



Media Release

RAM Ratings: Indonesia's reforms viewed favourably, $gBBB_{2(pi)}$ ratings reaffirmed

RAM Ratings has reaffirmed Indonesia's respective global, ASEAN and national-scale sovereign ratings at $gBBB_{2(pi)}/stable/P2_{(pi)}$ and $seaAA_{3(pi)}/stable/P1_{(pi)}$, $AA_{3(pi)}/stable/P1_{(pi)}$ respectively. The ratings reflect an expected modest economic growth trend and the country's commendable fiscal position. Both these rating factors will benefit from recent reform measures despite the commodity price downturn. Elsewhere, Indonesia's dependence on foreign capital remains significant and its weak track record of policy implementation constrain its ratings.

Indonesia is expected to register 5.0% GDP growth in 2016, slightly faster than 4.8% in 2015, driven primarily by government expenditure. This is largely due to a series of announced reforms to stimulate economic activity, complemented by an accelerated rollout of infrastructure development. "Reforms in the form of a relaxation of FDI ownership rules in some sectors and a shorter processing time for investment permits are anticipated to promote sustainable growth," highlights Esther Lai, RAM's Head of Sovereign Ratings. Nevertheless, Indonesia's weak policy implementation track record remains a concern and is a key risk to growth, against a backdrop of low commodity prices.

The country's fiscal deficit is projected to remain stable at 2.5% of GDP in 2016 (2015: 2.5%) – wider than the Government's estimate of 2.2%. The wider projection takes into account weaker oil and gas-related revenues as the Government's oil price assumption of USD50 per barrel is higher than the average price to date in 2016 (USD33.70). Correspondingly, the government debt level, which stands at 26.1% of GDP, is low and viewed commendable relative to that of peers. That said, the proportion of debt held by foreigners (38% of total rupiah-denominated debt) has been steadily rising since 2008, highlighting Indonesia's susceptibility to external conditions.

Indonesia's persistent current account deficit is expected to stay at 2.5% of GDP in 2016 (2015: 2.5%) as the accelerated pace of infrastructure development increases demand for imports. The deficit is exacerbated by still-fragile regional economic growth and low commodity prices, which could depress Indonesia's export revenues (commodities represent more than half of total exports). Further, the country's significant dependence on foreign capital – given its shallow capital markets and low domestic savings rate – increases its external sensitivities.

RAM Rating Services Berhad
(763588-T)

Suite 20.01, Level 20
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

T +603 7628 1000
+603 2299 1000
F +603 7620 8251
E ramratings@ram.com.my
W www.ram.com.my

The ratings may be upgraded if Indonesia's growth trajectory improves beyond its current trend due to economic reforms. This will result from sustainable and resilient private sector growth, a more diversified export structure and significant increases in FDI in value-added industries. Conversely, the ratings may be revised downwards in the event of a severe and persistent erosion of Indonesia's external position.

Media contact

Jason Fong
(603) 7628 1103
jason@ram.com.my

Date of release: 6 April 2016

The credit rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security's market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings. The credit rating also does not reflect the legality and enforceability of financial obligations, transfer and convertibility risks, repatriation risk, currency risk or any other risk apart from credit risk.

RAM Ratings receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings' credit opinions or other analytical processes. In all instances, RAM Ratings is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so, except for subscriptions to its publications.

Similarly, the disclaimers above also apply to RAM Ratings' credit-related analyses and commentaries, where relevant.

Published by RAM Rating Services Berhad
© Copyright 2016 by RAM Ratings