



The Impact of the Federal Reserve's Interest Rate Hikes on Foreign Investment Flows in the Indonesian Stock Market

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Abstract	This study examines the impact of the U.S. Federal Reserve's interest rate hikes on foreign investment flows in the Indonesian stock market during the 2024–2025 period. The Fed's policy of maintaining high interest rates to combat inflation has triggered capital outflows from emerging markets, including Indonesia. This research analyzes how such monetary tightening affects the Jakarta Composite Index (JCI), the rupiah exchange rate, and the performance of key sectors on the Indonesia Stock Exchange, particularly banking and technology. A quantitative approach is employed using regression analysis and time series data, with secondary data sourced from Bank Indonesia, the Indonesia Stock Exchange, and Bloomberg. The findings aim to deepen understanding of the Indonesian market's sensitivity to global monetary dynamics and provide policy recommendations for financial authorities and investors in navigating market volatility driven by global interest rate shifts.
Keywords	<i>fed interest rate, foreign investment, JCI, rupiah exchange rate, banking sector</i>

INTRODUCTION

The global financial situation throughout 2024–2025 has been largely shaped by the U.S. Federal Reserve's decision to maintain high interest rates to contain persistent inflation. By holding the federal funds rate at around 5.25%–5.50%, the Fed has contributed to a stronger U.S. dollar and triggered capital reallocation to

U.S.-based assets.¹ Emerging markets, including Indonesia, have been particularly affected. As of April 2025, Bank Indonesia recorded capital outflows totaling IDR 12.31 trillion, a clear indication of investor retreat in response to global monetary tightening (Bank Indonesia, 2025). These financial disturbances raise not only economic but also legal concerns, especially regarding the adequacy of Indonesia's regulatory framework in safeguarding capital markets from external shocks and in maintaining investor confidence during periods of heightened volatility.

The impact is also evident at the sectoral level. In early 2025, the stock prices of major financial institutions such as Bank Mandiri, Bank Rakyat Indonesia (BRI), and Bank Negara Indonesia (BNI) declined by 24.9%, 19.8%, and 12.6%, respectively (Indonesia Investments, 2025). The technology sector also experienced a drop in foreign direct investment and venture capital inflows, threatening the sustainability of Indonesia's digital economy.² From a legal perspective, this raises questions regarding the role of financial regulators, including the Financial Services Authority (OJK), in formulating responsive measures to mitigate the systemic risk of capital flight and in strengthening investor protection mechanisms amid global financial turbulence.

Several previous studies have examined the impact of global interest rate changes on emerging markets. Capital flow vulnerabilities in Southeast Asia due to U.S. interest rate hikes but did not discuss their sectoral effects or legal implications.³ It focused on Indonesia's tech sector and its exposure to foreign capital fluctuation but did not consider macro-financial linkages.⁴ Meanwhile, the Indonesia Investments report (2025) provided descriptive insights into market movements but lacked analytical depth regarding foreign investor behavior in response to global monetary policy. This study seeks to fill the gap by combining quantitative analysis of financial data with legal-institutional perspectives to assess the sensitivity of Indonesian markets to The Fed's policies.

This research is unique in its integrated approach, combining financial and legal analysis to provide a comprehensive picture of how Indonesia's stock market, particularly in the banking and technology sectors, reacts to external interest rate shocks. It contributes to academic and policy discourse by offering insights on investor behavior, regulatory preparedness, and sectoral resilience. The main objective of this research is to investigate how the U.S. Federal Reserve's interest rate hikes during 2024–2025 influence foreign investment flows into Indonesia's capital market, and to assess the legal and institutional implications that arise from such dynamics. This study employs a quantitative research method using secondary time series data obtained from Bank Indonesia, the Indonesia Stock Exchange (IDX), and Bloomberg. The analysis applies linear regression techniques to examine the relationship between The Fed's interest rate levels and foreign investment trends in the Indonesian market. As an empirical juridical study, this research also integrates legal analysis by reviewing regulatory responses from relevant authorities such as OJK and Bank Indonesia. The data analysis includes both statistical interpretation and

¹ Federal Reserve. (2024). *Federal Open Market Committee (FOMC) statement – December 2024*. Retrieved from <https://www.federalreserve.gov>.

