MOODY'S RATINGS

Rating Action: Moody's Ratings changes Indonesia's outlook to negative from stable, affirms Baa2 rating

05 Feb 2026

Singapore, February 05, 2026 -- Moody's Ratings (Moody's) has today changed the outlook on the Government of Indonesia's ratings ("Indonesia") to negative from stable and affirmed the local and foreign currency long-term issuer ratings at Baa2. The local and foreign currency senior unsecured ratings were affirmed at Baa2 and the foreign currency senior unsecured medium-term note (MTN) and senior unsecured shelf program ratings were also affirmed at (P)Baa2.

The outlook change is driven by reduced predictability in policymaking, which risks undermining policy effectiveness and points to weakening governance. If sustained, the trend could erode Indonesia's long established policy credibility, which has supported solid economic growth and macroeconomic, fiscal and financial stability.

The rating affirmation reflects Indonesia's economic resilience, supported by structural strengths such as natural resource endowments and favorable demographics, which support medium term growth. Despite emerging risks, the affirmation is also underpinned by prudent fiscal and monetary policies that have delivered macroeconomic stability. The maintenance of policy credibility – and, by extension, macroeconomic stability – remains a key baseline assumption underpinning the Baa2 rating.

Concurrently, we have affirmed the foreign currency backed senior unsecured ratings, and the foreign currency backed senior unsecured MTN program rating of the US dollar trust certificates issued by Perusahaan Penerbit SBSN Indonesia III ("PPSI III"), at Baa2 and (P)Baa2 respectively. The outlook on PPSI III is negative. PPSI III is a special purpose vehicle (SPV) established by the Government of Indonesia. The trust certificates issued by PPSI III constitute direct, unconditional and unsubordinated obligations of the Government of Indonesia and rank pari passu with other senior unsecured debt of the government.

Indonesia's long-term local currency (LC) bond ceiling remains unchanged at A1 and its long-term foreign currency (FC) bond ceiling remains unchanged at A3. The four-notch gap between the LC ceiling and issuer rating reflects a moderate likelihood of political event risk significantly disrupting the economy and modest external imbalances, balanced by a relatively large government footprint in the economy and emerging constraints on predictability and reliability of government policies. The two-notch gap between the LC and FC ceiling reflects some vulnerability to foreign currency external indebtedness and, in the unlikely event of severe financial stress for the sovereign, some transfer and convertibility risks. Our assessment is illustrated by the government's use of export proceeds regulation, restraining the use of foreign currency proceeds.

RATINGS RATIONALE

RATIONALE FOR THE CHANGE IN OUTLOOK TO NEGATIVE

The government aims to lift economic growth to achieve high-income status and improving living standards through increased social spending, while maintaining adherence to its monetary and fiscal policy frameworks.

Over the past year, reduced predictability and coherence in the policy making process, alongside less effective policy communication, have raised risks to Indonesia's policy credibility among investors, as reflected in increased equity and foreign-exchange market volatility. These developments coincide with a decline in Indonesia's scores in the Worldwide Governance Indicators for government effectiveness and regulatory quality. If sustained, weaker policy cohesion and credibility could point to institutional strength lower than currently assessed, and undermine economic and fiscal strength through reduced investment attractiveness and higher borrowing costs.

Greater focus on using public spending to drive growth poses fiscal risks, particularly given Indonesia's weak revenue base. While efforts continue to enhance tax and customs efficiency, Indonesia's track record at broadening the revenue base raises risks of a wider fiscal deficit and points to emerging weaknesses in policy planning and communication, with implications for policy credibility. These pressures are exacerbated by the authorities' emphasis on expanding social programs, including the Free Nutritious Meals and Affordable Housing initiatives. To date, these programs have been funded by expenditure cuts and reprioritizations across ministries, including infrastructure maintenance budgets. Further expansion may strain the government's ability to reorient a relatively small budget compared to the size of the economy.

The establishment of a new sovereign wealth fund, Danantara, has also raised uncertainties regarding its financing, governance, and investment priorities. With authority over State-Owned Enterprises (SOEs) assets exceeding US$900bn (around 60% of 2025 nominal GDP), and an ambitious agenda that includes rationalizing existing SOEs, improving SOE returns, and investing in priority sectors, insufficient policy coordination and cohesiveness around Danantara's mandate raise risks to policy credibility and potential contingent liabilities for the sovereign. For example, Danantara's authority over SOE dividend policies could place pressure on SOE financial health, as dividend payouts are a key funding source. SOE banks have already increased dividends in 2025. While Danantara remains in the early stages of development and the Government has established legal and institutional frameworks for Danantara through multiple legislative instruments, outstanding questions around investment prioritization, risk management, and regulatory relationships remain – despite early signs of some efficiency improvements. Notwithstanding these risks, our baseline assumption is that further institutional development will bring greater clarity around Danantara's governance and operations.

Suggestions by policymakers of potential changes to the fiscal framework, including a possible increase in the 3% fiscal deficit ceiling, notwithstanding the Executive's subsequently reaffirmed commitment to the ceiling, parliamentary debate over potential changes to the mandate and governance of Bank Indonesia and shifts in policies governing the resources sector underscore rising policy uncertainty. These developments have the potential to discourage foreign direct investment and weaken macroeconomic, fiscal and financial market stability. Recent concerns around financial sector regulatory quality have contributed to financial markets volatility. Collectively, these uncertainties have challenged perceptions of policy stability and credibility, and if not adequately addressed, could undermine investor confidence and increase financial market volatility, with adverse implications for macroeconomic stability.

