

# RUPIAH SAVED, GROWTH DELAYED?

## What Indonesia's 100 bps Rate Shock Means for Investors

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### 1. Impact on the stock market and Rupiah

The 25 bps BI Rate hike to 5.75% is a signal that **BI is choosing to prioritize Rupiah stability first**, even though the consequence is a more expensive cost of funds. In the short term, this is positive for the Rupiah as it widens the yield attractiveness of Rupiah assets and shows that BI is not letting the exchange rate depreciation go too far. BI itself stated that this decision is aimed at strengthening Rupiah stability and attracting foreign portfolio inflows.

**However, for the stock market, the effect is more mixed.** On one hand, Rupiah stabilization can lower Indonesia's risk premium and serve as a positive sentiment for foreign investors. But on the other hand, a rate hike compresses stock valuations, increases the cost of funds, and potentially slows down consumption and investment.

So, in our view, this is more accurately called a **"stabilization medicine"** rather than a full solution. BI can buy time and dampen the pressure on the Rupiah, but sustainable foreign inflows still require support from a credible fiscal policy, more efficient government spending, clearer policy communication, and more predictable regulations. Without that, the BI Rate hike will only serve as a short-term painkiller.

### 2. Impact on interest rate-sensitive sectors

The high-interest-rate era is clearly putting pressure on interest rate-sensitive sectors.

**The banking sector** remains relatively defensive, especially large banks, because they have strong liquidity, high CASA, and pricing power. But risks remain from the rising cost of funds, credit slowdown, and potential NPL increases if high rates persist for a long time.

**Property and automotive** are more vulnerable because home and vehicle purchases highly depend on installments. If mortgage and vehicle loan rates rise, demand could be held back, especially in the middle segment.

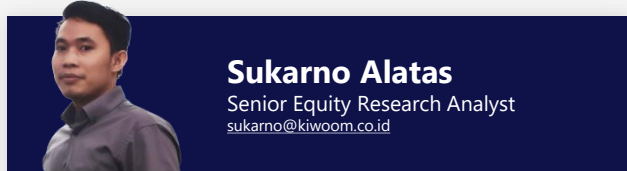
**Telecommunications** is relatively more defensive on the demand side because data services have become a basic need, but it is still affected by high debt costs and capital expenditure pressures.

So until the end of the year, the prospects for these sectors are not necessarily all negative, but investors will be more selective. Stocks with strong balance sheets, stable cash flows, and low debt will be much safer.

With a 50 bps hike in May, 25 bps on June 9, and 25 bps on June 18, the BI Rate has already risen by a total of 100 bps in about a month. This is very aggressive by BI's normal standards, although not comparable to extreme crisis periods like 1998. The difference is, currently BI is not facing a systemic crisis like in 1998, but is conducting a pre-emptive defense of the Rupiah amidst a Fed that is turning hawkish again, a strengthening Dollar, and foreign investors still doubting Indonesia's risk premium.

The Fed has also just held interest rates, but its signal has turned more hawkish, especially with the maiden speech of Kevin Warsh, the new US central bank governor, aligning with some officials starting to open the door for rate hikes this year. That leaves BI with not much room to be too dovish while the Rupiah is still vulnerable.

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