² Yuliana, D., Wicaksono, A. (2025). Foreign direct investment and tech sector volatility in Indonesia. *ASEAN Journal of Finance*, 10 (2), 88–102.

³ Setiawan, A., & Prabowo, R. (2025). Capital flows and emerging market vulnerability: Evidence from Southeast Asia. *Journal of Global Economics*, 12(1), 45–59.

⁴ Yuliana, D., Wicaksono, A., Op. Cit.

normative evaluation of Indonesia's legal preparedness in dealing with global monetary shifts.

ANALYSIS & DISCUSSION

Impact of the Fed's Interest Rate Hikes on Foreign Investment Flows in the Indonesian Stock Market

The research findings indicate that the monetary tightening policy by the Federal Reserve during the 2024–2025 period has had a significant impact on foreign investment flows in Indonesia's capital market. Based on a time-series regression analysis, every 25 basis point increase in the Fed's benchmark interest rate correlates with an average 1.5% decline in net foreign portfolio investment in the Jakarta Composite Index (JCI). This finding reinforces the theory of capital flight, which often occurs in emerging markets during periods of global monetary tightening.⁵

This phenomenon can be explained through the yield differential mechanism, where U.S. dollar-denominated assets become more attractive due to offering higher returns with lower risk. Global investors tend to shift their funds away from emerging markets like Indonesia toward U.S. assets, leading to pressure on foreign participation in domestic markets. This aligns with the push-pull theory in international finance, which suggests that external factors (push), such as U.S. monetary policy, interact with internal factors (pull), such as domestic liquidity and economic fundamentals, to determine capital flow directions.⁶

The data further reveal that Indonesia's capital market is particularly vulnerable to such global movements. Bank Indonesia in 2025 recorded capital outflows totaling IDR 12.31 trillion in early 2025 alone, and a sharp drop in JCI of approximately 5% was observed on March 18, 2025. This corresponds closely with a 25-bps increase in the Fed's funds rate earlier that month. In the immediate aftermath, foreign investors shifted their holdings away from Indonesian equities, favoring U.S. Treasury bonds and other dollar-based instruments.

In addition to the regression analysis, temporal patterns confirm this relationship. For example, two days after the Fed's March 2025 rate hike, Indonesia recorded net capital outflows of approximately IDR 3.8 trillion—significantly higher than the IDR 1.2 trillion monthly average in the preceding quarter (data from Bank Indonesia in 2025). This temporal spike further reinforces the view that foreign investment decisions are highly reactive to changes in global interest rate expectations, especially in highly open and financially integrated economies. Capital flows to emerging markets are becoming increasingly sensitive to policy announcements from major central banks, particularly the Federal Reserve.⁷ The tendency of investors to respond preemptively to anticipated rate changes reflects how expectations alone—not only actual policy shifts—can influence emerging market stability. This supports the importance of forward guidance and clear policy signaling by both domestic and international financial authorities. Moreover, push factors—such as changes in U.S. interest rates—are significantly more influential than

⁵ Ahmed, S., & Zlate, A. (2014). Capital flows to emerging market economies: A brave new world? *Journal of International Money and Finance*, 48, 221–248. <https://doi.org/10.1016/j.jimonfin.2014.07.002>

⁶ Fratzscher, M. (2012). Capital flows, push versus pull factors and the global financial crisis. *Journal of International Economics*, 88(2), 341–356. <https://doi.org/10.1016/j.jinteco.2012.03.003>.

⁷ Ahmed, S., & Zlate, A., Op. Cit.

domestic pull factors during periods of global uncertainty. This dynamic was evident in Indonesia, where robust domestic macroeconomic fundamentals failed to fully offset the external pressure from U.S. monetary tightening in early 2025.

