

CareEdge Global assigns 'Stable' outlook to the rating of the Republic of Indonesia

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge BBB' (Unsolicited)

Issuer rating

CareEdge BBB/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the Republic of Indonesia (Indonesia) while reaffirming the Long-Term Foreign Currency rating of 'CareEdge BBB' (Unsolicited).

The credit profile of Indonesia derives support from its large economic size and sustained healthy growth. Its external position, with adequate foreign exchange reserves and stable foreign direct investments (FDI), also provides support. These strengths are partly offset by a moderate fiscal profile, primarily due to a low revenue base, and a relatively weaker governance and institutional framework.

The government has been 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. These are steps in the right direction, though success in implementation will be critical.

Outlook: Stable

The stable outlook reflects Indonesia's good growth prospects over the medium-term, averaging ~5% during 2024-28. CareEdge Global expects a continuation of key economic policies and fiscal prudence, despite the government transition, with a sustained commitment to the 3% fiscal deficit ceiling, which has been consistently maintained since its introduction in 2003, except during the pandemic years.

Upside Scenario

Expansion of the government's revenue base, particularly through the successful implementation of structural tax reforms, could contribute to a revision of the outlook from stable to positive. Furthermore, effective execution of policies such as commodity downstreaming, leading to diversification and increased investment inflows, could further strengthen Indonesia's credit profile.

Downside Scenario

While the new administration has signaled a commitment to fiscal prudence, any shortfall in meeting fiscal targets, particularly if efforts to expand the revenue base fall short, could weigh on Indonesia's credit profile. Moreover, external challenges, including sustained weakening of commodity prices and subdued global demand amidst reciprocal tariffs announced by the United States, could pose further challenges to the economy, weighing on growth prospects.

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 the implementation of structural reforms, dynamic domestic demand and healthy demographics. Moreover, Indonesia benefits from its abundant natural resources, including 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 the 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 of commodity prices could put pressure on the government's finances, given its dependence on the commodity sector. Additionally, high expenditures on pensions, salaries, subsidies, and net social benefits (~40% of total expenditure) limit the room for expenditure towards other productive areas. Furthermore, although policy continuity and fiscal prudence are expected to persist under the new government, the fiscal path remains uncertain. Policy decisions, such as reversing the planned VAT hike and reallocating spending cuts to the free meal program, highlight these concerns.

External Position & Linkages

The external sector benefits from a comfortable current account position. Furthermore, FDI has been a stable source of external financing, averaging nearly 2% of GDP over the past five years. It is expected to 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 seven months of imports. However, high exposure to commodity price volatility and foreign portfolio flows could pose a risk to the 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 and within the target range. The banking sector is well-capitalized, and non-performing loans have remained largely stable, averaging ~2.4% of total loans during 2018-2022. The domestic financial markets are relatively underdeveloped, with significantly low credit penetration (38.3% of GDP) and a low market capitalization 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 decentralizing 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 caused bureaucratic inefficiencies and has 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
Economic Indicators									
Nominal GDP	USD Billion	1042	1119	1059	1187	1319	1371	1403	1493
GDP Per Capita (Constant-PPP)	USD	12,531	13,024	12,600	12,948	13,485	14,014	14,557	15,143
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	68.0	68.1	68.2
Old-Age (65+) Population (% Share in Total)	%	6.4	6.5	6.6	6.7	6.8	7.0	7.3	7.5
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-1.7	-2.1	-6.1	-4.4	-2.2	-1.6	-2.7	-2.5
Revenue/GDP	%	14.9	14.3	12.4	13.7	15.2	15.0	14.3	14.4
Expenditure/GDP	%	16.6	16.4	18.4	18.1	17.4	16.7	16.9	17.0
GG Gross Debt/GDP	%	30.4	30.6	39.7	41.1	40.1	39.6	40.5	40.7
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	-	-
External Indicators									
Current Account Balance/GDP	%	-2.9	-2.7	-0.4	0.3	1.0	-0.2	-1.0	-1.2
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	-19.1	-	-
Foreign Exchange Reserves	USD Billions	120.7	129.2	135.9	144.9	137.2	146.4	155.7	-
Import Cover	Months	6.6	7.6	10.2	8.0	6.0	6.7	-	-
External Debt/GDP	%	36.2	36.1	39.4	34.9	30.1	29.8	-	-
Monetary and Financial Indicators									
CPI Inflation	%	3.3	2.8	2.0	1.6	4.1	3.7	2.5	2.5
Exchange Rate (Average)	LC per USD	14242.2	14145.2	14562.6	14307.0	14853.9	15243.7	15854.9	-
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	%	41.5	40.9	42.8	40.5	38.4	-	-	-

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

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB/Stable	April 03, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB	October 03, 2024

Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

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