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# The Systemic Risk of Fossil Fuel Dependence

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# An Energy Shock Becomes a Financial Crisis

- ❖ Tension in Iran has triggered the most serious global energy shock since the 1970s oil crisis.
- ❖ A domino effect where “the oil crisis has become the everything crisis”
- ❖ Governments worldwide are scrambling to manage inflation for consumers as well as the impact on industries
- ❖ **Not just a price crisis.** The shock reverberates through **credit markets, insurance systems and sovereign balance sheets**, edging the world toward a global financial crisis.

## CHANNELS OF CONTAGION



### Credit Markets

Tightening conditions ripple across borrowers



### Insurance Systems

Risk repricing across exposed assets



### Sovereign Balance Sheets

Strained fiscal positions, currency pressure

# Who's Cushioned From the Shock? Electrostates, not Petrostates

Countries that invested early in renewables are weathering this shock very differently from those that didn't.



**Pakistan**

**\$6.3B saved**

Estimated savings this year, driven by a recent solar boom.



**Spain**

**Cheapest in Europe**

One of Europe's lowest-cost electricity markets, powered by steady wind and solar growth.

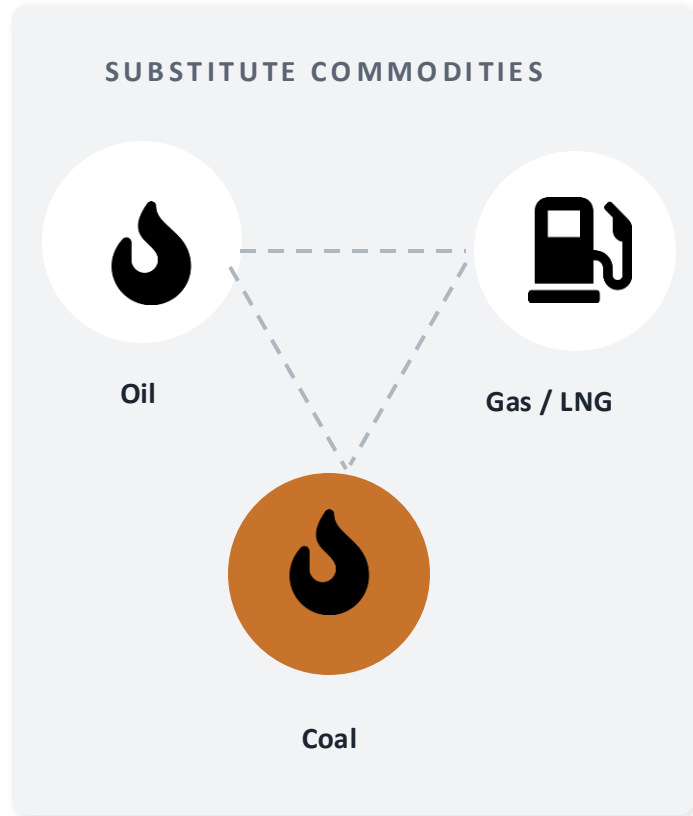


**Bangladesh**

**LNG bill doubled**

Had to pay significantly more to double its LNG imports to cover the shortfall.

# A Short-Term Rally for Coal



- ❖ On the surface, there appears to be a traditional winner. Coal demand has jumped, hailed as a “**windfall**” for the sector.
- ❖ Historically, oil, gas, and coal have acted as **substitutes: when one is disrupted, the others act as buffers.**
- ❖ All three rely on a **concentrated set of suppliers, long logistics chains, and complex trade agreements** — so a shock to one inevitably affect the others.

*A winner today can quickly become a loser tomorrow*

# Why All Three Are Risky Bets

Evidence increasingly shows oil, gas, and coal are all exposed to the same shocks — just on different timelines.



## 80%

OF EUROPEAN GAS SUPPLY WIPED OUT (2022)

Russia's invasion of Ukraine wiped out 80% of European gas supply and sent LNG prices spiking.

The shock isn't new: a preview of today's shock playing out again, this time triggered from the Middle East.



