Republic of Indonesia’s outlook revised to ‘Negative’ from ‘Stable’

Long-Term Foreign Currency Rating of ‘CareEdge BBB’ (Unsolicited) reaffirmed

Issuer rating (Long-Term Foreign Currency)	**CareEdge BBB/Negative (Unsolicited)**

CareEdge Global Ratings has revised the **Republic of Indonesia’s** outlook to **‘Negative’** from ‘Stable’, while reaffirming the Long-Term Foreign Currency issuer rating at **‘CareEdge BBB’** (Unsolicited).

Rationale

The Negative outlook reflects moderation in Indonesia's fiscal, external and institutional profile, stemming from a higher likelihood of weaker fiscal performance, tighter external liquidity conditions and concerns over policy effectiveness, which could exert downward pressure on the rating over the near to medium term.

Fiscal risks have increased since our previous assessment. The escalation of the West Asia crisis has necessitated higher government spending on energy subsidies and social support, causing expenditure growth to outpace revenue growth. As a result, the likelihood of a wider fiscal deficit has increased, raising the risk of the government revising the existing fiscal policy anchor of 3% deficit ceiling. Fiscal flexibility is constrained by a narrow revenue base, while lower commodity prices, sizeable debt maturities, and higher borrowing costs could weaken debt affordability and slow the pace of fiscal consolidation.

External risks have also intensified following the escalation of the West Asia crisis. Governance concerns and market transparency have contributed to sustained portfolio outflows, placing additional pressure on the rupiah and weakening external liquidity conditions. Although Bank Indonesia (BI) has responded through further monetary tightening and foreign exchange market intervention to stabilise the currency, these measures have contributed to a decline in foreign exchange reserves, reducing external policy buffers.

CareEdge Global views risks to policy effectiveness and governance outcomes to have increased. Greater centralisation of policymaking and the government’s expanding role may reduce transparency if not accompanied by appropriate governance safeguards.

Structural challenges, including labour market weaknesses, income inequality, infrastructure gaps and an uneven business environment, continue to constrain productivity gains and economic development.

The reaffirmation of the **CareEdge BBB** rating reflects Indonesia's established credit strengths, including its large and diversified economy, favourable demographics, and resilient medium-term growth prospects. Continued investment in downstream mineral processing, particularly in the nickel sector, has supported exports and foreign direct investment. These strengths are balanced against exposure to commodity price volatility and longer-term carbon transition risks.

Outlook: Negative

The Negative outlook reflects rising risks to Indonesia's fiscal and external profile. Sustained capital outflows associated with weaker investor confidence could further weaken external liquidity conditions, as reflected in pressure on foreign exchange reserves, depreciation of the rupiah, and higher domestic bond yields. This, in turn, could increase government refinancing costs and weaken debt affordability. The ongoing West Asia conflict could raise energy import costs and necessitate additional fiscal support, increasing expenditure pressures amid elevated debt financing needs and potentially delaying fiscal consolidation.

Upward scenario

The outlook could be revised to Stable if Indonesia demonstrates sustained improvements in governance and policy credibility, and if the government successfully broadens its revenue base through sustained implementation of structural tax reforms, thereby strengthening fiscal flexibility and improving debt dynamics. CareEdge Global will look out for improvements in policy effectiveness, external buffers, and fiscal consolidation.

Downward scenario

The rating could be downgraded if the government deviates from its fiscal consolidation path or revises the existing fiscal policy anchor of 3% deficit ceiling, resulting in a persistent deterioration in fiscal metrics, including government debt levels and debt affordability. The rating could also be downgraded if the external position weakens materially, reflected in sustained capital outflows, a significant erosion of foreign exchange reserve buffers and weaker external liquidity conditions, leading to materially higher government refinancing costs and increased external financing risks.

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 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) data. Labour market indicators also present mixed signals; while headline unemployment is low, underemployment is high. Additionally, the economy’s partial 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 was 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, support 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.

However, growth is expected to moderate in 2026, as higher energy prices and El Niño-related weather disruptions weigh on private consumption. At the same time, tighter financial conditions and a weaker external environment are expected to dampen investment and export growth, resulting in softer domestic demand and slower economic activity.

Indonesia’s exposure to commodity cycles and climate-related risks is 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 be monitored.

Fiscal strength

Indonesia's fiscal profile faces increased risks. 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 13.3% of GDP in 2025. Revenue performance weakened, contracting by 3.3% y-o-y in 2025, while slower tax collection has raised concerns over the pace of fiscal consolidation and revenue reform. Over the medium term, debt dynamics will depend on sustaining economic growth of around 5.2% and maintaining fiscal discipline.

