NEWS RELEASE

Apr 22, 2021

R&I Affirms BBB+, Stable: Republic of Indonesia

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: **Republic of Indonesia**

Foreign Currency Issuer Rating: BBB+, Affirmed
Rating Outlook: Stable

RATIONALE:

Indonesia's economy that plunged in 2020 will likely return to a pre-coronavirus growth level in one to two years. The government's structural reform efforts are also expected to boost growth potential in the medium to long term. Despite the pressure on the fiscal side caused by policy responses, the government debt ratio remains relatively low. The government is committed to pushing ahead with fiscal consolidation toward 2023.The disciplined policy stance to date will lead to an improvement of the fiscal balance in the coming years, in R&I's view. The economic resilience to external shocks is maintained thanks to flexible policy responses by the government and the central bank and ample foreign reserves. Based on these factors, R&I has affirmed the Foreign Currency Issuer Rating at BBB+.

Real gross domestic product (GDP) contracted by 2.1% in 2020. In the second quarter of 2021 and beyond, domestic demand will likely expand, benefitting from the vaccination programs the government is advancing as a key to economic recovery. For 2021, the government projects growth at 5%, while Bank Indonesia growth in the range of 4.1-5.1%. The International Monetary Fund expects the economy to grow by 4.3%. To bolster economic growth, the government continues its reform efforts. In November 2020, an omnibus law came into force, amending dozens of laws on job creation. A plan is also underway to promote investments in infrastructure projects by attracting foreign capital to a newly established sovereign wealth fund, while intensively allocating a budget to infrastructure development. Supported by sustained policy initiatives, the economy is expected to show medium-term growth in the mid-5% range.

The current account deficit for 2020 narrowed to 0.4% of GDP, reflecting a decrease in domestic demand and lower oil prices, among other factors. From 2021 onward, the current account balance is projected to be a deficit of 1-2%, with a rebound in domestic demand pushing up imports. A temporary capital outflow caused by turmoil in the global financial markets has stabilized. Foreign reserves were US$137.1 billion as of end-March 2021, covering about 10 months of imports and servicing of government external debt repayment and equivalent to more than twice its external debt due within one year. Accordingly, there is little concern about foreign currency liquidity.

In 2020, the government temporarily eased the rule of containing fiscal deficits at 3% of GDP or lower in response to the coronavirus pandemic. Fiscal spending under a national economic recovery (PEN) program widened the 2020 fiscal deficit to 6.1% of GDP. With an expansionary policy focused on shoring up the economy and supporting the public remaining in place, the 2021 budget expects a fiscal deficit of 5.7% of GDP. The government intends to narrow the fiscal deficit to 3% of GDP or lower in 2023. The pandemic has increased the need for support to the public and public investment. On the other hand, the government has lowered corporate income tax rates as a part of economic policy packages. It is essential to expand a tax base while offsetting a revenue decrease stemming from the rate cuts. Eyes are on the government's efforts and strategies for fiscal consolidation.

Outstanding government debt rose to 39.4% of GDP as of end-2020. This is still a low level relative to the rating, and a debt servicing burden is curtailed. The central bank started to purchase government bonds in the primary market as an emergency measure in 2020 and is continuing its role in the primary market as a standby buyer in 2021. This bond-buying program certainly supports the government's economic measures amid the pandemic, and the program, as well as fiscal spending, will not affect the sovereign creditworthiness as long as they are temporary measures, in R&I's view.

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The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.
https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER:	**Republic of Indonesia**
	Foreign Currency Issuer Rating
RATING:	**BBB+, Affirmed**
RATING OUTLOOK:	**Stable**

Japanese Yen Bonds Series H	**Issue Date**	**Maturity Date**	**Issue Amount (mn)**
	Jun 21, 2016	Jun 21, 2021	JPY 38,000
RATING:	**BBB+, Affirmed**		

Japanese Yen Bonds No.2	**Issue Date**	**Maturity Date**	**Issue Amount (mn)**
	Jun 08, 2017	Jun 08, 2022	JPY 50,000
RATING:	**BBB+, Affirmed**		

Japanese Yen Bonds No.3	**Issue Date**	**Maturity Date**	**Issue Amount (mn)**
	Jun 08, 2017	Jun 07, 2024	JPY 10,000
RATING:	**BBB+, Affirmed**		

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