## 143%

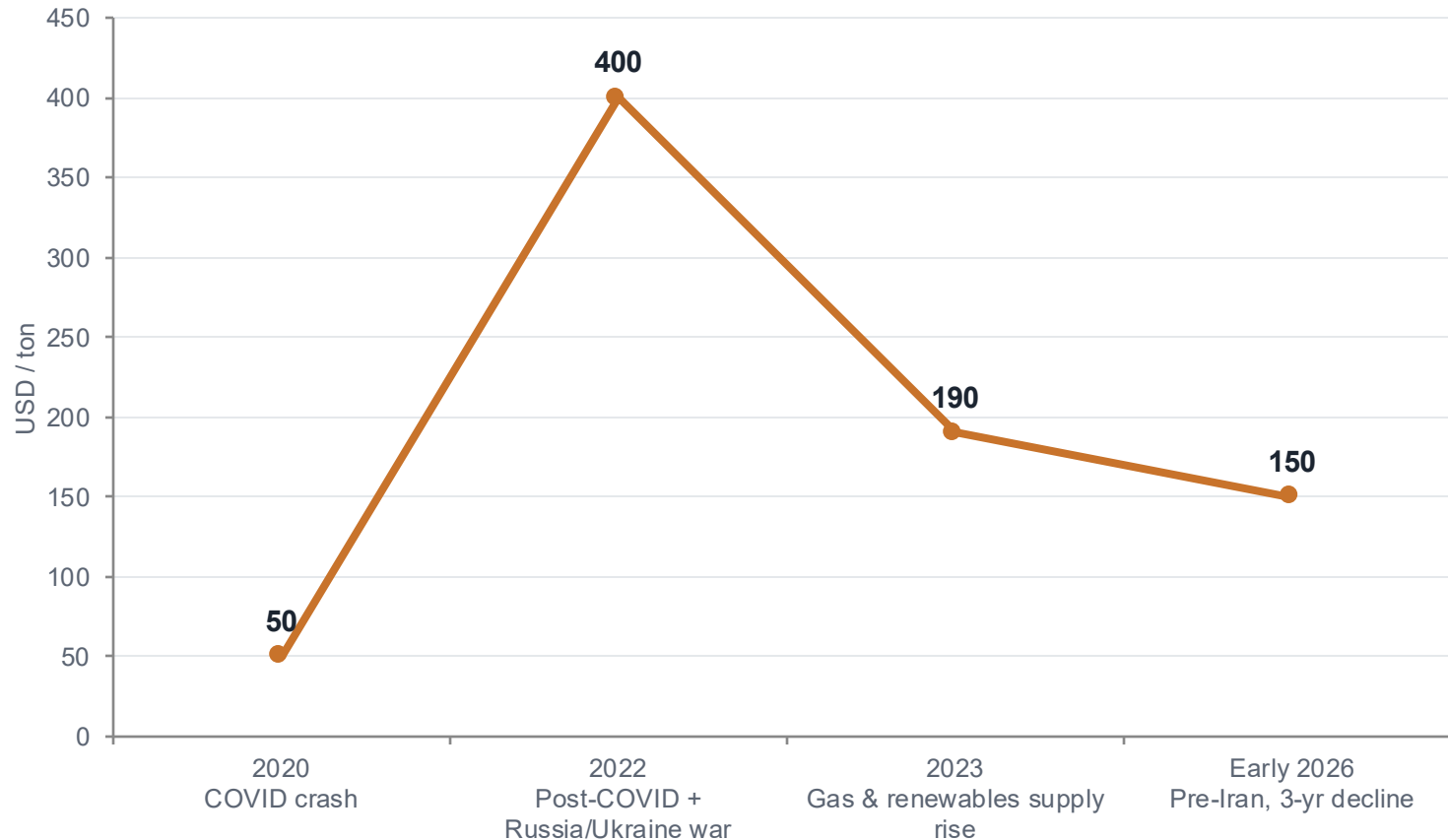
LNG PRICE SPIKE IN ASIA

With roughly **20% of global LNG supply removed**, prices spiked sharply, hitting import-dependent Asia hardest.

Liquefied natural gas — hailed as “transition fuel” — is just as exposed to geopolitical and logistical risk as oil.

# Cont'd Risk: Coal's Boom-Bust Cycle

Coal price per metric ton, 2020–2026 (USD) — a textbook case of extreme volatility, not a stable hedge.



**Now: rallying again**

Just before the US and Israel struck Iran, coal had been on a three-year decline. Today's renewed demand looks like the same up-cycle in a pattern that has repeated — not a structural turnaround.

