Research Update:

Indonesia Ratings Affirmed At 'BBB/A-2'; Outlook Stable

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Primary contact

Rain Yin
Singapore
65-6239-6342
rain.yin
@spglobal.com

Secondary contacts

Andrew Wood
Singapore
65-6239-6315
andrew.wood
@spglobal.com

KimEng Tan
Singapore
65-6239-6350
kimeng.tan
@spglobal.com

Overview

- We expect the government to keep fiscal deficits below 3% of GDP over the next three years, despite higher spending on social programs.
- Indonesia's continued development of its commodity-related industries and investments in downstream sectors should contribute to stable external metrics amid rising external uncertainties.
- We affirmed our 'BBB' long-term and 'A-2' short-term sovereign credit ratings on Indonesia.
- The outlook on the long-term rating is stable, reflecting our expectation of continued fiscal discipline and a stable economic outlook.

Rating Action

On July 29, 2025, S&P Global Ratings affirmed its 'BBB' long-term and 'A-2' short-term sovereign credit ratings on Indonesia. The outlook on the long-term rating is stable.

Outlook

The stable rating outlook reflects our expectation that the government continues to view its 3% annual deficit ceiling as an important policy anchor. The country's continued development of its commodity-related industries should also contribute to stable external metrics over the next two to three years.

Downside scenario

We may lower the ratings if we believe that one or more of the following developments will happen:

- Net general government debt will rise at an annual rate of more than 3% of GDP on a consistent basis;
- General government interest payments will surpass 15% of revenue on a sustained basis; or

- A structural slowdown in export receipts, which drives gross external financing needs consistently above levels equivalent to the sum of current account receipts and usable reserves.

Upside scenario

We may raise the ratings if material improvements in Indonesia's external metrics result in narrow net external debt falling below 50% of current account receipts and gross external financing needs going below 50% of the sum of current account receipts and usable reserves.

Rationale

Our ratings on Indonesia reflect the economy's robust growth prospects, prudent policy settings, and relatively light net external and government debt burden. Balancing these strengths are modest GDP per capita, narrow export and fiscal revenue bases, and a domestic financial sector that is less deep and diversified than peers.

Institutional and economic profile: Economic prospects remain sound despite a shakier external outlook

- We forecast Indonesia's economy will continue to grow at close to 5% annually over the next two to three years.
- While the external outlook has grown more uncertain, exports have been holding up well and domestic demand could improve with support from lower interest rates and the government's social programs.
- We do not expect major legislative changes that could undermine investor confidence or financial market stability.

We forecast Indonesia's real GDP growth at slightly under 5% this year as domestic demand showed signs of weakening earlier this year. One reason for the slowdown appears to be the government's trimming of infrastructure spending. We expect investments by the newly-established sovereign wealth fund, Danantara, to pick up some of the slack in infrastructure spending. Nevertheless, there could still be some impact on growth, particularly for 2025.

The outlook for external demand has weakened since the U.S. tariff announcements in early April. However, we expect the trade deal between the two countries earlier this month to partly mitigate the impact of U.S. tariffs on Indonesia. This can provide some certainty for businesses and investments.

We expect domestic demand to provide much of the growth momentum over the next two to three years. This partly reflects Indonesia's favorable demographics. The key social programs that the government implemented, including the free nutritious meal and three million housing programs, should start to improve underlying economic conditions.

The main risk on the growth outlook would be persistent underspending on infrastructure. Such spending has a high fiscal multiplier for growth, and helps to relieve supply constraints and infrastructure bottlenecks. We expect Danantara and state-owned companies to undertake the bulk of the infrastructure spending, alongside private-public partnership projects.

Average income in Indonesia remains lower than most other investment-grade sovereigns but is rising faster. We estimate GDP per capita this year at US$5,000, up from US$4,900 in 2024. This incorporates our forecast of a slight depreciation of the rupiah this year. Notwithstanding the exchange rate movements, Indonesia's trend economic growth, at 3.8%, is better than most economies of similar income levels.

Indonesia weathered a period of weaker external demand and price declines for some of its key commodity exports in the past two years. We expect some price stabilization over the next 12 months, although prices may not recover significantly. Demand for key commodities including coal, nickel, copper, and natural gas, as well as investments in the downstream sectors of these commodities should also support stronger economic activities over the next three to five years.

Political and policy institutions in Indonesia are generally stable and free of challenges to their legitimacy. Indonesian policymakers continue to prioritize economic and financial stability. Over the years, they have made constant efforts to increase transparency through regular interactions and information-sharing with financial market participants. They were flexible in making policy adjustments when circumstances required them. The previous government was also quick to rein in its budget deficit at below 3% of GDP once the economic pressures of the pandemic receded.