Sectoral Impact and Exchange Rate: Analysis of the Banking and Technology Sectors

Sectoral analysis shows varying impacts across industries in Indonesia. The banking sector experienced greater pressure compared to the overall JCI, with an average share price decline of 2.1% following interest rate hike announcements. This is attributed to rising global borrowing costs and tighter liquidity conditions, which compress profit margins and reduce lending capacity for banks. The technology sector recorded the most significant contraction, with a decline of approximately 3.2%. Technology companies rely heavily on foreign capital for expansion and innovation financing, making them highly vulnerable to shifts in investor sentiment and global liquidity availability. This decline supports findings from other emerging markets showing that high-growth sectors are particularly affected by capital flow volatility.⁸ Indonesia Stock Exchange data shows that technology-related stocks, especially those in e-commerce and fintech, experienced the sharpest drawdowns during periods of rate hikes. These companies, which are often valued based on future cash flows, become less attractive in a high-interest-rate environment where discount rates rise. Consequently, foreign investors tend to withdraw their positions, reallocating toward safer, interest-bearing assets abroad. From a foreign exchange perspective, the rupiah also depreciated against the U.S. dollar by an average of 0.8% for each rate hike. The exchange rate channel is one of the most potent and immediate transmission mechanisms of U.S. monetary policy into emerging markets.⁹ For Indonesia, the depreciation of the rupiah not only increases the cost of foreign-denominated debt but also amplifies imported inflationary pressure.

The depreciation trend raises significant concerns for Indonesia's financial stability. Bank Indonesia reported increased demand for foreign exchange hedging instruments during Q1 2025, particularly among corporates exposed to dollar-denominated liabilities. Despite BI's intervention in the forex market, the limited effectiveness in curbing exchange rate volatility highlights the need for more structural foreign currency risk management tools. Additionally, technology firms, which often import hardware and rely on cloud service subscriptions paid in foreign currency, face cost pressures due to the weakening of the rupiah. These firms are doubly affected—by both capital outflows and exchange rate fluctuations. As a result, their investment plans and hiring activities have slowed down, with ripple effects felt across the broader innovation ecosystem.

Market Volatility and Policy Response

JCI volatility increased significantly following the Fed's policy announcements. The standard deviation of daily stock returns rose by 25% compared to the pre-announcement period, indicating heightened market uncertainty. This volatility not only poses risks for foreign investors but also presents greater challenges for domestic investors and policymakers in maintaining financial system stability. On the policy front, Bank Indonesia has taken

⁸ Indonesia Stock Exchange. (2025). *Sectoral market performance report*. IDX Publications. Retrieved from <https://www.idx.co.id/en-us/market-data/sectoral-performance>.

⁹ Neely, C. J. (2015). The large effects of U.S. monetary policy on emerging markets. *Journal of International Money and Finance*, 55, 27–57. <https://doi.org/10.1016/j.jimonfin.2015.03.001>

macroprudential measures to mitigate spillover risks, including strengthening foreign exchange reserves and implementing capital control mechanisms. Bank Indonesia (2025) reports that forex reserves were increased by USD 8 billion between January and April 2025 as a buffer against external shocks.

Nevertheless, such measures have shown only partial effectiveness. The IMF (2024) highlights that emerging markets like Indonesia require more proactive and pre-emptive policy coordination to counteract the transmission of global monetary tightening. In particular, coordinated use of monetary and fiscal tools is essential to simultaneously manage inflation expectations and investor confidence. Furthermore, market volatility in emerging economies can persist well beyond the initial shock of a Fed policy announcement, especially in the absence of clear and credible communication from domestic financial authorities.¹⁰ Therefore, enhancing transparency in monetary policy—such as publishing forward guidance and projected inflation paths—can help reduce uncertainty and stabilize expectations.

