R&I

NEWS RELEASE

Jul 04, 2022

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:

Having overcome the COVID-19 pandemic, the Indonesian economy is gaining momentum toward a full recovery. Although the inflation rate is rising gradually, there is certain room left for monetary policy to maneuver. The Indonesian economy will likely remain on a trajectory of solid growth with the support from fiscal policy. The country's fiscal position will likely improve against the backdrop of rising commodity prices such as natural resources which are tailwinds for the fiscal condition of Indonesia as a whole. R&I has affirmed the Foreign Currency Issuer Rating at BBB+, by also reflecting the external stability which the country experiences.

Following the year of contraction in 2020, Indonesia saw a 3.7% growth in real gross domestic product (GDP) in 2021, thanks to the easing of travel restrictions, a recovery of external demand and the government's stimulus package. As for 2022, the Indonesian government is trying to buttress the economy by increasing social spending, in the midst of growing uncertainties worldwide about the future and the rising commodity prices, both weighing on the country's economy. The government is also striving to strengthen the economic fundamentals through budget allocation that gives priority to public investment, health-care, education and structural reforms. The inflation rate was at about 3.6% in May 2022, which was still within the Bank Indonesia's target range. So far, Bank Indonesia, the central bank, has kept the policy rate unchanged and shown no posture to rush to tighten monetary policy. This will work in favor of the Indonesian economy. The economy will likely remain firm in 2022 and the government is projecting a real GDP growth in the range between 4.8% and 5.5%

The current account balance, which had been in deficit until 2019, recorded a small surplus in 2021, owing to the improvement of terms of trade resulting from the rising commodity prices, and it remains in surplus in the first quarter of 2022. While the current account balance is projected to swing back into the deficit territory in 2022, it will remain in a manageable range, thus supporting the external resilience of Indonesia. Indonesia holds a massive foreign exchange reserve reaching US$135.6 billion as of the end of May 2022, which covers more than six months of imports and servicing government's external debt and is well above the country's external debt due within one year. There is little concern about foreign currency liquidity.

The country's fiscal deficit ballooned to 6.1% of GDP in 2020 due to the measures against COVID-19 pandemic etc. under the national economic recovery (PEN) program, but improved to 4.6% of GDP in 2021. Driven by the rising commodity prices, the fiscal revenue in 2022 is running at a level which substantially exceeds the projections. The government determined to increase expenditure related to subsidies as well as social protection to alleviate the impact of inflation. Financial resources for those expenditures are covered by the windfall revenues. The fiscal deficit is expected to be lower than the initial budget plan. The government projects a fiscal deficit of 3.9% of GDP in 2022.

The country's outstanding government debt rose to 40.7% of GDP as of 2021-end. This is still a low level relative to the rating and the strains of debt service are restrained. Bank Indonesia is continuing its role in the primary market as a standby buyer who purchases government bonds if needed, in accordance with the temporary arrangement that will be in place until 2022-end. Eyes are on whether or not the government is able to achieve the goal of reducing the fiscal deficit to 3% or less by 2023 and realize a return to normality by reversing the tide of contingency measures introduced under the COVID-19 pandemic.

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The Indonesian government is striving to expand the tax base through measures such as VAT (value added tax) rate hike in 2022. It is also planning to introduce a carbon tax of limited scope, marking a certain progress in implementation of measures against global warning. Besides, it is pushing ahead with infrastructure development, which has been high on the agenda for years, concentrating primarily on the projects selected as National Strategic Projects. R&I keeps a close eye on the moves of the government, whether or not it can enhance the growth capacity and a fiscal stability, on a mid-term basis respectively, through a series of measures including the Omnibus Law on Job Creation, which was enacted in 2020.

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 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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