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Indonesia

S&P reaffirms sovereign rating and ‘stable’ outlook

Lavanya Venkateswaran
Senior ASEAN Economist

Ahmad A Enver
ASEAN Economist

- S&P Global reaffirmed Indonesia’s sovereign credit rating at BBB with a stable outlook. Fitch Ratings and Moody’s lowered the outlook to ‘negative’ from ‘stable’ earlier in the year, with an equivalent credit rating of BBB and Baa2.

- S&P stated that the deterioration in external and fiscal metrics is likely to be temporary and should reverse, supported by higher commodity prices and a more stable pace of policy implementation.

- The key difference between S&P’s assessment and those of Moody’s and Fitch is that S&P has taken a more constructive view of the government's recent policy announcements.

S&P Global reaffirmed Indonesia's sovereign credit ratings at BBB with a stable outlook. Fitch Ratings and Moody's lowered the outlook to 'negative' from 'stable' earlier in the year, with an equivalent credit rating of BBB and Baa2.

S&P noted in its statement that it sees the deterioration in the external and fiscal metrics as "temporary" and reversing given the impact of higher commodity prices and "more stable pace of policy changes". The rating action reflects S&P's view that the fiscal deficit will remain within the legal limit of 3% of GDP and that, while the current account deficit is likely to widen this year, higher export earnings and gradually normalising energy markets will help mitigate the impact.

On the fiscal front, S&P noted that "the government has repeatedly expressed its commitment to the longstanding deficit ceiling of 3% of GDP. This was codified in law in 2003." That said, it continued to note that "the pressure on the government's debt repayment (interest payment over government revenue) remains high." This ratio is expected to remain high this year.

The external "metrics are deteriorating due to rapidly rising import costs and pressure on the rupiah". S&P expects the current account deficit to widen to 2.1% of GDP in 2026, which is wider than our forecast of 1.6% of GDP. Gross external financing as a share of the sum of current account receipts and usable reserves is projected to rise to 98.9% in 2026 from 92.9% in 2025 but narrow to 96.1% in 2029.

The key difference between S&P's assessment and those of Moody's and Fitch is its more favourable view of the government's recent policy initiatives. Specifically, S&P noted "despite its short operating track record, the newly established sovereign wealth fund, Danantara, has changed the state-owned sector in Indonesia by consolidating and trimming non-core business lines." It also expects the even newer Danantara Sumberdaya Indonesia (DSI) "to change the commodity export sector". Importantly, S&P noted that it believes "that the government has been showing some flexibility in policy implementation in response to adverse industry feedback" and implicitly that DSI will be managed well.

The relief in Indonesian asset markets was palpable following S&P's decision. The Jakarta Stock Index was up +1.9%, while USD/IDR drifted modestly lower along with Indonesia government bond yields. S&P's decision reflects greater confidence in the authorities' policymaking approach, which puts the onus on delivering on the objectives from Danatara, managing fiscal policy changes and mitigating external risks squarely on the authorities. Our view remains that the stresses on the fiscal and external balances will be higher this year, while the onus is on the authorities to deliver on key policy objectives. This will help convince Moody's and Fitch Ratings to revert to a 'stable' outlook, similar to S&P.

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