

Market volatility highlights Indonesia's overlooked climate and resource risks

By Johan Sulaeman

INDONESIA'S recent episode of financial market volatility, including a reported US\$80 billion stock-market rout that prompted emergency reassurances from the government and the resignation of the Indonesia Stock Exchange chief executive and senior officials at supervisory entities, has revived familiar issues of market confidence, regulatory oversight and transparency.

Public discussion has largely focused on liquidity management, disclosure practices and institutional credibility. Yet these explanations, while important, capture only part of the picture.

Viewed alongside developments in the natural resource sector, the episode points to a deeper and more structural challenge: the growing interaction between financial stability, natural capital and climate-related physical risk in a resource-dependent economy such as Indonesia.

Ongoing research by the Sustainable and Green Finance Institute at the National University of Singapore is developing a portfolio-level climate stress-testing framework for Indonesian banks, demonstrating how physical climate risks can materially amplify credit losses under severe-but-plausible scenarios.

The findings show that exposure to fossil-intensive sectors and geographically concentrated physical hazards can significantly elevate expected losses, particularly under more adverse climate pathways.

Indonesia occupies a pivotal position in global markets for coal, nickel, palm oil and gold. These sectors underpin export earnings, fiscal revenues and employment, while also anchoring Indonesia's role in energy transition and global supply chains.

As a result, stress in Indonesian financial markets is not merely a domestic issue. It also matters to global investors because it also reflects how capital markets are absorbing, and sometimes struggling to price, risks that arise from dependence on land, ecosystems and climate-sensitive assets.

Resource governance and investor confidence

Recent developments in the mining sector illustrate this connection. The transfer of the Martabe gold mine from Agincourt Resources to Perminas, a state-linked entity under Danantara, has drawn attention not only for its business impact but also for what it signals about governance and policy consistency.

While the move has been presented as part of environmental enforcement and operational restructuring efforts, investors are closely watching how it affects legal clarity, continuity of obligations and environmental accountability. For capital markets, cases like this matter because they influence expectations about how long-term, resource-based assets are regulated and supervised.

At a time when confidence in market oversight has been tested, uncertainty over how environmental enforcement affects ownership, contracts and administrative processes can amplify perceived risk.

This does not imply impropriety or illegality. Rather, it shows that decisions made where environmental policy and state involvement intersect now have direct consequences for financial markets.

For regulators and supervisors, the challenge is no longer limited to only market mechanics, but also includes how environmental and physical risks are dis-

closed, monitored and understood by investors. Faced with this complexity, some international investors respond by reducing exposure through changes in index weighting, lower foreign participation, or more cautious risk-positioning.

Such responses may appear reasonable in the short term. However, research shows that reduced engagement can amplify volatility rather than reduce it. Higher financing costs and weaker incentives for disclosure limit room to invest in risk mitigation and resilience, and ultimately reinforce the structural vulnerabilities that investors seek to avoid.

A blind spot in emerging-market risk assessment

This dynamic exposes a gap in how global financial institutions assess emerging-market risk. Credit rating agencies, index providers and long-term investors continue to focus heavily on liquidity, governance and disclosure. While these indicators remain important, they capture only part of the risk landscape in resource-dependent economies.

Empirical evidence from Indonesia suggests that when transition-related stress tests are applied to fossil-intensive sectors, expected losses can rise by about 60 to 100 per cent relative to baseline levels. This underscores that climate risks are not peripheral considerations, but material and quantifiable balance-sheet vulnerabilities.

Moreover, physical-risk exposures from natural disasters, such as floods, landslides and extreme rainfall, which are intensified by climate change and ecosystem degradation, directly affect corporate performance, asset values and the resilience of the financial system.

Indonesia's recent experience under-

scores this point. Environmental stress, land-use conflict and climate-related hazards are no longer externalities; they now pose direct risks to a company's own balance sheet.

When natural capital is degraded, physical risks materialise through asset damage, operational and business disruption, insurance losses and regulatory intervention. Treating these risks as secondary to financial decision-making and supervision leads to a systematic underpricing of risks, followed by sharp asset repricing during periods of market stress.

Yet, this moment presents both opportunity and challenge. Rather than scaling back engagement with Indonesia during a period of volatility, global financial institutions could use this moment to broaden how risk is assessed in emerging and frontier markets.

Greater emphasis on climate and nature-related disclosure, environmental liability management and resilience investment would complement traditional financial indicators. Such an approach would encourage stronger corporate governance practices that help reduce long-term systemic risk over time.

Indonesia as a bellwether for financial governance

Indonesia is well-placed to serve as a global bellwether in this transition. Its markets are substantial enough to matter globally, and its exposure to climate and nature-related risk is sufficiently significant to test more integrated approaches to risk-pricing and disclosure.

Progress in aligning market regulation with environmental and physical risk transparency would not only strengthen domestic stability, but also offer lessons for other resource-dependent economies

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and markets facing similar external pressures.

The question for global finance, therefore, is not whether to remain engaged with Indonesia during a period of stress, but how. Excluding a systemically important, resource-critical economy may reduce investors' short-term exposure, but it would undermine broader efforts to incorporate climate and nature-related risks more effectively into financial portfolios.

A more constructive approach would treat Indonesia's current challenges as a test case and an opportunity to link market reform and financial stability with better stewardship and environmental resilience.

Ultimately, whether Indonesia emerges from this period stronger, more resilient and more attractive to international investors will depend not only on restoring market confidence, but also on how decisively regulators, stakeholders and market institutions integrate climate and natural-capital risks into corporate governance.

The imperative now is to move beyond treating these risks as peripheral considerations and to embed them systematically into supervision, disclosure and investment decisions. Doing so would not only support Indonesia's financial stability, but also strengthen the global financial system's ability to manage nature-related risk.

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