volatile. Therefore, the rising global oil price clearly adds to the bane of the rupiah and the burden of Indonesia's fiscal deficit. Prospect theory offers a relevant framework for understanding government policy choices in mitigating these risks, particularly the loss aversion bias that leads governments to maintain energy subsidies. The combination of empirical phenomena and previous research findings reinforces the argument that Indonesia's energy policy remains mired in a dilemma between short-term stability and long-term fiscal sustainability.

Policies that the Government of Indonesia Can Take to Maintain Fiscal Discipline and Economic Resilience in the Face of Geopolitical Risks.

In the face of increasingly complex geopolitical risks, Indonesia must maintain fiscal discipline while strengthening the economic resilience. Global dynamics, geopolitical tensions in the Indo-Pacific region, trade wars, and fluctuations in the prices of strategic commodities like energy, encourage developing countries, like Indonesia, to be cautious in maintaining fiscal stability. Prospect theory: explains that decision-makers are often more cautious when dealing with potential losses compared to profit opportunities. In fiscal policy, the government tends to weigh the risk of deficit and debt burden as losses that must be avoided; therefore, fiscal management strategies are directed at policies that can balance financing needs and fiscal sustainability. One of the significant challenges is maintaining fiscal discipline amid domestic political pressures that often prompt the government to increase populist spending, particularly energy subsidies. Previous studies have shown that increased subsidy spending, while providing short-term benefits to people's purchasing power, has the potential to weaken the country's fiscal space and reduce flexibility in the face of global turmoil (Clements et al., 2014).

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Therefore, policy strategies focus on deficit control through tax reform that expands the tax base, digitizes the tax system, and strengthens non-tax state revenues. With this move, dependence on external debt can be reduced, making it less vulnerable to geopolitical changes and global market turmoil.

Prospect theory also provides an overview of how policy actors tend to be more reactive to potential losses due to global volatility compared to new investment opportunities. The government, in this case, needs to view geopolitical risks as a momentum to strengthen long-term resilience, not simply avoid short-term losses. For Indonesia, renewable energy diversification policies and the development of the downstream natural resource industry can be strategic instruments. Previous research by Kilian (2008), and Degiannakis et al. (2014), emphasized that countries that manage to reduce their dependence on energy imports are more resilient to geopolitical risks, as oil price volatility does not significantly pressure their fiscal or exchange rates. In addition, fiscal discipline cannot be separated from the commitment to good governance. This is where aspects of judicial enforcement and inherent supervision (waskat) is important. Corruption in public budget management is often a significant source of fiscal leakage, reducing policy effectiveness (Darmayani et al., 2022). By strengthening the internal supervision system and consistently enforcing provisions, fiscal policy will be more credible in the eyes of the public and investors. This credibility is crucial for maintaining market confidence in government bonds and other financing instruments used to support the state budget. Research by Schmitt-Grohé & Uribe (2005) and Méon & Sekkat, (2005) shows that high corruption in a country has a significant impact on low economic growth and weak investment attractiveness. Thus, bureaucratic reform, digitization of budget governance, and the implementation of strict vigilance mechanisms are strategic instruments that are just as important as technical fiscal reform.

Strict enforcement of the rule also has a psychological dimension that is relevant to prospect theory. When individuals or groups of political actors are aware of the possibility of significant losses due to corrupt acts, they will be more careful in making risky decisions. This behaviour creates a deterrent effect and strengthens a culture of compliance. Adequate inherent supervision, coupled with budget transparency through digital systems, not only prevents corruption but also reduces fiscal costs arising from leaks. In the long term, this step is a vital capital to strengthen national economic resilience.

Furthermore, the experience of the Asian economic crisis of 1997–1998 is a valuable lesson that weak fiscal and banking governance exacerbates the impact of external shocks. At that time, limited supervision and weak commitment to law enforcement contributed to the escalation of a multidimensional crisis (Peters, 2021). By strengthening legal and governance aspects, Indonesia has a greater opportunity to maintain macroeconomic stability despite facing global geopolitical risks. In other words, a disciplined fiscal policy must be accompanied by institutional integrity and adequate supervision.

Ultimately, maintaining fiscal discipline and economic resilience is not only about the deficit or the amount of debt, but also about the quality of institutions and governance. Fiscal reform, supported by economic diversification, the downstreaming of natural resources, the digitization of taxation, and a commitment to enforcing judgments and inherent supervision, will strengthen the foundation of Indonesia's economy amid global uncertainty. Thus, the policies taken are not only reactive to external shocks but also proactive in building a resilient economic structure. The integration between the technical

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dimension of fiscal policy and the aspect of law-based governance is a comprehensive strategy that enables Indonesia to face geopolitical risks with greater resilience.

CONCLUSION

Geopolitical conflict has proven to be one of the significant external factors affecting Indonesia's economic stability. Global uncertainty, particularly related to regional political dynamics and rivalries between major countries, puts pressure on the rupiah exchange rate, capital flows, and fiscal burdens due to rising energy and food prices. The findings of this study indicate that, although Indonesia has a relatively strong macroeconomic foundation, vulnerabilities still arise when global volatility increases, making adaptive policies and fiscal discipline essential.

However, this research is inseparable from limitations. The study is heavily macroeconomic and less explanatory about what it means for micro sectors like MSMEs or poor households who are most affected by price hikes. Moreover, non-economic factors like diplomatic and security factors, which also influence stability, were not completely incorporated within the framework of analysis.

Building on this research, future research should develop the measure further, as in the name of triangulation of methods by integrating a macro and micro level analysis and drawing on a wider array of political and societal indicators. Theoretical Implications of the study illustrates theoretical contribution of how Prospect theory is implicated into the decision-making that leads policymakers to rely upon protective measures due to uncertainty. Practically, the findings reinforce the need for economic diversification, building up reserves, and protecting vulnerable social groups. Policy-wise, the government should stick to financial prudence by a proper control of subsidies, reinforce the regulatory framework to prevent corruption in budget allocation and strengthen the diplomatic economics that would run lesser risk from outside. The survival is no longer dependent on the diplomatic games, but a better and stronger Indonesia is born.

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