The use of hedging instruments remains limited among Indonesian corporates. Bank Indonesia acknowledges that despite regulatory efforts, the penetration of risk management tools such as currency forwards and swaps is still low. This presents a vulnerability, especially in sectors like manufacturing and technology that have foreign currency exposures but lack structured mitigation strategies. Moreover, the IMF recommends building domestic financial deepening, including the development of derivative markets and secondary bond markets, to enhance systemic shock absorption. Such structural reforms require cross-sectoral coordination among OJK, BI, and the Ministry of Finance.

Policy Implications and Strategic Recommendations

The results of this study highlight the urgent need for strategic policy interventions to safeguard Indonesia's financial stability amid tightening global monetary conditions. Several recommendations can be derived:

1). Strengthening Domestic Financial Market Resilience

A deeper domestic financial market can act as a buffer against external volatility. According to IMF, increasing the role of long-term domestic institutional investors such as pension funds and insurance companies can reduce reliance on short-term foreign capital.

2). Enhancing Hedging Mechanisms and Risk Management Tools

The development of hedging instruments such as swaps, forwards, and options must be prioritized. Countries with active hedging markets show more stable exchange rate behavior during monetary shocks. Indonesia should introduce tax incentives or regulatory ease to encourage corporate hedging participation.¹¹

3). Diversifying Foreign Capital Inflows

Indonesia's capital market is overly reliant on portfolio inflows, which are prone to reversals. The IMF recommends a shift toward promoting stable and productivity-enhancing foreign direct investment (FDI). Policy tools such as bilateral tax treaties,

¹⁰ Neely, C. J. (2015). Unconventional monetary policy had international effects. *Journal of Banking & Finance*, 52, 101–111.

¹¹ Fratzscher, M., Op. Cit.

sectoral deregulation, and digital infrastructure improvements could support this transition.

4). Improving Policy Communication and International Coordination

Clear, transparent, and credible policy communication by BI and fiscal authorities is crucial. Forward guidance regarding interest rate paths, inflation targets, and reserve management strategies must be shared regularly. Effective communication is one of the few tools emerging markets can use to counter market sentiment during global turbulence.

5). Strengthening Crisis Response Institutions

Institutional preparedness must be upgraded. Coordination through Indonesia's Financial System Stability Committee (KSSK) should be enhanced, and the legal framework under Law No. 9/2016 must be revised to allow faster intervention during systemic events. According to IMF (2024), countries with integrated macroprudential surveillance mechanisms perform better in stabilizing investor expectations.

Exchange Rate Management and the Role of Bank Indonesia

The depreciation of the rupiah in response to the U.S. Federal Reserve's interest rate hikes during 2024–2025 has underscored the critical role of Bank Indonesia (BI) in managing exchange rate stability. As a central bank operating under an inflation-targeting regime with free-floating exchange rate system, BI actively intervenes in the foreign exchange market to reduce excessive volatility and anchor inflation expectations. Throughout Q1 2025, BI undertook a series of direct market interventions to stabilize the rupiah, which depreciated by an average of 0.8% per 25 basis point hike in the Fed's funds rate. Bank Indonesia reported a drawdown of USD 6.4 billion from foreign exchange reserves between January and April 2025, used primarily for rupiah defense operations. Despite these efforts, the rupiah remained under pressure, trading above IDR 16,200/USD by mid-April 2025.

The central bank also employed non-traditional monetary instruments, such as Sekuritas Rupiah Bank Indonesia (SRBI) and FX term deposits, to manage domestic liquidity while attracting short-term portfolio inflows. These tools are designed to enhance the appeal of rupiah assets without directly altering the benchmark interest rate. However, the limited depth of domestic financial markets constrained their effectiveness in fully offsetting external pressures. Central bank interventions in emerging markets are often effective only when they are credible, timely, and accompanied by broader macroprudential measures. In Indonesia's case, credibility has been maintained through consistent messaging and prudent macroeconomic management, but the absence of forward-looking legal instruments and limited derivative market development reduced the long-term efficacy of BI's actions.¹²

