

Political Uncertainty Tests Indonesia's Growth Story as Markets Reprice Risk

Indonesia's 5.12% GDP rise meets unrest-driven jitters, EBC Financial Group highlights investor caution.

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/EINPresswire.com/ -- Indonesia's economy grew a robust 5.12% year-on-year in Q2, underscoring its resilience as a regional growth engine. Yet, recent political tensions — marked by widespread protests, a dip in investor sentiment, and pressure on the rupiah — have reshaped the narrative on stability and confidence in Southeast Asia's largest economy.

The rupiah slipped to around Rp16,500 per US dollar, the Jakarta Composite Index fell below 3%, and 10-year bond yields rose to 6.335% as investors demanded higher returns to hold Indonesian assets. Government officials — including Chief Economic Minister Airlangga Hartarto and Bank Indonesia — maintain that the nation's economic fundamentals remain strong, even as the removal of Finance Minister Sri Mulyani Indrawati and continued detentions after deadly protests highlight the political uncertainties weighing on sentiment.

"Indonesia's structural growth narrative continues to demonstrate resilience, underpinned by favourable demographic trends, accelerating digital transformation, and the country's strategic position in global commodity markets. These long-term fundamentals provide a solid foundation for sustained economic expansion and market development," said Samuel Hertz, Head of APAC at EBC Financial Group.

Hertz continued, "However, current market conditions reflect the complex interplay between macroeconomic fundamentals and investor sentiment dynamics. In periods of heightened uncertainty, market participants often exhibit risk-averse behaviour that can create temporary disconnects between asset valuations and underlying economic realities."



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Strong Fundamentals Anchoring the Economy

Hartarto has emphasised Indonesia's growth trajectory, citing consumer demand, infrastructure, and commodity exports as key drivers. However, East Asia Forum analysts observed that the protests serve as a "wake-up call" for Jakarta to balance growth with governance.

EBC analysts noted that investors are pulling back from Indonesian assets because of the rising political risk premiums amid leadership transitions. High-profile political changes, including the departure of Sri Mulyani, amplify concerns about policy continuity at a time when global markets are already risk-off. The sell-off reflects portfolio risk management rather than fundamental deterioration.

Economic Disruptions Beyond Markets

Civil unrest across Indonesia has begun translating into measurable economic losses, with retailers reporting damages exceeding Rp500 billion (US\$30.4 million) and digital commerce disruptions affecting small businesses nationwide.

The suspension of TikTok Live sales features has particularly impacted small and medium enterprises that have increasingly relied on social commerce platforms for revenue generation. These digital channels have become an essential sales avenue for many SMEs in recent years, as they allow them to connect directly with 185 million active users in the archipelago republic.

"Social stability remains a critical but often underpriced factor in emerging market valuations," said Hertz. "Consumer discretionary and retail sectors face immediate earnings headwinds from prolonged disruptions, regardless of broader macroeconomic resilience."

The unrest highlights the vulnerability of consumption-driven sectors to social tensions. EBC analysts noted that while broader economic indicators may absorb these shocks in the short term, sustained disruptions could prompt defensive positioning among consumer-focused equity investors and alter sector allocation strategies across Indonesian equity portfolios.

Policy Response on Watch

Market participants are closely monitoring the government's decisive action in the coming days. Recovery and confidence will hinge on how swiftly political and security issues are resolved. Meanwhile, officials, including President Prabowo, have pledged responses aimed at restoring order and managing public anger, targeting both the backtracking of the legislators' privileges, crackdowns on unrest, and the Rp200 trillion (US\$12.1 billion) injection into the economy — but the effectiveness of these measures remains to be seen.

Bank Indonesia, the republic's central bank, has signalled readiness to stabilise markets using

intervention and liquidity tools, reassuring investors that the volatility will be managed.

For global investors, Indonesia's volatility is not isolated. It reflects broader emerging-market dynamics where politics, policy credibility, and governance weigh as heavily as growth statistics.

"While Indonesia's GDP data remains robust, political uncertainty can rapidly shift risk sentiment and capital allocation decisions," Hertz noted. "Market confidence extends beyond pure economic fundamentals—social and political stability are equally critical drivers of investor positioning in emerging markets."

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