The escalation of the West Asia crisis has heightened existing fiscal concerns surrounding the government's expansionary fiscal policy. Higher global energy prices prompted the government to extend energy subsidies and social support measures to cushion the impact on households and contain inflation, with subsidy spending reaching Rupiah (Rp) 233 trillion (about 52% of the full-year budget allocation) in the first half of the year and the 2026 subsidy budget subsequently increased by Rp 132 trillion. As a result, expenditure increased by 29% y-o-y in H1 2026, largely reflecting higher subsidies and social support outlays. While these measures helped mitigate the immediate economic impact, they also increased fiscal spending and delayed the pace of fiscal consolidation.

In H1 2026, revenue and grants rose by 21% y-o-y, supported by higher commodity prices. However, the improvement is a monitorable as commodity prices remain volatile. In addition, weaker domestic demand, weather-related disruptions such as El Niño, and persistent geopolitical uncertainty could weigh on tax collections, while expenditure pressures are likely to remain elevated.

Notwithstanding the improvements in revenue performance, the above-mentioned fiscal developments raise concerns over the government's medium-term fiscal trajectory. Maintaining the fiscal deficit within the statutory 3% ceiling is a key monitorable.

Financing risks have also increased modestly, as a significant share of government debt will require refinancing over the coming years. Government debt maturities are projected to reach Rp 834 trillion in 2026, the highest level in more than a decade and the peak of the 2025-2036 repayment cycle. The sizeable refinancing requirement, including around Rp 155 trillion in debt issued under the COVID-19 burden sharing scheme with BI, is expected to increase financing pressures amid elevated global interest rates and volatile financial market conditions, potentially raising the government's borrowing costs. This could become concerning as Indonesia’s debt affordability metrics remain weak, with interest payments at 17.2% of government revenue in 2025.

While Indonesia's debt burden remains moderate relative to BBB rated peers (general government debt was 41% of GDP in 2025), persistently higher interest costs could gradually erode fiscal flexibility. High share of external debt (around 37% of total government debt in 2025) could increase external financing risks. Additionally, 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.

While the risks from contingent liabilities related to state-owned enterprises (SOEs) are contained at present, supported by restructuring efforts and improved profitability, the scale of infrastructure-related obligations remain monitorable.

External position & linkages

The escalation of the West Asia conflict has increased risks to the external sector. Goods imports increased by 10.7% y-o-y in Q1 2026, while goods exports recorded only 0.8% y-o-y growth. Oil and gas exports contracted by 8.4% y-o-y, reflecting weaker external demand, while non-oil and gas imports rose sharply by 10.9% y-o-y, contributing to a widening trade imbalance. Export growth moderated in late 2025 following earlier front-loading of shipments and softer global commodity prices. While the current account balance hovered around -0.1% of GDP in 2025, the deficit is expected to widen in medium term. In addition, the high dependence on commodities trade adds volatility.

Capital outflows are weighing on external profile, amid concerns over corporate ownership, governance, and uncertainty surrounding the government's fiscal policy agenda. FDI inflows declined by USD 3 billion to USD 3.1 billion in Q1 2026, while foreign portfolio investment (FPI) inflows fell by USD 3 billion to USD 2.4 billion over the same period. As a result, foreign exchange reserves declined from 6.5 months of import cover in March 2026 to 4.9 months in May 2026, reducing the country's external liquidity buffer. Thes conditions have weakened external financing conditions as well.

Notwithstanding the risks, Indonesia’s external profile continues to benefit from manageable total external debt (~30% of GDP in 2025), with a relatively long maturity structure, limiting near-term repayment pressures.

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

Monetary & financial stability

Indonesia’s currency has come under pressure recently. The Indonesian rupiah (IDR) depreciated by around 7% between January and June 2026, weakening further to a record low of IDR 18,000 per USD in July, marking one of the sharpest currency depreciations among APAC economies. In response, BI intervened through foreign exchange sales and tightened monetary policy to support exchange rate stability. The policy rate was raised by a cumulative 100 bps, from 4.75% in April to 5.75% by end-June 2026. However, if depreciation pressures persist, a weaker rupiah could increase import costs, add to inflationary pressures, and raise the cost of servicing and refinancing foreign currency debt.

