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Indonesia

Moody's changes outlook from stable to negative

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- Moody's Ratings changed Indonesia's sovereign credit rating outlook from 'stable' to 'negative'. It affirmed the local and foreign currency long-term issuer ratings at Baa2.
- Notwithstanding the upside surprise to 4Q25 GDP growth, this outlook downgrade by Moody's is another blow for policy perceptions, dampened by a flurry of bad news since early 2026.
- Sentiment will likely remain volatile in the near-term. The responses of the authorities will be watched even more closely, as credible policy choices remain a necessity to avert a credit rating downgrade.

Moody's Ratings changed its outlook on Indonesia's sovereign credit ratings to 'negative' from 'stable'. The credit rating is maintained at Baa2. S&P Global and Fitch Ratings have Indonesia's sovereign at an equivalent rating of BBB, with a stable outlook.

The main rationale for the outlook change by Moody's is "reduced predictability and coherence in the policy making process, alongside less effective policy communication". This has "raised risks to Indonesia's policy credibility among investors, as reflected in increased equity and foreign-exchange market volatility". Moody's added that a "greater focus on using public spending to drive growth poses fiscal risks, particularly given Indonesia's weak revenue base". On the drive to push public spending, Moody's noted that it "raises risks of a wider fiscal deficit and points to emerging weaknesses in policy planning and communication, with implications for policy credibility". It added that the establishment of Danantara has "raised uncertainties regarding financing, governance, and investment priorities".

Factors that could lead to a downgrade include "1) a sustained shift to a more expansionary fiscal policy without accompanying revenue reform, reflecting weaker policy cohesion and coordination; 2) a significant deterioration in the external position, such as from prolonged currency depreciation or capital outflows, with ramifications for debt affordability and, over time, foreign exchange reserve adequacy; and/or 3) a material weakening in SOEs financial health and poor returns on SOE investments related to insufficiently strong governance of Danantara". By contrast, a return to a 'stable' outlook, would require policy credibility remaining "buttressed by enhanced clarity and consistency of policy and demonstrated commitment to reform and policies conducive to macroeconomic and financial stability."

Notwithstanding the upside surprise to 4Q25 GDP growth, this outlook downgrade by Moody's is another blow for policy perceptions, dampened by a flurry of bad news since early 2026. These include perceptions of fiscal policies walking a fine line in holding to longstanding guardrails, including the legal deficit limit of 3% of GDP, personnel changes at Bank Indonesia and the MSCI's recent conclusion on its consultation which led to heightened volatility of the Jakarta Composite Index.

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. Sentiment will likely remain volatile in the near-term. 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.