

Indonesia at 80: The Way Forward Amid a High-Interest Rate World



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*“Smile in the face of adversity,
be contemptuous of danger, undaunted in defeat and magnanimous in victory.”*

Professor Sumitro Djojohadikusumo

Macro Introduction

Since President Prabowo Subianto took office in October 2024, investors have been balancing hope with caution. At the center of this caution lies a global reality: **high interest rates**. With U.S. policy rates still above five percent and U.S. Treasury yields firmly anchored above four percent, global capital has shifted from risk-seeking to risk-averse. This single factor explains much of the market's cautious behavior toward emerging economies, including Indonesia.

Despite this challenging backdrop, the data shows that Indonesia has remained resilient. Equities held steady, sovereign bonds rallied, realized investment reached nearly half of the national target by mid-2025, and even the depreciation of the rupiah can be understood as a rational outcome of global rate dynamics. In short, Indonesia has continued to attract capital, though the composition of flows has adjusted.

This article examines five key dimensions of the market response to President Prabowo's early presidency, all framed by the influence of high global interest rates.

Equities: A Steady Performance Against Rate Headwinds



Figure 1. Jakarta Composite Index (21 Oct 2024 – 15 Aug 2025)

The Jakarta Composite Index (JCI) rose by nearly 2.5% between October 2024 and August 2025, climbing from about 7,634 at the end of October 2024 to touch all-time highs above 8,017 in mid-August 2025. While year-on-year gains are above 6%, the specific period from President Prabowo's inauguration shows moderate, steady growth—especially notable against the backdrop of high global interest rates that have dampened many emerging markets stock performances.

This steady advance is a signal of market stability and underlying confidence. Sectoral trends echoed broader economic strengths: while global pressures weighed on technology, infrastructure, and financials, key domestic sectors such as industrials, property, basic materials, and consumer non-primary goods posted gains. Trading volume and investor activity remained robust, with daily turnovers averaging above Rp9.5 trillion and healthy participation across over 800 listed stocks.

The resilience of Indonesian equities reflects firm domestic fundamentals. Household consumption continued to grow—in the second quarter of 2025, it contributed more than half (54.25%) to national GDP, and was the largest driver of overall economic growth. Major holidays and increased mobility fueled spending, while gross fixed capital formation, supported by infrastructure projects and state investment programs, added momentum. These factors provided buffers against global shocks, allowing Indonesia's government and markets to sustain growth and stability even as investors elsewhere grew more cautious.

In a world defined by high interest rates and risk aversion, this combination—stable equities, healthy consumption, and persistent investment—distinguishes Indonesia's comparative resilience. When volatility is the norm, stability itself is an achievement.

Bonds: A Clear Vote of Confidence



Figure 2. Indonesia 10year Bond Yield (21 Oct 2024 – 15 Aug 2025)

The bond market provides perhaps the clearest signal of investor trust. Since President Prabowo’s inauguration, Indonesia’s ten-year sovereign bond yield has fallen by about thirty basis points, dropping from 6.68% in October 2024 to 6.39% in mid-August 2025. Over this same period, the yield on U.S. ten-year Treasuries has edged higher—from approximately 4.62% in late October 2024 to 4.24–4.29% by August 2025, with much of this climb taking place in the first half of the year before some late-summer retracement. As a result, the spread between Indonesia’s sovereign yield and the U.S. risk-free rate narrowed, underscoring a critical shift: investors are demanding a smaller premium to hold rupiah-denominated debt—a notable sign of rising trust and comfort with Indonesia’s fiscal trajectory even as global risk remains elevated.

In a high-rate environment, emerging market bonds are often pressured by competition from safer assets and rising global yields. Yet in Indonesia, bond prices rallied and yields declined, reflecting sustained demand for sovereign paper. This divergence highlights not only the market’s confidence in Indonesia’s fiscal management and disciplined debt strategy but also the country’s improved credit narrative. Demand was reinforced by local institutional investors and increasingly by foreign portfolios seeking both yield and stability in Asia.

