R&I

NEWS RELEASE

Jul 25, 2023

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

Republic of Indonesia (Sec. Code: -)

[Affirmed] [Outlook Changed]

Foreign Currency Issuer Rating: BBB+, Stable -> Positive

[Affirmed]

Bond Rating: BBB+

RATIONALE:

The Indonesian economy has been showing strong performance even amid uncertainties of the global economic environment. With the inflation rate that has fallen within the central bank's target range in 2023, the price stability is being restored. The government has achieved its target level of fiscal deficit a year earlier than originally planned and the government debt ratio stays on a downward trajectory. The stability of financial system is maintained and the economy has resilience to external shocks. Based on the said recognition, R&I has affirmed the Foreign Currency Issuer Rating of BBB+ and changed the Rating Outlook to Positive. In addition to pursuing prudent fiscal and monetary policies, the government has made progress in addressing structural challenges of the economy. The rating will be upgraded if these policy directions are likely to continue under the new president to be elected in the 2024 election and the steady economy and fiscal improvement will be maintained.

In 2022, Indonesia grew at a robust rate of 5.3% in gross domestic product (GDP), thanks to increased exports backed by higher prices of natural resources, in addition to a recovery in private consumption and investment. The economy has been showing solid performance in 2023 as well. That said, the pace of economic growth will likely decelerate in the latter half of the year, due to weak external demands and investors' wait-and-see stance in advance of the next presidential election among other factors. The Indonesian government forecasts the growth rate for 2023 at 5.0% to 5.3%. R&I believes that Indonesia's real GDP will grow at the pace of 5% range from 2024 onwards.

In June 2023, the inflation rate was below 4%, the upper limit of that year's target range. Bank Indonesia has been maintaining disciplined monetary policy to maintain price stability as well as ensure the stability of Indonesian Rupiah in the foreign exchange market. The slowdown of inflation is attributable partly to the supply-side measures taken by the government and the central bank aiming at controlling regional and food inflation. Going forward, R&I believes that the price stability will be maintained.

Indonesia recorded current account surpluses in 2021 and 2022, reflecting an improvement of the terms of trade supported by higher commodity prices. The current account balance is likely to turn into a deficit in coming years. Nevertheless, the deficit is expected to remain at a manageable level and thus supporting the external resilience of Indonesia. The foreign exchange reserve stands at a high level, reaching US$137.5 billion as of the end of June 2023, which covers about six months of imports and servicing government's external debt. There is little concern about foreign currency liquidity.

The government has made due progress in reducing the fiscal deficit that had ballooned due to the measures associated with the COVID-19 pandemic. In 2022, government revenues grew significantly contributed by soaring commodity prices and partly due to the effects of tax reforms. Fuel price also increased to curb the subsidy burden. The fiscal deficit improved to 2.4% of GDP, which outperforms the initial plan considerably, achieving a less-than-3% deficit target a year earlier than the plan. In 2023, revenues remain strong, while expenditures are well controlled according to the plan. The government has lowered its budget deficit forecast for 2023 to 2.3% from the initial target of 2.8%. The outstanding government debt fell to 39.6% of GDP as of 2022-end. Given the government's strong commitment to fiscal consolidation, the government debt to GDP ratio will likely continue to fall at a moderate pace from 2023 onwards.

The strategy to strengthen the downstream industry by taking advantage of ample natural resources has led to extended inflows of foreign direct investment in the related areas as well as to an increase of exports. Eyes are on whether a series of policies, including reforms related to job creation and the financial sector, can improve industrial sector's competitiveness and value added. Meanwhile, the government's efforts to improve the business environment, develop infrastructure, and strengthen human capital will continue to be essential in achieving its medium- to long-term growth target. The next presidential election is scheduled in early 2024. Attention should be paid to whether these policies will be continued under the next president.

R&I RATINGS:
ISSUER: Republic of Indonesia

[Affirmed] [Outlook Changed]

	Rating	Rating Outlook
Foreign Currency Issuer Rating	BBB+	Positive

[Affirmed]

	Issue Amount	Issue Date	Maturity Date	Rating
Japanese Yen Bonds No.3	JPY 10,000 mn	Jun 8, 2017	Jun 7, 2024	BBB+

Primary rating methodologies applied:
R&I's Analytical Approach to Sovereigns [May 21, 2021]

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