



Media Release

RAM Ratings: Infrastructure-led growth and low debt support Indonesia's $\text{gBBB}_2(\text{pi})$ rating

RAM Ratings has reaffirmed Indonesia's respective global and ASEAN-scale sovereign ratings of $\text{gBBB}_2(\text{pi})/\text{stable}/\text{P2}(\text{pi})$ and $\text{seaAA}_3(\text{pi})/\text{stable}/\text{P1}(\text{pi})$, respectively. The ratings largely reflect our expectation that Indonesia will maintain its steady growth trend, which is supported by ongoing economic reforms and an acceleration of much-needed infrastructure development. Moreover, Indonesia maintained its fiscal deficit and government debt ratios at manageable levels despite rising revenue pressures. However, Indonesia's external position remains vulnerable to prolonged periods of volatile global capital flows.

Indonesia's economic growth is expected to improve to 5.1% in 2017 amid a more robust public sector-led infrastructure roll out. Notably, the budgetary allocation for infrastructure expenditure has increased from 1.5% of GDP in 2014 to an expected 2.9% in 2017 in view of stronger emphasis on development at the local government level. While this is seen as a key fiscal policy shift, given the country's infrastructure constraints, there are significant concerns over expenditure oversight at the local government level.

Economic reforms introduced since September 2015 have enhanced business conditions in Indonesia, with the country's Ease of Doing Business ranking improving from 109th out of 189 countries (42.6 percentile rank) in 2016 to 91st out of 190 countries (52.2 percentile rank). While commendable, changes in business conditions are largely confined to developed urban areas. Further, the tendency to reverse key policies persists – illustrated by the relaxation of a 2014 mineral export ban in January 2017 – and highlights Indonesia's high policy-risk environment despite economic reforms.

Indonesia's fiscal deficit is expected to be contained at 2.8% of GDP in 2017 (2016: 2.6%). While its track record of maintaining the deficit at a manageable level is commendable, the country's fiscal revenues, which are low compared to that of peers, have deteriorated. This is in spite of earnings derived from the country's recent tax amnesty programme (equivalent to 0.9% of GDP) which had provided some short-term support to government earnings. Further, we view the long-term benefits of the programme to be limited, given that it has added only 26,911 new tax payers (0.03% of Indonesia's potential taxpayers).

Indonesia's government debt, at 27.7% of GDP in 2016, is low relative to most of its peers and is a key rating strength. While the proportion of debt held by foreigners has risen steadily since 2008, it is expected to gradually decline following the introduction of new regulations under which insurance companies and pension funds are mandated to hold a minimum proportion of government bonds amounting to 30% of their total assets.

Indonesia's ratings may be upgraded if its fiscal revenues increase on a sustainable trend, given the country's low revenue vis-à-vis peers. Additionally, an enhanced growth trajectory as a result of economic reforms will be viewed as a positive. Conversely, the ratings may be revised downwards in the event of a severe and persistent erosion of the country's external position or growth trend.

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