

04 MAR 2026

## Fitch Revises Indonesia's Outlook to Negative; Affirms at 'BBB'

Fitch Ratings - Hong Kong - 04 Mar 2026: Fitch Ratings has revised the Outlook on Indonesia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable and affirmed the IDR at 'BBB'.

A full list of rating actions is at the end of this rating action commentary.

The Outlook revision reflects increasing policy uncertainty and erosion of Indonesia's policy mix consistency and credibility amid growing centralisation of policymaking authority. This could weaken the medium-term fiscal outlook, undermine investor sentiment, and put pressure on external buffers.

The rating affirmation reflects Indonesia's record in maintaining macroeconomic stability, favourable medium-term growth, a modest government debt/GDP ratio and moderate external buffers. These rating strengths are constrained by a weak revenue intake, high debt servicing costs and lagging structural features such as governance indicators compared with 'BBB' peers.

### Key Rating Drivers

**Rising Policy Uncertainty:** Fitch expects prudent policies to be sustained, including adherence to the 3% fiscal deficit ceiling. However, increased focus on achieving an ambitious 8% growth target and boosting social expenditure could lead to a substantially looser fiscal and monetary policy mix, thus creating risks for macroeconomic and financial stability. Rising risks are exemplified by the government's inclusion of a review of the State Finance Law in its 2026 legislative priorities. Material relaxation of the longstanding fiscal framework, including the 3% deficit ceiling, would likely weaken policy credibility and the ability to finance higher fiscal deficits without support from the central bank.

**Sustained Spending Pressures:** We forecast the fiscal deficit at 2.9% of GDP in 2026, unchanged from 2025 and above the government's 2.7% target. This reflects our more conservative revenue assumptions with slower growth projections and a modest near-term impact from efforts to improve tax compliance. Efforts to boost GDP growth and reduce lingering social tensions after protests last year will drive higher social spending, including the free nutritious meals programme (total size at 1.3% of GDP for 2025-2029). Plans to front-load spending in 1H26 could add to risks of fiscal slippage.

**Subdued Revenue Intake:** We forecast general government revenue/GDP to average 13.3% during 2026 and 2027 (BBB median: 25.5%) amid an absence of significant revenue mobilisation. Government revenue weakened in 2025 due to subdued tax collection, near-complete reversal of the planned 1pp VAT rate increase, permanent diversion of state-owned enterprise (SOE) dividends (0.4% of GDP) to the

new sovereign wealth fund, Danantara, and tax refunds that might prove to be temporary. Continued efforts to strengthen tax compliance should improve revenue, but are unlikely to deliver material near-term uplift, constraining fiscal space.

**Off-Budget Investment:** Danantara is tasked to improve SOE efficiency and support growth via off-budget commercial investments. The fund plans to invest USD26 billion (1.7% of GDP) in 2026 in targeted downstreaming projects in the minerals, energy, food and agricultural sectors. Uncertainty remains over whether the fund's mandate could expand over time to encompass quasi-fiscal activities through leveraged investments to support government policy priorities, which could reduce fiscal transparency and policy consistency and raise contingent liability risks to the sovereign.

**Weaker Governance Indicators:** Widespread protests in 2025 highlight public discontent and there is a risk that social tensions could linger, posing political challenges for the president and the ruling coalition. Indonesia's standing in the World Bank governance indicators has deteriorated and it ranks in the 44th percentile on the composite governance score, below the 'BBB' median of the 56th percentile. Persistent uncertainty around macroeconomic policymaking could further weigh on the sovereign's governance and institutional strength.

**External Vulnerabilities:** We forecast the current-account deficit will widen to 0.8% of GDP in 2026 on weaker net exports. We expect FX reserves to cover roughly five months of current-account payments, supported by the retention of FX from natural resource exports and broadly in line with peers. Risks of substantial capital outflows remain after recent domestic market volatility spurred by capital market governance concerns. Investor sentiment remains fragile, which creates the risk of more depreciation pressure that could raise borrowing costs and erode external buffers.

**Central Bank's More Complex Mandate:** Bank Indonesia (BI) has kept its policy rate at 4.75% since September 2025, prioritising rupiah stability. We expect inflation to remain within BI's target band of 2.5% +/- 1pp, and that BI will cut rates twice to 4.25% by end-2026. However, a dovish policy stance and potential expansion of its mandate to support growth and job creation could make it challenging for BI to meet its core objectives of controlling inflation and preserving exchange rate and financial stability in the event of intensifying capital outflow pressures.

**Government Debt Below Peers:** We project general government debt will increase modestly to 41% of GDP in 2026, below the projected 'BBB' median of 57.3%. We expect the debt ratio will stay broadly stable over the medium term, reflecting our current baseline assumption that the government will adhere to the fiscal deficit ceiling. Nevertheless, interest payments estimated at 17% of government revenues in 2025, are among the highest in the 'BBB' rating category.

