

Indonesia

Fitch changes outlook from stable to negative

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- Fitch Ratings “has revised the Outlook on Indonesia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable and affirmed the IDR at 'BBB'.” This follows a similar change from Moody's Ratings in February.
- Against the backdrop of heightened global geopolitical uncertainty, the impact of this downgrade maybe somewhat more mixed. More fundamentally, however, it speaks to the concerns on the direction of policy making and fiscal risks.
- We noted last month that ratings outlook downgrade from Moody's outlook was a warning shot, which could trigger other ratings agencies to follow suit. This has proved to be the case with Fitch's move. The responses of the authorities will be watched even more closely, as credible policy choices remain a necessity to avert a credit rating downgrade.

Fitch Ratings changed its outlook on Indonesia's 'Long-Term Foreign-Currency Issuer Default Rating (IDR)' ratings to 'negative' from 'stable' while affirming the ratings at BBB.

The main rationale for the outlook change by Fitch Ratings is to reflect "increasing policy uncertainty and erosion of Indonesia's policy mix consistency and credibility amid growing centralisation of policymaking authority. This could weaken the medium-term fiscal outlook, undermine investor sentiment, and put pressure on external buffers."

The fundamental risks remain on the fiscal side. Specifically, Fitch noted that "rising risks are exemplified by the government's inclusion of a review of the State Finance Law in its 2026 legislative priorities. Material relaxation of the longstanding fiscal framework, including the 3% deficit ceiling, would likely weaken policy credibility and the ability to finance higher fiscal deficits without support from the central bank." This coupled with "sustained spending pressures" against longstanding issues of "subdued revenue intake" likely contributed to its assessment on fiscal risks.

Fitch Ratings also cited Bank Indonesia's "more complex mandate" as one of the ratings outlook drivers. Specifically, it noted that "a dovish policy stance and potential expansion of its mandate to support growth and job creation could make it challenging for BI to meet its core objectives of controlling inflation and preserving exchange rate and financial stability in the event of intensifying capital outflow pressures."

As we noted last month, "the Moody's outlook downgrade is a warning shot, which could trigger other ratings agencies to follow suit, particularly if the nature of policymaking remains subject to a heightened degree of uncertainty", which has been the case with Fitch Ratings' outlook revision as well.

That said, the global geoeconomic backdrop has changed significantly in the past month. We note that Indonesia's external and fiscal balances are also vulnerable to sustained higher global oil prices (see ASEAN-6 & India: The gains and pains from sustained higher oil prices, 2 March 2026). The responses of the authorities will be watched even more closely, as credible policy choices remain a necessity to avert a credit ratings downgrade over the course of the next twelve to eighteen months.

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