Beyond policy uncertainty, rising public dissatisfaction over income growth, employment prospects, and living standards have been a key driver of protests during the year. This points to emerging risks to domestic political stability, which, if sustained, could also weigh on Indonesia's credit profile.

RATIONALE FOR THE AFFIRMATION OF Baa2 RATINGS

The affirmation of Indonesia's Baa2 rating reflects our expectations of continued resilience in economic strength, alongside only modest weakening in fiscal metrics. Economic growth is expected to remain around 5% over the near to medium term, with fiscal deficits below 3% of GDP. Monetary policy is also expected to continue supporting price stability, although pressures from exchange rate depreciation could increase if policy predictability and credibility were to weaken.

Contingent on continued fiscal policy prudence, we expect Indonesia's general government debt burden to remain below the median of Baa-rated peers on a debt-to-GDP basis. However, the very weak revenue base remains a credit constraint limiting the authorities' ability to support higher growth through fiscal spending while preserving macroeconomic and financial stability.

As a palm oil and coal exporter, Indonesia is also moderately exposed to environmental risks.

We will continue to monitor developments in policy effectiveness and credibility, including fiscal and monetary policy frameworks, the evolution of Danantara, and key indicators such as foreign investment flows, exchange rate and interest rate volatility, growth, and inflation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Indonesia's ESG CIS-3 Credit Impact Score indicates that ESG considerations are already exerting a negative impact on the current credit rating with potential for more severe consequences overtime, reflecting high exposure to environmental risks and moderate exposure to social risks, contained by institutional and economic resilience.

The E-4 environmental issuer profile score is driven by physical climate stress. Coastal flooding and rising sea levels are a particular source of risk, with widespread implications, including agricultural production, infrastructure and property, and food security. Given its geographical location, Indonesia is also subject to considerable seismic activity that manifests in natural disasters such as earthquakes, tsunamis and volcanoes. Waste and pollution are also a source of environmental risk. Demand for arable land and intensive commercial logging have led to soil erosion and deforestation. As a palm-oil exporter, Indonesia is also modestly exposed to carbon transition risk.

Indonesia's social risk exposure is S-3, reflecting population growth and a declining dependency ratio which are supportive of growth. However, wealth is concentrated and Indonesia's rankings on wealth and income inequality indices are weak increasing political risk. Spending on both health and education services is just below emerging market benchmarks in terms of spending as a share of GDP.

Indonesia's G-2 governance issuer profile score is in line with other similarly rated sovereigns and does not currently pose specific risks. Our assessment of institutional framework includes issues related to rule of law and control of corruption. However, developments pointing to weakening policy predictability and credibility imply that governance could start weighing on the rating.

GDP per capita (PPP basis, US$): 16,582 (2024) (also known as Per Capita Income)

Real GDP growth (% change): 5% (2024) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.6% (2024)

Gen. Gov. Financial Balance/GDP: -2.3% (2024) (also known as Fiscal Balance)

Current Account Balance/GDP: -0.6% (2024) (also known as External Balance)

External debt/GDP: 30.4% (2024)

Economic resiliency: baa1

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 02 February 2026, a rating committee was called to discuss the rating of the Indonesia, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength, have materially decreased. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The issuer has become increasingly susceptible to event risks. ESG (Governance) was a key driver of this rating action.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO AN UPGRADE

An upgrade is unlikely given the negative outlook on the rating. That said, the outlook could go back to stable if policy credibility remains buttressed by enhanced clarity and consistency of policy and demonstrated commitment to reform and policies conducive to macroeconomic and financial stability.

Upward pressure on the rating could eventually arise if indications are that fiscal policy measures can durably and significantly raise government revenue. Higher revenue would enhance fiscal flexibility and provide the financial means for the government to support its growth policies and large social and physical infrastructure spending needs. An upgrade would also likely result from indications that Indonesia's growth potential was sustainably strengthening commensurate with the country's population growth and income levels, including through a deepening of financial markets and improved competitiveness.

FACTORS THAT COULD LEAD TO A DOWNGRADE

Downward pressure would likely arise from 1) a sustained shift to a more expansionary fiscal policy without accompanying revenue reform, reflecting weaker policy cohesion and coordination; 2) a significant deterioration in the external position, such as from prolonged currency depreciation or capital outflows, with ramifications for debt affordability and, over time, foreign exchange reserve adequacy; and/or 3) a material weakening in SOEs financial health and poor returns on SOE investments related to insufficiently strong governance of Danantara.

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at https://ratings.moodys.com/rmc-documents/395819. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

Indonesia's "a2" economic strength is set one notch below the initial score of "a1" to reflect a lower degree of diversification than is suggested by the large scale of the economy. This leads to a final scorecard-indicated outcome of Baa1-Baa3, compared to an initial scorecard-indicated outcome of A2-Baa1. The assigned rating is within the final scorecard-indicated outcome.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1462204.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Martin Petch
VP - Senior Credit Officer

Gene Fang
Associate Managing Director

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
71 Robinson Road #05-01/02
Singapore, 068895
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077