**Resilient, High Growth:** We forecast growth, a key credit strength, to remain broadly stable around 5.0% in 2026-2027, double the 'BBB' median of 2.5%. Domestic demand should remain the key growth driver, supported by higher public spending, including Danantara investment, monetary easing, modest debottlenecking reforms and downstreaming activities in targeted industries, offsetting headwinds from weaker net exports. We believe that government's target of 8% growth by 2029 will be hard to achieve without significant structural reforms.

**ESG - Governance:** Indonesia has an ESG Relevance Score (RS) of '5' for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. These scores reflect the high weight that the World Bank Governance Indicators (WBG I) have in our proprietary Sovereign Rating Model. Indonesia has a medium WBG I ranking at the 44th percentile, reflecting a recent record of peaceful political transitions, a moderate level of rights for participation in the political process, moderate institutional capacity, established rule of law and a high level of corruption.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- Macro: Buildup of macroeconomic vulnerabilities, for example from a further weakening of policy framework.
- Public Finances: A material increase in the overall public debt burden, resulting, for example, from a substantial rise in fiscal deficits, or materialisation of contingent liabilities.
- External Finances: A sharp decline in FX reserve buffers, resulting, for example, from outflows stemming from deterioration in investor confidence or further weakening in governance.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- Macro: Increased confidence that disciplined policies will continue to support macroeconomic stability, which could lead to a revision of the Outlook to Stable.
- Public Finances: A marked improvement in the government revenue ratio closer to the level of 'BBB' category peers, including from better tax compliance or a broader tax base, which would strengthen public finance flexibility.
- External Finances: A material reduction in external vulnerabilities, for instance, through a sustained increase in FX reserves or lower exposure to commodity price volatility.

## **Sovereign Rating Model (SRM) and Qualitative Overlay (QO)**

Fitch's proprietary SRM assigns Indonesia a score equivalent to a rating of 'BBB-' on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to SRM data and output, as follows:

- Macro: We have introduced a +1 notch, to reflect Indonesia's record of macroeconomic and financial stability, which underpins strong growth prospects and, in Fitch's view, is not presently fully captured in the SRM score. However, Indonesia's policy framework credibility and consistency are being tested.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables

based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

## **Debt Instruments: Key Rating Drivers**

**Senior Unsecured Debt Equalised:** The senior unsecured long-term debt ratings are equalised with the applicable Long-Term IDR, as Fitch assumes recoveries will be 'average' when the sovereign's Long-Term IDRs are at 'BB-' and above. No Recovery Ratings are assigned at this rating level.

## **Country Ceiling**

The Country Ceiling for Indonesia is 'BBB', in line with the LT FC IDR. This reflects no material constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of 0 notch above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **Climate Vulnerability Signals**

The results of our Climate.VS screener did not indicate an elevated risk for Indonesia.

## **ESG Considerations**

Indonesia has an ESG Relevance Score of '5' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Indonesia has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Indonesia has an ESG Relevance Score of '5' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Indonesia has a percentile rank below 50 for the respective Governance Indicators, this has a negative impact on the credit profile.

Indonesia has an ESG Relevance Score of '4' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Indonesia has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Indonesia has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Indonesia, as for all sovereigns. As Indonesia has a track record of 20+ years without a restructuring of public debt as captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/topics/esg/products#esg-relevance-scores](http://www.fitchratings.com/topics/esg/products#esg-relevance-scores).

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# Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Indonesia	LT IDR	BBB	Affirmed	BBB
	ST IDR	F2	Affirmed	F2
	LC LT IDR	BBB	Affirmed	BBB
	LC ST IDR	F2	Affirmed	F2
	Country Ceiling	BBB	Affirmed	BBB
	• senior unsecured LT	BBB	Affirmed	BBB
	• Senior Unsecured-Local currency LT	BBB	Affirmed	BBB
Perusahaan Penerbit SBSN Indonesia III				
	• senior unsecured LT	BBB	Affirmed	BBB

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[Country Ceiling Criteria \(pub.24 Jul 2023\)](#)

[Sovereign Rating Criteria \(pub.15 Sep 2025\) \(including rating assumption sensitivity\)](#)

[Sukuk Rating Criteria \(pub.13 Oct 2025\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.3 [\(1\)](#)

Debt Dynamics Model, v1.3.3 [\(1\)](#)

Macro-Prudential Indicator Model, v1.5.0 [\(1\)](#)

Sovereign Climate Risk Model, v1.0.0 [\(1\)](#)

Sovereign Rating Model, v3.14.4 [\(1\)](#)

## Additional Disclosures

[Solicitation Status](#)

## Endorsement Status

Indonesia EU Endorsed, UK Endorsed

Perusahaan Penerbit SBSN Indonesia III EU Endorsed, UK Endorsed

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