
Republic of Indonesia's rating reaffirmed at 'CareEdge BBB/Stable'

Issuer rating (Long-Term Foreign Currency)

CareEdge BBB/Stable (Unsolicited)

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for **Republic of Indonesia** at '**CareEdge BBB/Stable**' (Unsolicited).

Rationale

The rating reaffirmation is primarily supported by Indonesia's sustained strong economic growth, continued comfortable external buffers, and still manageable public debt levels. These credit strengths are partly offset by structurally weak fiscal revenue base and economic constraints including low GDP per capita and high underemployment. Further, impact of potential expansionary fiscal policies on the funding costs, and effectiveness and independence of institutions in dealing with recent volatility remain important monitorables for the credit profile.

Economic performance is resilient, supported by a diversified production base and favourable demographics. Real GDP growth printed at 5.1% in 2025, as downstream mineral processing initiatives continue to attract foreign capital. However, reliance on commodity-linked sectors and persistent underemployment remain structural constraints.

External buffers are comfortable, underpinned by foreign exchange reserves at USD 156 billion (~5.7 months of imports) and manageable current account dynamics. While consistent FDI inflows support the balance of payments, the external position is exposed to commodity price volatility and global demand.

Fiscal metrics are moderate, with government debt at 41% of GDP in 2025 and fiscal deficit at 2.9% of GDP, within the statutory ceiling of 3%. However, a relatively low revenue base and rising spending constrain fiscal flexibility. Financial sector risks remain contained, with strong banking sector capitalisation and non-performing loans (NPL) at ~2.1% in Q3 2025.

Recent expansionary fiscal initiatives under President Prabowo Subianto, alongside Indonesia's relatively narrow revenue base, have raised concerns over the fiscal deficit trajectory. These concerns have contributed to weakening of investor confidence, which has been reflected in episodes of capital outflows and currency depreciation.

That said, while these developments warrant close monitoring, we expect the authorities' policy framework and institutional processes to remain broadly effective in managing episodes of market volatility. A sustained weakening in investor confidence could lead to higher

borrowing costs and increase the sovereign's interest burden, potentially weighing on debt affordability over time.

Outlook: Stable

The stable outlook on Indonesia reflects expectations that healthy growth prospects and comfortable external buffers will support credit strength over the medium term. The fiscal deficit stands at ~2.9% of GDP in 2025. The outlook is also underpinned by CareEdge Global's expectation that the fiscal deficit would remain within the statutory 3% ceiling in the near term, consistent with the government's past record.

Upward Scenario

The outlook could be revised to positive following a sustained increase in the government's revenue base, particularly through the effective implementation of structural tax reforms that enhance fiscal flexibility. Furthermore, the successful execution of downstreaming policies, aimed at export diversification and attracting stable investment inflows, could boost medium-term growth prospects.

Downward Scenario

The outlook could be revised to negative if the government deviates from its fiscal consolidation path or revises the existing fiscal policy anchor of 3% deficit ceiling, weakening investor confidence, and raising refinancing costs. A sustained increase in funding costs and heightened policy uncertainty could undermine investment sentiment and weigh on growth prospects.

Key Rating Drivers

Economic Structure & Resilience

Indonesia's economic profile is supported by its large economy, resilient domestic demand, and a stable long-term growth trajectory, with long term growth averaging 4.2% over 2016-2025. A favourable demographic structure, with the old-age population accounting for 7.5% of the total population in 2025, supports consumption and labour supply.

However, structural vulnerabilities persist. GDP per capita is lower than the similarly sized economies. Further, high investment levels, reflected in elevated gross fixed capital formation (GFCF), have not consistently translated into proportional productivity gains, as indicated by a relatively high incremental capital output ratio (ICOR). Labour market indicators also present mixed signals; while headline unemployment is low, underemployment is high. Additionally, the economy's part reliance on extractive industries, specifically coal, exposes it to commodity price fluctuations and longer-term risks associated with the transition to a low-carbon economy.

Recent economic developments indicate continued growth momentum. Real GDP growth stood at 5.1% in 2025, partly supported by stronger exports in the first half of the year due

to front-loading of external demand. Ongoing industrial downstreaming policies, particularly in nickel and related minerals, have supported export diversification and sustained FDI inflows into metals processing and electric vehicle supply chains. Manufacturing activity has been stable, expanding at around 5% annually, while the unemployment rate was 4.8% in 2025.

Indonesia's exposure to commodity cycles and climate-related risks remains an important monitorable for sustaining long-term growth momentum. Going forward, the country's continued progress in economic diversification, boosting productivity and improving the quality of the labour market will remain monitorables.