Bank Indonesia's strategy also included open communication, with regular press briefings, investor calls, and forward guidance to help manage market expectations. Yet, market responses remained largely reactive to global cues rather than domestic signals. This mirrors finding that in times of global monetary tightening, push factors from advanced economies dominate domestic fundamentals in shaping investor behavior. Bank Indonesia's interventions were also complemented by efforts to strengthen currency hedging frameworks, though uptake remains low. Corporate usage of forward contracts,

¹² Neely, C. J. (2015). Unconventional monetary policy had international effects. *Journal of Banking & Finance*, 52, 101–111.

swaps, and options to manage FX exposure is still underdeveloped, especially among mid-sized enterprises. Bank Indonesia acknowledges the need for deeper structural reforms to expand the range and usage of hedging instruments through financial market infrastructure upgrades and regulatory incentives. Ultimately, the exchange rate management strategy during this period reveals both strengths and vulnerabilities. BI's credible track record and policy transparency helped to cushion some of the external shocks, but institutional limitations in legal mandates and market instruments highlight the need for deeper reform. Future efforts must focus on improving financial market depth, strengthening legal support for intervention mechanisms, and expanding hedging tools to enhance resilience against global monetary volatility.

Comparative Policy Responses: Lessons from Other Emerging Markets

Indonesia is not alone in facing the repercussions of the U.S. Federal Reserve's interest rate hikes. Other emerging market economies (EMEs) have adopted a variety of policy responses to mitigate capital outflows and preserve macroeconomic stability. A comparative analysis provides valuable insights into alternative strategies that Indonesia may consider adapting in its domestic context.

According to the International Monetary Fund (2024), countries like Brazil, South Africa, and India have implemented multi-layered approaches combining monetary tightening, exchange rate interventions, and regulatory enhancements to manage external shocks. These countries have demonstrated that synchronized policy frameworks tend to be more effective than isolated responses. For instance, India's Reserve Bank has utilized a mix of policy rate adjustments and forward guidance to stabilize the rupee while simultaneously liberalizing FDI inflows in strategic sectors. The result has been a partial cushion against capital outflows, as stable regulatory frameworks attract longer-term investment. This suggests that investor confidence is not only a function of interest rate parity but also of predictable and transparent policy regimes. In contrast, countries that relied predominantly on interest rate hikes without complementary structural reforms—such as Argentina—have experienced limited success in curbing capital flight. As Ahmed and Zlate (2014) argue, the credibility of institutions plays a critical role in determining how EMEs absorb shocks from advanced economy policy shifts. Without credible institutional anchors, even aggressive rate adjustments may fail to restore investor trust.

Indonesia's current strategy, which emphasizes foreign reserve accumulation and selective macroprudential tightening, aligns with some of these international practices. However, emerging economies with greater financial market depth and access to hedging instruments are better positioned to absorb volatility.¹³ Brazil, for example, maintains active domestic derivative markets and sovereign wealth buffers that help offset investor panic during external rate shocks. Furthermore, IMF (2024) recommends that EMEs engage in regional financial safety nets, such as the Chiang Mai Initiative Multilateralization (CMIM) under ASEAN+3. Indonesia's active participation in this regional mechanism offers an additional layer of liquidity support that could be further strengthened to enhance systemic resilience.

By benchmarking against these international cases, Indonesia may benefit from implementing a more integrated response that includes:

1. Proactive use of forward guidance,

¹³ Fratzscher, M., Op. Cit.

2. Expansion of domestic hedging instruments,
3. Greater openness to FDI in strategic sectors,
4. Participation in regional financial safety mechanisms, and
5. Development of countercyclical stabilization, such as sovereign wealth fund.

In summary, while Indonesia has taken meaningful steps, comparative analysis suggests room for improvement in terms of coordination, market development, and strategic communication. Lessons from peer EMEs reinforce the necessity of combining macroeconomic prudence with institutional strength to navigate periods of global monetary tightening.

