Moody’s upgrades Indonesia’s key ratings to Ba3

Singapore, October 18, 2007 -- Moody’s Investors Service has upgraded Indonesia’s ratings to reflect the country’s track record of fiscal prudence and improvements in its external position as well as ongoing structural reforms and sound policy management.

The government’s foreign- and local-currency bond ratings were upgraded by one notch to Ba3 from B1. Indonesia’s foreign-currency bond ceiling was upgraded to Ba2 from Ba3. The foreign-currency ceiling is based on the government bond rating and Moody’s assessment of a high risk of a payments moratorium in the event of a government bond default. Also, the country ceiling for foreign-currency bank deposits was upgraded to B1 from B2. Both the country ceiling for local-currency bonds and the country ceiling for local-currency bank deposits had not been on review for upgrade and remain at Baa2. The outlook on all ratings is stable.

“Along with prolonged fiscal restraint and recurrent under-execution of regional and local level spending targets, exchange-rate appreciation has also assisted in reducing the government debt ratio from a high of 100% of GDP in 2000 to an expected 34% in 2008,” said Aninda Mitra, Moody’s lead analyst for Indonesia.

“Indonesia along with other emerging markets faced a brief test in August when the sub-prime related tightening of developed country credit markets induced outflows of portfolio capital,” said Mitra. “But ample foreign exchange reserve coverage of maturing obligations, coupled with ongoing inflows from modest current account surpluses and foreign direct investment provided enough of a balance-of-payments cushion to offset temporary reversals in portfolio flows and assuage investor sentiment.”

He added: “After a brief swoon, the Indonesian financial markets recovered fully, and international reserves rose to new highs.”
The analyst also explained that the combination of sharp reductions in oil price subsidies and growing fiscal reliance on local-currency fixed-rate debt has also reduced fiscal vulnerability to sudden domestic price or rate shocks. Meanwhile, even without further real effective exchange rate appreciation, he said, debt sustainability conditions have become more or less assured by the combination of improved growth dynamics, low and stable real interest rates, and a fiscal deficit that would likely be contained to within 1.5%-2% of GDP in the near future.

“Lastly, the trend reduction of the government’s debt burden has also lowered interest burdens considerably, creating more fiscal space and enabling a strong policy bias toward sustained increases in developmental expenditure,” said Mitra. “The traction on the structural reform front is impressive, and further successes in improving the investment climate could result in a higher investment-to-GDP ratio.”

He said the confidence of market participants and investors was underpinned by political stability and the government’s ongoing commitment to fight corruption and enhance transparency.

Press releases concerning other issuers affected by this action will follow.

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