Ultimately, bond investors are signaling clear trust in Indonesia’s macroeconomic stewardship: as global rates test risk appetites, Indonesia’s sovereign story stands apart for its credibility and resilience

FDI and the Global Rate Cycle

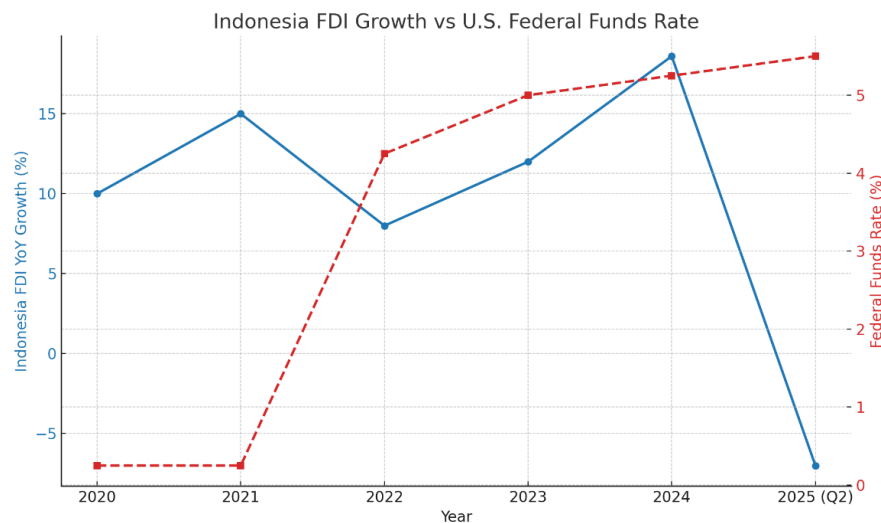


Figure 3. Indonesia Foreign Direct Investment vs US FED Rate (2020 – 2025)

Foreign direct investment is where the high-rate cycle shows its most visible impact. In the second quarter of 2025, FDI into Indonesia fell by 6.95% year-on-year to Rp202.2 trillion (\$12.3 billion)—the sharpest contraction in five years and the first since Q1 2020. While this may seem troubling at first glance, it’s crucial to understand the context. The decline follows a robust 12.7% annual growth in Q1, underscoring how quickly sentiment and capital allocation can shift amid pronounced global monetary tightening.

In 2020, with U.S. interest rates near zero, global investors hunted for yield in higher-risk markets. As a result, capital poured into emerging economies like Indonesia. By mid-2025, however, U.S. policy rates had risen above 5%, and Treasury yields stabilized over 4%. This shift redefined the risk-reward equation, with long-horizon investments in manufacturing, mining, and infrastructure now contending against safe, liquid assets in the U.S. The drop in FDI signals not a loss of faith in

Indonesia's fundamentals, but a rational global reallocation in response to monetary policy and rising geopolitical uncertainties.

Even so, realized investment remains impressive. As of June 2025, Indonesia had secured Rp943 trillion in total direct investment—including both foreign and domestic contributions—reaching nearly half of the ambitious Rp1,900 trillion national target for the year. This achievement highlights that even as the composition of capital inflows shifts toward domestic sources and shorter-term projects, Indonesia continues to attract substantial investment despite the headwinds of global tightening. The metals, services, transportation, and telecommunications sectors remained top beneficiaries, showing that Indonesia's structural story still commands attention and engagement from investors

Currency Movements: High Rates and Capital Composition



Figure 4. USD vs IDR (21 Oct 2024 – 15 Aug 2025)

The rupiah weakened by around five percent against the dollar between October 2024 and August 2025. On the surface, this might be interpreted as a sign of weakness. Yet a closer look shows it to be a predictable adjustment in a high-rate world.