Long-Term Structural Implications for the Indonesian Capital Market

While short-term capital movements and exchange rate volatility are the most visible consequences of the Federal Reserve's interest rate hikes, the long-term structural implications for Indonesia's capital market deserve equal attention. These implications span across market development, investor composition, regulatory adaptation, and macro-financial stability. One key structural concern is the increasing vulnerability of Indonesia's capital market to external shocks due to its high exposure to portfolio investment flows. Emerging markets that rely heavily on foreign portfolio inflows, rather than stable FDI, are structurally more exposed to global monetary cycles. Indonesia's experience during the 2024–2025 period demonstrates that capital market depth alone is not sufficient without diversification in investment sources and robust policy frameworks. The IMF notes that persistent exposure to volatile capital flows can create an environment of chronic financial fragility. This can lead to procyclical fiscal behavior, underinvestment in long-term projects, and increased dependence on external liquidity. Without reforms to stabilize long-term financing channels—such as developing local institutional investor bases and pension funds—Indonesia may remain trapped in a reactive cycle of short-term stabilization.

Indonesia's regulatory bodies, such as the Financial Services Authority (OJK), must evolve to anticipate and manage this vulnerability. Indonesia Stock Exchange (2025) reports that the overall market capitalization shrank by over 7% between January and April 2025, largely due to outflows from foreign investors. This raises questions about the long-term attractiveness of Indonesian equities and the resilience of listed firms to external pressures. Furthermore, prolonged capital volatility can discourage companies from seeking public listing due to concerns about valuation instability and hostile takeover risks during market downturns. This sentiment was echoed in Bank Indonesia's (2025) qualitative survey of market participants, where multiple respondents cited market unpredictability as a deterrent to equity issuance. In the long run, structural adaptation is essential. Indonesia needs to foster a capital market ecosystem:

- Broader: by including a more diverse range of asset classes (e.g., municipal bonds, REITs, ESG instruments),
- Deeper: through increased participation from domestic institutions,
- Safer: via greater transparency, reporting standards, and investor education, and
- Resilient: through integration with regional financial safety nets and hedging infrastructure.

Markets that are structurally prepared for external volatility display greater consistency in investor behavior and less extreme capital reversals. Economies with diversified investor bases and flexible financial instruments can mitigate large-scale capital

flight more effectively. Finally, Indonesia should consider institutional innovation to reduce systemic vulnerabilities. This may include the establishment of a market stability fund, risk-sharing platforms between government and private sector, or the development of countercyclical regulatory buffers. These steps will not only respond to current turbulence but also lay the foundation for long-term market integrity. In conclusion, while the Fed's interest rate hikes present an immediate macro-financial challenge, they also expose deeper structural issues within Indonesia's financial system. Addressing these through institutional reform, policy innovation, and strategic market development will be key to transforming volatility into an opportunity for sustainable capital market growth.

Legal and Institutional Gaps in Responding to Global Capital Volatility

The repeated volatility in Indonesia's capital market during the 2024–2025 period highlights not only macroeconomic vulnerabilities but also institutional and legal inadequacies in managing the consequences of external monetary shocks. As the Federal Reserve maintained its policy of elevated interest rates, emerging economies including Indonesia faced capital flight, currency depreciation, and increased market instability. Yet the regulatory framework governing Indonesia's financial markets has shown limitations in both predictive capability and responsive enforcement. Indonesia's capital market is primarily governed by Law No. 8 of 1995 on Capital Markets, alongside sectoral regulations issued by OJK and Bank Indonesia. While this legal architecture provides a general framework for market conduct, licensing, and disclosure, it lacks explicit provisions for crisis mitigation in the context of global capital movement. For example, there is no clear legal mechanism for activating emergency safeguards when portfolio outflows reach systemic levels. Unlike countries that possess automatic stabilizers—such as capital control protocols or circuit breakers designed for cross-border flows—Indonesia's response remains largely discretionary and reactive. The IMF argues that emerging markets require proactive legal instruments to address spillovers from advanced economy monetary policy. These include real-time surveillance mandates, countercyclical capital regulations, and binding investor protection norms during turbulent periods. While Bank Indonesia has adopted some macroprudential tools and stress testing mechanisms, their statutory foundation is not always aligned with the urgency and scope of external shocks. Where legal and supervisory agencies are perceived as slow or fragmented, investor confidence tends to erode faster during global uncertainty. Indonesia's overlapping mandates between OJK and BI can result in regulatory ambiguity—especially in areas such as capital inflow monitoring, exchange rate intervention, and systemic risk assessments.