Source: Author's analysis

# Financial Exposure Runs Deep

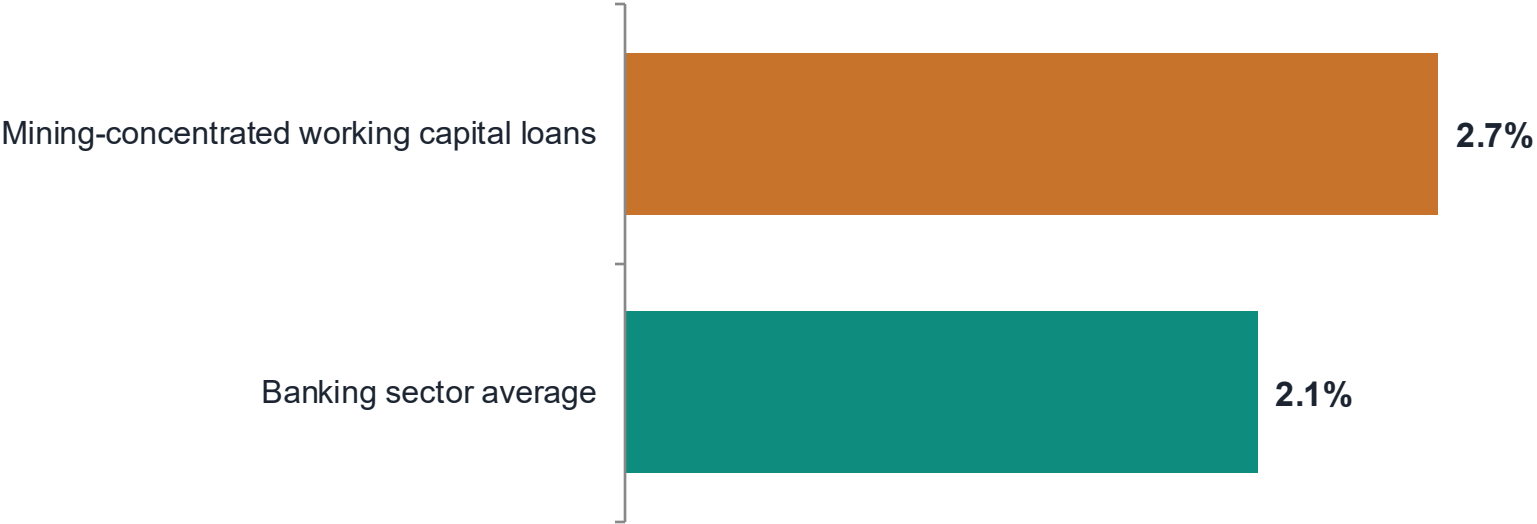
The case of Indonesia: Coal-price volatility doesn't stay in commodity market — it has permeated bank balance sheets.