Fiscal Strength

Indonesia's fiscal profile is characterised by manageable debt levels and declining reliance on external financing, yet it is constrained by a low revenue base, high interest payments, and rising spending commitments.

General government debt stood at 41% of GDP in 2025, with external debt accounting for around 37% of total debt. However, the tax revenue-to-GDP ratio remains low at around 9.3% in 2025, well below several similarly rated peers, reflecting a narrow tax base and structural compliance gaps.

Fiscal metrics have shown some slippage, raising concerns among investors. The fiscal deficit widened to around 2.9% of GDP in 2025, although it remained within the statutory ceiling of 3%, following softer revenue collections at of 13.7% of GDP in 2025. Revenue performance weakened recently, recording a contraction of 3.3% in 2025. Tax collection growth also slowed, raising questions about the fiscal consolidation pace and reform progress. Over the medium term, the trajectory of public debt will depend on maintaining economic growth at around 5.2% and adhering to the fiscal consolidation targets.

Debt affordability metrics remain weak, with interest payments estimated at around 17.2% of government revenue in 2025. Persistently high domestic bond yields could further increase the interest burden, weighing on fiscal flexibility.

Risks from contingent liabilities related to state-owned enterprises (SOEs) are contained at present, supported by restructuring efforts and improved profitability, although this is monitorable given the scale of infrastructure-related obligations.

Maintaining the fiscal deficit within the statutory 3% ceiling will remain monitorable.

External Position & Linkages

Indonesia's external profile benefits from a relatively balanced current account position, manageable external debt levels, and comfortable foreign exchange reserve buffers. FDI has remained a stable source of external financing, averaging 1.7% of GDP over 2021-25, supported by policies aimed at improving the investment climate, including the Omnibus Law

on Job Creation. Total external debt (~30% of GDP in 2025) is manageable, with a relatively long maturity structure, limiting near-term repayment pressures. However, the external position is exposed to volatile commodity prices and global capital flows.

Export growth moderated in late-2025 following earlier front-loading of shipments and softer global commodity prices. The current account balance hovered around -0.1% of GDP in 2025, reflecting balanced trade dynamics. Foreign exchange reserves amounted to around USD 156 billion in 2025, covering ~5.7 months of imports, providing a buffer against external shocks. Net FDI inflows were 1.5% of GDP in 2025, supported by continued investment in downstream mining, metals processing, and energy transition-related industries.

Going forward, maintaining adequate reserve buffers, stable capital inflows, and continued diversification of trade and investment partners remain key monitorables for external stability.

Monetary & Financial Stability

Indonesia's monetary framework is supported by an inflation-targeting regime and a flexible exchange rate arrangement. While the official exchange rate regime is free floating, periodic interventions by the central bank to smooth out currency volatility result in a managed float system. Indonesia's currency has depreciated by 10.4% between October 2024 and February 2026, one of the sharpest depreciations among APAC economies, and will remain a key monitorable.

Inflation has generally been within the central bank's target range, reflecting relatively credible monetary policy transmission. More recently, monetary conditions have been stable, with inflation at 1.9% in 2025, remaining within the central bank's target band of 2.5%(±1%). The policy rate stood at 4.75% in February 2026, as authorities balanced inflation control with supporting economic growth.

Banking sector indicators remain sound, with the capital adequacy ratio at ~24.7% and NPLs at ~2.1% in Q3 2025. However, potential credit risks remain linked to contingent exposure from state-linked entities, including the Danantara sovereign wealth fund, which has faced governance and transparency concerns. While these risks have not yet led to systemic instability, they remain relevant given the banking sector's exposure to SOEs and infrastructure-related financing.

However, the domestic financial market is relatively shallow, with credit penetration at ~38.2% of GDP in 2024 and stock market capitalisation of listed companies at ~55.3% of GDP in 2023, indicating limited financial deepening compared with similarly rated peers. Indonesia's equity market recorded its sharpest decline in February 2026 amid concerns over a potential MSCI downgrade from emerging market to frontier market status. This will remain a monitorable for investor confidence and capital flow dynamics.

Going forward, the credibility of the monetary policy framework and the central bank's ability to maintain price stability while managing capital flow volatility will remain key monitorables. In addition, any crystallisation of contingent liabilities from state-linked entities could intensify credit risks within the banking sector. Continued financial sector development, improved governance in state-linked financial institutions, and deepening of domestic capital markets remain monitorable.

Institutions & Quality of Governance

Indonesia's institutional landscape is defined by a relatively stable democratic system and position as the world's third-largest democracy.