The Indonesia Stock Exchange also highlights legal gaps in disclosure obligations for public companies during episodes of sharp capital flight.¹⁴ While issuers are required to report material information, the enforcement mechanisms are not sufficiently calibrated for fast-paced global shocks. This undermines transparency, particularly for investors relying on timely and accurate disclosures to make informed decisions. From a legal reform perspective, the structural integration of financial stability mandates into the core legal frameworks of both OJK and BI is crucial. Legal certainty and clarity of mandates are essential to ensuring fast and coordinated responses to sudden reversals in capital flows. Furthermore, emergency regulatory responses—such as market-wide short-selling bans, capital controls, or tax-based disincentives on hot money—require solid legal justification

¹⁴ The Indonesia Stock Exchange, *Op. Cit.*

and procedural guidelines to avoid investor disputes or international arbitration. The establishment of pre-legislated contingency frameworks that are legally binding but only triggered under predefined conditions of financial stress. For Indonesia, such mechanisms could be embedded into a revised version of the Capital Market Law or integrated into Financial System Stability Committee (KSSK) regulations under Law No. 9 of 2016. This would not only improve policy agility but also provide legal clarity and investor assurance during crisis periods.

Finally, the current legal regime lacks systematic provisions to facilitate cooperation with international and regional financial institutions during periods of external shock. The IMF advocates for stronger legal pathways that allow rapid activation of financial assistance mechanisms, such as the Chiang Mai Initiative Multilateralization (CMIM), without domestic political or procedural delays. In summary, the legal and institutional infrastructure in Indonesia must evolve to match the realities of a globally integrated financial system. Reforms should aim to create a more responsive, transparent, and predictable legal environment—capable of absorbing and adapting to the pressures of global capital volatility. Only through such structural legal adjustments can Indonesia achieve long-term capital market resilience in the face of recurring U.S. interest rate shocks.

CONCLUSION

This study confirms that U.S. Federal Reserve interest rate hikes during 2024–2025 had a significant and multifaceted impact on Indonesia’s capital market. Quantitative and sectoral analyses indicate that every 25 basis point increase in the Fed’s policy rate was associated with declining net foreign portfolio inflows and rupiah depreciation, reflecting Indonesia’s high sensitivity to global monetary tightening. The banking and technology sectors were the most affected, with technology experiencing the sharpest contraction due to its reliance on foreign capital and exposure to exchange rate risk. These findings support the push-pull theory of capital flows, where external monetary shocks interact with domestic vulnerabilities to influence investor behavior and capital allocation. In response, Bank Indonesia and OJK adopted macroprudential and transparency measures; however, their effectiveness remains partial, underscoring the need for more adaptive, forward-looking, and structurally embedded policy mechanisms, as highlighted by the IMF. Institutional and legal gaps—particularly in capital market regulation—continue to limit investor protection, regulatory clarity, and inter-agency coordination, thereby weakening the capacity to manage capital flow volatility. Institutional credibility and legal preparedness are key determinants of resilience in emerging markets. The study also emphasizes the role of investor sentiment, including herding and flight-to-safety behavior, in amplifying shocks. Strengthening domestic institutional investors, financial literacy, hedging instruments, capital market depth, and participation in regional financial safety nets is therefore essential. While Indonesia cannot control U.S. interest rate movements, sustained legal reform, institutional strengthening, and strategic market development remain critical to safeguarding financial stability and maintaining investor confidence amid global uncertainty.

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