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CORRECTION - FITCH AFFIRMS INDONESIA'S SOVEREIGN RATING AT 'BB'; OUTLOOK STABLE

Fitch Ratings-Hong Kong/Singapore-20 January 2009: This announcement corrects the version issued earlier today. In the title, Indonesia's Sovereign Rating is 'BB', not 'BB+'. In the 5th paragraph, Indonesia's gross external financing requirement was 42% during the 2005 period of currency volatility, not 115%. Here is the corrected version:

Fitch Ratings has today affirmed the Republic of Indonesia's Long-term foreign and local currency Issuer Default ratings (IDRs) at 'BB'. At the same time, the agency has affirmed the Country Ceiling at 'BB+' and the Short-term IDR at 'B'. The Outlook on the ratings is Stable. "The affirmation of Indonesia's sovereign ratings balances the credit's fundamental strengths of fiscal prudence against underlying risks to the country's external finances," says Ai Ling Ngiam, Director, in Fitch's Sovereign Ratings team.

Indonesia's conservative public finances, fiscal restructuring efforts and increased surveillance of fiscal variances to minimise negative fiscal shocks are a sovereign rating strength. Revenue enhancement measures undertaken since 2005 helped to boost revenue to 21% of GDP in 2008, which was the highest in over two decades. Together with slower-than-budgeted disbursements, the fiscal out-turn resulted in a near-balanced budget deficit of 0.1% of GDP in 2008, less than the 'BB' median deficit of 1.1% of GDP. Accordingly, the government's over-financed position worth about 1% of nominal 2009 GDP has provided the authorities room for a larger countercyclical fiscal stimulus in a proposed revised budget bill worth about 2.5% of GDP in 2009, with priority spending to be given to poverty alleviation, education, healthcare and infrastructure. These measures serve to address likely upward pressures on unemployment as Fitch forecasts the economy to slow to about 3.9% in 2009 from 6% in 2008. Fitch forecasts the general government debt will reach 30.3% of GDP this year - a level last seen in 1996, but in line with the 'BB' median.

While the forthcoming parliamentary elections in April and second direct presidential elections in July could be protracted into H209, Fitch anticipates a peaceful and non-disruptive conclusion to the election season, similar to the 2004 general elections. Latest polls show the incumbent remains in the lead with 43% of popular votes while his Democrat Party has garnered an indicative 23% of polls surveyed. Fitch anticipates the outcome of the elections to be status quo.

Indonesia's external finances remain vulnerable to shifts in investor sentiment which could lead to further portfolio equity or debt outflow, as well as a larger accumulation of external assets by domestic residents and companies, which could also place further downward pressure on the capital account. Already, the defence against IDR volatility amidst large volumes of USD demand attributable to portfolio debt and equity outflows has weakened the sovereign's external balance sheet following a 15% decline in foreign exchange reserves (FXR) during July-December 2008.

Indonesia's net external indebtedness and refinancing needs remain heavy amidst an environment of tight external funding conditions and weakening external receipts. Fitch forecasts the CA balance to slip into a deficit position of about 0.9% of GDP in 2009, as weak external demand and lower prices affect commodity exports which constitute 46% of current external receipts (CXR). Fitch estimates Indonesia's liquidity ratio to reach around 104% (liquid external assets > liquid external liabilities), lower than the comfortable 115% in 2008 and the 'BB' median of 170%. Indonesia's amortisation burden potentially raises the country's gross external financing requirement (GXFR) to above 30% of FXR in 2009, which will be heavier than in 2006-2008 but lower than the 42% during the 2005 period of currency volatility and is also lower than the 'BB' median of 58% of FXR.

Efforts to raise foreign direct investment and export competitiveness will likely remain challenging against the backdrop of weakness in resource-based activities, as well as poor investor appetite for risk. As Indonesia seeks to rebuild its external balance sheet position, the credibility of Bank Indonesia's monetary policy and the Ministry of Finance's debt management strategy will remain key to managing dollar demand pressures, exchange rate stresses and capital flows on this front.

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