**~4%**

of major Indonesian banks' lending portfolios is exposed to coal

## NON-PERFORMING LOAN RATIO

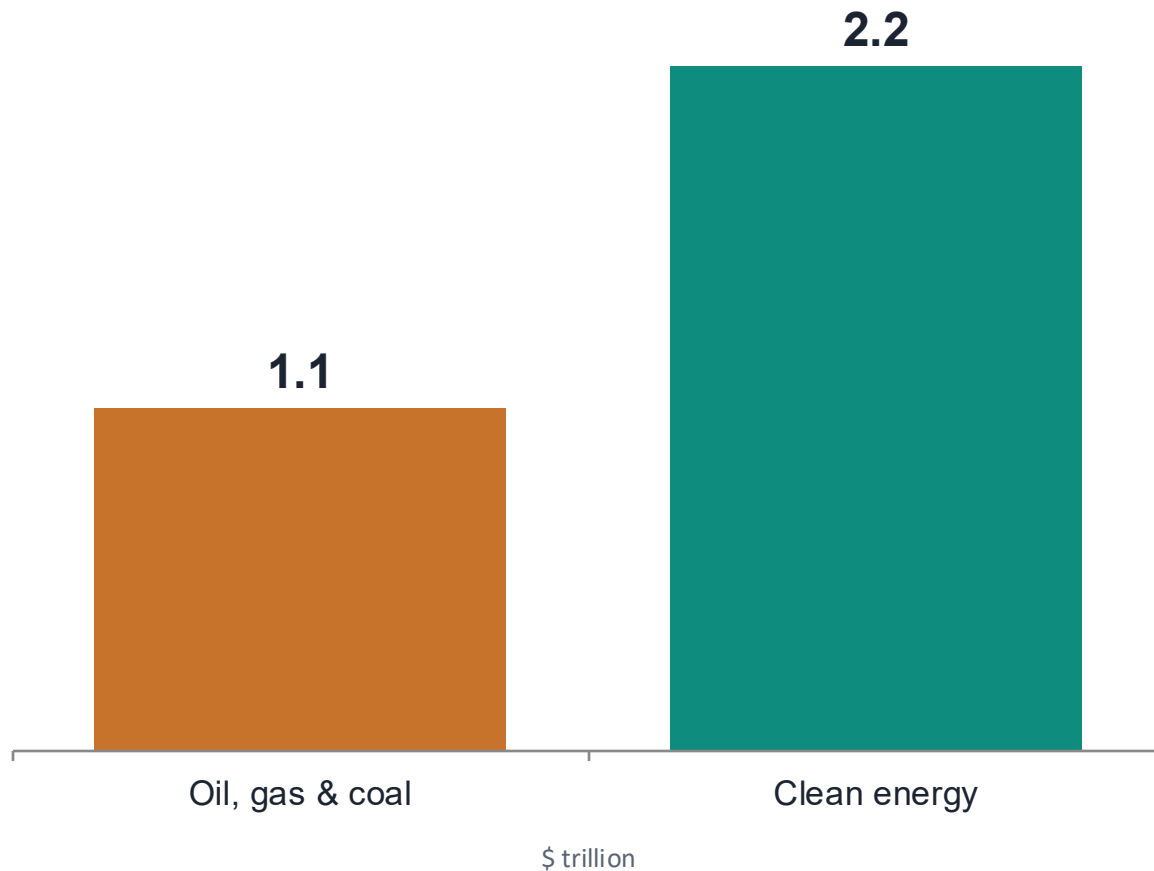


Data and financial analyses consistently show that downturns in coal prices lead to rising defaults and loan restructuring, creating a vicious cycle.

Source: Compound analysis from recent media reporting i.e., Bisnis.com, Katadata.co.id

# Renewables: A Structural Shift

Global energy investment, 2025 (IEA) — capital is favoring clean energy



**Clean energy drew a record \$2.2 trillion in 2025 — double the \$1.1 trillion that went to oil, gas, and coal.**

Even as some major US banks withdrew from climate alliances in 2025, they kept increasing renewable-energy financing — driven mainly by client demand and growth prospects, rather than strictly reputation.

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*In early 2026, Wall Street's biggest banks made more money financing green projects than fossil-fuel projects.*

# Indonesia's Mixed Signals

In coal-rich Indonesia, policy is pulling in two directions at once.



## MOVING TOWARD CLEAN ENERGY

- Proposed conversion of diesel power plants to 100 GW of solar PV
- Accelerating electric-vehicle adoption nationwide
- Subsidies aimed at industrial EV + critical minerals, instead of RE for consumers

*Danantara bonds' criminal amnesty, POJK regulation on VCs: harming investment in innovation*



## STILL LEANING ON FOSSIL FUELS

- Subsidies aimed at consumers: fuel subsidies maintained with no structural reform
- RKAB production cuts and centralized export under DSI, instead of managed DMO phase-out and coal windfall tax

*Financial markets already treat coal as short-term relief, not a long-term store of value. Policy should recognize the same distinction.*

# The Path Forward: Invest in Renewables



## Redirect subsidies to EVs

Prioritize EV incentives and charging infrastructure, especially for two-wheelers and logistics vehicles hit hardest by rising costs.



## Make renewables bankable

Accelerate deployment through transparent, bankable procurement frameworks that attract long-term private capital.



## Modernize the grid

Fund grid expansion, battery storage, and smart-grid technology so the system can absorb more variable renewable supply.

*These are infrastructure assets — like toll roads or water utilities — not commodities at the mercy of foreign wars. Indonesia has full sovereign control to get this right. The question is whether policy will follow.*



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# Thank You



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