Flexibility and performance profile: Fiscal policy remains an important anchor for Indonesia

- We project Indonesia's fiscal deficit at below 3% of GDP over the next three years, in line with the country's legal requirements.
- We expect current account deficits to remain narrow over the next three years. This will result in a stable external ratio.
- Consumer price inflation should come in within the target range of the government over the next two years.

We expect the fiscal deficit to rise to 2.6% of GDP this year and 2.9% by 2028, from 2.3% in 2024. This is as the government's expenditure programs gather pace. Although revenue has been below expectations and fell 13% in the first six months of this year, government spending has also been sluggish.

For instance, we expect the free nutritious meal program to utilize less than the allocation of Indonesian rupiah 71 trillion this year. This should help keep the fiscal deficit in check despite weaker revenue.

The government's fiscal orientation will be key to determining the direction of its financial performance over the next few years. A record of fiscal discipline over multiple administrations underpins Indonesia's credit profile. The foundation of Indonesia's fiscal profile is a long-standing deficit ceiling of 3% of GDP, introduced in 2003.

Fiscal measures to manage the country's pandemic-related social and humanitarian needs, and to mitigate both transitory and structural economic damage, led to a temporary increase in the deficit above this ceiling in 2020-2021. Once the pandemic subsided, fiscal consolidation was swift, with support from strong revenue from the resource sector and expenditure controls.

We expect budget deficits to be higher over the next three years than those in 2022-2024. While the government has indicated so far that it does not intend to make legal changes to allow for higher deficits, it would likely aim for budget shortfalls close to the legal limit of 3% of GDP. This is given its spending plans and a growth target of 8% by 2029.

We forecast net general government debt could increase annually by about 2.7% of GDP in 2025-2028. The revenue-to-GDP ratio over the next few years could stabilize at about 15% of GDP, slightly lower than in the past two years.

Falling nickel prices globally since 2022 have hurt miners and manufacturers. The government's expansion of bans on ore exports could also dent export earnings. However, an increase in royalties for key mineral ores could partially offset this. Higher metal production volumes could also provide some relief from lower ore prices.

New nickel smelters and factories for electric vehicle batteries are likely to begin operations over the next year or two following announcements by foreign battery makers. Although foreign investors get income tax holidays, they will support demand for miners and related local manufacturing industries, which contribute to government revenue. The government also intends to raise revenue by focusing on improving tax compliance and streamlining revenue collection.

Based on the above assumptions, net general government debt should rise to 37% of GDP at the end of 2028, from 36% in 2024. With interest rates likely to decline more, interest payments should average around 14.4% of general government revenue over the next three years.

Our projections are in line with the government's stated commitment to the legal limits on budget deficits. However, Indonesia's fiscal trajectory appears more uncertain than usual, as the government fleshes out its policy priorities toward its 8% growth target by 2029. Future policy changes could cause the path of fiscal indicators to deviate from our projections.

As the government expands its free nutritious meal program, it will likely have to find new revenue to fund this. In the absence of this, either deficits would rise from the levels we project or the government would have to reduce spending elsewhere, potentially with some impact on growth.

We expect limited contingent liabilities for the government from the financial system. We base this on our assessment of Indonesia's banking industry country risk at '6' and the banking sector's balance sheet size at less than 60% of GDP.

Indonesia's external metrics will likely remain stable over the next three to four years, despite a return to current account deficits. We believe exports will continue to increase over the next few years, with new smelters and factories becoming operational. However, weak nickel prices and the renewed ban on ore exports may weigh down growth.

We expect continued foreign investments in the industrial sector to support moderate import growth over the next few years. Gross external financing needs should remain a little above 90% of the sum of current account receipts and usable reserves.

Narrow net external debt could average 66.6% of current account receipts over 2025-2028. In recent years, gross external debt had declined modestly. This reflected net repayment of foreign debts by nongovernment borrowers as global interest rates rose and the U.S. dollar strengthened.

Although we project a recovery in external borrowing, the recovery is likely to be modest because foreign interest rates remain elevated. We expect exports and higher external interest earnings to keep growth in current account receipts in line with nominal GDP growth.

We view Bank Indonesia as possessing significant operational independence since July 2005, when it formally adopted the inflation-targeting framework. The central bank has since managed inflation roughly in line with its regional peers; in particular, price pressures have been generally well contained since the early 2010s. Indonesia's 2025 inflation target is 1.5%-3.5%, and we forecast average consumer price inflation of 2.4% over 2025-2028.