Inflation has generally remained range-bound in 2025. However, ongoing tensions in the Middle East led to higher imported inflation, given Indonesia's reliance on the region for fuel and fertiliser imports. Prices have already risen to 3.3% in June 2026. In addition, El Niño-related weather disruptions are expected to weigh on agricultural production in the second half of 2026, putting upward pressure on food prices. Going forward, inflationary pressures are expected to intensify in 2026.

Indonesia's equity market declined by approximately 35% between January 2 and June 30, 2026, reflecting weaker investor confidence amid concerns over market transparency, governance standards, and uncertainty surrounding the government's fiscal policy agenda. Foreign investor sentiment has also been affected by sustained concerns over the transparency of shareholding structures, free-float availability, and market investability. This heightened uncertainty has contributed to sustained foreign selling of Indonesian equities and BI Rupiah Securities, placing downward pressure on the rupiah and domestic financial markets. Persistent portfolio outflows could increase the economy's reliance on more volatile sources of external financing and weaken external liquidity, particularly if investor confidence remains subdued.

In June 2026, Morgan Stanley Capital International (MSCI) extended its review of Indonesia's market accessibility until November 2026, allowing additional time to assess the effectiveness and implementation of recently announced reforms, including enhanced shareholder disclosure requirements, a higher minimum free-float requirement, and measures to monitor high shareholder concentration. The reclassification from emerging market to frontier market could result in sizeable passive and active portfolio outflows as global investors rebalance their benchmark allocations.

The shallow domestic financial market is a drag to monetary profile, with credit penetration at ~38.2% of GDP in 2024 and stock market capitalisation of listed companies at ~64.7% of GDP in 2025, indicating limited financial deepening compared with similarly rated peers.

Banking sector indicators are 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 SOEs, including the Danantara sovereign wealth fund, which has faced governance and transparency concerns. Developments regarding this remain monitorable.

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 SOEs could intensify credit risks within the banking sector. Continued financial sector development, improved governance in SOEs, and deepening of domestic capital markets remain monitorables.

Institutions & quality of governance

Recent policy developments in Indonesia suggest a gradual centralisation of economic decision-making, including plans to review the State Finance Law under the 2026 legislative agenda and increased state oversight of strategic sectors such as mining and downstream industries. These developments, together with the replacement of the long-serving finance minister in 2025, the subsequent resignations of several senior financial regulators, and the recent resignation of the Governor of BI, have raised concerns over policy predictability and institutional independence, weighing on investor confidence.

In addition, amendments to the Financial Sector Development and Strengthening Law expanded BI's mandate to support economic growth alongside price and currency stability, while the renewed burden-sharing framework with the Ministry of Finance has intensified market scrutiny of the central bank's operational independence, despite official assurances that policy coordination will remain measured and transparent. Further, corruption continues to hinder bureaucratic efficiency and policy implementation, notwithstanding the existing institutional oversight and transparency mechanisms.

Indonesia’s institutional landscape benefits from a relatively stable democratic system and its position as the world’s third-largest democracy. However, institutional effectiveness is mixed, with governance indicators pointing at moderate performance relative to similarly rated peers.

While the government has demonstrated a commitment to structural reforms aimed at improving the business environment, enhancing economic competitiveness, and strengthening the fiscal base, governance challenges persist. Sustained and consistent implementation of structural reforms, as well as improvements in governance quality and institutional effectiveness are monitorables.

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	1,540	1,659
GDP per capita (constant-PPP)	USD	12,600	12,948	13,485	14,014	14,567	15,159	15,757	16,402
Real GDP growth	%	-2.1	3.7	5.3	5.0	5.0	5.1	5.0	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	37.2	-	-
Exports (G&S)/GDP	%	17.3	21.4	24.5	21.8	22.3	22.8	-	-
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	-4.4	-2.3	-1.6	-2.3	-2.9	-2.9	-2.9
Revenue/GDP	%	12.4	13.7	15.0	15.0	14.6	13.3	13.8	13.8
Expenditure/GDP	%	18.4	18.1	17.3	16.6	16.9	16.2	16.8	16.7
GG gross debt/GDP	%	39.7	41.1	40.1	39.6	40.2	41.0	41.5	41.8
GG external debt (by creditor)/GG gross debt	%	48.5	41.4	37.7	37.9	37.5	37.4	-	-
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	-1.1	-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 billion	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	2.6
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, Haver Analytics, 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)	CareEdge BBB/Negative	July 30, 2026
Issuer rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB/Stable	March 11, 2026
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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