

# CareEdge Global assigns Long Term Foreign Currency Rating of BBB (Unsolicited) to Republic of Indonesia

## Credit Profile

The credit profile of Indonesia derives support from its large economic size and favourable medium-term growth prospects. Its external position with adequate foreign exchange reserves and expected improvement in foreign direct investments (FDI) also provides support. These strengths are partly offset by a moderate fiscal profile, primarily arising from a low revenue base, and relatively weaker governance and institutional framework.

The government is in the process of implementing several reform measures like Omnibus law to improve competitiveness, Tax Harmonization law to enhance tax revenues, and efforts to develop downstream industries (like mining). These are steps in the right direction, though success in implementation will be critical. The outcome of the recently held general elections, with Prabowo Subianto's win as the new President designate, signals a continuation of economic policies, although some uncertainty is possible on the likely fiscal path.

## Strengths

- Large economic size with good growth prospects
- Abundant natural resources
- Favourable demographics
- Prudent monetary policies

## Weaknesses

- Narrow revenue base leading to moderate fiscal profile
- Weak infrastructure and business environment due to bureaucratic inefficiencies and corruption
- Relatively underdeveloped domestic financial markets

## Key Monitorables

- Success in a) implementation of Omnibus bill on Job creation; and b) efforts to develop downstream industries, which together aim to boost FDI inflows and competitiveness
- Structural tax reforms
- Any significant potential changes in fiscal policy of the new government, likely to take office from October 2024

## Key Rating Drivers

### Economic Structure & Resilience

Indonesia's economic assessment is supported by its large economic size and good growth prospects. Growth has been largely stable with a pre-pandemic average of around 5% and has bounced back to the

same level in 2023. The momentum is expected to continue in the medium term underpinned by implementation of structural reforms, dynamic domestic demand and healthy demographics. Moreover, Indonesia benefits from its natural resources such as nickel, coal and palm oil. However, infrastructural constraints and high income inequality partly weigh on the economic assessment score.

### **Fiscal Strength**

Indonesia's fiscal profile is characterised by its relatively narrow tax revenue base (tax to GDP ratio of 11.5% in 2023), moderately high interest costs (14.1% of revenue in 2023), and government's reliance on external financing. The gross general government (GG) debt to GDP ratio is low (~40% in 2023), but nearly a quarter of it is denominated in foreign currency. The easing commodity prices could exert pressure on the government finances, given its dependence on the commodity sector. Additionally, high expenditure on pensions, salaries, subsidies and net social benefits (~40% of total expenditure) limits the room for expenditure towards other productive areas.

The government has introduced structural tax reforms, including a phased hike in the value-added tax rate which has the potential to broaden the tax base over time, if implemented efficiently. Furthermore, while the fiscal plans of the incoming government remain uncertain, there have been indications of an intention to enhance public spending and expand the revenue base.

### **External Position & Linkages**

The external sector benefits from a comfortable current account position. Further, FDI has been a stable source of external financing, averaging nearly 2% of GDP in the past 5 years and is expected to further improve gradually with the implementation of the Omnibus law. Total external debt is at a manageable level and has a long tenure, limiting any near-term repayment pressure. The foreign exchange reserves are comfortable to cover nearly 7 months of imports. However, high exposure to commodity price volatility and foreign portfolio flows could pose a risk to external position.

### **Monetary & Financial Stability**

The official exchange rate regime is free floating but due to the Central Bank's interventions, it is regarded as floating in practice. Indonesia's Central Bank has kept inflation broadly under control within the target range. The banking sector is well-capitalised, and non-performing loans have been largely stable (an average of ~2.4% of total loans during 2018-2022). The domestic financial markets are relatively less developed with significantly low credit penetration (38.3% of GDP) and low market capitalisation of listed companies (55.3% in 2023).

### **Institutions & Quality of Governance**

Indonesia is the world's third-largest democracy and has made significant progress in decentralising decision-making and improving the quality of public services. The government has also been proactive in introducing reforms. Despite the government's continuous efforts to prevent and tackle corruption, it remains an issue which has led to bureaucratic inefficiencies and impacted government effectiveness. In addition, the risks from political polarisation and extremism pose a threat to political stability.

Indonesia – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
<b>Economic Indicators</b>									
Nominal GDP	USD Billion	1042	1119	1059	1187	1319	1371	1476	1614
GDP Per Capita (Constant-PPP)	USD	11523	11976	11586	11925	12439	12945	13465	14021
Real GDP Growth	%	5.2	5.0	-2.1	3.7	5.3	5.0	5.0	5.1
GFCF/GDP	%	32.3	32.3	31.7	30.8	29.1	29.3	-	-
Gross Domestic Savings/GDP	%	34.0	33.3	31.4	35.1	39.3	38.1	-	-
Exports (G&S)/GDP	%	21.0	18.6	17.3	21.4	24.5	21.7	-	-
Working-Age (15-64) Population (% Share in Total)	%	67.3	67.4	67.6	67.7	67.9	68.1	68.2	68.3
Old-Age (65+) Population (% Share in Total)	%	6.5	6.6	6.7	6.8	6.9	7.0	7.3	7.5
<b>Fiscal Indicators – General Government</b>									
Fiscal Balance/GDP	%	-1.7	-2.1	-6.1	-4.4	-2.2	-1.6	-2.2	-2.7
Revenue/GDP	%	14.9	14.3	12.4	13.7	15.2	15.0	15.2	15.3
Expenditure/GDP	%	16.6	16.4	18.4	18.1	17.4	16.6	17.4	18.0
GG Gross Debt/GDP	%	30.4	30.6	39.7	41.1	40.1	39.9	39.3	39.3
GG External Debt (by Creditor)/GG Gross Debt	%	58.6	58.1	48.5	41.4	37.7	37.0	-	-
Interest/Revenue	%	11.8	12.2	15.9	13.8	13.0	14.1	-	-
<b>External Indicators</b>									
Current Account Balance/GDP	%	-2.9	-2.7	-0.4	0.3	1.0	-0.1	-0.9	-1.3
FDI, Net Inflows/GDP	%	1.8	2.2	1.8	1.8	1.9	1.6	-	-
Outstanding FII Liabilities/GDP	%	25.6	26.7	24.5	22.7	20.1	20.1	-	-
NIIP/GDP	%	-30.4	-30.2	-26.4	-23.4	-19.0	-19.0	-	-
Foreign Exchange Reserves	USD Billions	120.7	129.2	135.9	144.9	137.2	146.4	-	-
Import Cover	Months	6.6	7.6	10.2	8.0	6.0	6.6	-	-
External Debt/GDP	%	36.2	36.1	39.4	34.9	30.1	29.7	-	-
<b>Monetary and Financial Indicators</b>									
CPI Inflation	%	3.3	2.8	2.0	1.6	4.1	3.7	2.6	2.6
Exchange Rate (Average)	LC per USD	14242.2	14145.2	14562.6	14307.0	14853.9	15243.7	-	-
Non-Performing Loans/Total Gross Loans	%	2.2	2.3	2.6	2.6	2.1	2.0	-	-
Private debt, loans and debt securities/GDP	%	41.4	40.8	42.7	40.4	38.3	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

## Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	BBB	October 3, 2024

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## Criteria Applied

CareEdge Sovereign Rating Methodology

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