Bank Indonesia is relying more on market-based instruments to implement its monetary policy, and the financial system has grown steadily in recent years. The increasing flexibility of the rupiah and a floating currency subject to intermittent intervention augment monetary flexibility.

Bank Indonesia maintains a sizable portfolio of government debt on its balance sheet, in part as a legacy of its burden-sharing agreement with the government during the pandemic. While some of this debt will mature over the next three years, we do not expect a paring down of its balance sheet. This is as the central bank steps up purchases of government securities in the secondary market as part of its stated pro-market monetary operations strategy to maintain adequate liquidity and attracting foreign capital inflows.

Indonesia--Selected Indicators

	2019	2020	2021	2022	2023	2024	2025bc	2026bc	2027bc	2028bc
Economic indicators (%)										
Nominal GDP (tril. IDR)	15,832.7	15,443.4	16,976.8	19,588.1	20,892.4	22,139.0	23,379.1	25,082.1	27,066.5	29,161.9
Nominal GDP (bil. $)	1,119.1	1,059.1	1,186.5	1,319.1	1,371.2	1,396.3	1,428.5	1,538.8	1,665.6	1,800.1
GDP per capita (000s $)	4.1	3.9	4.3	4.8	4.9	5.0	5.0	5.4	5.8	6.2
Real GDP growth	5.0	(2.1)	3.7	5.3	5.1	5.0	4.8	4.8	4.9	4.9
Real GDP per capita growth	3.9	(3.1)	3.0	4.5	4.2	4.2	4.0	4.0	4.2	4.2
Real investment growth	4.5	(5.0)	3.8	3.9	4.4	4.0	3.6	5.0	5.0	5.0
Investment/GDP	33.7	29.7	32.5	35.7	36.0	35.1	34.4	34.6	34.4	34.2
Savings/GDP	31.0	29.3	32.8	36.7	35.8	34.5	33.6	33.7	33.5	33.4
Exports/GDP	18.6	17.3	21.4	24.5	21.8	22.2	22.2	21.7	21.2	20.9
Real exports growth	(0.5)	(8.4)	18.0	16.2	1.3	6.5	4.2	3.7	4.6	4.7
Unemployment rate	5.2	7.1	6.5	5.9	5.3	4.9	4.8	4.8	4.7	4.7
External indicators (%)										
Current account balance/GDP	(2.7)	(0.4)	0.3	1.0	(0.2)	(0.6)	(0.8)	(1.0)	(0.9)	(0.8)
Current account balance/CARs	(13.8)	(2.3)	1.3	3.9	(0.7)	(2.6)	(3.5)	(4.2)	(4.0)	(3.7)
CARs/GDP	19.7	18.3	22.3	25.6	22.9	23.5	23.0	22.4	21.9	21.5
Trade balance/GDP	0.3	2.7	3.7	4.8	3.4	2.9	2.9	2.6	2.6	2.5
Net FDI/GDP	1.8	1.3	1.5	1.4	1.1	1.1	1.3	1.3	1.3	1.3
Net portfolio equity inflow/GDP	(0.1)	(0.5)	0.2	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Gross external financing needs/CARs plus usable reserves	100.3	89.8	87.4	86.3	91.8	93.4	95.2	92.2	91.7	91.3
Narrow net external debt/CARs	115.6	132.6	90.4	66.9	72.5	71.5	71.3	68.3	64.9	61.8