The government has also demonstrated a willingness to undertake structural reforms to improve the business environment and support long-term growth. However, institutional effectiveness remains mixed, with governance indicators pointing at moderate performance relative to similarly rated peers.

The government is committed to initiating reforms to enhance economic competitiveness and strengthen the fiscal base. Central to this strategy are the implementation of the Omnibus Law on Job Creation, reforms to tax administration, and policies aimed at promoting downstream industries and greater value addition in the manufacturing sector. These measures aim to optimise investment efficiency, attract foreign investment, and broaden the revenue base.

Despite ongoing reform efforts, governance challenges remain. Over the past two decades, authorities have made progress in decentralising governance and strengthening local administrative capacity, which has supported improvements in public service delivery. However, recent policy developments suggest a gradual centralisation of economic decision-making, including plans to review the State Finance Law under the 2026 legislative agenda and stronger state oversight of strategic sectors such as mining and downstream industries. These developments, alongside the replacement of long-serving finance minister in 2025 and the subsequent resignation of several senior financial regulators, have raised concerns over policy predictability and institutional independence, weakening investor confidence.

Corruption continues to hinder bureaucratic efficiency and policy implementation, notwithstanding the existing institutional oversight and transparency mechanisms. In addition, political fragmentation and risks from rising political polarisation could affect continuity of the reform momentum and policy. Sustained and consistent implementation of structural reforms, alongside improvements in governance quality and institutional effectiveness, remain monitorable.

Indonesia – Select Indicators									
	Unit	2020	2021	2022	2023	2024	2025	2026 F	2027 F
Economic Indicators									
Nominal GDP	USD Billion	1,059	1,187	1,319	1,371	1,396	1,446	1,532	1,647
GDP Per Capita (Constant-PPP)	USD	12,600	12,948	13,485	14,014	14,567	15,123	15,718	16,345
Real GDP Growth	%	-2.1	3.7	5.3	5.0	5.0	5.1	5.1	5.1
GFCF/GDP	%	31.7	30.8	29.1	29.3	29.1	28.8	-	-
Gross Domestic Savings/GDP	%	31.4	35.1	39.3	38.1	36.9	-	-	-
Exports (G&S)/GDP	%	17.3	21.4	24.5	21.8	22.2	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	67.6	67.7	67.9	68.0	68.1	68.2	68.3	68.4
Old-Age (65+) Population (% Share in Total)	%	6.6	6.7	6.8	7.0	7.3	7.5	7.8	8.1
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-6.1	-4.6	-2.3	-1.6	-2.3	-2.9	-2.7	-2.7
Revenue/GDP	%	12.4	13.7	15.0	15.0	14.5	13.7	13.9	14.0
Expenditure/GDP	%	18.4	18.1	17.3	16.6	16.8	16.5	16.6	16.7
GG Gross Debt/GDP	%	39.7	41.1	40.1	39.6	40.2	41.0	41.3	41.6
GG External Debt (by Creditor)/GG Gross Debt	%	48.5	41.4	37.7	37.9	37.5	37.3	-	-
Interest/Revenue	%	13.2	21.4	22.0	14.0	15.2	17.2	16.6	16.3
External Indicators									
Current Account Balance/GDP	%	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-1.0	-0.9
FDI, Net Inflows/GDP	%	1.8	1.8	1.9	1.6	1.7	1.5	-	-
Outstanding FII Liabilities/GDP	%	24.5	22.7	20.1	20.1	20.0	19.2	-	-
NIIP/GDP	%	-26.4	-23.4	-19.0	-19.1	-17.6	-17.5	-	-
Foreign Exchange Reserves	USD Billions	135.9	144.9	137.2	146.4	155.7	156.5	-	-
Import Cover	Months	10.2	8.0	6.0	6.3	6.4	5.7	-	-
External Debt/GDP	%	39.4	34.9	30.1	29.8	30.5	29.9	29.7	29.0
Monetary and Financial Indicators									
CPI Inflation	%	2.0	1.6	4.1	3.7	2.3	1.9	3.0	2.5
Exchange Rate (Average)	LC per USD	14,582	14,308	14,850	15,237	15,855	16,478	-	-
Non-Performing Loans/Total Gross Loans	%	2.6	2.6	2.1	2.0	1.9	2.1	-	-
Private debt, loans and debt securities/GDP	%	42.8	40.5	38.4	38.7	38.2	-	-	-

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 2025

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer rating	Long-Term Foreign Currency (Unsolicited)	BBB/Stable	March 11, 2026
Issuer rating	Long-Term Foreign Currency (Unsolicited)	BBB/Stable	April 03, 2025
Issuer rating	Long-Term Foreign Currency (Unsolicited)	BBB	October 03, 2024

Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

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