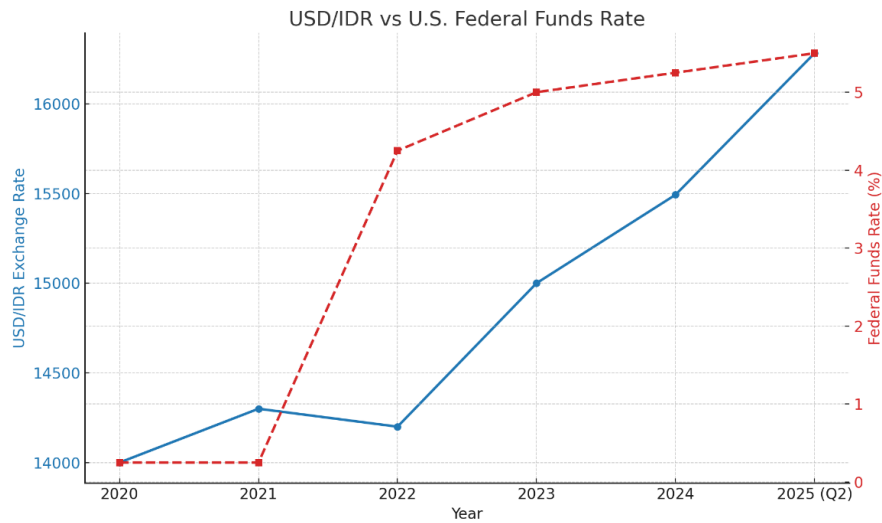


Figure 5. USDIDR vs US FED Rate (2020 – 2025)

The dollar itself weakened against the euro during the same period, rising from around 1.08 to 1.17 per euro. This means the rupiah's depreciation cannot be explained by global dollar strength alone. Instead, it reflects the composition of capital flows shaped by high interest rates.



Figure 6. EUR vs USD (21 Oct 2024 – 15 Aug 2025)

In an environment where global investors prefer safe assets, portfolio inflows dominate. Indonesia's bond market attracted buyers, but these investors often hedge their currency exposure. This means that while bond yields fell, the hedging activity limited support for the rupiah. Meanwhile, exports moderated, imports held firm, and other regional currencies like the ringgit

and baht also depreciated. Together, these factors made a weaker rupiah an inevitable adjustment — not a reflection of lost investor trust.

The Balanced Verdict: Resilience Amid High Rates

Viewed through the lens of high interest rates, Indonesia's market signals form a coherent story. Equities held steady, resisting the downward pull common to emerging markets in such environments. Bonds rallied, with yields falling as investors demonstrated trust in the government's fiscal stance. FDI contracted, but for reasons rooted in global rate cycles, not domestic policy. The rupiah weakened, but largely due to the composition of capital inflows and regional trends rather than fundamental rejection. Meanwhile, realized investment reached nearly half of the ambitious annual target by mid-year.

The balanced verdict is that Indonesia has shown resilience in the face of high global rates. While capital has shifted toward portfolio flows and away from long-horizon assets, the underlying confidence in Indonesia's story remains intact. Investors continue to engage with the country, choosing bonds in the present and keeping the option open for deeper commitments once the global rate environment eases.

Conclusion

High interest rates are the real proxy behind Indonesia's current market trends. They explain the cooling of FDI, the moderation of equities, the pressure on the rupiah, and the tilt toward safe, hedged capital flows. Yet within this global constraint, Indonesia has performed admirably. Its bonds were bought rather than sold, its equities stayed firm, and its realized investment reached impressive levels.

President Prabowo's government enters its first year with markets signaling a cautious but clear trust. The challenge ahead is to maintain momentum, deepen structural reforms, and position Indonesia so that when the global rate cycle turns, the country is ready to capture the next wave of long-term capital.

In short, high interest rates may have reshaped the flow of capital, but they have not diminished Indonesia's appeal. If anything, the resilience of equities, the strength of bonds, and the steady progress in realized investment prove that investors continue to view Indonesia as a credible and attractive destination, even in the most challenging global monetary environment.

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