Indonesia--Selected Indicators

Narrow net external debt/CAPs	101.6	129.6	91.6	69.6	72.1	69.7	68.9	65.5	62.4	59.6
Net external liabilities/CARs	171.5	164.3	117.3	84.1	93.2	85.8	87.8	85.7	83.2	80.9
Net external liabilities/CAPs	150.8	160.7	118.8	87.5	92.6	83.6	84.9	82.3	80.0	78.1
Short-term external debt by remaining maturity/CARs	38.3	45.2	33.0	27.2	29.1	28.6	32.8	28.1	26.9	26.1
Usable reserves/CAPs (months)	5.4	7.5	6.2	5.4	4.9	4.7	5.0	5.0	4.9	4.9
Usable reserves (bil. $)	124.8	134.1	144.6	129.6	132.4	141.7	150.4	156.6	163.3	170.5
Fiscal indicators (general government %)										
Balance/GDP	(2.1)	(6.1)	(4.4)	(2.1)	(1.9)	(2.3)	(2.6)	(2.8)	(2.9)	(2.9)
Change in net debt/GDP	2.2	7.4	5.1	3.7	1.7	2.4	2.7	2.7	2.8	2.8
Primary balance/GDP	(0.4)	(3.9)	(2.4)	(0.1)	0.2	(0.1)	(0.4)	(0.6)	(0.8)	(0.8)
Revenue/GDP	14.3	12.4	13.7	15.2	15.1	14.6	14.6	14.8	14.8	14.8
Expenditures/GDP	16.4	18.4	18.1	17.3	17.0	16.9	17.2	17.6	17.7	17.7
Interest/revenues	12.2	17.8	14.8	13.0	14.0	14.8	14.9	14.6	14.3	14.3
Debt/GDP	30.6	39.8	41.1	40.1	39.6	40.2	40.6	40.7	40.6	40.6
Debt/revenues	214.2	321.8	299.9	264.6	262.3	274.9	278.3	274.8	274.3	274.2
Net debt/GDP	27.6	35.7	37.6	36.2	35.7	36.0	36.8	37.0	37.0	37.2
Liquid assets/GDP	2.9	4.0	3.6	3.9	3.9	4.1	3.8	3.7	3.6	3.4
Monetary indicators (%)										
CPI growth	2.7	1.7	1.9	5.5	2.6	1.6	1.8	2.6	2.6	2.7
GDP deflator growth	1.6	(0.4)	6.0	9.6	1.5	0.9	0.7	2.4	2.9	2.7
Exchange rate, year-end (IDR/$)	13,901.0	14,105.0	14,269.0	15,731.0	15,416.0	16,162.0	16,300.0	16,300.0	16,250.0	16,200.0
Banks' claims on resident non-gov't sector growth	5.8	(1.2)	4.6	10.1	8.3	7.6	10.0	10.0	10.0	10.0
Banks' claims on resident non-gov't sector/GDP	35.7	36.2	34.4	32.8	33.3	33.8	35.2	36.1	36.8	37.6
Foreign currency share of claims by banks on residents	12.3	11.8	11.8	12.4	12.2	12.5	12	12	12	12.00
Foreign currency share of residents' bank deposits	14.6	13.9	14.0	15.6	16.1	15.7	15	15	15	15

Indonesia--Selected Indicators

Real effective exchange rate growth	4.5	(1.8)	(1.5)	2.9	0.4	(1.7)	-1.69	-1.69	-1.69	-1.69

Sources: Bank Sentral Republik Indonesia (Economic/External Indicators), Internationl Monetary Fund and Bank Sentral Republik Indonesia (Monetary Indicators), Directorate General of Budget Financing and Risk Management, Ministry of Finance and Bank Sentral Republik Indonesia (Fiscal/Debt Indicators).

Adjustments: None

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. IDR--Indonesian rupiah. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Country--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	3	Generally effective policymaking promoting balanced economic growth and sustainable public finances. Moderate policy predictability, with possible policy shifts with changes in administration. Generally cohesive civil society.
Economic assessment	4	Based on GDP per capita (US$) and growth trends as per Selected Indicators in table 1. Weighted average real GDP per capita trend growth over a 10-year period is well above that of sovereigns in the same GDP category.
External assessment	3	Based on narrow net external debt (% of current account receipts) and gross external financing needs (% of current account receipts and usable reserves) as per the Selected Indicators in table 1.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in table 1.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in table 1.
Monetary assessment	3	The rupiah is a free-floating currency. However, the central bank intervenes intermittently in foreign exchange markets. The central bank has operational independence and uses market-based monetary instruments such as seven-day repo rate, however there is some reliance on reserve requirements. CPI as per Selected Indicators in table 1. The central bank has the ability to act as lender of last resort for the financial system.
Indicative rating	bbb	As per table 1 of Sovereign Rating Methodology.
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	BBB	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt.
Local currency	BBB	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings History, June 12, 2025
- Sovereign Ratings List, June 12, 2025
- Sovereign Ratings Score Snapshot, July 2, 2025
- Global Sovereign Rating Trends Second-Quarter 2025: Geopolitical And Trade Risks Threaten Credit Quality, July 7, 2025
- Sovereign Risk Indicators, July 7, 2025
- Default, Transition, and Recovery: 2024 Annual Global Sovereign Default And Rating Transition Study, March 24, 2025
- Sovereign Debt 2025: China Stimulus To Help Push Asia-Pacific Central Government Borrowing To US$4.2 Trillion, March 4, 2025
- Asia-Pacific Sovereign Rating Trends Midyear 2025: Global Risks Grow, July 8, 2025

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see "Related Criteria"). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Rating Component Scores above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see "Related Criteria").

Ratings List

Ratings list	
Ratings Affirmed	
Indonesia	
Sovereign Credit Rating	BBB/Stable/A-2
Transfer & Convertibility Assessment	
Local Currency	BBB+
Indonesia	
Perusahaan Penerbit SBSN Indonesia III	
Senior Unsecured	BBB